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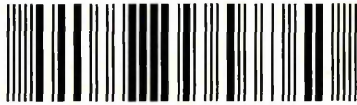
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**Non-Governmental Organisation Performance:  
Financial Governance  
and its Impact on Funder Policies**

**Morrison A. Muleri**

**A thesis submitted in partial fulfilment of the requirements of  
Sheffield Hallam University  
for the degree of Doctor of Philosophy**

**August 2008**





## ABSTRACT

The overall aim of this research was to understand, explain and document a theoretical and practical framework integrating funding and financial governance and management as vital components of the way Northern Non-Governmental Organisations (NNGOs) measure performance of Southern Non-Governmental Organisations (SNGOs) they fund. This was done by exploring: - how NNGOs measure performance of SNGOs they fund, the role of financial governance / management on NGO performance assessment as well as on the success or failure of NGOs and how it impacts on the policies funder NNGOs impose on funded SNGOs.

The research was conducted by way of a telephone survey of a selection of 28, from a database of 183, UK- based NNGOs and detailed case studies involving 11 NGOs in the UK, Kenya and India. It focused on the study of 16 different NNGO/SNGO relationships to determine patterns distinct to more successful and less successful SNGOs as defined by the funder NNGOs. Data were collected by means of a telephone survey, interviews and review of documentation and analysed using pattern matching and explanation building strategies.

The research found that in practice NNGOs attached importance to the state of government regulation, NGO sector self-regulation and self-accreditation environments in which SNGOs operate when assessing their performance. They also attached significant importance to financial governance and management of SNGOs; often distinguishing more successful from less successful SNGOs on that basis. SNGOs which exhibited fraud and corruption were often avoided or denied funding going forward. It also established that in general NNGOs formulated their policies towards SNGOs independently of their performance. However, the enforcement of the policies and the level of mutual learning reflected the performance levels of SNGOs.

The research documented '*Focus SNGO Performance Measurement Model*' which explains the role of financial governance / management in assessment of NGO performance. This level of assimilation in a transparent way is a new dimension. It is argued that this model has major implications for the understanding of NNGO/SNGO relationships.

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## LIST OF ACRONYMS

\$	USA Dollar	CIDA	Canadian International Development Agency
£	UK Sterling Pound	CIMA	Chartered Institute of Management Accountants
3Es	Economy, Efficiency and Effectiveness	CIO	Charitable Incorporated Organisation
4Es	Economy, Efficiency, Effectiveness and Equity	CSCF	Civil Society Challenge Fund of the DfID
AC	Audit Commission of the UK	CSO	Civil Service Organisation
ACBF	African Capacity Building Fund	CUA	Cost Utility Analysis
AGM	Annual General Meeting	CVF	Competing Values Framework
AMREF	Africa Medical and Research Foundation	CYSD	Centre for Youth and Social Development
BBC	British Broadcasting Corporation	DC	District of Columbia
bn	Billion	DfID	Department for International Development of the UK
BOND	British Overseas NGOs for Development	DSC	Directory of Social Change
BPB	Best Performance Benchmarking	DWCRA	Development of Women and Children in the Rural Areas
BRIC	Brazil, Russia, India and China	EFQM	European Foundation for Quality Management
BVS	Broad Voluntary Sector	ETC	Education Training Consultants
CBA	Cost Benefit Analysis	EU	European Union
CBOs	Community Based Organisations	FCRA	Foreign Currency Regulation Act
CC	Charity Commission	FIM	Forum International De Montréal
CC3	Charity Commission Guideline no. 3	FMI	Financial Management Initiative of the UK
CEA	Cost Effectiveness Analysis	FTE	Full -Time Equivalent
CEO	Chief Executive Officer	G8	The Eight Great nations (Canada, France, GB,
CES	Charity Evaluation Services		
CF	Community Fund		

	Germany, Italy, Japan, Russia and USA)	Kshs	Kenya Shilling
		LDCs	Least Developed Countries
GB	Great Britain	LFA	Logical Framework
GDP	Gross Domestic Product		Approach (Logframe)
GIK	Goods-in-Kind	m	Million
GNI	Gross National Income	M&E	Monitoring and Evaluation
GONGOs	Government Organised NGOs	MDGs	Millennium Development Goals
GROs	Grass Root Organisations	MFI	Micro Finance Institution
GTZ	Germany Technical Cooperation	MOU	Memorandum of Understanding
HIV/Aids	Human Immunodeficiency Virus / Acquired Immune Deficiency Syndrome	NAAC	National Assessment and Accreditation Council
HR	Human Resource	NAO	National Audit Office
ICNL	International Centre for Not-for-Profit Law	NCA	Norwegian Church Aid
ICRA	Independent Credit Rating Agency	NCVO	National Council for Voluntary Organisations
IGA	Income Generating Activity	NGO	Non-Governmental Organisation
IGA	Income Generating Activity	NHS	National Health Service
ILO	International Labour Organisation	NICVA	Northern Ireland Council for Voluntary Action
INGO	International NGO	NNGO	Northern Non- Governmental Organisation
INTRAC	International NGO Training and Research Centre	NPOs	Non- Profit Organisations
IRs	Indian Rupees	NSPCC	National Society for the Prevention of Cruelty to Children
ISNAR	International Service for National Agricultural Research	NU1	NNGO UK No. 1
		NU2	NNGO UK No. 2
ISO	International Standards Organisation	NU3	NNGO UK No. 3
IT	Information Technology	OD	Organisational Development
KPIs	Key Performance Indicators	ODA	Overseas Development Assistance
K-REP	Kenya Rural Enterprise Programme	ODI	Overseas Development Institute



OECD	Organisation for European Cooperation and Development	SK1-UK SK2 SK5	SNGO Kenya No.1- SNGO Kenya No.2 SNGO Kenya No. 5
OSANGO	Organisational Self - Assessment for NGOs	SK6 SKP1	SNGO Kenya No. 6 SNGO Kenya Pilot No.1
OVI	Objectively Verifiable Indicator	SKP2 SNGO	SNGO Kenya Pilot No.2 Southern Non- Governmental Organisation
PAF	Performance Assessment Framework		
PHC	Primary Health Care	SORAAPs	Statement of Recommended Accounting and Auditing Practices
PIs	Performance Indicators		
PLW(H)As	People Living With Aids		
PPA	Partnership Programme Agreements	SORP	Statement of Recommended Practice
PQASSO	Practical Quality Assurance System for Small Organisations	STI SWOT	Sexually Transmitted Infections Strengths, Weaknesses, Opportunities and Threats
RBM	Results Based Management		
RSPCA	Royal Society for Prevention of Cruelty to Animals	TA TQM	Technical Assistance Total Quality Management UK Branch
S13	SNGO India No.3	UK	United Kingdom
S15	SNGO India No.5	UN	United Nations
SCO	Strategic Core Objective	UNAIDS	Joint United Nations Programme on AIDS
SCVO	Scottish Council for Voluntary Organisations	UNEP	United Nations Environmental Programme
SI1	SNGO India No.1		
SI2	SNGO India No.2	USA	United States of America
SI4	SNGO India No.4	USAID	United States Agency for International Development
SIDA	Swedish International Development Agency	VO	Voluntary Organisation
SIR	Standard Information Return	WWF YMCA	World Wildlife Fund Young Men's Christian Association.
SK1	SNGO Kenya No.1		
SK1-K	SNGO Kenya No.1 - Kenya Branch		

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# CHAPTER 1

## INTRODUCTION

### 1.0 BACKGROUND TO THE STUDY

The primary focus of this research is to examine the role financial governance and management play when Northern Non-Governmental Organisations (NNGOs) measure performance of the Southern Non-Governmental Organisations (SNGOs) they fund. A secondary focus is to examine how the measured state of SNGOs performance then impinges on policies which the NNGOs puts in place to govern their relationships with the SNGOs.

Edwards (2000) and SustainAbility (2003)<sup>1</sup> identified NGOs as the most prominent members of the voluntary sector. They are '*the more noticeable of the peaks*' (Edwards, 2000 p7) of civil society which in turn dominates the official third sector, after the public and private sectors (Katz, 1999; Salamon, 1993). The third sector encompasses such players as 'charities', 'non-governmental organisations' (NGOs), 'civil society organisation' (CSO), 'not-for-profit organisations' (NPOs), 'community based organisations' (CBOs), 'grass-root organisations' (GROs) amongst others (see also Appendix B).

This research focused on those non-government and non-business organisations that mobilise resources in the UK and deploy them in other countries, often referred to as either overseas aid agencies or overseas development agencies, and those that deliver the welfare and development services in the South, often referred to as NGOs (see Appendix B). In this thesis, such agencies in the UK are collectively referred to as NNGOs and their counterparts in the South as SNGOs.

NGOs are so entrapped in a definitional quagmire that definition matters often constitute full academic papers (see for instance Martens, 2002; Salamon and Anheier, 1992, 1997; Willets, 2002). As will be discussed in Chapter 2, an NGO can be identified based on the nature of the activities of an organisation or solely based on the organisation's registration. In relation to the former, Gray et al. (2006) argued that not all organisations whose activities qualify them to be NGOs are registered as such whereas in the case of the latter, Loft et al. (2006) argued that defining NGOs simply as all organisations registered as such is contestable. Registration as an NGO or a charity presents a number of benefits (see, for instance, the discussion of the tax

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<sup>1</sup> This report was published in 2003 following extensive scientific research and follow-up deliberations involving over 200 experts from NGOs, businesses, foundations and other organisations. It provides a fairly exhaustive critical analysis of the situation of NGOs and makes several recommendations on accountability, financing and partnerships. It has been criticised as equally biased as the NGOWatch initiative (Lister, 2000) to which the SustainAbility report is assumed to be a rejoinder. This thesis draws on its insights in a number of areas but cautiously tries to balance it against those from other more objective sources.

benefits accruing in the case of England and Wales, in Morgan, 2008) which attract even organisations which do not do qualifying work (like private schools and professional associations in some cases). Some researchers in this field, such as Ahmad (2001), Martens (2002) and SustainAbility (2003) place minimal emphasis on the issue of registration and instead dwell on the activities criteria. Yet the arguments by Gray et al. (2006) and Loft et al. (2006) are weighty and should not be merely overlooked by researchers.

This thesis takes a central position and defines an NGO by both its legality, so as to exclude grassroots organisations, and functions, so as to distinguish them from opportunistic organisations which may only register as NGOs to access accruing benefits. An NGO is taken to be any organisation that is legally constituted, is independent from the government, does not aim at making a profit and promotes social equity at whatever level and in whichever place it operates in the world.

This thesis also takes the stand that if an NGO operates in more countries than one, regardless of wherever it is based and managed from, it is an International NGO (INGO). If it is based and managed and operates in the South (reference to the southern hemisphere, see 2.4.1), it is a Southern NGO (SNGO), and if it is based and managed in the North (reference to the northern hemisphere, see 2.4.1), it is a Northern NGO (NNGO). The distinction between NNGOs and SNGOs goes deeper than this and is explored further in later sections.

The role of NGOs is perhaps best viewed through the Millennium Development Goals (MDGs) (Giunta, 2006). Through MDGs, the UN identified eight key goals to be achieved ideally in fifteen years to make the world a better place. The UN (2007) identifies them as eliminating poverty and hunger, achieving universal primary education, achieving gender equality, reducing child mortality, promoting maternal health, reversing the trend of HIV/Aids and other diseases such as malaria, protecting the environment, and forging global partnerships for development. Their importance and the challenges of achieving them were re-emphasised by the British Prime Minister in an address to the UN General Assembly (BBC, 2007). These carefully identified development priorities for the world are at the centre of the objectives of NGOs. The alleviation of poverty and suffering in particular continue to preoccupy NGOs all over the world (Lewis and Wallace, 2000; Martens, 2005; Oliver, 2005). By their gigantic nature, tackling these problems involves a multitude of stakeholders who form extensive coalitions within and across nations and sectors (Ahmad, 2001; Cressey, 1953<sup>2</sup>; Lister, 2000). Such complex coalitions give rise to new problems in the aid chain which have to be identified and remedied from time to time (Child and Rodrigues, 2004; Wallace, 1997). One such channel in the aid chain, NNGO –

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<sup>2</sup> The work by Cressey was conducted in the USA and is not specific to NGOs.

SNGO intermediary<sup>3</sup>, has grown rapidly to top them all. In this scenario NNGOs offer the North an important interface with beneficiaries in the South. NNGOs select SNGOs to fund and expectedly do so based on the needs of the target beneficiaries and performance of the SNGOs.

NGO performance is an area worthy of investigation. By 1999 NGOs represented a £0.55 trillion industry employing 19 million fully-paid employees and constituting the eighth largest economy in the world (Johns Hopkins University, 1999). *The Economist* (2000) estimated that by 2000 NGOs had surpassed the World Bank in amount of funds disbursed; making them a major player in the attainment of the MDGs.

NGOs are generally appreciated as beneficial members of society for various reasons. They are believed to be innovative in their approaches to poverty reduction thereby unearthing more effective strategies to tackle societal problems (Edwards and Hulme, 1995; Kendall and Knapp, 2000). NGOs are also believed to achieve high participation by beneficiaries (Ahmad, 2003; Fowler, 1996) and to do their work in cost effective ways (Randall and Palmer, 2001), for instance by using less ostentatious staff and keeping their overhead and administration costs low (Hancock, 1989). They are generally believed to have much less corruption and bureaucracy in comparison to governments (Hancock, 1989; Salamon, 1993), although research also associates NGOs with rising incidences of fraud and corruption (Argenti, 1993; Caiden et al., 2001; Gibelman and Gelman, 2001, 2004; *The Economist*, 2000; Wise, 1995).

Coupled with renowned achievements in promoting democracy and empowerment (Ahmad 2003; Chazan, 1992) (the study by Chazan was not NGO-specific and was done in the USA), alleviating poverty and delivering sustainable development, and enhancing innovation through technology, methodologies and institutions (Cairns et al., 2007; Covey, 1995; Hamad et al., 2003; Harris, 2001; NAO, 2006), it is no wonder that NGOs have become preferred channels for development assistance and are often touted as ‘magic bullets’ (Edwards and Hulme, 1995 p5).

Yet in 1997, the organisation British Overseas NGOs for Development (BOND), the UK’s broadest network of voluntary organisations working in international development, commissioned a working group<sup>4</sup> to review relationship between NNGOs, SNGOs and the civil

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<sup>3</sup> See definition of these terms in the following sections as well as in Appendix B.

<sup>4</sup> Members of the Group included Wildlife Worldwide Fund UK, Christian Aid, BOND, Tear, Help Age International, Indian Development Group, Alliance, Population Concern and Lesotho Council of NGOs, among others.

society. The Group's terms of reference exposed a plethora of difficult relationships (BOND, 1997):

*"This was in response to a number of critical reports on the performance of NNGOs by a number of aid agencies. In addition, large numbers of SNGOs questioned the relevance of NNGOs and accused Northern donor governments and (N)NGOs of failing to respect SNGOs by practising structural racism, undemocratic behaviour, imposition of Northern ideas and failing to provide adequate resources to develop SNGOs' capacity...However, the criticism of NNGOs was accompanied by similar accusations against SNGOs, particularly city-based SNGOs, by grassroots organisations. These felt that they were often excluded from support by SNGOs who prefer to employ their own staff instead of empowering local organisations."*

These problems, in some ways, point to the distinctive ways and environments in which NGOs operate. It has been argued that funding complicates the situation for NGOs since funders control their survival (Leat, 1993). Leat further argued that NGOs need to serve their beneficiaries to achieve their goals, yet to survive they must please a sixth force<sup>5</sup>, the funder, which provides the funds for activities. Although performance and need should be the key factors in funding decisions in development, players in the NGO sector fail to agree on what performance entails in such relationships (Barman, 2007; Behn, 2003; Forbes, 1998; Fowler, 1997a; Herman, 1992). This is made more difficult by the concept of partnership practised between NGOs (Ashman, 2001). The concept works on principles of mutual trust, respect, accountability, influence and mutual determination of means and ends (Sahley, 1995). Such partnership requires equality; an attribute which remains a mirage in situations of unequal partnerships where one organisation funds the other (Fowler, 1997a; Tassie et al., 1996; White and Morrissey, 1998).

The World Bank has also identified some shortcomings of NGOs. According to the World Bank (2002), NGOs have very high transaction costs in relation to resources they deploy; they generally do not work well in collaboration with governments and this limits their effectiveness to influence state policy and institutions; they find it problematic to scale up rapidly; they do not reach the poorest of the poor or facilitate broad participation as it is often claimed; and they adopt different approaches with some being not so participatory. Other shortcomings include lack of legitimacy and accountability, and a poor record of cost effectiveness. A study of 16 NGOs in Asia and Africa corroborated earlier findings that NGOs lack legitimacy, accountability and are poor in cost effectiveness (Ahmad, 2001). The problems that NGOs face are very complex. As Harris (2001, p102) commented, the distinctive organisational and management problems which NGOs face,

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<sup>5</sup> In the initial study of company strategy in the USA, Porter (1979) identified only five organisational competitive forces, namely the entry of new competitors, threat of substitute goods and services, bargaining power of buyers, bargaining power of suppliers and rivalry among existing competitors.



*“...may not be ones that can be explained using the standard theories... [and therefore]...business management techniques and theories developed for the for-profit or governmental sectors are likely to require substantial adaptation before they can be applied to the voluntary sector”.*

Indeed, as will be shown in 2.2.3, attempts by researchers and practitioners to derive performance management and measurement solutions for NGOs tend to directly apply solutions from the public and private sectors without much success (Micheli and Kennerley, 2005).

Thus in their funder roles where NNGOs are known to regularly measure performance and rank SNGOs in order of preference for funding. It can be expected that approaches distinct to the sector are used. It is also expected that NNGOs as funders then formulate their policies towards SNGOs based on the measured SNGO performance. This should be balanced against some available evidence which showed that failure of SNGOs is mostly attributable to financial malpractices (Gibelman and Gelman, 2001, 2004).

This research is designed to explore the role of financial governance / management in the way NNGOs measure performance of SNGOs they fund and how the measured SNGO performance impacts on the policies NNGOs then put in place.

## 1.1 STATEMENT OF THE PROBLEM AND RESEARCH QUESTIONS

Existing research (discussed in Chapter 2) shows that NGOs as members of the voluntary sector: (a) are different from private/public sectors (Friedman, 1980; Harris, 2001; Salamon and Anheier, 1992; Wise, 1995); (b) face various financial governance and management-related problems (Bashir, 1999; Gibelman and Gelman, 2001, 2004; Hancock, 1989; Morgan, 2002; Randall and Palmer, 2001; Wise, 1995); (c) face immense difficulty in measuring their performance (Argenti, 1993; Bashir, 1999; Edwards and Hulme, 1995; Kramer, 1998<sup>6</sup>; Paton, 2003; Randall and Palmer, 2001; Reider, 2001; Shehaan, 1996; Wise, 1995); and (d) the foregoing findings seem to impact directly on their sustainability and the policies of their funders (Fowler, 1997a; Harris, 2001; HM Treasury, 2006; Lawrie, 1993; Leat, 1993; O'Dwyer and Unerman, 2007).

In an effort to consolidate these issues, researchers have dwelt at length on deriving a universal measure (a prime ratio) of NGO performance with little success (Wise, 1995). Some have been driven by developments in the private sector where companies can be clearly ranked and the market has its own efficient 'weeding out' mechanism (Argenti, 1993; Lindenberg, 2003). Others draw analogy with the government where citizens periodically vote to give or deny mandate to potential governments (Micheli and Kennerley, 2005; Randall and Palmer, 2001; Smillie and Helmich, 1993). The issue of how best to measure performance and therefore rank NGOs in order of preference for funding thus remains minimally understood.

The considerable growth in the role, functions and funding of NGOs and in particular the emergence of NNGO-SNGO funding make this area worthy of further research. Substantial research has been conducted on NNGOs, mainly in North America. Similarly, some research has been conducted on relations between government funding agencies and the NGOs receiving their funds (Balda, 2006; Cressey, 1953; Lister, 2000; White and Morrissey, 1998). However, *"...there is relatively little that is concerned with donors and recipients when both are voluntary agencies"* (Mitlin, 2002 p145). There is no known single research where the subject matter narrowed down to focus on NNGO/SNGO partnerships and particularly the role of financial governance / management in performance measurement and the impact on funder policies. This research therefore contributes to an emerging area of importance in international development which is under researched.

Based on a review of the relevant literature, the following research questions are developed to address the research problem:

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<sup>6</sup> Kramer's studies were conducted on NGOs in the USA.

1. How do NNGOs measure the performance of SNGOs they fund and work with?
2. What weight is given to financial governance / management in measuring performance of SNGOs and therefore rating one SNGO better than the other?
3. What role has financial governance / management played in the cases of SNGO excellence or failure?
4. How do financial governance / management and performance of SNGOs relate to funding policies developed by NNGOs?

These questions were investigated at various stages of the research which spanned three countries spread across three continents by exploring sixteen relationships amongst eleven different NGOs (see also Chapter 3 for a discussion of the research methodology).

The research questions were addressed as follows:

*i. How do NNGOs measure performance of SNGOs they fund and work with?*

This was investigated by a telephone survey of NNGOs based in the UK (as identified by searching a database maintained by BOND) and by researching eight selected SNGOs in India and Kenya and three NNGOs in the UK; a total of 16 relationships between them. Towards the end of the research another round of interviews was conducted with a few selected NNGOs to probe further their practices and to cross-check the accuracy of findings by corroborating or negating the findings from the telephone survey and research on SNGOs.

*ii. What weight do NNGOs give to financial governance and management in measuring performance of SNGOs and therefore rating one SNGO better than another?*

This was addressed in three ways. The survey of UK NNGOs identified how the process was done from the perspective of the NNGOs. Desk study and interviews with the SNGOs selected, as well as in-depth study of their evaluation, audit and progress reports helped to cross-check what the NNGOs had indicated. Finally, interviews with NNGOs after analysis of field data from SNGOs helped to check the accuracy of opinions that were forming. The three dimensions thus brought to surface perspectives of NNGOs, their practice from the eyes of SNGOs and confirmation that conclusions were valid.

*iii. What role has financial governance / management played in the cases of SNGO excellence or failure?*

This was done by selecting some 'more successful' and some 'less successful' cases of SNGOs as judged by NNGOs which fund them. One NNGO, the anchor, with experience in both South Asia and East Africa was selected during the survey. It helped identify more successful SNGOs in India and Kenya as well as a less successful case in each of the regions. Another NNGO specialising in South Asia also selected cases of more successful and less successful SNGOs in India. A third NNGO specialising in Africa also selected its more successful and less successful SNGO cases. These 11 cases with 16 identified relationships (see 3.4) were then studied in detail to identify the 'traits' which made them to be identified with such performance.

*iv. How do financial governance / management and performance of SNGOs impact on funding policies developed by NNGOs?*

This was investigated in two ways. A telephone survey of selected NNGOs revealed how they measured performance and developed policies towards SNGOs in theory. Field research also highlighted how SNGOs experienced this process in practice. Further discussion of emerging information with NNGOs helped develop a unified position on the process.

An understanding of, explanation and documentation of a more balanced framework for evaluating NGO performance would only become apparent when data were analysed and synthesised. By identifying trends, matching patterns which emerged and building explanations (Yin, 1981a, 1981b, 1989, 1994)<sup>7</sup>, it would become possible to see whether findings could be formulated into a more potent framework to measure performance.

These steps combined to provide an appropriate approach and effectively led to multiple, single period<sup>8</sup> case studies. It also seemed essential to progress this research by triangulating both strategy and methodology at various stages with field research conducted using multi-site, case study strategy and a telephone survey to focus the research before the case study fieldwork (see below and Chapter 3).

In all, the field research comprised five phases and spanned two years as discussed below.

*i. Phase 1: Field pilot research*

A pilot research phase tested the appropriateness and parsimony of the proposed methodology. Besides, it also tested if the variables under study had possible linkages to be pursued further, helped to focus the research (by eliminating unnecessary / duplicated questions) and helped to

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<sup>7</sup> Yin's studies are done in the USA but cut across, and therefore apply to, all nations and organisations

<sup>8</sup> Each case study visit was conducted over a period of a few days, plus preliminary and follow-up correspondence (as opposed to ethnographic or longitudinal case studies); although in one case a revisit occurred later, to crosscheck some findings.

fine tune the methodology. This pilot research was conducted on two SNGOs in Kenya in January 2004.

The preliminary research appeared to show, at least in the opinion of respondents from the two pilot SNGOs, that: (a) funders tended to over-emphasise the Logical Framework Approach (LFA) in performance measurement, (b) financial management was critical but the 'partnership' concept made funders shy away from direct monitoring (c) NNGO policies seemed to be only partly shaped from below by performance of SNGOs; rarely would NNGOs change to accommodate SNGOs. However, policies of NNGOs towards SNGOs tended to vary. This seemed to echo power imbalance and its attendant repercussions (d) funder NNGOs appeared to wield immense control and influence over performance of SNGOs. They set pace and terms for performance and measured it and (e) while financial governance/management was a critical issue in performance, it seemed not to be evaluated in a systematic and transparent manner.

It also appeared that pressure was imposed on SNGOs through funding conditions disguised as optional. Although endorsement for major changes was sought, these pilots suggested that many SNGOs felt too vulnerable to challenge them. NNGOs often showed willingness to support SNGOs through financing technical assistance to build the capacity of SNGOs.

## *ii. Phase 2: Telephone survey of UK NNGOs*

The UK has a large number of relief and development NGOs. They work in different parts of the world and use different approaches; some work with or through SNGOs and others on their own or through government development programmes (BOND, 1997). Those working with SNGOs extend different types of support - finance, goods in kind (GIK), technical assistance (TA), human resource (HR) and equipment and at different levels (project, programme, institution and beneficiary communities).

It emerged that quite a number of frameworks are employed in measuring performance and it would be difficult to pursue all of them in sufficient depth. A survey of NNGOs in the UK helped to narrow down the organisations and concepts for the study. Research focused on NNGOs which worked with SNGOs in Africa and Asia and which showed organisation (NNGO) to organisation (SNGO) support with enough leverage to affect and measure organisational level performance.

An online search of the database maintained by BOND identified over 180 UK NGOs which operate in Kenya and over 80 UK NNGOs which operate in India (see Appendix A). About 45 of them operated in both countries, of which about 25% were either dormant or too small. Initial

discussion with NNGOs which acted as anchors in the research established that those working with SNGOs through joint implementation of projects numbered about 35.

The in-depth case study then followed with eleven NGOs: three NNGOs in the UK, four SNGOs in South Asia and another four SNGOs in East Africa.

*iii. Phases 3 and 4: Main SNGO Study*

Phase 3 consisted of field research in Kenya during which four detailed case studies were undertaken with main SNGOs as well as detailed research into the national NGO sector regulation at a government ministry. This was completed in May 2005.

Phase 4 consisted of field research in India during which four detailed case studies were undertaken in addition to some work on an organisation that manages performance-linked accreditation of SNGOs in India. This was completed in November 2005.

*iv. Phase 5: Main NNGOs debrief and study*

The final phase 5 was conducted in the UK on the three NNGOs which acted as the pillars of the research. Also included here were interviews with the UK-based director of the UK branch of an SNGO amongst the cases selected in Kenya. The UK part of the research comprised both research and debriefs for purposes of pre-testing the theoretical model evolving from field research and which would be documented as part of the research. This phase was conducted in March to June 2006.

## 1.2 AIM AND OBJECTIVES OF THE RESEARCH

The overall aim of this research is to develop, following a rigorous empirical inquiry, an understanding of and to explain and document in a model a theoretical and practical framework depicting how NNGOs measure the performance of SNGOs they fund, with emphasis on financial governance / management and development of funding policies.

To address this aim, five specific objectives were identified for the study, namely:

1. to investigate how NNGOs evaluate performance of SNGOs they fund;
2. to examine the importance attached to financial governance / management in such a process;
3. to explore the role of financial governance / management in cases of excellence or failure amongst SNGOs;
4. to investigate any linkages between financial governance / management practices of SNGOs and policies which funder NNGOs enforce; and to use such knowledge
5. to advance the understanding, explanation and documentation of a model depicting how NNGOs evaluate the performance of SNGOs they fund.

The timing of this research is important. The resources in nominal terms channelled through NGOs seemed to be on the rise (Anheier, 2001; Fowler, 1997a) with more of the resources coming from official sources and the elite members of society and going to international causes (Salamon et al., 2000; Smillie and Helmich, 1993; Wilding et al., 2007). Both sources typically demand more accountability (Charity Commission, 2006; Morgan 2002) and indeed research showed a surge in NGO criticism, especially on their accountability, legitimacy, efficiency and effectiveness (O'Dwyer and Unerman, 2007; Randall and Palmer, 2001; Reider, 2001; Sheehan, 1996; Wise, 1995). Related to this, state regulation of NGOs is intensifying according to various NGO international studies (ICNL, 1997; Perrin, 1998; Williams, 2007; Yaansah and Harrel-Bond, 1997) yet some countries are failing to meet the targets set under the MDGs (*The Economist*, 2006) as 2015, the target year for their achievement, approaches. On these accounts, research into the effectiveness of some of the important channels of international aid, such as NNGO/SNGO partnerships (Fowler, 1996, 1997a, b; Wallace et al., 2006) seemed justified.

### 1.3 OUTLINE OF THE THESIS

This thesis is structured into seven chapters. As Chapter 1 has explored background to the study, the research problem and questions, and the aims and objectives, Chapter 2 builds further on this. It delves into the literature to explore the evolution, growth and role of NGOs; examines how NGO performance is construed and measured, including the complex issues of accountability and credibility among NGOs; reviews how the regulatory environment impacts on NGO performance; reviews how funding affects NGO performance; and how financial governance / management impacts on the performance. A recapitulation of the literature review is then provided and the role of the research and linkage to research methodology articulated.

The methodology adopted for this research is presented and defended in Chapter 3 by considering the various philosophical stances and the research strategies available. Selections are then made mainly through the assessment of the possible options, elimination of those inappropriate and by seeking extra comfort through a review of the methodological precedents set by prior research. The logic for selection of cases for study is also presented and followed by a discussion of data collection and analysis approaches, quality assurance and ethical issues. In Chapter 4, findings from data are presented in a synthesised format with some back-up details provided in the appendices. A general context is given for each of the eleven cases studied and the findings from the research are presented. The process through which data are reduced and analysed, how themes are identified and selected, and how the cross-cutting themes identified are aggregated into constructs, is also discussed in some detail. This sets the ground for exploration of key issues.

Chapter 5 explores in detail the five key constructs which emerge from the case studies in Chapter 4, relates them to the findings from the telephone survey and the literature review and also discusses the perceptions of NNGOs on the key constructs. Arising from the foregoing, Chapter 6 brings the findings from the literature review and from the empirical data together, and on the basis of the gaps identified in literature and findings from the research, a model is developed to explain how NNGOs measure the performance of SNGOs they fund with emphasis on the role of financial governance / management.

Finally, Chapter 7 draws conclusions from the research, presents a critical reflection on the process and articulates the contribution of the research to knowledge. It also sets out the limitations of the research and the possible areas for further study. A brief personal reflection on the research journey is also provided.

Appendices and references are given at the end of the thesis.



## CHAPTER 2

### LITERATURE REVIEW

#### 2.0 INTRODUCTION

The objectives of this research are to investigate how NNGOs evaluate performance of the SNGOs they fund; to examine the importance attached to financial governance / management in the process; to explore the role of financial governance / management in cases of excellence or failure amongst SNGOs; to investigate any linkages between financial governance/management practices of SNGOs with funding policies; and upon understanding and establishing explanations of this process, to document/explain how NNGOs measure SNGO performance.

This chapter reviews relevant literature on the topic so as to identify gaps which this research could help to bridge. The principles of systematic literature review were generally followed with an emphasis on both academic and practitioner literature<sup>9</sup> (Hart, 1998; Lohmann, 2003; Tranfield et al., 2003). The objectives of the research were used as templates for selecting relevant literature whose value was then assessed on the criteria of theory robustness, practical implications, methodology adopted to gather the underlying data and the broadness of their contexts. Although the review targeted literature in the last ten years on the assumption that literature captures a cumulative body of knowledge, there were cases where older literature was found to be relevant and reviewed. Similarly, although the review targeted literature on NGOs, the search was broadened to include research on the broad third sector. There were also cases where inter-sector comparative literature or literature on the public or the private sectors was found particularly relevant and included. The literature review also focussed on the UK although some relevant non UK-specific literature was also drawn upon. This context is provided whenever a major non UK-specific and/or non NGO-specific study is first cited.

The literature review is organised into six sections. The first section is devoted to the evolution of NGOs, their role and growth over time. The second section reviews the literature on the various ways NNGOs measure the performance of SNGOs. The debates on regulation of NGOs and linkage to performance are then examined in the third section. Section four examines the literature on funding of NGOs and its linkage to performance. Section five explores the issues of financial governance / financial management and how they relate to NGO performance. The final section then summarises the key issues arising from the literature review and on this basis identifies the role the research will play.

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<sup>9</sup> In line with Lohmann's (2003, p123) challenge to researchers to strike a balance between the academic's claim to "*author and certify the validity of scientific social knowledge*" and the practitioner's claim to "*really do know what works, and academics would come to understand this if only they were not so damned arrogant and listened carefully.*"

## 2.1 EVOLUTION, GROWTH AND ROLE OF NGOS

Civil society, within which NGOs are key players, has gained such enormous importance over the past that it has come to be recognised as the third main player within society after the private and the public sectors (Katz, 1999; Salamon, 1993).

Although definitional problems (see section 1.1 and Appendix B) make estimations of the size of the sector problematic, by most measures this is believed to be a large industry – so large that almost by definition it is considered mainstream (Johns Hopkins University, 1999). Hamad et al. (2003, p1) observed that NGOs are more of a phenomenon; touching many aspects of our lives in increasingly more important ways:

*“There is a revolution taking place, a sweeping change that is impacting all parts of our society: human rights, education, politics, the environment, business, and even the war on terrorism. This revolution is the explosion in numbers, importance, and diversity of non-governmental organisations (NGOs). These not-for-profit entities have forged an effective middle ground between the governmental and corporate realms, and are now impacting policies, delivering services, guiding agendas and advancing initiatives that once were nearly exclusively the arena of the state and business.”*

Yet questions still linger (see for instance Argenti, 1993; Balda, 2006; Caiden et al., 2001). What exactly are NGOs and where did they come from? How do they position themselves as NNGOs and SNGOs? What role do they play? Where do they derive their mandate, or as some critics bluntly put it, whom do they represent? How have they grown to attract such attention? Unfortunately, such simple and straightforward questions do not elicit simple and straightforward answers. This is characteristic of the sector itself. Although it seeks solutions to simple problems, the way the sector is set up and operates to tackle these problems is often quite complex (Balda, 2006).

The World Development Report (1999) hypothesized that making a difference to livelihoods and capacities among poor people would largely depend on successes of NGOs in fostering autonomous grassroots institutions and linking them with markets and political structures at higher levels. The explosion in the 1980s and 1990s in the number of NGOs, grass-root organisations (GROs) and community based organisations (CBOs) active in relief and development seems to indicate that the need for NGOs has grown world-wide. According to Smillie and Helmich (1993) NGOs in the Organisation for Economic Co-operation and Development (OECD) countries of the industrialised North grew from 1,600 in 1980 to 2,970 in 1993. World Development Report (2002) showed the number rose to over 37,000 by 2000 (see Table 2.1). Their combined expenditure also rose from £1.4bn to £2.85bn (Anheier, 2001). This

may seem an indication of the growth and importance of NGOs but such statements should only make sense within the confines of definitions.

The following sub-sections will review existing literature to throw some light on NGOs by exploring their origin, growth and role in society.

### *2.1.1 Evolution of NGOs*

Different sources give different versions of the origin of NGOs. In general, the term NGO seems to be closely associated with the formation of the UN (Willets, 2002). According to him, when 132 international NGOs decided to co-operate with each other in 1910, they did so under the label 'The Union of International Associations'. By then, the League of Nations officially referred to its 'liaison with private organisations', while many of the NGOs as we know them today called themselves 'international institutes', 'international unions' or simply 'international organisations'. The first draft of the UN Charter did not mention 'NGOs'. It is discernible that references to the sector did not use the term NGO; perhaps because this term was not yet coined and given its present meaning.

Martens (2002) observed that as early as 1910 attempts were made by the Institut de Droit at a session in Paris to discuss the legal personality of NGOs in the international context. This was followed by another session in Madrid in 1912 which further developed the international legal personality of NGOs. These efforts, however, seem to have gone to waste as no formal follow-up could be traced.

The Montreal International Forum (FIM, 2006) on the other hand observed that trade unions, as members of the NGO movement, became full participants and decision-makers in the International Labour Organisation (ILO) at its headquarters in Geneva at its inception in 1919. This is at variance with Willets (2002) and raises the question of which came first between the UN and NGOs. FIM (2006) takes a stand that NGOs were present at the UN from its creation. This difference of opinion points to the confusion traced to the definition of NGOs. Whereas Willets (2002) seeks to trace their origin to when the term 'NGO' first came into use, others (such as FIM, 2006; Martens, 2002; Teegan et al., 2004) trace the origin to when organisations first engaged in 'NGO' activities; a definitional distinction which still puzzles modern day researchers.

At the UN, virtually all types of private non-profit organisations could be recognised as NGOs. They only had to be independent from government control, not seeking to challenge governments either as political parties or by narrow focus on human rights, non-profit-making and non-criminal (Martens, 2002). This seemed to create some confusion between 'NGOs' and

other inter-governmental organisations. Accordingly, the phrase ‘non-governmental organisation (NGO)’ probably came into currency in 1945 because of the need for the UN to differentiate in its Charter between participation rights for intergovernmental specialised agencies and those for international non-profit private organisations (Willets, 2002). This stance is also shared by Teegan et al. (2004, p466) who traces the origin of the term to the 1950s when:

*“Presumably the UN which dealt primarily with governments and wanted to consult private, non profit organisations that were independent of governments, found it convenient to refer to them simply as NGOs to distinguish them from governments.”*

Kerstin (2002) also identified ‘NGO’ as a post-World War II expression initially coined by the UN when the UN Charter was adopted in 1945. Article 71 of this Charter mainly stipulated that NGOs could be accredited to the UN for consulting purposes. ‘NGO’ is therefore (Martens, 2002 p282):

*“An awkwardly negative title coined by the UN to describe a vast range of international and national citizens organisations, trade unions, voluntary associations, research institutes, public policy centres, private government agencies, business and trade associations, foundations, and charitable endeavours.”*

It appears that the NGO sector grew rapidly after the UN recognition. To further demonstrate the sector’s recognition, the World Bank established a ‘NGO-World Bank Committee’ in 1982 and later significantly opened its projects to NGO involvement during the 1990s (FIM, 2006). Onishi (2002) observed that in a span of five years the number of World Bank projects with NGO involvement rose from 50% to 70%, and all 32 developing countries qualifying for debt reduction agreed to consult private aid groups (NGOs) on how to use the money freed. The recognition of NGOs by such influential groups as the World Bank and the UN could have given NGOs an impetus to grow.

It appears from the work of FMI (2006), Martens (2002), Teegan et al. (2004) and Willets (2002) that no specific date or incident can be traced to the origin of NGOs but, in general, they came into existence in the first half of the twentieth century to influence the way governments and private sector conducted or failed to conduct public affairs. They, in particular, presented an alternative voice on the way governments carried out their business. They later became closely aligned to the UN, its agencies and other international bodies with leverage on governments. It is also remarkable that the term ‘NGO’ does not need to take disproportionate importance as organisations engaged in ‘NGO’ activities even before the term was coined. If the terminology is allowed to take centre-stage then NGOs came into existence only around the mid-20th Century.

In the UK, the term NGO is not so commonly used. Many organisations which profile themselves as NGOs seem to be large, international voluntary organisations which seek

recognition in and outside the UK. They are registered as charities in the UK to attract funding and other benefits (Low, 2006). The law in the UK requires charities to demonstrate that they serve exclusively charitable objects. These 'exclusively charitable objects' were at the time of this study identified as advancement of religion, relief of poverty, advancement of education and other community purposes accepted by courts as close enough to these three (Morgan, 2002). The UK Charities Act 2006 expanded them further to thirteen heads<sup>10</sup> (Morgan, 2007a).

### *2.1.2 Growth of NGO Movement*

It is no mean achievement that in a span of less than 80 years since the early 20th century when NGOs seem to have started, the sector has grown to its present size.

In discussion of the early formative stages of NGOs, FIM (2006) noted that the overwhelming majority of local and provincial NGOs never engaged in trans-national activities. Thus NGO, by itself, usually meant a national NGO and regional or global bodies were called international NGOs. National NGOs did engage in trans-national development and humanitarian activities but, with very few exceptions, they were not in their own right participants in international diplomacy. When they wanted to exercise political influence at the global level, FIM (2006) noted that they did so through the appropriate INGO. In the 1990s, there was a great upsurge in local organisations becoming active or gaining new impetus at the global level, particularly on environmental issues, because of the Rio Earth Summit in June 1992 (Munck, 2002; Taylor, 2002); on social issues, because of the Copenhagen Social Summit in March 1995 (Munck, 2002); on race issues, because of apartheid regime in South Africa (Black, 1992; Habib and Taylor, 1999); and on gender issues, because of the Beijing Conference in 1995 (Munck, 2002). As an expression of the new politics requiring NGOs to be formally registered organisations, various terms were popularised to refer to local 'NGOs'. GROs and CBOs gained currency. They clearly refer solely to the local level although there is still ambiguity whether these newer terms also cover local branches of national organisations.

A few researchers, such as Anheier et al. (2001) and Salamon (1993) have argued the case for a Global Civil Society through research centres at Oxford University, London School of Economics and Johns Hopkins University. They have derived a way of generating statistics about this new category. Their review of NGO membership shows that the greatest growth in international NGOs between 1990 and 2000 was in Western Europe by 149% (57,000 to 85,000), in Europe and Central Asia by 437% (8,000 to 35,000), in Latin America and the

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<sup>10</sup> Section 2 of the Charities Act 2006 identifies the 13 heads of charity as prevention and relief of poverty, advancement of education, religion, health/saving lives, citizenship, amateur sports, human rights, environment, animal rights, arts/heritage/culture/science, relief of those in need, promotion of the armed forces in the Crown's service and emergency services and any other reasonably analogous to these.

Caribbean by 159% (22,000 to 35,000), and in Sub-Saharan Africa by 175% (20,000 to 35,000) (Anheier et al., 2001).

In a nutshell, NGOs have shown dramatic growth since the 1980s in numbers, in spread, both geographical and thematic and in the amount of resources they command. International NGOs are believed to have grown from 176 in 1909 to over 28,900 in 1993 (Commission on Global Governance, 1995). Anheier et al. (2001) showed that the number of NGOs increased by 19.3% from 31,246 to 37,281 between 1990 and 2000 (see Table 2.1):

Table 2.1: Growth of NGOs 1990-2000

Purpose	Year 1990	Year 2000	Growth (%)
Culture and Recreation	1,169	2,733	26%
Education	1,485	1,839	23.8%
Research	7,675	8,467	10.3%
Health	1,357	2,036	50%
Social Services	2,361	4,215	78.5%
Environment	979	1,170	19.5%
Economic Development, Infrastructure	9,582	9,614	0.3%
Law, Policy Advocacy	2,712	3,864	42.5%
Religion	1,407	1,869	32.8%
Defence	244	234	-4.1%
Politics	1,275	1,240	-2.7%
Total	31,246	37,281	19.3%

Source: Anheier et al. (2001)

These figures are generally derived through an extrapolation of statistics derived by way of key country studies. Some researchers have a problem with that. Munck (2002) questions the existence of a global civil society on the ground that its *'political terrain [is] open to many interpretations'* (p349). Taylor (2002) draws caution that some global civil society statistics could be fundamentally flawed as they dwell on *'interpretive and contextual research methods'* (p344) rather than on *'what is required to interpret global civil society...namely, a global approach for, and to, studying a global phenomenon'* (p344). This line of argument is shared by Corry (2006) who fears that statistics on global civil society is *'actually perpetuating statism by grafting the idea of civil society onto the global by way of an unhelpful domestic analogy'* (p302). Like Taylor (2002), he calls for a *'move beyond a state-centred framework of interpretation'* (p302).

There appears to be a link between the size of government and the size of the NGO sector (Brinkerhoff, 2003<sup>11</sup>; Dunn and Riley, 2004; Lorgen, 1998). Although NGOs, by definition,

<sup>11</sup> This study was not specific to NGOs and was conducted in India and Pakistan.

ought to be substantially different, almost a rebel chip off the public sector, there is a striking linkage in the UK between NGOs and the government. Wise (1995, p. ix) noted some similarities:

*“At the same time, I was surprised to find that many charities, though outside the public sector, had cultures similar to those in government bodies; terms and conditions of employment were often based on Civil Service scales; financial control systems were similar to public service systems, often good in control of economy but poor in terms of output planning and performance measurement;...”*

This peculiarity may be explained by the mutual exclusivity in sizes between governments and the NGOs; as the governments relinquish some roles, these are rapidly taken up by the NGOs (NAO, 2006; Smillie and Helmich, 1993). Such services are partly funded by the governments (Barman, 2007) thereby establishing a strong funding linkage. In the position of funders, governments are then able to exert more pressure on NGOs to conform (Goddard and Assad, 2006<sup>12</sup>; Gray et al., 2006). When NGOs become funders, they too could exert pressure on the partners they fund to conform. This theme is explored in some detail later in the thesis.

Overall, the growth of NGOs can be viewed from two different perspectives, from their own strengths as well as from the weaknesses of the rival public sector and other factors like the world's focus on gender, environment, apartheid, race and social welfare (Barman, 2007; Lorgen, 1998; Salamon, 1993; Smillie, 1994).

In the North, governments have increasingly withdrawn from direct provision of social services, preferring instead to fund NGOs through some form of arrangement to provide the services (Unerman and O'Dwyer, 2006). In the UK in particular, this could be the strongest driver of NGO growth (Barman, 2007; NAO, 2006). Kendall (2003) also argues along similar lines, that the broader voluntary sector has grown mainly to complement, supplement, extend and influence social services. Complementing and supplementing implies increasing the effectiveness of such services whereas extending implies taking the services to members of society not yet reached and influencing implies a watchdog or advocacy role. Inherent in this assertion is either inability by the government to provide such services adequately (Salamon, 1993) or the government's own deliberate search for help (NAO, 2006). Either way, the fact that NGOs were found to be a suitable if not better alternative is a testimony to their strengths (Kendall, 2003).

In the case of the South, Northern governments, through bilateral and multilateral aid, and the individual people of the North have increasingly channelled their aid through NGOs as shown

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<sup>12</sup> This research involved SNGOs in Tanzania and their relationships with various NNGOs.

in Chapter 1. This is because of various factors including perceived bureaucracy, low impact, low transparency and low accountability of government systems (Ahmad, 2001, 2003; Salamon, 1993). NGOs have also mushroomed in the South to fill the void left by the government systems. Discontent with governments' ability to deliver relief and development led leading aid agencies such as the World Bank, the UN agencies and governments in the North to try to reform governments in the South through packages such as structural adjustments in the public sector (Ahmad, 2001). These reforms aimed at reducing public expenditure, the state's role in the market and in project implementation, thereby creating more demand for NGOs (Mosley, 1991). The increased focus on human rights, environment, gender, racial equality and HIV/Aids among others helped to spur growth of NGOs (Ahmad, 2001; Mosley, 1991; Munck, 2002; Tvedt, 2002).

Finally, since the end of the Cold War, bilateral and multilateral agencies developed New Policy Agenda focused on NGOs and GROs in poverty alleviation, social welfare and development of society (Robson, 1993). NGOs are believed to have then attained and have since remained a preferred channel for development assistance (Edwards, 1994; Fowler, 1997a).

The inter-linkages between NNGOs and SNGOs tend to make them grow in tandem. SNGOs form natural partners to NNGOs in reaching and delivering development as they share fundamental beliefs, systems and ways of doing things. SNGOs draw most of their revenues from NNGOs to such an extent that it is now estimated that NNGOs account for over 90%<sup>13</sup> of revenue of SNGOs (Fowler, 1997a). This could theoretically mean the role and growth of SNGOs is defined by NNGOs (Brehm, 2004). This theme is so prominent in discussions of the relationships between NNGOs and SNGOs.

Some critics of the rapid growth of NGOs, such as Mitlin (2002), *The Economist* (2000) and Wallace (2006) argue that the dramatic growth and clout of NGOs have created dependency amongst the people and governments in the South, increasing reliance on NGOs to provide services which would ordinarily be provided by the state (Brinkerhoff, 2003). This act of crowding-out has some adverse effects. As an extreme example, relief groups provide so many health services in Uganda, Malawi and Zambia that the authorities there tend to believe health provision is a responsibility of NGOs (Lorgen, 1998).

Hancock (1989) also noted that NGOs have so much power that the good they do is undermined by the negative effects of their presence. They present new ways for Northern governments to perpetuate their influence in the South and are in reality not accountable to the people in the

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<sup>13</sup> With the combined contribution of the remaining four sources of revenue for SNGOs (tax revenue, official aid, local corporate investment and local gift economy and the market) contributing the remaining 10% of their revenue.



South. To Hancock, NGOs which provide relief are big businesses which thrive on disasters and are prone to financial malpractices and opulence by their staff. Argenti (1993) also observed that as NGOs grew, they often hired the most-talented Southerners, lured by salaries which Southern governments or businesses could not match, and this was paradoxical as NNGOs undermined development in the South in this way.

### 2.1.3 *Role of NGOs*

In a research across several nations, Salamon et al. (2000) identified five key roles for the non-profit sector, namely the service, the innovation, the advocacy, the expressive and the social capital roles. Other researchers such as Kendall (2003) determine NGO roles within a single country or area or community. The approach across nations as adopted by Salamon et al. (2000) appears broad enough to encompass roles determined at these other levels.

The International Institute for Sustainable Development (2002) noted that NGOs played a major role in pushing for sustainable development at the international level. Campaigning groups have been key drivers of inter-governmental negotiations, ranging from the regulation of hazardous wastes to a global ban on land mines and the elimination of slavery. Aided by advances in ICT, NGOs have helped to focus attention on the social and environmental externalities of business activity (Tvedt, 2002).

Kendall and Knapp (2000) note that one characteristic shared by civil society organisations as a whole is that their non-profit status means they are not hindered by short-term financial objectives. Accordingly, they are able to devote themselves to issues which occur across longer time horizons, such as climate change, malaria prevention or a global ban on landmines. International public surveys conducted by USA firm reveal that NGOs often enjoy a high degree of public trust (Edelman, 2006) (see 2.4.3), a critical indicator of how well the society believes they play out their role as proxy for the concerns of society and stakeholders.

Unerman and O'Dwyer (2005) argued that the massive anti-war demonstration in early 2003, aimed at countering a new war against Iraq, the affronting of world leaders over trade and the environment, and Oxfam's take on apartheid in South Africa (Black, 1992), show the NGOs' clear determination to influence major decisions related to international peace and security. Over the last years, NGOs are occasionally authorised to testify before the UN Security Council on some issues, e.g. on the African crisis or children in conflicts. There now exists an NGO Working Group on the UN Security Council which as Unerman and O'Dwyer (2005, p367) noted:

*"...meets regularly with ambassadors of virtually all Council-member delegations, thereby enjoying access to the highest levels of United Nations decision makers. NGOs*

*represented include Oxfam International, World Vision, Human Rights Watch, CARE International, and Save the Children.”*

In the UK, a research by Kendall (2003) including a review of past publications and reports of committees established that NGOs in the UK serve five major roles. They provide services to ‘complement, supplement, extend and influence’ social services as stated by the Wolfenden (1978) Committee. They also play a crucial innovation function by raising and trying out new solutions to societal problems. They serve a crucial advocacy and watchdog function, thereby acting as dramatic catalysts for social change. They serve an expressive function not only to give a voice but also as a voice of the voiceless. Finally, NGOs serve a community building function by organising events, fundraising activities and other ways of promoting community development and cohesiveness. These NGO roles in the UK, as articulated by both Kendal (2003) and Wolfenden (1978), map well onto those global NGO roles identified by Salamon et al. (2000).

While agreeing with the above researchers and their findings on the role of NGOs, Unerman and O’Dwyer (2006) believe the categorisation of the role of NGOs, especially in the UK, can be further refined to three roles, namely provision of welfare services, campaigning and advocacy and those combining the two. Through this articulation, the authors seem to leave out the innovation role, yet it is such an important aspect which gives NGOs the solid base to try out new solutions to societal problems (Kendall, 2003). NGOs have recorded major gains in this area in the past (see Appendix K).

Like Munck (2002) and Tvedt (2002), the Peace Corps (2006) summarises the role of NGOs as simply to provide services and to facilitate participation of citizens in their societies. To operationalise these roles, it observed that NGOs specifically serve to promote pluralism, diversity and tolerance in society while strengthening culture, ethnic, religious, linguistic and other identities. They also advance science and thought, develop culture and art, protect the environment, and support activities and concerns which make a vibrant society. NGOs also motivate citizens in all aspects of society to act, rather than depend on state power and beneficence. Finally, NGOs create an alternative to centralised state agencies and provide services with greater independence and flexibility (Peace Corps, 2006).

Based on the assumption that all three sectors work for the betterment of society in their different ways, the government, for-profit community, and the third sector need to recognise each other as being integral partners, ideally of equal stature with a distinct and vital role to play in development (Tvedt, 2002). Governments enact and enforce rules and regulations which define the policy environments needed for development to take root. For-profit corporations offer know-how, resources and technical assistance, while NGOs offer practical on-the-ground

knowledge, relationships and implementing networks needed to get the job done in a way which renders the final product acceptable and sustainable. Government and corporations should view NGOs as critical extensions of their work which permit them to realise the return they seek, whether financial or social in nature rather than as threats (Giunta, 2006; Smillie, 1994).

Bebbington and Mitlin (1996) argue that NGOs play yet another crucial coordination role within and beyond their own group of civil society. They act as intermediaries between the various civil society groups, between the civil society and governments and, to some extent, between the civil society and the market. In fact, NGOs have gone beyond this by taking on the advocacy and campaigns role which means that in practice NGOs provide services but also oversee the work of the other service providers. Brown and Kalegaonkar (2002) and Willets (2002) explored the ways NGOs operate to influence change at international level. They noted that once NGOs decide to influence public policy, they organise themselves in broad coalitions which may defy the classic model of a unified hierarchy. Such coalitions may take the form of umbrella INGOs, networks or caucuses (Willets, 2002). In the early days with poor communication systems, multi-national coalitions took the form of institutional structures such as umbrella organisations, to rally different NGOs which did not even share a common identity.

Willets (2002) discounted as a fallacy that NGOs were predominantly a feature of the western societies by arguing that all societies in modern times have had NGOs at least at the local level. Under the most authoritarian regimes or in the least developed countries, there are still self-help co-operative groups, community welfare associations, religious groups, professional and scientific associations and sports and recreational bodies. Even Romania during the dictatorship of President Nicolae Ceausescu was host to the International Federation of Beekeepers' Associations (Willets, 2002).

Not all researchers agree that NGOs effectively play a positive role in society. Mitlin (1998), for instance, argues that NGOs undermine the activities and strengths of GROs. She identifies four ways in which they do this: by imposing their agendas, by being insensitive to the political and power struggles in the communities, by doing most of the work by themselves rather than developing the skills and capacity of grassroots organisations, and by not being accountable to the beneficiary communities. Kamat (1993) also argued that NGOs are 'false saviours of international development'.

There appears some tension between some of the roles of NGOs and how they carry them out. At one end they are taking over services which governments used to provide which in the South brings them into direct competition with governments over funding as a study in the USA

(Ebrahim, 2002) found. They provide services, just like governments, but insist they should also be watchdogs over how the governments do their part (Tassie et al., 1996). They also seek funding from the governments they watch over and campaign against. By undertaking advocacy work for and against the private sector, NGOs interchangeably treat them as fund masters and objects of their work (White and Morrissey, 1998). Finally, through partnership with the public and private sectors, the voluntary sector aims to humble its rivals-turned-critics (Ashman, 2001). NGOs allude to a silent revolution to influence and change the world through collaboration and partnership rather than confrontations (Edelman, 2006; Lewis, 1999). It is on such tensions that initiatives such as NGOWatch thrive. NGOs might find it useful to carefully draw a line under their role and ways of working so as to safeguard both their independence and equity, which are essential characteristics of their existence.

On the whole, however, there is a wide belief that NGOs are useful members of society and serve a vital role both in the North and the South. In recognition of this, laws (including tax laws) in both donor and recipient countries could be more supportive of NGOs and their funders (Anheier et al., 2001; Covey, 1995; Edwards, 1994; Lorgen, 1998; Salamon, 1993; Sidel, 2006).

On their part, NGOs could do more. It has been proposed that they could scale up their impact, develop competitive strategies to cope with new risks, seize opportunities better, diversify their funding, build solid business cases for funding and develop strong brands (Herman, 1992; Naidoo, 2004; Reider, 2001; Rojas, 2000). The work by Rojas (2000) covered both for-profit and not-for-profit organisations. Finally, it is argued NGOs should work on their legitimacy (Salamon et al., 2000), accountability (Lewis, 2002; Sheehan, 1996; Tandon, 1997), cost effectiveness (Caiden et al., 2001<sup>14</sup>; Sowa et al., 2004) and governance (Callen, 2003; Carver, 2006; Herman, 2000; Low, 2006) since these have been their soft targets and main areas which undermine their role.

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<sup>14</sup> This was a non NGO-specific, non UK-specific study conducted in the USA.

## 2.2 NGO PERFORMANCE AND ITS MEASUREMENT

### 2.2.1 Importance and Process of NGO Performance Measurement

Both Paton (1998) and Lewis (2002) consider performance to be the degree of accomplishment, achievement, conduct, execution, discharge or fulfilment of an organisation's goals. It could apply at the narrower intra-organisational level such as at project or program level but since this study looks at the wider organisational performance, as the next paragraphs show, a broader definition appears more suitable.

On the other hand, Barman (2007, p104) defines measurement as *“any process by which a value is assigned to the level or state of some quality of an object of study”*, a definition which Paton (1998) adopts. Perrin (1998, p368) then defines performance measurement as the *“...way to ensure a focus on results and accountability, to finally determine what publicly funded programmes are up to, and to provide control over expenditures”*. This definition intricately ties NGO performance measurement to its accountability which implies studies of NGO performance measurement can not be divorced from NGO accountability.

In a study of the history of performance measurement in the British voluntary sector, Barman (2007, p102) adopted the definition of performance measurement as *“...the reporting of the observable, quantifiable characteristics of charities' programmes and practices”*. Not only was this narrowed by stressing the observable and quantifiable but also presented a contradiction as practices are rarely quantifiable. In fact, following this line of argument leads Barman (2007, p103) to a partly debatable conclusion that the use of performance measurement has led to negative effects such as *“...the standardisation of services, inhibit innovation, produce mission drift, and lead to conflicts over accountability to different constituencies”*. In the researcher's view, this conclusion is as narrow as the basis on which it is founded. Although there are demerits to performance measurement, such demerits relate to the ways and focus of such a process rather than to the practice itself. Analogy could be drawn with NGOs in general. Although some problems such as dependency, control, abdication of responsibility, fraud and corruption arise in the course of their work, this does not make NGOs bad. The present research is founded on the basis that there are problems in such process and systems but they can be improved. In fact, Barman (2007) found it is such improvement which underlies the changing ways in which performance measurement is conducted over time.

Behn (2003) found performance measurement to be vital, as managers can use it to evaluate, control, budget, motivate, promote, celebrate, learn and improve. The author argued that there

can be no single performance measure appropriate for all purposes and hence managers have to pick and choose those appropriate to what they wanted to achieve.

Although it is hard to argue over the uses of performance measurement the author identified, opinions vary on whether or not NGOs should have many performance measures and whether it is possible to derive the magic performance measure as for-profits do. The work of Perrin (1998) on misuse of performance measurement in NGOs and the public sector alike also stands out. The author identified the following eight reasons why the use of performance measurement and performance indicators is not good for organisations: terms and concepts are often interpreted differently, they displace goals of the NGO, indicators are often meaningless and irrelevant, they mostly shift rather than save costs, through aggregation they obscure subgroup differences, they lack objective bases for evaluation, they are of no help to decision making and resource allocation, and they actually lead to less focus on outcomes.

In the end, Perrin (1998) argued that for lack of a better alternative performance measurement the use of performance indicators remains the best hope for NGOs. However, they need refinements over time based on lessons from critical reviews of failed past measures. In particular, he proposed that performance measurement and performance indicators should be mainly used in planning and monitoring but not in evaluation, a combination of methods should help overcome limitations inherent in all methods, they should be used only in appropriate contexts, they should target the right levels in organisations, and stakeholders should be involved in their design and testing.

Moore and Stewart (1998) argued that performance measurement is a critical and complex issue for NGOs because their activities are not routine, NGOs have many objectives with some not so clear, there is a distortion between their immediate outputs, medium-term effects and long-term impacts, and at times performance measurement processes may distort the NGO's objectives or the goals of staff. The authors believed that although it was difficult to measure the performance of NGOs, it was necessary to do so and funder NNGOs and foundations / trusts were already doing it. In addition, they argued that it is also possible to improve the process at corporate level without decomposing an NGO into its constituent projects and programmes.

A review of literature seems to raise some confusion between effectiveness and performance which may require some clarity.

In a review of 149 scholarly publications on studies of organisational performance (in both for and not-for profits) in the decade leading to 2006, Baruch and Ramalho (2006, p41) unearthed a worrying confusion in the terms used:

*“Others preferred to distinguish these constructs either attributing to effectiveness a more perceptive measure while performance would be a more objective one..., or by attributing economic and market measures to performance while non-economic or stakeholder measure to effectiveness. [Whereas others] saw performance as a broader concept than effectiveness, comprehending other concepts such as efficiency, productivity, or quality [and yet others] proposed the opposite.”*

In a similar study on NGOs but also drawing on other organisations, Sowa et al. (2004) observed little theoretical or empirical consensus on what constituted organisational effectiveness and how best to measure it. However, to bridge these gaps they introduced a multidimensional and integrated model of non-profit organisational effectiveness capturing management effectiveness and programme effectiveness. In this way, the researchers seemed to equate effectiveness with performance. Such confusion is common but should be to a lesser extent in NGO studies. One reason for this high level of confusion could be found in the Sowa et al. (2004) study of publications on the matter across business organisations, non-profit organisations and a mix of both. In such studies, the business organisations almost always eclipse the rest.

Anheier (2004, p98) also provides another summary of the status of NGO performance measurement thus:

*“For civil society organisations, the problem is complicated by the absence of a fully tested and accepted repertoire of performance and assessment measures. Many available measures derive from public sector management and business applications. Non-the-less, recent years have seen significant development in the field, particularly work carried out by Forbes (1998), Paton (1998), Herman and Renz (1997), Osborne (1998), Murray (2000) and, especially Kendall and Knapp (2000)”.*

To put these comments into perspective, it is vital to examine some of these relevant studies. The study by Forbes (1998) reviewed empirical studies between 1977 and 1997 of the effectiveness of non-profit organisations. It led to the conclusion that the different ways in which researches conceptualised effectiveness changed over time and were reflected by the changing objectives of such studies, a further attestation to the fact that measurement of performance in itself was not wrong but it was actual performance which was dynamic.

In research to establish theses on non-profit effectiveness, Herman and Renz (1997) identified six central theses, namely: effectiveness is always a matter of comparison, is multidimensional, boards of directors affect effectiveness although in ways that were unclear, more effective

organisations were more likely to use correct management practices, effectiveness is a social construction, and use of programme indicators as proxies for effectiveness is not only restrictive but could be dangerous. Again, this study takes a clear stand that effectiveness is a constant and ways to conceptualise and measure it are variables. It also brings to the surface the fact that performance of NGOs brings together different dimensions and that the eventual performance is linked in some ways to board level governance and good management practices and should be viewed within its context. It also emphasises the dangers of splitting NGOs so as to assess effectiveness in such components as projects or programmes just as Fowler (1997a) argued.

Later studies, such as by Kendall and Knapp (2000) whose work is reviewed under the bespoke stream below and Anheier (2004), helped clear the confusion by showing that effectiveness is but a subset of performance, with the others being efficiency, economy and equity, and that both management (people, policies and systems) and programme were vital in the measurement of performance.

One of the features making NGOs distinct is the fact that they have multiple stakeholders with varying interests (Martens, 2005). Consequently, some researchers, such as Ebrahim (2003), Fowler (1997a), Lewis (2002), Tandon (1997) based on work in India and White and Morrissey (1998) consider accountability to be one of the key determinants of NGOs' performance. The fact that NGOs usually mobilise resources from groups of people and deploy them for the benefit of other groups of people inevitably gives rise to multiple accountabilities. How well NGOs can serve their needs and ascertain their due diligence over this custodial role should be important. Thus, research into performance of NGOs can not justifiably be divorced from the issue of accountability and its eventual goal of credibility (Gibelman and Gelman, 2001; Goddard and Assad, 2006; Kamat, 2003).

Edwards and Hulme (1995) argued that accountability builds a solid bridge between transparent compromise and blind co-option to ensure that NGOs take full advantage of the opportunities available. Conversely, the absence of accountability, they argued, presents the threat of financial and mission corruption. These positions, when viewed alongside Perrin's (1998) contention that NGO performance measurement is a means to satisfy its accountability, make necessary a detailed analysis of NGO accountability.

### 2.2.2 NGO accountability and credibility

In the USA, Shah (2007, p16) provides a multi-sector definition of accountability as generally *"... the requirement for an administrative organisation to render an account of what it has done...to some external, independent organisation....so that the assessment [of its performance]*



*can be reasonably public*". Thus, for NGOs the main purpose of accountability is "to provide mechanisms through which an organisation's (or a person's) actions can demand an account from the managers of that organisation (or person) has acted in the manner it has" (Unerman and O'Dwyer, 2005 p351). Accountability is thus conceptualised in terms of responsibility to ensure that behaviour of officials conforms or is responsible to the law or the relevant code of ethics. Even at this definition level, one can already detect some confusion as to whether accountability is giver (NGO) driven or receiver (stakeholder) demanded.

The importance of accountability and credibility in NGOs can be justified from different perspectives. Moore and Stewart (1998, p337) noted that:

*"Allegations that some NGOs are unaccountable or untrustworthy will reflect on the sector as a whole in the eyes of the public, governments and donors. Donors will find it far easier to justify the continuing shift of development funds to NGOs if NGOs in general meet the standards of institutionalised suspicion that are normal in other types of organisations."*

Lloyd (2005) and Wallace (2006) sought to distinguish between accountabilities. According to Wallace (2006), NGOs face functional accountability for resources and immediate impacts and strategic accountability for impacts on other organisations and the environment on a medium to long-term basis. The dominance of the state, as a regulator, object of campaigns and a funder, therefore further complicates NGO, state and donor relationships.

Lloyd (2005), on the other hand, identified the traditional accountability which operates on the principal-agent model where a principal delegates authority to an agent who then acts in the principal's interest with a control loop established through economic and legal incentives. The second is the stakeholder approach which bestows the right of accountability to anyone who is affected by the NGO's activities. The stakeholder approach is considered more suitable to the situation of NGOs since the principal-agent approach focuses on the funders, directors and the government (those who have authority to demand it) to the total exclusion of beneficiaries and other key stakeholders without much leverage on the NGO. The other merit of the stakeholder approach in all organisations (not specific to NGOs) is its ability to stretch the limits of accountability from being a disciplinary mechanism to a transformative power (Young, 2000). In this way, it ensures that decisions are more equitable and fair to meet the needs of all stakeholders. In essence, the stakeholder approach makes NGOs accountable upwards to funders and governments, downwards to beneficiaries, inwards to themselves through clarity of purpose and participatory decision making, and horizontally to peers. It is argued that this distinction is in line with the one Ebrahim (2003) drew based on studies in the USA when he referred to the two angles of accountability as the relational issue and the identity issue.

In practice, NGOs are compelled to observe upward accountability mainly to funders by the contracts and restrictions on use of money (Ahmad, 2001; Najam, 1996). They also observe upward accountability to the governments because of the existing mandatory laws. NGO accountability in the other three areas (downward accountability to beneficiaries, inward accountability to themselves and horizontal accountability to peers) is largely unsatisfactory (Sheehan, 1996). Lloyd (2005) identified reasons for this failure as the lack of power by beneficiaries to impose their demands and that accountability to peers lacked clarity and norms spelling out best practices. In fact, due to these weaknesses, Bernstein and Cashore (2007), Lloyd (2005) and Moore and Stewart (1998) strongly argue for NGO self-regulation, with Moore and Stewart (1998) in particular arguing that self-regulation should be country-specific so as to be relevant to local circumstances, have moral force and supplement the national laws regulating NGOs (see also section 2.3).

Effective NGO stakeholder accountability is a morally right thing to apply, helps improve NGO performance, increases its credibility and influence, and enhances democracy in society (Gray et al., 2006). This is vital because NGOs, being typically service organisations with managers and funders different from the beneficiaries, present no direct means by which beneficiaries can enforce accountability on the managers and funders. Yet, the NGO accountability debate is made much more complicated by their distinct situations of NGOs, three of which are reviewed below.

First, if an NGO is not membership-based then there is no obvious direct group to which the NGO should owe accountability (Gray et al., 2006). They argue that the lack of a common bottom line as is the case with profit organisations makes demonstration of accountability more difficult. Researchers however believe NGOs should demonstrate performance to respond to questions of accountability and legitimacy since they are just as susceptible to the risk of misappropriation of assets and damage to their images as other organisations (Anheier et al., 2001; Brown and Kalegaonkar, 2002; Hailey, 2003b; Lindenberg, 2003; Low, 2006).

Second, despite the growth of NGOs and their provision of services previously provided by 'democratically' elected governments (Gray et al., 2006), only a minority of NGOs conform to the model of a global democratic hierarchy in which any qualifying person may become a member. The pressure for NGOs to make this move seems to be building as NGOs are increasingly required to pass the public benefit test which is slowly getting entrenched into national laws e.g. in the UK (Morgan, 2008) and in the USA (Williams, 2007). As Gray et al. (2006) argued, there are three variants to this:

(i) NGO to have subscribers or supporters providing income, receiving newsletters and responding to calls for action, but not having any democratic control either over expenditure or over policy priorities of the organisation. This is common among altruistic NGOs promoting social welfare and poverty alleviation, and also among environmental NGOs (Gray et al., 2006).

(ii) A specific status or participation in some activity to be a prerequisite for membership. Thus trade unions are open only to those employed in certain occupations (may be broadly defined). Similarly, professional, scientific and technical bodies are open only to people with the relevant qualification. Such organisations may then be grouped on a functional basis rather than a geographical basis, before they form national and/or international federations. Trade unions, in principle, largely maintain democratic decision-making structures. However, professional, scientific and technical bodies have professional norms which override democratic norms and members may be expelled for violating them (Gray et al., 2006).

(iii) Special treatment for a religious organisation. All the major religions have complex hierarchies, from the local faith community through to global spiritual authorities. Often authority is based on faith, a holy text and charisma of individuals or a hierarchical tradition (Gray et al., 2006). With respect to the definition of NGOs, it may be inappropriate to discuss trade unions, professional bodies and religious organisations as if they are NGOs. The leaders of all three may even deny that they were NGOs but they register as such to benefit from the accruing tax benefits (Fowler, 1997b). They are also treated on the same basis as NGOs throughout the UN system, with the exception of the special place for unions in the International Labour Organisation's tripartite system of governance.

On this account alone, NGOs which are not 'democratic' seem to be taking over services previously provided by democratically elected governments and this can complicate the NGO accountability debate.

Third, the advent of NGOs into advocacy implies that an NGO may successfully influence the policies of governments or corporate bodies in its favour, which in essence weakens the work of other NGOs with mutually exclusive objectives. In this way, an NGO's actions can affect lives of many people, some who are not directly targeted. As Unerman and O'Dwyer (2005) argue, this can extend an NGO's accountability to very wide realms which justifies the multiple accountabilities for NGOs.

The foregoing contentions are not beyond dispute. There are organisational theorists who believe that NGOs like other organisations ought to be accountable only to their legal owners or to those with the power to influence the achievement of their goals, and in no way to peripheral

stakeholders (Bernstein and Cashore, 2007<sup>15</sup>; Ebrahim, 2003; Unerman and O'Dwyer, 2005). It could as well be that the mission-critical stakeholders are the funders and the government. The concept of relational accountability (Ebrahim, 2003; Jones and Wicks, 1999) argues against this and holds that everyone has a right to be involved in matters which may affect them regardless of the powers they hold in relation to others. It is also in order to argue that NGO accountability should in fact vary in proportion to the impact actions have on one's life so that, for instance, non-smokers who can be adversely affected through passive smoking should have a higher accountability claim on the UK's Freedom Organisation for the Right to Enjoy Smoking Tobacco (FOREST) than the smoking members, as Unerman and Bennett (2004) argue.

The other contention is that of identity accountability (Ebrahim, 2003) which is opposed to relational accountability and focuses on internal integrity and mission to ensure an NGO's activities make a difference. This brings into play the issues of ethics and values to drive actions. Consequently, NGOs become accountable to themselves as well as to many other stakeholders they define for themselves. Thus even if an NGO's activities adversely affect a party who is not enlisted by the NGO as a stakeholder to whom it is accountable then such a party can not challenge this stand.

In practice, NGOs tend to identify and rank how crucial different stakeholders are to the accomplishment of their objectives and accord commensurate accountability. To amplify the dominance of upward accountability, Ebrahim (2003) and Najam (1996) found functional accountability as the most common among development NGOs (NGDOs). Such accountability is short-term in orientation, focuses on accountability from NGDOs to funders for resources, resource use and for immediate impacts, and often uses evaluation instigated by funders and monitoring mechanisms like the LFA so as to prove accountability. In this process, accountability is narrowly seen as spending money on the agreed objectives. Indeed Ebrahim (2003) criticises them for trivialising accountability between NGOs and funders by equating it only with quantifiable and measurable aspects, although Hyndman and Anderson (1991) had earlier, based on research in the public sector, put across their view that accountability should go beyond financial reporting. Accountability to other stakeholders is lost in the process (Najam, 1996). To correct this, some NGOs nowadays tout their values and mission as their primary source of accountability (O'Dwyer and Unerman, 2006).

Despite these raging debates, NGOs are still frequently challenged on their accountability and legitimacy. It is often asked, mainly by NGOs' critics, whether they speak as the poor, with the poor, for the poor, or about the poor (SustainAbility, 2003). The next few paragraphs will

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<sup>15</sup> This literature relates to global governance in organisations in general.

review the literature on what NGOs perceive of these challenges, why they find them unjustified and how they respond.

First is suspicion as to the motive of such challenges. Why are these questions only relevant and important in the case of NGOs? This may be partly because NGOs believe that despite being probably more accountable than other organisations, their accountability is still questioned by critics and cynics who might just be uncomfortable with them (Gray et al., 2006). Unerman and O'Dwyer (2005) argue that accountability should serve as a mechanism for those affected by an NGO's actions to demand an account from it. It is therefore only owed to those with power to influence achievement of the NGO's goals or those directly affected such as funders, partners, beneficiaries and staff. This would push it the way performance has been perceived; not as the right thing to do but the thing to do to thrive. During research on quality systems in the UK, Cairns et al. (2005) found funder-fronted performance improvement to be common in the non-profit sector (p148):

*"Although one might assume that the ultimate purpose of improving performance in the non-profit sector is to provide better service to service users, the picture that emerges from our study is of quality systems operating in practice as a managerial response to external accountability demands rather than as a product of customer orientation or as an effective route to goal achievement".*

It has also been argued previously that NGOs owe additional accountability to the legal authorities under whose jurisdiction they operate.

The other complication is that NGOs have to a great extent moved to fill in the gaps created as governments withdraw from service provision (Unerman and O'Dwyer, 2006) and also work in collaboration with, and even, like some advocacy NGOs, under the sponsorship of commercial organisations (Edelman, 2006). In the South, Fowler (1997b) found that NGOs compete with governments over resources and credibility in the eyes of the North and are often very critical of both the government and the private sector. Consequently, Gray et al. (2006) question that if NGOs are created to work for beneficiaries but also work for governments (accountable to the populace) and for profit organisations (accountable to shareholders), should they still be considered as NGOs and if so to whom should they be accountable? Should discomfort with these arrangements prompt wider challenges to the entire NGO sector?

Then there is the complication that the nature of the situation of NGOs makes even the simplest of tasks mind-boggling (Ebrahim, 2005). When the accountability of NGOs is called into question, subsidiary questions arising include the basic one of to whom NGOs should be accountable. In what ways should they be accountable? In which direction should

accountability flow? (Gray et al., 2006). As will be discussed in the ensuing sections, there are valid reasons for these subsidiary questions.

Caution should be taken as NGOs range from small organisations serving a small area to multinational brands such as Oxfam, Christian Aid, Action Aid and Save the Children, to name a few. In small organisations, the trustees and the managers are able to meet their beneficiaries, funders and other stakeholders directly on a regular basis. They can answer their concerns, brief them on progress and get their feedback. This could be sufficient accountability on the basis of 'closeness' criteria which Rawls (1972) advocates for all organisations. He takes a position that only in the absence of 'closeness' is formal accountability required, a position Gray et al. (2006) support by drawing the analogy that friends and family members often do not require formal accounts. Yet for the large NGOs operating in many continents and countries, 'closeness' is no longer possible. On this basis, Gray et al. (2006) believe that small and large NGOs should not be bound to the same formal and elaborate accountability mechanisms.

Accountability in the case of large NGOs can be demonstrated in several ways. Gray et al. (2006) argue that NGOs can demonstrate performance through the exercise of transparency, accountability, accuracy, linking grass root activities to global issues and addressing root causes of problems. This is achieved by marshalling and directing an NGO's internal resources to areas deemed vital by the external stakeholders. In this respect, governing bodies play a crucial role as interfaces between an organisation's internal and external stakeholders (Edwards, 2000). As discussed earlier, they are expected to give overall direction to an organisation, taking into consideration the wishes of all stakeholders. Governance encompasses all functions to ensure smooth internal operations and good relationships with external stakeholders. Functions of governing bodies will usually include policy and identity, vision, mission and strategy, internal programming, staffing and resources, norms and values, fulfilment of statutory requirements and definition of external stands.

Then NGOs have to grapple with the problem of how to account and the direction of accountability. In practice, upward accountability to funders eclipses downward accountability to beneficiaries (Ebrahim, 2005; Edwards and Hulme, 1997; Najam, 1996; Wallace et al., 2006), yet they believe that ideally NGOs should instead be accountable to their beneficiaries. In line with this prevalence of funders over beneficiaries in NGO accountability, Goddard and Assad (2006) found that funded NGOs often used formal accounting practices primarily to secure funding by demonstrating to both existing and the potential funders the NGO's accountability. Consequently, NGOs tended to employ a number of accounting and accountability strategies to build credibility. They included conforming to the accounting requirements of their key funders at whatever cost, spotlighting their high profile funders in

reports to attract potential funders, attending closely to external audit which included selecting global audit firms they believed were more credible, and improving governance (Goddard and Assad, 2006). The researchers determined that the main ways NGOs used to improve governance so as to engender trust were better governance structures at the board level, more transparency, more accurate accounting information and the use of independent consultants.

Naturally, accountability defaults to the authority and the 'owners', but who are an NGO's 'owners'? As Oliver (2005) argued, one NGO might consider its owners to be any person with an interest to make a difference in a given part of the world. Another may consider as its owners people from a country or a faith who want to fight poverty worldwide. Another might consider as its owners the beneficiaries of its aid. These scenarios provide different bases to stand on and to justify and be accountable for choices. It is in this respect that Oliver (2005, p1) believes *"...the fundamental choice for aid agencies is not so much what to do but who to consider to be their owners."* This concern, coming as it does in 2005, is rather belated. Researchers in this field reached a stand as early as 2003 that aid agencies are accountable to multiple stakeholders (Kendall 2003) and, in fact, Leat (1993) specifically identified the six main ones to include funders of NGOs.

In the private sector, the board is expected to act in the best interests of the owners and to facilitate organisational performance through effective decision making, a feat achieved by electing members to the board on the basis of expertise (Low, 2006). By design, NGOs are stakeholder organisations and with a lack of profit motive, they are theoretically owned by the community (Peace, 2003) and hold whatever assets they have in trust for the community's benefit (Dunn and Riley, 2004). The key role of the board is therefore to represent the interests of various constituents and groups as Iecovich (2005) found based on studies in Israel. Consequently, whereas the effective boards in the for-profit sector will be judged on the basis of their ability to generate profits, boards of NGOs will be partly assessed on the basis of who is on the board. In some cases, the personalities on the board and whose interests they serve may dictate whether an NGO gets a government contract or a grant (Low, 2006). Also, outsiders judge democratic legitimacy of an NGO partly on the basis of the involvement of stakeholders at the highest echelon of the NGO (Low, 2006).

Gray et al. (2006) believe this is a misplaced concern. They argue that in practice NGOs exercise accountability in four ways, three of which may not be formal or directly observable, namely: they are accountable to the government through the existing NGO laws, are constantly under public gaze and media scrutiny, engage communities (e.g. through shared values, understanding and knowledge of their staff, other NGOs, communities and professional bodies

of affiliation), and in addition, most of them have formal reporting and disclosure systems similar to those in the corporate sector.

This gives NGOs the justification to respond to the accountability challenge by reiterating their moral and legal sources, membership base, technical expertise, and/or effective performance. In regard to NGO performance, Gray et al. (2006, p333) argued it answers the:

*“...pressure for systems of performance which overcome the absence of a ‘bottom line’...and capture the complexities of non-profit activities, and the need to conform to what is generally accepted practice in accounting arrangements for other sectors.”*

Researchers who focus on an identity approach (see, for instance, Ebrahim, 2003) highlight that NGOs generally tend to have four layers in their organisational structures. The four (governance, management staff and operational / junior staff and volunteers) work closely with and reinforce each other and are held accountable for their actions to each other in successive layers (Balda, 2006). Collectively, they give an NGO unity of purpose which drives results. External stakeholders such as beneficiaries, funders and governments amongst others exercise their say mainly through the top two echelons to enforce accountability. In short, governing bodies are accountable to the stakeholders, who give them the mandate to serve. Management in turn is accountable to the governing bodies and through them to stakeholders. Members of staff are similarly accountable to management and through management to the governing board en-route to stakeholders. NGOs are thus structured to ensure accountability. This system of accountability, if it works well, will at least at a functional level provide feedback about activities and means of improving services, identify malfeasance and help punish the perpetrators, assess what has been delivered to the constituents and improve efficiency of public service delivery (Shah, 2007).

In practice, NGO accountability is thus expressed in terms of three facets: to serve the NGO's mission, to perform in relation to the mission and to maintain the NGO's role as a respectable member of the not-for-profit sector (Hulme and Edwards, 1997). Consequently, Hume and Edwards argue that effective accountability needs a statement of goals, transparency of decision making and relationship, honest reporting of inputs and outputs, an appraisal process for overseeing authority to judge if results are satisfactory and a concrete mechanism for holding to account. NGOs are believed to perform on most of these fronts. The main failure is perhaps that in practice only the narrow financial accountability seems to be recognised. Hulme and Edwards (1997, p41) contend this is probably *“...a consequence of ease of establishing specific and quantifiable criteria measuring financial accountability”*.

In summary, there appears to be consensus in existing literature that accountability is a vital facet of NGO performance. It is so critical that it is closely linked to success or failure of NGOs,



as there is a point at which its absence makes the likelihood of ineffective or illegitimate actions much more probable (Edwards and Hulme, 1995). However, there is a debate as to whether accountability should be volunteered by the NGO or demanded by the stakeholders, which NGOs should provide formal accountability, in what ways accountability should be demonstrated; whether as it currently stands NGOs already provide adequate accountability; and what the implications of the changing role of NGOs are on accountability. The literature shows that in practice accountability can be satisfied in different ways ranging from simple, informal to complex formal. In the case of NNGO/SNGO partnerships where the rule of 'closeness' does not hold, NGOs have to resort to detailed and formal accountability mechanisms. State regulations, contracts, financial governance, management and funder policies may all be geared towards reinforcing accountability.

### 2.2.3 Performance measurement frameworks amongst NGOs

Low (2006) argued that there is need for further research to establish a mix of financial and social objectives upon which the performance of NGO can be judged. This section will review existing NGO performance frameworks and will be followed by a review of some of the critical drivers of NGO performance. Gaps will then be identified to focus this research.

It is evident that there is a need to systematically measure the performance of NGOs results. The pressure comes from both internal and external sources and challenges NGOs to demonstrate that they actually make a difference in society (Wise, 1995; Wolfenden, 1978). However, it is particularly the external pressure which seems to have had the most impact (SustainAbility, 2000 p19):

*"NGOs increasingly are also being ranked on aspects of their performance. In the US, for example, both 'Worth' and 'Forbes' magazines now run annual features assessing the efficiency and effectiveness of different NGOs. Consultants specialise in giving guidance on which NGO are most effective and groups like the American Institute of Philanthropy provide annual "Charity Rating Guides and Watchdog Reports.....such trends signal new pressures for NGO trustees and directors."*

It has been shown that accountability is also slowly becoming entrenched in national laws on charities and imposed by provisions in most funding contracts (Morgan, 2008; Williams, 2007).

There appears to be a disconnection between the focus of national laws (on the organisation as a legal entity) and that of some funders (on the project or programme). Some researchers tend to dwell on the latter, which prompted Edwards and Hulme (1997, p148) to argue that *"...Measuring the performance of non state, non profit development organisations, rather than of projects they implement, is a relatively new comer as an issue in the development arena."* This can be understood from several perspectives.

In the first instance, the issues which interest most people in development organisations are arguably results of the projects they undertake rather than organisations themselves (Wise, 1995). People are happy so long as results and impact are achieved regardless of the channel of delivery. In the second instance, pressure for NGO performance assessment gained weight only in the 1980s and 1990s as the proportion of resources used by NGOs derived from official aid system overtook that from public giving and the number of NGOs mushroomed (Fowler, 1996). Such official aid funds demanded greater financial accountability and realisation of agreed impacts (Morgan, 2002; NAO, 2000). Finally, post-Cold War official overseas development assistance focused more on NGOs and less on states in the belief that NGOs were better placed in cost effectiveness and learning from experience (Ahmad, 2003).

Performance measurement has therefore become crucial and brings some advantages as well. It ensures NGOs continuously improve service delivery as well as their accountability, identify better practices and learn from others, focus on key priorities and have a solid basis to question poor performance (Barman, 2007; Baruch and Ramalho, 2006). Well designed performance measurement can help NGOs to escape a deep rooted tendency for organisations to value what they measure rather than measuring what they value (Argenti, 1993; Forbes, 1998).

Synthesis of approaches in literature tends to unearth, in the researcher's analysis, three distinct streams in management and measurement of performance of NGOs which represent different paradigms. The approaches can be grouped into three broad categories: the borrowed universal stream, the contextual stream and the bespoke universal stream. They can be related, in some ways, to the findings by Paton (2003). Paton identified three concepts of performance. The first promotes one's own conception as fundamental and adequate for others as well – the case when institutional performance frameworks are imposed on NGOs (similar to the borrowed universal stream). The second tries to incorporate the competing goals and rationales into a master framework (similar to the bespoke stream), while the third approach abandons the 'realist' position to accept the 'constructivist' position that performance is an evolving and contested concept which can crystallise in negotiated compromise or the thinking of a dominant group (similar to the contextual stream). These streams present different approaches as discussed below.

#### *2.2.3.1 Borrowed universal stream*

In reviewing the traditional performance measurement frameworks dominant amongst NGOs, Hailey (2003a) amongst others (see also Bashir, 1999; Micheli and Kennerley, 2005; Paton, 2003) identified the following evaluation methodologies borrowed from the private and public sectors:

1. The Logical Framework Approach (LFA): This was initially borrowed by the United States Agency for International Development (USAID) from the USA military. It involves problem analysis, stakeholder analysis, developing a hierarchy of objectives and selecting a preferred implementation strategy. It results in a log frame matrix which summarises what the project intends to do and how, what the key assumptions are and how outputs and outcomes will be monitored and evaluated. Ebrahim (2002) argued that LFA has become the primary organising tool for monitoring NGO activities. It has been adopted by many agencies involved in development assistance including Department for International Development (DfID), Canadian International Development Agency (CIDA), OECD Expert Group on Aid Evaluation, ISNAR, AusAID and Germany Technical Cooperation (GTZ). When such high profile donors impose or recommend a framework to NGOs, the framework tends to cascade rapidly into dominance. Hailey (2003a) argued that whereas most of these agencies use LFA as a planning tool, they have developed other tools to supplement measurement of performance.

2. Total Quality Management (TQM): This is a philosophy which came out of the pioneering work of Deming and Juran in Japan in the 1980s (Reavill, 1999). As applied to NGO performance, it changes an NGO's way of working by changing its culture: norms, values and belief systems about how organisations function. This in turn changes the NGO's political system decision-making processes and power bases. TQM is a management-led process which actively involves every employee in satisfying needs of customers (internal and external) by continuously improving all aspects of work activity through structured control, improvement and planning methods (Reavill, 1999). NGOs have tended to avoid TQM and some analysts (such as Bashir, 1999 and Hailey, 2003a) believe this is because it is seen as complex and not very relevant to NGOs.

3. Results Based Management (RBM): It involves four key steps: defining strategic goals which provide a focus for action, specifying expected results which contribute to these goals and aligning programmes, processes and resources behind them, engaging in ongoing monitoring and assessment of performance and integrating lessons learned into future planning, and improving accountability based on continuous feedback to enhance performance. This approach is fronted by international development organisations such as the World Bank Group and the UN. It is quite common amongst NGOs and comes in the form of impact reports to demonstrate performance (Ebrahim, 2002). This framework has been criticised for over-emphasising results without due regard to inputs and the process, a major weakness.

4. Best Practice Benchmarking (BPB): This is the process of establishing the leader in a category and setting the best standards of performance to attain the leader's performance levels. NGOs then identify what to benchmark, how to measure it and then work out how to achieve

the leader's standards (Lindenberg, 2003). This approach is mostly used in NGOs offering micro-finance and micro-credit services. They operate largely as banks and therefore ratios can be developed which cut across cultures, currencies and size to help rank organisations through performance (Paton, 2003). Benchmarking is not so widely used by other NGOs probably due to widespread differences between NGOs and their contextual circumstances.

5. **Balanced Scorecard (BSC):** This is a concept first introduced by Kaplan and Norton (1996) of Harvard Business School and is an approach for developing a strategic management system. It aims to capture the complexity of activities / processes in an organisation and to cascade responsibility for performance in a transparent way down to individual employees. It also derives strategic goals from vision to make clearer to employees the linkage between strategies, activities and budgets. Like TQM, this framework is rarely used by NGOs and it is avoided especially by small NGOs on grounds of being complex, costly and not relevant (Paton, 2003).

Hailey (2003a) and Paton (2003) observed that in practice quite a number of these frameworks have not been embraced by NGOs for a variety of reasons. Those most used amongst NGOs tend to be the Logical Framework Approach, Results Based Management and Best Practice Benchmarking; the latter especially amongst NGOs working in micro-finance. All tend to be fronted by powerful funders with real presence and clout in the world of NGOs: LFA by USAID, RBM by Breton Woods Institutions and the UN, and BPB by international financial institutions which channel funds for development through NGOs. The rest seem to be largely ignored or only partially used by NGOs. Reasons for this, mainly speculated, are that they are: too complex, too costly or not relevant to the work or circumstances of NGOs.

NGOs tend to use the LFA in most cases but reinforce it with other tools. This could be mainly because many funders make it a mandatory strategic and operational planning framework (Cairns et al., 2005a). However, although most NGOs apply for resources using the framework, mapping back performance is very difficult. The framework itself also provides adequate reasons to explain away failure. Amid such weaknesses it became imperative that NGOs find other methods to supplement the LFA.

Authors and researchers, for instance Bashir (1999), Cairns et al. (2005b) and Wise (1995), also recognise some frameworks that are in use both in the UK and in other parts of the world, e.g. Quality Assurance (ISO 9000), Quality Systems, Investors in People and Social Audit, although they are universal models which could equally apply to first, second and third sectors. They have also already been largely claimed by the public and private sectors. These frameworks, according to Hailey (2003a) and Paton (2003), have not attained wide recognition and application amongst NGOs. One reason for this is relevance and the perception users have about

the extent to which they meet the desirable attributes of good performance measurement frameworks<sup>16</sup>.

In the UK, the close association between NGOs and the public sector has seen the NGO sector heavily borrowing and adapting public sector initiatives. Documented early initiatives to measure NGO performance lend credence to this practice and serve to indicate the dominance of the public sector in overseeing the NGO sector. For example, when the Home Office carried out efficiency studies on the voluntary sector, it did so based on TQM concepts of continuous improvement (Bashir, 1999). Related to this, the Best Value 1999 Public Sector Initiative arose when the Quality Standards Task Group was commissioned in 1997 by NCVO and recommended that charities should establish quality principles and show commitment to continuous improvement by introducing the Excellence Model (Wise, 1995).

It appears that these close ties between NGOs and the public sector are hard to sever, even for some researchers. It is noteworthy that Micheli and Kennerley (2005) attempted to derive joint 'performance measurement frameworks in public and non-profit sectors', as if there could be measures which apply to both sectors. They concluded that development of such frameworks was daunting and, consequently, researchers need to consider the distinction between public, non-profit and private sectors, to identify all the stakeholders and the main constituencies of any possible model and the cause-and-effect relationships between them, and to derive a complex and comprehensive framework with flexibility and the necessary guidelines for its adaptation.

On the whole, frameworks in this stream are criticised on several fronts. Not only were most of them borrowed and adapted from the private and public sectors, they also focus on departments (projects) rather than the overall organisational level (Bashir, 1999). They tend to serve well only at the planning and resource allocation level but they do not cover sufficiently all the three requisite areas (inputs, processes and outputs) (Paton, 2003). They also rate poorly on the ability to rank NGOs in order of performance, a critical criterion in the modern world. Those which could measure performance of organisations (such as the BSC and TQM) are rarely used by NGOs as they are easily dismissed as irrelevant, complex or too costly (Kendall, 2003). However, this group of performance measures will remain valid for a long time, given that they are tried and proven to work, they have strong forces behind them and some NGOs have developed considerable confidence in a number of them (Hailey, 2003a).

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<sup>16</sup> Patton (2003) identifies desirable attributes of a good performance measure as valid and reliable, parsimonious, comprehensive, acceptable / meaningful / credible, pervasive and integrative, relatively stable, explanatory power and practical.

### 2.2.3.2 Contextual stream

The cornerstone of Paton's (2003) 'constructivist' stance sits well with the positions taken by Drucker (1990) based on his non NGO-specific work in the USA and Edwards and Hulme (1997). They all argue that performance should be contextual and to an extent, negotiated. This stream comprises frameworks developed specifically for NGOs but which lay on the foundation that context should drive the way performance is measured and interpreted.

Wallace (2006) agreed with Drucker (1990), Edwards (1994) and Paton (2003) on how this should work in practice; NGOs' performance must be determined and interpreted contextually, assessment should be in the form of appropriate questions reflecting multiple criteria, standards must be obtained from constituents the organisation serves, and the process should be participatory. Drucker (1990) in particular proposed that the key questions should focus on what the mission is, who customers are, what customers value, what results have been achieved, and what is planned. He proposed that sub-questions should be posed to staff, board and management and the whole process be facilitated by independent outsiders. In cases of inter-NGO relations where contract culture has permeated, Lawrie (1993) proposed four types of performance indicators: per unit cost, take up or occupancy, impact or result and user reaction. This proposition has an implicit, yet erroneous, assumption that all NGOs deliver tangible goods whose per unit cost can be established and they provide some facilities whose occupancy rates can be established and compared.

Oliver (2005) presented twin policy governance concepts of ownership as one way of measuring performance of aid agencies. This approach measures performance by analysing the actions and activities of NGOs in terms of what benefit they delivered, for which people, and at what cost or the relative worth. In a way, this is similar to allowing NGOs to self-select their owners (identity accountability) to whom they are accountable and determine what they did and how well they did it. This can hardly satisfy the NGO critics.

The contextual stream lends itself to some contentious assertions. One example is the conviction by Hind (1995, p213) that:

*"Concepts of cost and value for money are not at the core of the performance evaluation process...the emphasis of performance evaluation is on assessing whether the specific project in question, or the charity's activities generally, have been effective. Have the anticipated objectives been achieved?"*

This stance is in contradiction of the findings of other researchers in this field (Kendall and Knapp, 2000; Wise, 1995, for instance) who determined that the concept of value for money

and its three pillars of efficiency, effectiveness and economy lie at the centre of performance measurement.

Forbes (1998) also found that between 1977 and 1997 researchers had taken one or a combination of three major approaches to effectiveness, namely attainment of goals, systems / resource procurement and reputation / stakeholder satisfaction approach. This led to a conclusion which lies central to this research that it is better to develop frameworks for assessing performance as there can not be one universal model (Forbes, 1998).

If the contextual stream were to be accepted as the best way forward, performance measurement would have missed some key functions of good measurements: the ability to rank different organisations and to accord all organisations fair and impartial treatment (NAO, 2006; Paton, 2003). In the current market, funders have to make judgements on multiple applications for funding from NGOs and this reality can only be overlooked with serious consequences. In the market place for NGOs, funders will be unable to make decisions to fund some SNGOs and deny funding to others and to defend the process objectively (Hulme and Edwards, 1997). Secondly, although this stream covers some ground in moving performance measurement from project level to organisational level, its approaches remain too close to the former<sup>17</sup>. For instance, the most important group amongst stakeholders are beneficiaries (Leat, 1993; Najam, 1996). Beneficiaries in an NGO serving a diverse group through different programmes and projects will only respond on the level of satisfaction in compartments of specific programmes/projects. It can be argued that most beneficiaries have no interest, ability or the drive to comment on the organisation. This stream also fails to recognise the power of the funder amongst stakeholders by assuming beneficiaries rank above all other stakeholders. The reality has been shown to be different.

It is the researcher's opinion that this stream comprises frameworks developed specifically for NGOs but which lay on the foundation that context should drive the way performance is measured, managed and interpreted. Although context is vital and merits consideration in measuring performance of NGOs, critics will easily determine that if it is relied upon as the main driver of performance it will create islands of negotiated performances difficult to relate to each other. In essence, it would help best if near universal measures were developed and only the final results were discounted by specific contextual factors.

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<sup>17</sup> It should be noted how Hind (1995) tends to address projects and only brings in 'the charity's activities generally' as if it were an afterthought.

### 2.2.3.3 *Bespoke universal stream*

There are notable attempts to derive performance measurement frameworks specific to the not-for-profit sector. The most notable occurred after 1995. They were shaped by the thinking of some key players such as Charity Evaluation Services (CES) (2000), Drucker (1990), Fowler (1996, 1997a, 1997b), INTRAC (Sahley, 1995), Kendall and Knapp (2000), NCVO (Bashir, 1999) and Paton (2003) who guided the process. The contributors to the bespoke stream can be divided into two categories: those who prescribed the criteria of a quality framework and those who developed some form of framework. The former comprises such contributors as Audit Commission (2000), Drucker (1990), Fowler (1996, 1997a, 1997b), INTRAC (Sahley, 1995), Micheli and Kennerly (2005), Palmer and Randall (2002) and Wise (1995), while the latter comprises Bashir (1999), CES (2000), European Foundation for Quality Management - EFQM (2006), Kendall and Knapp (2000), Lawrie (1993) and Paton (2003).

Bashir (1999), commissioned by NCVO, outlined the 3Es framework which has remained pervasive in any follow-up attempts. In this framework, Bashir argued that performance of NGOs can be measured using the three pillars of efficiency, effectiveness and economy<sup>18</sup>.

CES (2000) carried this work forward by developing the Performance & Quality Assessment of Social Service Organisation (PQASSO) for evaluation of small organisations and projects within larger ones. It focuses on, and ranks into three categories, planning, governance, management, user centeredness, staff and volunteers, training and development, money management, resources management, activities management, networks and partnerships, monitoring and evaluation, and results attained. PQASSO is considered the most popular self-assessment model amongst small charities in the UK (Cairns et al., 2005b; Paton, 2003). It has advanced comparison in small and medium-sized charities in the UK, albeit banding them into only three possible levels of performance.

There is also the 'beneficiary doctrine' (Argenti, 1993) with three interrelated components: corporate performance, corporate conduct and a system of corporate governance. However, the fact that it was only a theoretical proposition which did not reflect realities of NGOs made it hard to be accepted by researchers and practitioners. This framework was perhaps amongst the few found to have been developed by private sector practitioners who believed that the private sector was way ahead and NGOs could learn from them. The style of presentation and the

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<sup>18</sup> It is notable that Bashir (1999) adapted the 3Es and applied them to the voluntary sector in a way with not much resemblance to the way they were applied in the public sector. It is for this reason that this framework is considered here rather than among the universal borrowed stream.



declared drive behind it did not appeal to NGOs. Argenti (1993, p.viii) had stated that it was proposed:

*“Because I am distressed at the pathetic performance of so many non-profit organisations and at the unattractive behaviour of so many companies around the world, and I believe that this doctrine will massively improve organisational effectiveness and conduct to the lasting benefit of society.”*

Rojas (2000) provided a set of four frameworks on effectiveness which could apply both to for-profit as well as to not-for-profit organisations. The first was developed in India and applied a seven-point scale to four components of production, commitment, leadership and interpersonal conflict. The second was derived from management consultancy approaches and focused on organisational survival and maximisation of return on contributions. The third gathered perceptions on pre-selected effectiveness indicators such as management experience, organisational structure, political impact, board involvement and internal communications. The final framework, the Competing Values Framework (CVF model), was developed by managers and researchers. It visualised performance in four quadrants: (1) human relations (participation, discussion, and openness as ways to improve morale and achieve commitment), (2) open systems (insight, innovation, and adaptation as a path towards external recognition, support, acquisition and growth), (3) rational goal (seeking profit and productivity through direction and goals) ,and (4) internal processes (on measurements, documentation, and information management as methods to achieve stability, control and continuity).

Kendall and Knapp (2000) proposed that both the ‘new managerial’ and the old ‘public administration’ approaches could be combined in a synergistic way to give a more appropriate performance measurement framework for voluntary organisations. The resultant Production of Welfare (POW) approach proposed the use of eight domains and 22 performance indicators. The domains proposed were economy, efficiency, effectiveness, equity, choice, participation, innovation and advocacy. The 22 indicators would help evaluate the performance of an organisation on the eight domains.

Research by INTRAC (Sahley, 1995) reached a conclusion that performance of an NGO can be assessed by frameworks which focus on ten key areas. These can be paraphrased as identity of an NGO in terms of its values, vision, theory, mission and strategy; legitimacy; both social and legal; accountability as expressed by stakeholder satisfaction; community intervention process, i.e. context, target selection, engagement of community, negotiated participation, timely delivery, feedback, evaluation and withdrawal process; structure of the NGO and job descriptions; leadership, i.e. level of vision, honesty, competencies and consistency; policy intervention process, i.e. how information is gathered and analysed, policy decisions made, alternative policy formulated and lobby and advocacy work done; support systems within the

NGO such as financial, planning, monitoring and evaluation, management, personnel, decision making, communication, administration and fundraising; culture, i.e. how power and conflicts are managed, how learning and quality are assured, consistency and management of inter-staff relations; and resources an NGO commands in terms of competency of staff, commitment, financial stability and physical capacity.

The UK's Audit Commission (AC), set up in 1983 to ensure value for money (Audit Commission, 2000) in the National Health Service (NHS) amongst local authorities, oversees £100bn of public funds and uses auditors to examine 'value for money'. The Audit Commission (2000) identified key principles which form the hallmark of effective performance measurement systems. These are clarity of purpose (who, how and why), focus (core objects and operations), alignment with objective setting and performance review process, balanced indicators on performance and the cost of implementing it, regular refinement and robust performance indicators (PIs) which are relevant to aims and objectives, clearly defined, easy, comparable and accurate, verifiable, statistically valid, cost effective, clear, attributable, responsive, avoiding perverse incentives, allowing innovation and timely.

The bespoke stream generally falls short of proposing universal KPI questions and possible answers and a ranking mechanism for NGOs. It is also criticised for dwelling on vital ingredients of good frameworks rather than providing usable concrete frameworks (Paton, 2003).

In summary, Moore and Stewart (1998) found that even with all the three streams of performance evaluation, the complexity inherent in measuring performance of NGOs often led NGO evaluators to adopt yet another middle ground which comprised three general approaches:

1. to measure performance for those NGOs where it is possible,
2. to obtain feedback from clients and stakeholders on their perception of the NGO so as to make an assessment of its performance, and
3. to assess how well an NGO measures to the norms of similar NGOs considered to be performing better (i.e. BPB).

The bespoke stream presents a sound foundation to build on in developing frameworks to measure performance of NGOs. Not only do they take into account the distinctiveness of the sector but they also propose Key Performance Indicators (KPIs) which could help rank NGOs in order of performance (Kendall and Knapp, 2000; Paton, 2003).

#### *2.2.4 An integrated NGO performance measurement framework*

The thread of ‘value for money’ as the key goal of NGOs cuts across almost all the contributions to the three streams, implying that despite their differences on approaches they all agree on the core focus of NGO performance as the aspiration for value for money. Value for money is taken to imply the 3Es, namely efficiency, effectiveness and economy thus making this a solid foundation to build on.

##### *2.2.4.1 Concept of 3Es*

The principles of good performance measurement as set by the UK’s Audit Commission (2000), EFQM (2006), INTRAC (Sahley, 1995), Micheli and Kennerly (2005) and Paton (2003) tend to give a good base for evaluation of performance frameworks. The criteria they proposed as well as the specific performance measures proposed under each of the three streams, examined above, tend to have some threads cutting across them.

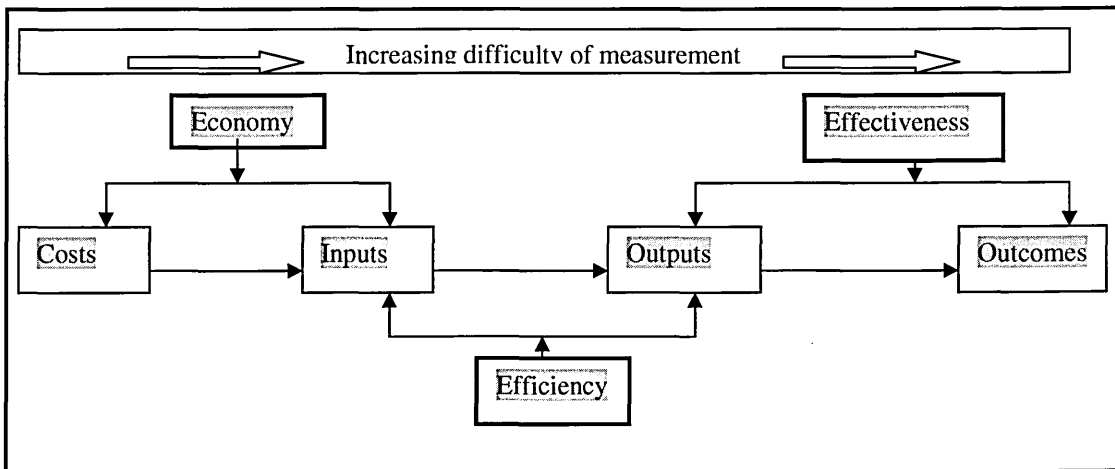
Measurement of performance amongst NGOs often ends up as a measure of ‘value for money’ – a euphemism for attempting to combine quality and expense reduction and what Wise (1995, p48) considers the ‘the holy trinity of value for money’. The phrase is now widely accepted to mean Economy, Efficiency and Effectiveness (3Es) in the public sector as espoused by the Financial Management Initiative (FMI) of the British Government (Bashir, 1999). As a base, it meets most of the principles fronted by the first category of contributors. Most of the contributors to frameworks within the bespoke stream tend to add to these measures or to introduce or vary key performance indicators (KPIs) necessary to make value judgements on performance of NGOs. However, despite being a preferred model, 3Es is criticised on several grounds. The criticisms include that it does not reflect social priorities, it is all about money (not value) and it confuses economy with doing things on the cheap. Other criticisms are that it increases output rather than achieves quality, is hard to apply to innovative projects, and it does not recognise the conflict between efficiency and effectiveness (Lawrie, 1993).

Palmer and Randall (2002) and Wise (1995) consider the 3Es model, together with the subsequent modifications, as a solid starting point to address the issue of performance management in the voluntary sector. They see the current depth of research in the voluntary sector in the UK as inadequate, thus giving rise to the need for further research to arouse theoretical debates and to conduct pragmatic analyses. However, different researchers, when they endeavour to move beyond 3Es, tend to move into different directions altogether.

To understand how the 3Es model operates in NGOs, Kendall and Knapp (2000) showed a clear linkage between the 3Es and the performance of an organisation. It showed how difficult and complex measurement of performance became as we move from economy and costs towards effectiveness and outcomes (see Figure 2.1).

Economy usually refers to reduction of cost or inputs in an attempt to lower unit costs. If this happens at the expense of quality it becomes cheapness, but if so well managed that costs reduce without a compensating fall in quality or quantity then it presents efficiency gains which in turn boost performance (Bashir, 1999). NGOs are usually given a level of resources to deliver specified outputs. Over time the inputs can be reduced while challenging the NGO to uphold quality and quantity of outputs. Alternatively, an NGO could be challenged to scale up quantity and/or quality but without extra resource inputs. Naturally, organisations are compelled to identify and eliminate areas of wastage and to explore cheaper ways of achieving results (Wise, 1995). Measurement of inputs can be challenging since inputs can be quantifiable or non-quantifiable, monetary or non-monetary, bought or volunteered. For pragmatism, NGOs usually only recognise quantifiable and monetary inputs and thereby greatly understate the inputs. Amid rising contributions through volunteered time, material donations and donated publicity (Smith and Shen, 1996; Wilding et al., 2007), NGOs have to think hard about what it costs society for them to achieve results (Argenti, 1993).

Figure 2.1: Concept of 3Es in NGO performance



Source: Adapted from Kendall (2003)

Efficiency refers to the cost of achieving results and aims at striking an optimal balance. It is commonly expressed in terms of unit costs. According to Kendall (2003), there are five types of efficiency. Technical efficiency aims at producing maximum outputs from inputs; input mix efficiency aims at maximising output from fixed inputs (i.e. price); output mix efficiency examines values attached to outputs to show output/outcome ratios; vertical target efficiency

examines the extent to which target beneficiaries are served, and horizontal target efficiency examines the extent to which targets actually receive the services and goods an NGO produces. It is imperative that an NGO should aim at all five. At present, NGOs commonly use input/output measures in evaluations to express efficiency. It is also possible to use cost-benefit analysis (CBA), cost effectiveness analysis (CEA) or cost utility analysis (CUA) to measure efficiency (Kendall, 2003).

Effectiveness refers to the extent of achievement of the desired impact or final outcomes (Wise, 1995). At the apex of NGO intervention is the elimination of poverty and suffering. These were widened further into the UN-fronted millennium development goals<sup>19</sup> (UN, 2007). Effectiveness of an NGO can be estimated by counterfactual assessments or by measuring improvement between a baseline and final stage so long as good attribution logic exists. The other problem NGOs have to address is whether outputs (which are short term, popular and easy to measure) actually lead to outcomes (that are long term and can not justify short term continuity) (Randall and Palmer, 2001). This can be assured so long as clear logical linkage is established at the planning stage. Some NGOs are tempted to use beneficiary satisfaction as a measure of effectiveness (Barman, 2007). However, this only works if beneficiaries are knowledgeable and empowered enough to give an informed opinion and without fear of retribution.

There is a distinction between outputs and outcomes (Paton, 2003; Wallace, 2006) which generates major debates about the focus and contribution of NGOs. NGOs are often accused of dwelling or being compelled to dwell too much on measurable, short term outputs to demonstrate their contribution yet they may or may not necessarily lead to the desirable long term outcomes (Argenti, 1993). It remains difficult for NGOs to demonstrate in concrete ways their contribution to outcomes.

It should also be appreciated that NGOs like other organisations receive inputs in different forms and process them into outputs (Kendal, 2003). In their operations they constantly interact with the environment in which they operate. During processing they may enhance or damage the environment just in the same way their outputs and bi-products impact on the environment. Kendall (2003) argued that it is within these stages that performance has to be enhanced and achieved. The environment comes with its own culture as to what is acceptable and what is not. Although NGOs at times have to work to emancipate the vulnerable from discriminative cultural practices as much as from discriminative policies, there are some aspects of culture

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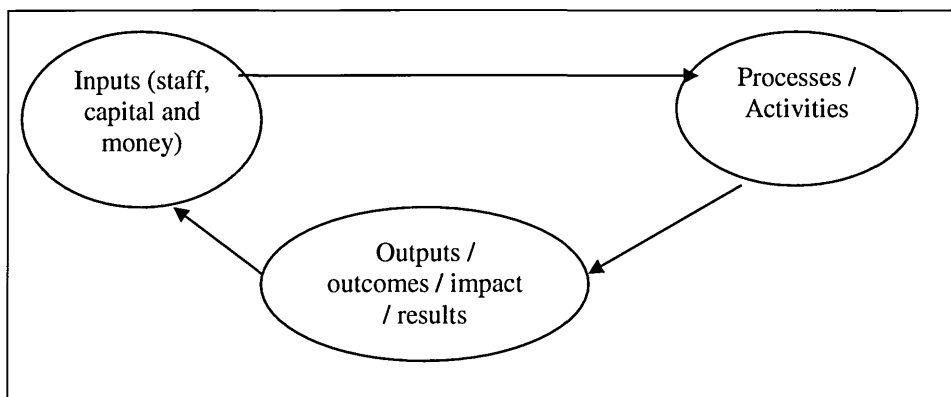
<sup>19</sup> UN Millennium Development Goals are listed as: eradication of extreme poverty, universal primary education, gender equality, reduced child mortality, improved maternal health, environmental sustainability, combating major diseases (HIV/Aids and Malaria) and global partnerships for development. See [www.un.org/millennium/goals/](http://www.un.org/millennium/goals/).

which need to be recognised. They enhance the chances of success and promote acceptability of the means and ends NGOs employ.

The analysis of different ways by which performance of NGOs is assessed shows that some focus on measurement of inputs (staff, assets and money) as an indicator of performance, others on the processes and activities which convert inputs to outputs and yet others focus on outputs/outcomes/impact as measures of performance. But the three merely show different stages of a system and measuring performance needs to recognise and consider all the three facets as interlinked (see Figure 2.2).

Whenever different frameworks are used they tend to be applied as templates to capture performance about value for money or the 3Es (Kendall, 2003). In a way, the 3Es model has therefore withstood the test of time to remain at the core of measuring performance of NGOs.

Figure 2.2: Interlinked facets of production process in NGO systems



Source: adapted from Wallace (2006)

#### 2.2.4.2 Concept of expenditure patterns

The literature identified some weaknesses amongst NGOs. These criticisms should not be ignored in research. Amongst them are issues of poor governance, financial management, accountability and impact. The literature also showed that NNGOs greatly control the SNGOs they fund and impose strict accountability mechanisms. Accountability mechanisms in situations where organisations use third parties' funds to achieve their objectives have always been tricky (Caiden et al., 2001; Cressey, 1953; Friedman, 1980). Could the resultant over-control be out of genuine fear that SNGOs would waste or misdirect resources and generally fail to perform?

Friedman (1980) observed that the way individuals and organisations raise and spend funds determines what elements of the 3Es model they focus on. A distinguished economist, Friedman classified spending of organisations and individuals generally into four patterns based on whose money one is spending and for whose benefit and derived the following four scenarios:

1. If one spends own money on oneself then focus is on economy, efficiency and effectiveness.
2. If one spends own money on someone else then focus is on economy and efficiency and less on effectiveness.
3. If one spends someone else's money on oneself then focus is more on effectiveness to get money's worth and less concern with economy and efficiency.
4. If one spends someone else's money on someone else then there is no direct motivation to seek economy, efficiency or effectiveness.

Through Friedman's eyes, SNGOs (mainly spending someone else's money on themselves and on someone else) and NNGOs (spending own on themselves and on someone else) should have different perceptions of performance. NNGOs should also measure their own performance differently from how they measure performance of SNGOs. This is portrayed in Table 2.2.

Table 2.2: The 3Es and expenditure patterns

Who's Money?	Your Own Money	Someone Else's Money
Spent on Whom?		
On Yourself	A. Efficiency, Effectiveness and Economy	C. Effectiveness
On Someone Else	B. Efficiency and Economy	D. No Direct Motivation for 3Es

Adapted from Friedman (1980)

Through Friedman's eyes, SNGOs (mainly spending someone else's money on themselves and on someone else) should have perception to performance which lies in quadrant C and D in which they will only be concerned with effectiveness or none of the 3Es. NNGOs, on the other hand, spend their own money on themselves and on someone else. Consequently, the perception of expenditure patterns should place them in quadrant A and B. In this position they will be concerned with all the 3Es. If this were to hold true, NNGOs would have a valid reason to control the SNGOs they fund and to affect their policies in a way to correct this. Using Friedman's argument as a possible explanatory factor, the study sought to determine and

explain the empirical findings. The framework also helped to review whether NNGOs' control was a way to impose all the 3Es on SNGOs and what the impact of this was.

In summary, the two conceptual frameworks can be employed to help make sense of performance measurement between NNGOs and SNGOs. Whereas the concept of the 3Es can help determine how performance is measured in general, the concept of patterns of expenditure may help to distinguish and to explain differences in performance measures between NNGOs and SNGOs and to explain the actions of NNGOs.



### 2.3 REGULATORY ENVIRONMENT AND NGO PERFORMANCE

The previous sections have shown that NGOs can partly demonstrate their performance through effective accountability (Shah, 2007; Unerman and O'Dwyer, 2006). NGOs were also shown to strictly adhere to regulation as one form of accountability (Bernstein and Cashore, 2007). This section delves deeper to understand the regulatory environment NGOs operate in and how this may or may not affect their performance.

There are some key events in the history of NGOs which seem to bring to the fore the underlying tension between the NGO sector on one hand and the private and the public sectors on the other (Anheier et al., 2001; Habib and Taylor, 1999; Munck, 2002).

Gray et al. (2006) noted that in March 2003, the NGOWatch was launched in the USA jointly by The American Enterprise Institute for Public Policy Research (AEI) and The Federalist Society for Law and Public Policy Studies, both of which lie to the right of US politics. They listed the aim of NGOWatch as to bring clarity and accountability into the NGO world. By 2006, up to 165 INGOs had been listed for 'watching' and whatever information was gathered about them was put into the public domain through a website, including links to their tax returns (Gray et al., 2006) and any other information which could 'guide' members of the public to form an opinion on the performance of such NGOs.

Shortly thereafter, a sector-wide report *'The 21st Century NGOs – In the Market Place for Change'* compiled jointly by SustainAbility, The Global Compact and the United Nations Environmental Programme (UNEP) was released. The report involved senior officers of large INGOs, some already 'under watch'. The report dwelt mainly on the future of the large INGOs and what position they wished to occupy in world affairs.

These developments constitute a mere pointer to a deep-rooted controversy over the respective roles of the public and the NGO sectors (Lorgen, 1998; Smillie, 1994), the advocacy role of NGOs, the accountability and legitimacy of NGOs and the matter of regulation of NGOs (Yaansah and Harrel-Bond, 1997). The questions of whether to regulate the work of NGOs or not, who to regulate and how to regulate have always attracted various standpoints (Gray et al., 2006).

Bernstein and Cashore (2007), for instance, argued that in states which are in transition the ability of NGOs to lobby or carry out advocacy work may only be a subsidiary cause of the state/NGOs tension. Increasingly, donors are using NGOs as alternative conduits for assistance

and moving away from the traditional bilateral aid (White and Morrissey, 1998). In the second instance, there is increasing emphasis on democratisation and privatisation actively promoted by external organisations (Ashman, 2001). Governments have always viewed these as attacks against their performance (Brinkerhoff, 2003). Yaansah and Harrell-Bond (1997) were of the opinion that it is erroneous to assume that NGOs provide in a more professional way services which governments should have provided. They argued that to achieve this requires standards and ways to monitor and evaluate the work of NGOs and the government has a responsibility to ensure NGOs exhibit financial probity, since NGOs mobilise resources from members of the public. Other researchers, such as Kendall (2003), Lister (2000), and Lorgen (1998) disagree with this view and postulate that NGOs have proven to be more effective than governments in some areas and this argument should be divorced from the regulation debate.

Wise (1995, p13) was amongst the earliest researchers to take a stance. He believed that external regulation of NGOs was justified and that NGOs could go astray if unregulated:

*“It is possible to respond to such questions empirically by pointing to the major charity frauds and financial scandals which appear in press from time to time and the anecdotal evidence of more widespread minor financial irregularities in very small local voluntary bodies, all of which suggest that cash does not always flow smoothly through a charity from the donors to the beneficiaries.”*

This view that effective external regulation has served NGOs well and should be strengthened to uphold and possibly enhance the contribution of NGOs to society is shared by a number of other researchers such as Barman (2007), Baruch and Ramalho (2006) and Morgan (2008). Other studies by Gibelman and Gelman (2001) into fraud and mismanagement amongst NGOs in Europe, Australia, Africa and the USA tend to bear this out with empirical evidence. Similarly, Hancock (1989) was unequivocal in his condemnation of some NGOs and development agencies which created ‘Lords of Poverty’ partly due to weak regulations.

In a study for the World Bank by the International Centre for Not-for-Profit Law in May 1997 (ICNL, 1997), it was recommended that NGOs have to observe all applicable laws including civil, criminal and those specifically enacted for NGOs. The report argued against total reliance on self-regulation as it is usually voluntary and therefore specific NGOs which ought to be targeted would still have the leeway to opt out. The report saw a better option in using self-regulation only to reinforce basic laws which should apply to NGOs in the first place.

There are also some researchers who believe that NGOs invite state regulation upon themselves. Ebrahim (2003), for instance, argued that rigid and maybe inappropriate accountability mechanisms is imposed upon NGOs by powerful stakeholders and governments if NGOs fail or delay in developing and effectively implementing alternative forms of regulation voluntarily.

Bebbington and Riddell (1997) similarly argued that government regulation of the NGO sector is a necessary evil. They argued that this was more so especially in Africa where effectiveness of the NGO sector depends on the political and economic environment within which it operates. Effectiveness of NGOs will therefore be enhanced by a relatively strong state with the capacity and disposition to provide or supervise services and to defend rights.

Hulme and Edwards (1997) contend that for developing countries a range of interventions have been adopted to influence NGOs and GROs, including the use of 'sticks' (closure, de-registration, investigation and co-ordination) and 'carrots' (tax exempt status, access to policy makers and public funding). The authors concluded that the NGO and the public sectors are only 'reluctant partners' who would part ways if the option existed.

Yaansah and Edward (1995) made a comparative study of the NGO regulation in the UK and several African countries. Similar studies have since been conducted in other countries. In summary, the studies show that there are seven key NGO regulatory roles played by governments. These are identified as: registration, co-ordination, fund-raising, expatriate staff regulation, staff protection, criminal behaviour deterrence and control of the NGOs' agenda. Governments have specific genuine interest in each of these roles. The interests of governments to regulate NGOs and their justification can be paraphrased from Yaansah and Edward (1995) as follows: registration (to know the players, align their work and to facilitate monitoring), co-ordination (to align objectives and to avoid wastage due to duplication and unnecessary competition), regulation of sources of funding and accounting (to safeguard state sovereignty and to keep monetary stability), qualifications of expatriate staff (to safeguard and build the capacity of local labour and to manage crime), staffing of NGOs (protect its citizens through legal and fair workplace practices), deterrent of anti-social and / or criminal behaviour, and control of the agenda of foreign NGOs (for planned development).

Governments enforce these roles through various pieces of legislation. They do so by requiring NGOs to abide by all the existing laws or by legislating bureaucracies to regulate them. Research has found that often such bureaucracies are too over-burdened to carry out their work effectively (Bernstein and Cashore, 2007). There are just far too many NGOs and the number seems to grow almost exponentially (see section 2.1.2).

Yet NGOs themselves and their allies advocate 'political space' and therefore self-regulation and some have formed their own self-regulatory umbrella bodies (Loft et al., 2006). To progress their self-regulation argument, NGOs contend that there is need for 'political space', i.e. an environment for voluntary associations to organise themselves without government intrusion. They see the only role for the state as being to encourage popular participation and to provide

the appropriate fiscal environment rather than being overly concerned with maintenance of power (over-regulation) (Yaansah and Edward, 1995).

Yaansah and Edward (1995) and Yaansah and Harrel-Bond (1997) define self-regulation as efforts of groups of NGOs with a shared context to set and enforce standards for all members in that group. The term may also refer to efforts of a single NGO to regulate itself (Yaansah and Edward, 1995). The former meaning is implied throughout this thesis as it brings many NGOs under an external central command which could enjoy some legitimacy. This arrangement is most common at national and/or professional level (Loft et al., 2006). Examples include Kenya's NGO Council as introduced by the NGO Coordination Act 1990, Tanzania's NGOs Council and Uganda's NGO Co-ordination Board.

Fowler (2000) and Naidoo (2004) argued that self-regulation is considered inevitable for NGOs due to six forces: rapid growth of NGOs which has brought them more power and influence at both national and international levels, parties which NGOs target in their lobbying work increasingly question NGOs' legitimacy, the state regulation mechanism lags behind the rapid growth of NGOs, inadequacy of state laws to deal with the distinct situation of NGOs such as multiple accountabilities, retention of public trust and confidence and the need for NGOs to diversify sources of funding so as to avoid the contract culture so common in the development world (Naidoo, 2004).

Self-regulation is believed to have started in 1991 in the Philippines with the formation of The Caucus of Development NGOs (CODE-NGO) Code of Conduct (Lloyd, 2005). By 2000, self-regulation had reached 246 voluntary codes of conduct and by 2004 it had taken root in at least 40 countries across the globe, including USA, China, Poland, Estonia, India, Australia, Kenya and South Africa (Naidoo, 2004). Lloyd (2005) draws a distinction between codes of conduct and self-regulation. Codes of conduct are self-regulating mechanisms by which members abide by the conduct agreed and self-regulation is an accreditation mechanism with independent external reviews of an NGO's compliance with the agreed standards and norms.

Moore and Stewart (1998) believe that self-regulation is a positive step for NGO performance as it overcomes four of the major NGO criticisms of accountability, structural growth, performance and economies of scale. By providing levels of standards and practices for members, they lessen accusations of non-accountability, introduce extra reason to force NGOs entrapped in the 'founder member syndrome' to transform, provide funders with a performance measurement yardstick, and compel the creation of umbrella organisations which could provide collective services to members at cheaper rates to reap the benefits of economies of scale. Moore and Stewart (1998) argued that the other rationale for SNGOs to promote self-regulation

and thus norms for performance is the fact that their funders are formally uniting to share information about SNGOs and their funding, especially in countries with information flow problems.

Even amongst those researchers who advocate self-regulation, there are those who believe it can not be made to work satisfactorily for NGOs (Harris-Curtis, 2002; Lloyd, 2005). Amongst criticisms of self-regulation is their voluntary nature which implies NGOs can opt in or out. This weakness can be overcome if funders can use a self-regulation mechanism as one of the criteria for fund disbursement and if governments can also use good membership standing in such schemes to give grants and other benefits such as tax exemption. Pakistan and the Philippines already do this, while in Australia the government gives grants only to local NGOs accredited in this way (Lloyd, 2005). It is also argued that once NGOs sign up to self-regulation, there is no enforcement mechanism to ensure they uphold the standards. Harris-Curtis (2002) found no evidence of any NGO punished for a violation. The third criticism is that there is an inbuilt tension in such mechanisms as umbrella bodies have to register as many NGOs members as possible so as to gain legitimacy and also to tighten the admission criteria to ensure members can guarantee a certain level of performance. Finally, self-regulation without adequate mechanisms and detailed guidelines often ends up reinforcing upward accountability to funders and governments and perpetuating the alienation of the beneficiaries (Lloyd, 2005).

Bernstein and Cashore (2007) took a position that non-state global governance of NGOs can not be legitimate. In their views, initiatives such as those of the World Alliance of NGOs (WANGO) and its fronted global accountability charter for NGOs should dwell on coordination as they can not be relied upon to enforce self-regulation of the global NGO sector.

ICNL (1997) argued that one way to strengthen NGO self-regulation is to create powerful incentives with clear and comprehensive laws which bind all NGOs and establish minimum standards of conduct. Secondly, self-regulation can work best in countries where the legal system for NGOs is highly developed and NGOs appreciate that the sector's success largely depends on the extent to which the public considers the sector as efficient, effective and ethical.

The next section will briefly review the relationship between funding and NGO performance. For a review of the NGO regulatory framework in the three countries under study, refer to Appendix K.

## 2.4 FUNDING AND NGO PERFORMANCE

### 2.4.1 *Nature of relationships between NNGOs and SNGOs*

According to some authors and researchers, such as Ahmad (2001), Ashman (2001), Edwards (1994) and Good (1994), the NGO North / South divide is significantly a resource divide which distinguishes the South (emerging market, resource-poor Southern Hemisphere, predominantly Africa, parts of Asia and South America) from the North (developed market, resource rich Northern Hemisphere, predominantly Europe and North America but also including Australia). In distinguishing the two, SustainAbility (2003) takes the position that in the North, NGOs are many, big and international brands and often franchised internationally. They are well researched, broadly accepted as part of national and international governance, enjoy more individual giving, and enjoy foundation support (and agendas). Other distinctions are that NGOs in the North skew in operations towards campaigns and advocacy, show well advanced professionalism, have growing capacity to engage business, have high leverage-NGO business partnerships fairly well established, and often speak for the 'South'. Conversely, SustainAbility (2003) report observes that in the South, NGOs are variously banned, tolerated or neglected players in country governance and are mostly national and smaller brands which are rarely franchised. They have fewer but larger supporters and enjoy multilateral aid agency support (and agendas). They are skewed towards service provision, though there are some very powerful activist movements. Professionalism is at the early stage, many have weak capacity to engage business, high leverage NGO-business partnerships are still fairly rare and the Southern NGOs hardly ever speak for the 'North'.

As Ashman (2001) argued, NGOs have for a long time worked within as well as across nations, using the 'partnership approach', so much so that the term is now associated more with NGOs than with the traditional mercantile relationships. Most writers use the term as if it has a universally acceptable meaning yet in reality it is hard to distinguish it from others such as networks, liaisons and alliances. Partnership however denotes the concept of two or more entities working together in a way which generates synergy in achievement of a common objective and sharing inputs, outputs, risks and rewards associated with the work (INTRAC, 2001). Partnerships become more balanced when SNGOs become stronger in articulating what they can offer, hence partnership becomes based on policy dialogue between strong, autonomous organisations (INTRAC, 2001).

The benefits of partnerships are enormous and revolve around synergy. Wallace et al. (2006) argued that whereas NNGOs can allegedly best mobilise resources, offer technical assistance, advise on campaigns and advocacy, inform learning by their wealth of cross-cultural

experiences and networks, SNGOs on the other hand allegedly link micro to macro, nurture and build networks, build local organisations which can hold governments accountable, innovate, do policy work, pursue poverty alleviation, demonstrate impact and uphold efficiency. The two may thus combine to form a potent arrangement which delivers impact as well as nurtures autonomous, empowered and sustainable civil society.

Ahmad (2001) and Keengwe et al. (1998) argued that partnerships between UK-based NNGOs and SNGOs in South Asia and East Africa respectively thrived most in the 1980s and 1990s when governments in the North lost confidence in the governments in the South. This may be attributed to a then common single party political dictatorship and the associated reluctance to embrace western-based multi-party democracy, a poor record of human rights, corruption which was largely condoned and a bloated civil service which undermined efficiency. The bulk of resources initially channelled through governments were redirected to NGOs which then used them as vehicles for development assistance as well as to pressurise governments to reform.

Funds from official sources are increasingly accompanied by more stringent requirements on accountability and NGOs tend to pass over such requirements to the SNGOs they work with (Ahmad, 2003; Wallace et al., 2006). Consequently, UK NNGOs have raised the number and complexity of demands they place on SNGOs. Such demands include strategic and operational plans, policy statements (e.g. on gender, advocacy, conflict management and sustainability), progress and financial reporting, inflexible budgets and retrospective funding. As individual contributors to international causes also tend to be the elite, it is possible that they will demand more accountability and impact (Wilding et al., 2007).

Research by Brinkerhoff (2003, 2004) on NGOs in the USA, INTRAC (2001) and Kanter (1994) in the USA on organisations in general showed that partnership is a concept which denotes solidarity and mutuality which goes beyond financial aid, time base and discrete interventions, and presents synergy based on comparative advantage. Hence, while NGOs can best engage donors and public in fundraising and in campaigns and advocacy, SNGOs have local knowledge and presence. The two complement and leverage each other so well in an effort to achieve shared objectives and to nurture genuine partnership (INTRAC, 2001). On its part, SustainAbility (2003, p5) contends that:

*“Partnership is a cross-sector alliance in which individuals, groups or organisations agree to: work together to fulfil an obligation or undertake a specific task; share the risks as well as the benefits; and review the relationship and revise the agreement regularly.”*

It is clear from this early stage that the practitioners’ definitions (SustainAbility, 2003) and hence expectations of partnership may differ from those of researchers (INTRAC, 2001).

However, they both agree on principles of effective partnerships, namely effectiveness of the work, quality of relations and clarity of purpose of the relationships.

Follow-up research by INTRAC (Brehn, 2004) found that European NGOs' policies on partnership show a shift from being operational to working with SNGOs, developing systematic policies and strategic focus, and moving from project focus to partner focus as part of a strategic results-oriented ways of working. Yet, partnerships can be quite complex. Researchers such as Brehn (2004) and Brinkerhoff (2004) found key differences between NGOs working in partnerships. They showed that partnerships can be distinguished along funding-based differences, capacity-based differences and trust-based differences (*vis-à-vis* control).

As partnerships between NNGOs and SNGOs are supposedly based on the concept of benefit of synergy, Ahmad (2001, 2003) and Wallace (2006) noted that SNGOs tend to over-promise to NNGOs. They claim that they can deliver hands on and advocacy work, link micro to macro, network and build networks elsewhere, build local organisations to hold governments accountable, promote partnerships do policy work, innovate, help alleviate poverty effectively and demonstrate impact and be cost effective (Ahmad, 2003; Wallace, 2006). NNGOs, on the other hand, promise funds, policy guidance, and the wealth of experience to accelerate learning, resources and networks required for campaigns and advocacy work.

The other merits of partnerships relate to the benefits arising from such ways of working. It is assumed that NNGO/SNGO partnership leads to a more autonomous, empowered and sustainable local NGO sector hence strengthens civil society (Mawdsley et al., 2005).

The partnership can only thrive if it is trust-driven, which in turn requires consistent delivery against the promises made (thus trust is partly an end product of performance as the next section will show). When trust lacks or dwindles as a reflection of non-performance, control sets in and one NGO becomes subservient to another (Kanter, 1994). NGOs, by design, exist to fight such dominance amongst other social injustices (Kendall and Knapp, 2000) and it would be a betrayal of their own cause if they failed to show it in practice. Some cases confirm that this is not always true. For instance, Fowler (1996) argued that to ensure optimum impact, NNGOs frequently insist that at least 75% of funds should go to direct programmes. Yet some implementing SNGOs need and spend up to 60% on salaries and operational costs. This would be acceptable under Statement of Recommended Practice (SORP) if these costs related to programmes. However, it would not be acceptable if the SNGO was purely a local grant maker (Randall and Palmer, 2001). When analysed, this might signify lax cost control or some other forms of pilferage or even difference in cost classification or accounting standards across nations. It could also be due to proportionately higher costs of delivering development



assistance in rural and remote areas without infrastructure (roads, power, telephones, security and water). These issues signal contextual differences between NNGOs and SNGOs which are often overlooked but end up affecting performance and trust between NNGOs and SNGOs (Randall and Palmer, 2001).

Since they are separate organisations only working towards shared goals, autonomy is vital to all NGOs working in partnerships as Brehm (2004) argued. He argued further that autonomy was perceived differently. NNGOs see autonomy in terms of freedom of strategic direction and development without interference and maintaining horizontal relations of equals, while SNGOs see it as diversified sources of funding and the ability to decline some forms (Brehm, 2004). SNGOs wish NNGOs would move from a project-based narrow focus to broader inter-organisational cooperation over time. NNGOs' continued focus on projects is understandable, as projects lead directly to outputs and outcomes, at times by overlooking overhead costs which makes them more appealing to funders. What may be hard to appreciate is why NNGOs at times took uncompromising stances whenever SNGOs disagreed with them. For instance, an earlier researcher found cases where if SNGOs showed resistance, some NNGOs would establish and grow their own SNGOs as Mitlin (2002, p236) observed:

*“As suggested by the Commonwealth Secretariat (1988, 23) [study not specific to NGOs] and Riddell and Robinson with Cornick, Muir and White (1995, 142-3), if they are unable to find an appropriate agency with a close fit to their objectives, the creation of new Southern NGOs by Northern agencies is one potential solution to the difficulties they face”.*

Perhaps due to such fears and differences in expectations, including the narrow focus on projects, partnerships tend to be between a few individuals and departments in organisations rather than being inter-organisational (Goddard and Assad, 2006). The two argued that this makes such relationships vulnerable, especially since SNGOs' autonomy depends on the approach NNGOs take. Similarly, NNGOs are becoming too dependent on official funding, e.g. from DfID and the EC, which compels them to observe functional accountability at the risk of losing strategic accountability, hence focus on the public constituencies (Wallace, 1997).

However, there are also serious criticisms of the NNGO/SNGO partnership approach and the six key ones are highlighted below.

Firstly, in some cases, a dependency develops leading to dependent organisations locked in vertical relations, mainly with donors (Sahley, 1995). In this way, Brinkerhoff (2004) argued that organisations lose their all important autonomy (the freedom to determine own strategic direction and development, without undue pressure from donors, and hence the ability to maintain horizontal relations of equals).

Secondly, partnership is led by constraints of NNGOs rather than by intentions to build partnerships, hence 'donorship' (Lewis, 1999). In fact, most SNGOs refer to NNGOs interchangeably as donors, partners, funders, counterparts or stakeholders (Hatley, 1997).

Thirdly, dependent partnerships are more common than active ones (Fowler, 1998; Lewis, 1999; Lister, 2000). Active partnerships are built through ongoing negotiations, debate and occasional conflict and learning by trial and error; risks are taken, roles and purposes are clear but can change by need and circumstances. Dependent ones are designed at the planning stage based on assumptions about comparative advantage and individual agents' interest, and linked to external funders (Lewis and Wallace, 2000).

Subsequent to this, some researchers believe that since the 1980s, SNGOs have implemented the agenda of NNGOs which fund and provide organisational support (Jones and Wicks, 1999; Lewis and Sobhan, 1999). This makes them contractors, agents or anything other than partners.

Fifthly, the concept of funding and contracting has further eroded the partnership concept, especially in the South where NNGOs are often called donors or funders (Balda, 2006; Fowler, 1997b). In East Africa and South Asia, for example, there are three dominant NGO categories, namely apex SNGOs, intermediary SNGOs and GROs. They all greatly rely on NNGOs with whom they work in partnership for funding and other forms of assistance. The first two categories, in particular, enjoy such a high proportion of funding from NNGOs (Gariyo, 1997) that they tend to abandon their mission to serve NNGOs. In this respect, Hulme and Edwards (1997, p8) assert that:

*"...We concur with Smillie (1995) that the 'alms bazaar' of which NGOs are now a part increases the likelihood that they are becoming the implementers of donor policies...Acceptance of increasing volumes of foreign aid involves entering into agreements about what is done, and how it is to be reported and accounted for..."*

Finally, in this respect, NNGOs show more strength in building only product or project-based relationships with similar organisations in the same field so as to easily demonstrate results to justify the funding received and to attract more funders (Fowler, 1997b; Goddard and Assad, 2006).

At this stage, these weaknesses may be interpreted to mean that NNGOs control and dictate the agendas to SNGOs. If so, such a state of affairs can have serious adverse consequences on behaviour of organisations. Both Cressey (1953) and Friedman (1980), in their work not specific to NGOs, found that organisations and individuals tend to change their behaviour when they use third parties' resources to achieve objectives. In particular, Friedman (1980) found that behaviour changed in relation to who was using whose resources for whose benefit (see 2.2.4).



governments in the South or to SNGOs or even directly to beneficiary communities which organise themselves into some form of groups, such as GROs or CBOs.

Where funds are channelled through NNGOs, they too could channel them through governments in the South, or through SNGOs or directly to beneficiary communities. Likewise, funds channelled through SNGOs may be ploughed directly into communities or at times, though rarely, to communities through their governments in the South.

Kramer (1998) showed that of all the possible channels the most preferred is from private donors / governments in the North to NNGOs then through SNGOs to beneficiary communities. This channel has grown so much that it has overshadowed all others. Both governments and private citizens in the North are channelling more resources through NGOs<sup>20</sup>. States are also diverting more funds from other channels (mainly bilateral assistance) to NNGOs for reasons explored in section 2.1 (Charities Aid Foundation, 2007; Wallace, 1997). This aid delivery channel is believed to be more successful than available alternatives (delivering overseas development assistance through governments or private companies or direct delivery by NNGOs or by foreign governments). Fowler (1998) found that SNGOs derived up to 95% of their resources from NNGOs.

Research by Gariyo (1997) showed that of 62 NGOs surveyed in East Africa, 36 depended on foreign funding 75% to 100%, with only 7 getting 50% to 75% and those getting below 25% were GROs. Gariyo also found that accountability was donor-driven and often through financial and progress monitoring reports. This level of funding indicates a dependency relationship whose consequences need to be examined further.

The next paragraphs will focus on what the foregoing means for NGOs in the UK, Kenya and India.

The UK funder policies are perhaps best exemplified by the government's agency for overseas development assistance, the DfID, directing funding through DfID to major UK charities which work across nations. Other key funders of the international NNGOs in the UK are the European Commission (EC), Community Fund (CF) and agencies of the United Nations (Good, 1994).

The DfID admits difficulties on its own part in evaluating performance of NGOs it funds and the impact its policies have on them (DfID, 2002). Although it owns up to a 'squeeze out' policy on NGOs, it is not clear which NGOs are squeezed out: the better or poorer performers or if randomly. The DfID thus finds it hard to evaluate its own impact (DfID, 2002):

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<sup>20</sup> UK adult population gives to charity about £25 monthly (i.e. £295 per annum) (see Appendix K).

*“Changes were not apparently being driven by evaluation or analysis of the performance of NGOs (i.e. by hard evidence), but by internal ideology and agendas...thought there were too many NGOs in the UK and shifts that squeeze out are seen as positive almost regardless of which NGOs disappear. New management systems are adopted, new conditionality added for a whole variety of organisational and ideological reasons with little thought for how these changes will in turn shape development thinking and practice.”*

DfID requires that log frames should be completed for funding requests against the Civil Society Challenge Fund (CSCF). NNGOs submitting Partnership Programme Agreements (PPAs) applications are required to submit log frames at project, programme, country and global levels. These log frames are used at planning / resource allocation level as well as for reviews (Wallace, 1997).

A key research on North/South funding conducted by Goddard and Assad (2005) showed that there was a recognisable rise in the number and complexity of donor demands of UK NGOs. Demands included strategic and operational plans, policies (e.g. on gender, advocacy and conflict resolution), detailed progress and financial reporting, inflexible budgets, lower proportion of administrative costs, audited accounts and retrospective funding.

According to Wallace (1997), the EC also channels substantial funds through UK NNGOs. The European Commission has always been known as a controlling, bureaucratic and inflexible funder. The fact that the EC is still mired in disputes over its budgets and auditors continue to give qualified audit opinions on its statements of annual accounts seems to indicate that this stringency will only exacerbate. Wallace et al. (2006) observed that the Community Fund which disbursed substantial funds from the national lottery through UK NNGOs, imposed a 50-page application form to capture information on coverage, impact and effectiveness, linkages of service delivery and policy work, value for money checks and current development issues. The CF in particular had a complex system of numerical scoring on risk management, strengths and weaknesses or relations with NGOs, how to improve relations, organisational capacity building and project responsiveness to needs of beneficiaries. It also tended to rely on external assessors to assist grant officers in assessing applications and focused more on verifiable, quantifiable issues like clear policies, procedures and systems.

Edwards and Hulme (1995) found that in East Africa, apex NGOs, intermediary NGOs and GROs such as CBOs work in service delivery, action research and lobbying, with heavy presence of church-related organisations (Catholic, Lutheran and Anglican). The bulk of development assistance is mainly to better organised and easily accessible apex and intermediary NGOs<sup>21</sup>; with little going directly to GROs (Edward and Hulme, 1995). Apex

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<sup>21</sup> This makes it desirable to include such NGOs in research in this area.

NGOs are networks of member organisations formed partly due to NNGOs' initiatives to coordinate development activities at grass root levels; members are GROs and other NGOs. Members of apex NGOs pay only token membership fees. It was also noted that in countries where dual problems of poverty and employment co-exist, some NGOs, commonly referred to as 'brief-case NGOs', are believed to be bogus (*The Economist*, 2000). In Kenya, for example, it has been shown that foreign funds dominate social services in Kenya and such funds have led to a proliferation of NGOs, especially since donors lost confidence in the government of Kenya and started channelling funds through NGOs (Keengwe et al., 1998). The case applies also to health provision in some African states (Lorgen, 1998). The adverse effects of such dependency relationships are already so enormous that some researchers believe it will be hard to deal with. Wils (1997, p11) noted:

*"Those studies which do exist conclude that it is certainly possible to avoid undesirable side effects but that this requires well developed managerial capacities, a favourable context and quality relationships with donors, which are rare in practice."*

It is hard to discern how NNGO/SNGO partnerships got to this point in the first place, especially when both NNGOs and SNGOs profess a commitment to democracy and equity. Could it be as a result of poor NGO oversight systems?

In this context, INTRAC research (INTRAC, 2001) identified the main limits to NGO partnerships as the role of NNGO as a donor which skews equality, the funding processes and distorted accountability (funders hijack accountability from local constituencies), and organisational capacity limits (partners of equal size and capacity can dialogue) including number and depth of partnerships, coordination and staff turnover.

Some researchers argue that funder NNGOs in fact have the right to control SNGOs they fund. Martens (2005), for instance, argued that NNGOs and SNGOs have split constituencies and hence both do not influence the political decision making process through their voting rights. This process therefore breaks the feedback loop between beneficiaries and funders and only NNGOs have the political leverage on the decision making process in SNGOs. But more fundamentally, Martens (2005) argued that NGOs deliver goods and services to the South which could be bought on the open market by the beneficiaries themselves if funders gave them the financial resources directly. It follows therefore that the reason for the existence of many intermediaries, including NNGOs, is not only to organise funding but to be actively engaged in the spending decisions on both the funder and beneficiary sides. NNGOs therefore have a right to control SNGOs they fund and only do so through mediation (partnership) rather than dictation because the aid process requires an agreement from the beneficiaries. NNGOs have a

duty to propose an aid delivery system which reduces transaction costs and ex-post uncertainties in delivery.

Hancock (1989) and Keengwe et al. (1998) also argued that the aid business is infiltrated by people whose motive is not philanthropy and would use any opportunity to divert resources to their private use. They argue that it is essential for the funder NNGOs to take the responsibility to ensure that the resources reach the intended beneficiaries with minimal pilferage.

Kendall and Knapp (2000) trace the implicit requirement for UK funder NNGOs to conform the whole process to the UK charity law. It holds UK NGOs accountable for all the resources they raise in the UK regardless of wherever spent. The trustees of NNGOs therefore need to put in place adequate mechanisms to ensure they maintain their part of due diligence. For the same reasons, members of an SNGO board need to take all steps necessary to safeguard resources entrusted to them for the beneficiaries.

#### *2.4.3 Funding, credibility and trust*

NGOs face various criticisms of the way they organise themselves and work. In an international study, Salamon et al. (2000) found that the major criticisms levelled at NGOs were, in descending order of importance, resource insufficiency, amateurism, particularism, accountability lapses and paternalism.

In the researcher's view, the NGO sector relies on funding it commands for its programme of work. The funding levels depend on the funders' perception of credibility of the sector which is a reflection of the level of accountability and the resultant public trust. Better accountability and therefore higher public trust leads to even higher funding (Ebrahim, 2003). This could be a vital cycle at the centre of the vibrancy of NGOs and is worth exploring more.

##### *2.4.3.1 Funding*

Most of the researchers lump funders amongst other stakeholders and proceed to isolate beneficiaries as the most important class of stakeholders (Lawrie, 1993; Reider, 2001). Though politically correct, this can not be further from the truth. The conclusion by Leat (1993) that voluntary organisations must serve their consumers in order to achieve their goals but to survive they must please their funders underscores the complexity of these relationships. This is consistent with findings by other researchers that NNGOs contribute large proportions of funding to SNGOs (Fowler, 1997b; Gariyo, 1997; INTRAC, 2001) and this gives NNGOs control over them (Keengwe et al., 1998; Kendall and Knapp, 2000; Martens, 2005).

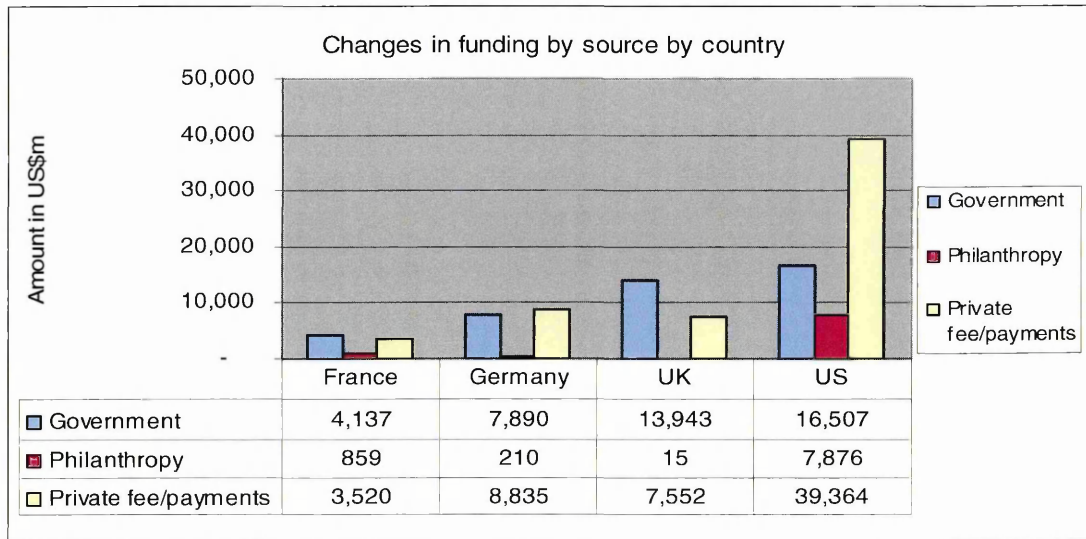
If funders hold the lifeline for NGOs, how do they exercise this power and with what consequences? In particular, do they tend to arm-twist vulnerable partners into making structural and irreversible changes? In which way does this move performance? Does this portend progression or regression for the sector? It is worthwhile to explore further the real impact of such lopsided relationships on the policy fabric of the weaker parties. The gap in existing literature lends support to the views held by some researchers, such as Wise (1995) and Low (2006), that research has not given these matters the importance they deserve.

Global research by Johns Hopkins University on trends in funding of the non-profit sector (Anheier, 2001; Salamon and Anheier, 1997) (see Figure 2.4 from the abridged version of the findings) shows:

1. All three sources of funding (government, philanthropy and own generated income) rose between 1990 and 1995. However, for the USA, the greatest growth was in own generated income, followed by government funding and finally philanthropy.
2. For the three countries in Europe (France, Germany and the UK), the greatest growth was in government funding, followed by own generated income, whereas funding from philanthropy remained more or less stagnant.



Figure 2.4: Changes in non-profit sector funding by country over time



Source: Adapted from Salamon and Anheier (1997)

This general trend resonates well with trends in Europe at different times. Hulme and Edwards (1997, p7) observed the following on the proportion of government funding of NNGOs and SNGOs alike:

*“The figure increases to 34% for Australia, 66% for the USA and 70% for Canada. For Sweden the figure reaches a staggering 85%..., but the potential havoc that can be wrought to dependent NGOs if government policy changes, is clear...Our personal experience in Bangladesh, Sri Lanka, Kenya and Nepal indicates a dependency of 80 to 95% on official funds is common, though often at second or third hand as funds are channelled via NNGOs and other institutions.”*

Not only has reliance of NGOs on public funds increased but also the proportion of funds donor agencies channel through NGOs. The Swedish International Cooperation Agency (SIDA) increased its proportion of funds channelled through NGOs from 9% in 1990/91 to 30% in 1994, with direct funding to over 2,000 NGOs. In the same year, the British Overseas Development Assistance (ODA) was directly funding over 450 NGOs in India and 450 in Bangladesh (DfID, 2002).

These trends alarmed some researchers such as Kamat (2003) who then argued that funded NGOs became more like the funders than the beneficiary societies which gave them legitimacy. Goddard and Assad (2006) found this to be particularly true in the case of some NGOs in Tanzania.

After the review of funding at international level, the following few paragraphs will turn to funding trends in the UK, the major funding country of the three under study.

In the UK, the 2006 Voluntary Sector Almanac (Wilding et al., 2006) profiled revenue to the voluntary sector in slightly different categories from Johns Hopkins University but Table 2.3 still shows some significant shifts between 1994/95 and 2004/05:

Table 2.3: Sources of NGO income

Source of income	% of total 1994/95	% of total 2004/05
Earned income from sale of goods and services	33%	47%
Voluntary income (grants and donations given)	47%	45%
Investment income (dividends and interest on savings)	20%	8%
Total	100%	100%

Source: Adapted from Wilding et al. (2006)

Comparing 1994/95 to 2004/05, earned income rose from 33% to 47%, while voluntary income fell from 47% to 45%. Investment income (dividends and interest on savings) fell from 20% to 8%, reflecting in part lower stock market returns and interest rates. In absolute terms, over £10b was raised from statutory income sources like lottery distributions, overseas governments and national and local governments in 2003/04 to deliver public services (Wilding et al., 2006).

Although researches at these three levels (global, Europe and the UK) show some differences, they all agree on the general trend that within the voluntary income category revenue from public sources rose whereas the proportion of revenue from direct philanthropy fell. In terms of accountability, funds from public sources are most demanding while own-generated funds, at times referred to as unrestricted funds, are least demanding (Morgan, 2007a).

Analysis against themes shows that international aid remains the UK's most popular cause, attracting 18% of donations, one and a half times that of its closest rival, cancer. As a consequence, five new charities working in international aid entered the UK's top 500 in 2002/03. This, alongside new initiatives such as Sport Relief, saw the combined voluntary income of international aid charities reach £654 million (Charity Aid Foundation, 2007b). It is clear that international aid remains the UK's leading cause in attracting funds. It is an immense sector still very relevant to the modern British society. Kendall and Knapp (2000, p109) noted that:

*“...Because voluntary organisations do not distribute profits to any owners – a fundamental principle of many legal systems, including English charity law – or because altruistically oriented individuals are assumed to ‘self-select’ into the sector, these organisations are seen as more trustworthy.”*

All these indicators support the widely held view that NGOs thrive because of their ability to attract funding (mostly through voluntary means either directly from members of the public or through other institutions), the credibility they demonstrate, a better accountability mechanism, and the trust they enjoy from members of the public (Goddard and Assad, 2006; Kamat, 2003; Kendall and Knapp, 2000).

#### 2.4.3.2 Credibility and trust

When the role of NGOs is viewed from the perspectives of who funds NGOs then Fowler (1997a) identified five funding sources for SNGOs and three for NNGOs in his paper on the NGOs Aid Chain. The sources of funding identified are gift aid and investment economy, tax/government revenue, official aid, the market and the NGO-NGO revenue.

With the advent of NGOs into advocacy and campaigns work, Beck (1999) found that pronouncements from NGOs had much more rhetoric power as they were associated with more credibility due to the level of trust people have in NGOs, to the extent that NGOs '*were given a blank cheque for an almost unlimited store of trust*' (Beck, 1999 p44).

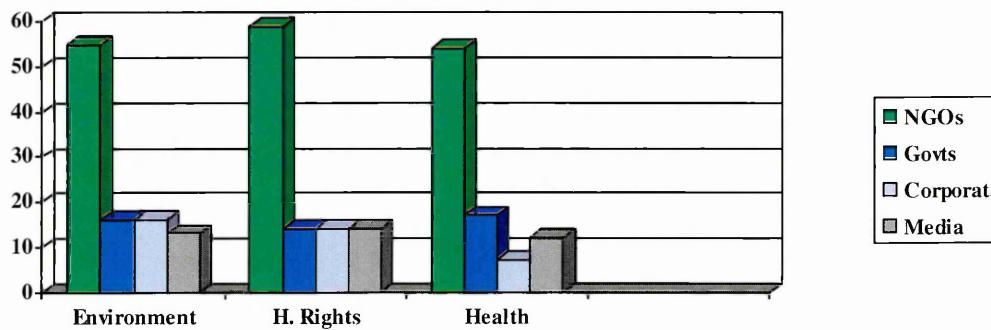
Reasons as to why more and more funds are channelled through NGOs vary and were explored at some depth in the previous sections. It can be pointed out from these statistics that NGOs have not improved so tremendously as to attract so much more funds; instead, the competing alternative channels have worsened so much as to lose funds (Salamon, 1993). Similarly, total funds available have grown so much as to need more and more NGOs (Anheier et al., 2001).

In a research on '*Who does the public trust?*' Edelman (2002) noted that on:

1. environmental issues, 55% trust NGOs, 16% trust governments, 6% trust corporations and 13% trust the media
2. human rights issues, 59% trust NGOs, 14% trust governments, 4% trust corporations and 14% trust media, and
3. health issues, 54% trust NGOs, 17% trust governments, 7% trust corporations and 12% trust the media

The dominance of NGOs is more striking when statistics are visually displayed (see Figure 2.5)

Figure 2.5: NGO dominance of trust on three key issues



Source: Adapted from data in Edelman (2002)

In a repeat international study on trust, Edelman (2006) noted in the 2006 Trust Barometer two key trends in the state of trust in the world. As shown in Table 2.4, institution to institution geographical comparison showed that NGOs lead in the USA, Europe and Canada, followed in a descending order of trust by business. However, unlike the USA and Europe which place more trust in government than in media, in Canada the media enjoy more trust than the government. In Asia, on the other hand, business and media enjoyed the highest level of trust, with trust in NGOs in the last position.

Table 2.4: Geographical comparison of trust by institution

		USA	Europe	Canada	Asia
1	NGOs	54%	57%	61%	48%
2	Business	49%	42%	57%	56%
3	Government	38%	33%	36%	54%
4	Media	30%	30%	45%	56%

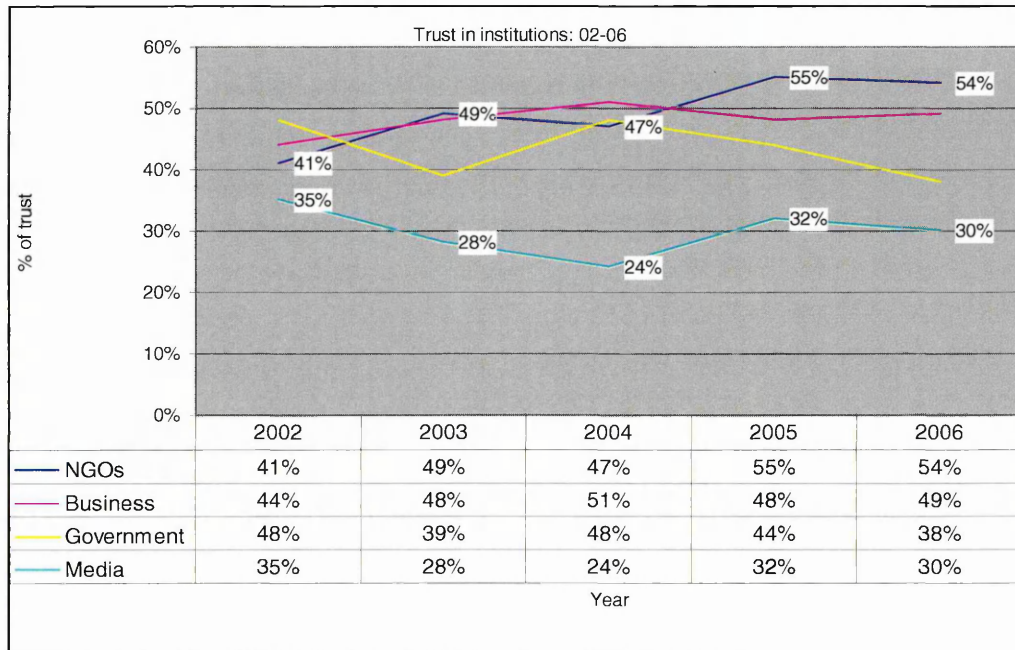
Source: Adapted from global statistics in Edelman (2006)

In a parallel study in 32 countries conducted by the BBC World Service, NGOs attracted a higher level of approval (60%), way ahead of the UN, the World Bank, news media, the IMF and a few selected global companies. Britain, at 70%, was ranked among the three countries with the highest rating (the others being the USA with 64% and France with 80% approval rating) (Unerman and O'Dwyer, 2006).

What this portends for NGOs may not be so clear at this time but one can also observe the strange coincidence that the USA, Europe and Canada are developed areas of the North which contribute substantially to charity whereas large parts of Asia are developing and still receivers of charity from the North. The other key finding was that when trust is compared in institutions all over the world, trust in NGOs showed a year-on-year rise from 41% in 2002 to 54% in 2006.

By such growth, trust in NGOs had moved from the third position (behind governments and businesses) to take the overall lead in 2004, which it has maintained but with a widening margin over time (see Figure 2.6). In fact, when the figures are disaggregated and only the trend for Europe charted, trust in NGOs maintains a lead in all the five years.

Figure 2.6: Trends of growth of trust by institutions



Source: Adapted from global statistics in Edelman (2006)

This trend also coincides with the quantity of contributions to charity which showed a similar growing trend, whereas the governments' plummeting stakes seem to have commenced around the start of the Iraq war. It benefited the media which shared the NGO-fronted anti-war stance.

The question of why the public tends to trust NGOs more than other institutions has been explored by a few researchers. The Edelman Public Trust Barometer conducts its research on the basis of which institution the public trusts to do the right thing. Barman (2007) and Baruch (2006) were of the view that NGOs are trusted because of the nature of their operations: a lack of profit motive, non-distribution of profits and the aim of public good. Kendall and Knapp (2000) proposed that NGOs have an edge because they lack a profit motive, incorporate equity and self-select people who believe in philanthropy. Morgan (2008) believed in the context of the UK the relative scarcity of financial scandals and the strict oversight by the Charity Commission gave people confidence enhanced trust. Finally, SustainAbility (2003, p37) showed trust as a derivative of honesty, pursuit of public good and vision, while '*not doing what they say*' and self-interest were the two main factors which drove distrust.

## 2.5 FINANCIAL GOVERNANCE / MANAGEMENT AND NGO PERFORMANCE

Governance is considered such a broad term that researchers have advanced or adopted numerous different definitions for it. For the not-for-profit sector, Low (2006, p376) defined governance as “...*the relationship among various participants in determining the direction and performance of organisations.*” The Canadian Centre for Philanthropy (2005) takes governance to be the act of affecting management and monitoring (through policy) the long-term strategy and direction of an organisation. In 2006 The World Bank (2006a) considered governance a reference to the people, policies and processes providing the framework within which managers make decisions and take actions to optimise outcomes related to their spheres of responsibility. Using tools and purpose approach, the World Bank (2006b) revised the definition which it re-stated as the traditions, institutions and processes determining how power is exercised, how stakeholders are given a voice, and how decisions are made on issues of public concern. This revised broader definition brings into focus both internal and external factors and stakeholders and is considered more appropriate for this study which focuses on both intra and extra-organisational aspects.

Financial governance, on the other hand, is a specific component of governance which Low (2006) argued implies the underlying strategy employed by an organisation to manage its operations in a way to achieve its financial goals. By extension, this will encompass people, policies and processes which provide the framework within which managers make decisions and act in relation to the financial resources of an NGO. Consequently, financial governance is taken to refer to all these aspects of governance the board is expected to take in as far as they relate to oversight of financial resources to enhance achievement of the goals of an NGO.

The definition of financial management is taken as given by the Chartered Institute of Management Accountants (CIMA). CIMA (2005) defines financial management as the process which sets financial objectives, plans and acquires funds, ensures funds are effectively managed, delivers management and financial accounting, formulates strategy, plans and controls activities, supports decision making, optimises use of resources, ensures disclosure to external stakeholders and to employees and safeguards assets. CIMA stresses that the Board usually has overall responsibility for financial management in its role of financial governance (seeking them and putting them to use, selecting the people, policies and processes). Researchers and authors in this area, such as Kandasami (1998), Randall and Palmer (2001), Rojas (2000) and Wise (1995) adapt and adopt various abridged versions of this definition. This further entrenches the comprehensiveness of CIMA’s definition which is adopted in this thesis.

Closely related to financial governance and management are the issues of fraud and corruption:- the inevitable consequence of failed financial governance and management. The World Bank (2006a, p6<sup>22</sup>) defined fraud and corruption respectively as:

*“Any act or omission, including misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain financial or other benefit or to avoid an obligation” and corruption as “The offering, giving, receiving or soliciting, directly or indirectly, of anything of value to influence improperly the actions of another party...”*

The meanings assigned by The World Bank (2006a) to fraud and corruption are considered broad enough to apply to the situation of NGOs and are therefore adopted in this thesis. Child and Rodrigues (2004) in a general study on corporate governance and Rhodes (2000) asserted that governance is critical to the performance of any organisation.

Just as Hailey (2003b) argued that the adage 'trees die from the top' applies equally to trees and NGOs, the NCVO argued that financial governance is a key role of the board which has a responsibility to translate the business strategy into operation requirements. This can be achieved for instance by (NCVO, 2007):

*“Creating a unified vision of financial governance; ensuring operational alignment around financial plans; assessing the current state of core business processes and identifying gaps in executing the financial governance vision; aligning processes to support the governance vision and approach; and ensuring that performance management and reward systems drive appropriate behaviour in support of the financial goals and objectives.”*

This is crucial because if it fails, the natural results to expect would be a loss of organisational discipline and focus which often translate into fraud and corruption and eventually lead to loss of trust and eventual close down. A past president of the World Bank, James Wolfensohn, in launching an anti-corruption initiative in the World Bank Group argued that corruption not only greatly undermines development efforts and leads to much lower effectiveness in corrupt environments but also goes against equity; an attribute NGOs aspire for in society. He observed that the 'cancer of corruption' (The World Bank, 1996a<sup>23</sup>):

*“.....diverts resources from the poor to the rich, increases the cost of running business, distorts public expenditure and deters foreign investment...[and also]...erodes the trust of the constituents and programs.”*

Cases of financial wrong-doings amongst NGOs seem to have been rising over the years (Gibelman and Gelman, 2001, 2004; Wise, 1995) although sceptics may argue that probably it

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<sup>22</sup> Available at [www.worldbank.org/PROJECTS/Resources/FinalRevisedAntiCorruptionGuidelines.pdf](http://www.worldbank.org/PROJECTS/Resources/FinalRevisedAntiCorruptionGuidelines.pdf).

<sup>23</sup> Available at [www.worldbank.org/html/today/archives/html/feb16-19-99.htm](http://www.worldbank.org/html/today/archives/html/feb16-19-99.htm).



is only the vigilance and public reporting of such cases which have. Either way, states and the private sector find this malaise, alongside the advent of NGOs into advocacy and campaigns work, useful ammunition in its arsenal to hit back at NGOs. It is not far-fetched to conclude that unless managed quickly and efficiently this will work against public confidence in the NGO sector and threaten the sector by shaking its foundation of trust-based funding. The works of Gibelman and Gelman (2001, 2004) and Wise (1995) and the stinging attacks by Argenti (1993) and Hancock (1989), as well as the emergence of other forces such as 'NGOWatch' and further enactment of NGO accountability in the UK and the USA, provide sufficient evidence of a building tide which can rise to gigantic proportions if not checked.

Another international study conducted by Gibelman and Gelman (2004) catalogued the most common cases of wrongdoing. They included fraud, questionable fundraising, mismanagement, misappropriation, mispending, insufficient resources, corruption, kickbacks, false claims, false billing, abuse of public trust, larceny and misstating revenues. Others were questionable overheads, money laundering, misconduct or abuse, theft or deception, excessive compensation, misstatement of debtors and creditors, conflict of interest, misuse of assets and personal use of NGO resources. The study also found that these wrongdoings involved members of staff, management staff and members of boards.

Caiden et al. (2001) identified the most common forms of corruption to include misappropriation, abuse or misuse of power, deceit or fraud, non-performance of duties and bribery or graft. Other forms are misuse of insider knowledge and confidential information, unauthorised sale of public assets, manipulation of regulations, acceptance of improper gifts, influence peddling, protecting maladministration, misuse of official seal or stationery, amongst others.

The findings by Caiden et al. (2001) and Gibelman and Gelman (2001, 2004) indicate the presence of financial wrong-doings at all levels, from the board downwards. This echoes the findings by Gariyo (1997) and Harris (2001) that there exist complex ties between boards, paid staff (including management) and volunteers. In particular, the research by Harris (2001) in the UK Midlands noted (p102) “...*complex personal ties between board, paid staff, volunteers and users, making nonsense of any attempt to draw a formal organisational chart with clearly demarcated roles and authority links*”. On the other hand, Gariyo (1997) found that staff were infiltrating boards and consequently serving in staff/director dual roles.

NCVO (2007) provided a checklist to verify how well financial governance works in an NGO. The requirements can be paraphrased as the existence of a clear and comprehensive organisational structure which is well communicated, the presence of a risk analysis and the



knowledge of the greatest internal and external threats, a planning cycle aligned with objectives and which reviews and explains the past performance against plans, the presence and awareness of controls and written procedures, objective independent financial reviews, and the presence of mechanisms to assure the board that controls are effective and to report any discrepancies.

The society as a whole, direct stakeholders and management usually place great responsibilities on governing bodies (Callen, 2003). As discussed earlier in this thesis, trends show that these responsibilities are ever increasing, are getting entrenched in legal provisions and tend to severely hold trustees and board members individually and collectively responsible (SustainAbility, 2003 p2):

*“The heat is on, with NGO trustees and directors facing tough new challenges. Today, non profit boards are expected to: govern to determine the direction and to make plans and policies; employ, support and evaluate chief executives; approve budgets and monitor expenses; and promote the organisation’s causes. Tomorrow, in addition, they must manage four areas of risk and opportunity...”*

The UK’s Governance Hub (National Governance Hub, 2007) places on the board the responsibility of financial oversight. It identifies the key responsibilities of the board as to set the vision, mission and values, develop a strategy, set and monitor policies, set employment procedures, ensure compliance with the governing document, ensure accountability, ensure compliance with the law, maintain proper fiscal oversight, select, manage and support the CEO, ensure its own effective performance, and promote the organisation.

Governments seem to be entrenching good NGO governance in the statutes. In 1996 section 4958 of the Internal Revenue Code was enacted in the USA. It gives the Inland Revenue Service (IRS) the power to impose fines on NGO officials who receive excessive salaries and benefits alongside the trustees who approve the compensation (Williams, 2007). At the extreme, the law also known as the intermediate-sanctions statute, can strip an NGO of its tax exemption status. The IRS is also reviewing the NGO information tax return form 990 to include more information on the state of governance. From 2009, NGOs will have to directly address three issues in their returns: if they have a written conflict of interest policy and how many transactions were reviewed under it; if they have a written whistleblower policy; and if they have an audit committee (Williams, 2007).

In the UK, following the enactment of the Charities Act 2006 the statutes have become more explicit about the concept of ‘public benefit’. Charities are required to state explicitly how their activities benefited the public in their annual returns (Morgan, 2008).

These two moves should be seen alongside the emergence of NGOWatch in the USA and its replica in the UK, GuideStar UK. These moves by the USA and the UK governments to entrench aspects of governance and accountability into law as well as a review of the context and regulatory framework in the UK (see also Appendix K) tend to contradict the assertion by Barman (2007, p104) to the effect that:

*“In both the United Kingdom and the United States, the central government historically has not held voluntary organisations to any standards beyond compliance with the legal requirement of the non-distribution constraint.”*

The focus on boards to ensure proper financial governance to leverage performance of NGOs is in no way arbitrary. Low (2006, p49) noted that the board ‘*bears the ultimate responsibility for the integrity of the [organisation and] general compliance with law*’. Other researches, as the following selection shows, have demonstrated direct links between the board, financial governance and performance of organisations.

In a study of board practices in especially more effective and less effective non-profit organisations, Herman and Renz (1997) found that the former had more effective boards which used significantly more recommended board practices. In addition, organisations with boards using more such practices were more likely to use other correct procedures. In a way, this research presents the board as one key area of intervention to bring about cascading positive change in organisations. This research is, in part, corroborated by another research by Callen (2003) on board composition, committees and organisational efficiency. The research found a significant statistical association between the presence of major donors on the board and indicators of organisational efficiency. It also supported an earlier finding that major donors partly monitor funded NGOs by observing board membership.

In yet another research on the relationship between performance of the board and that of the organisation, Green and Griesinger (1996) found that boards of better performing human service organisations tended to be more involved in the formulation of policy, strategic planning, program review, board development, resource development as well as in financial planning and control and resolution of disputes. In the same year, research by Smith and Shen (1996) found that boards with a standard slate of board officials (chairperson, deputy chairperson, secretary and treasurer) were more active, and set up and worked more through subcommittees.

Some studies have also linked governance with financial management and reputation of voluntary organisations. In 1992, Bradshaw et al. (1992) determined a relationship between some aspects of board process such as strategic planning and a common vision and the financial and reputational measures of organisational performance. In a similar study the USA, Chait et

al. (1991, p2) found a '*positive and systematic association*' existed between the performance of the board and the conventional measures of an institution's financial performance.

From the foregoing, it is imperative that governing boards should be carefully constituted and once so constituted they should carefully plan and approach their work with due care and diligence to make a positive impact on performance. SustainAbility (2003) identifies one way of doing this through risk mapping. Boards were advised to map their risks on:

1. accountability; to ensure they address stakeholder issues and constituency issues, campaign responsibly, position the NGO competitively, exploit their brand and ensure corporate co-option,
2. transparency; to ensure financial and ethical disclosures, manage the compensation of the director and staff, promote policies and practices, report and maintain assurance mechanisms,
3. funding; to ensure adequacy for current and future needs, appropriate sources of funding, fundraising methods and proportion of allocation of funds to 'causes', and
4. standards; to ensure professional standards and targets, position the NGO on corporate social responsibility frameworks, stakeholder benchmarks, stakeholder satisfaction and standards needed of suppliers and partners.

The UK experience (Charity Commission, 2007) shows that charities experience problems in getting qualified trustees. Charities are encouraged to use different avenues to attract trustees including word of mouth, audio and visual advertisements and public forums. Compromises have to be made between filling positions and getting the skills required, whereas in the South the compromise is between getting representative members and the skills required.

Even if an NGO were lucky enough to attract representative and qualified trustees, Carver (2006) found that the board could still be ineffective. This could happen if the trustees, either individually or collectively, failed to understand and use the authority of their positions, to act solely for the best interest of the stakeholders, to exert influence on the NGO through group process, to comply with and to actively protect board discipline, and to prepare adequately and actively contribute to deliberations.

In the developing world, research by Gariyo (1997) showed that boards could be of different typologies. There are family boards which are informal, show affection and trust; invisible boards often comprised of friends and family just to meet legal requirements and to rubber-stamp decisions of the founder; staff boards often riddled with conflicts of interest and

confusion between management and governance; and professional boards which are formal and bring together like-minded people and conduct performance reviews. This finding confounds the problem even further as previous efforts have tended not to take this distinction into account, often referring to boards as if only one type existed.

Besides ineffective boards, the other management problems Wallace (2006) found which face NGOs are 'founder member syndrome' where a founder member personalises an NGO and places himself/herself above all other stakeholders, push by NNGOs that beneficiary participation must be achieved, push for funder representation on boards, and requests by more stakeholders to be represented on the board. In the end therefore the board has to contend with additional external pressure and this overflows to undermine management. It is in this light that Hulme and Edwards (1997) reinforce the contention that NGOs are by design complex organisations, they raise and spend funds in different countries, have multiple stakeholders and accountabilities, and have many aims of which some may conflict. It can also be added that it is quite difficult to measure performance of some as their results are long term and their success only leads to non-occurrence of what they fight against, e.g. environmental protection (Moore and Stewart, 1998). In such cases their success could be clouded in counterfactual reasoning.

As discussed earlier, NGOs are often accused of poor and weak management. Research by Sahley (1995) attributed this state of affairs to a tendency for management not to be a priority, to put too much focus on details, to yield to pressure to provide immediate response, to over-commit and provide emotional responses, to be unable to decentralise decisions, to undergo pressure to exhibit true collaboration, to allow individual interests which stand in way of organisational interests, to face insecure funding that inhibits planning, and to adopt a grant mentality. The author also observed the over-emphasis placed by NNGOs on capacity building to address problems of especially African SNGOs (Sahley, 1995 p10):

*"Institutional development and capacity building have become the latest catch-phrases in the development field...In a recent survey of Northern NGOs, over 90% of all respondents claimed to be undertaking specific approaches to strengthen their Southern partners...rapidly growing interest in capacity building and the growing availability of donor funds for these types of programmes..."*

Weaknesses in financial governance (at the board level) and financial management (at the management level) can therefore translate into serious repercussions for an NGO (Carver, 2006; Hailey, 2003). Some NGOs tend to put all emphasis on effectiveness and the ability to demonstrate results of projects to the detriment of other considerations (Wise, 1995). Often this is based on overriding drive to achieve quick and noticeable results which can sell the NGO in order to attract additional funding (Wallace, 2006). In other cases, NGOs tend to focus on

programmes and to ignore the people, systems and processes (Forbes, 1998), yet all need to be brought together to drive organisation-wide performance (Kendall and Knapp, 2000).

Wise (1995) argued that economy, the concept of paying no more than necessary for the quality and quantity needed, is probably of least concern to some charities. Similarly efficiency, getting the greatest benefit from limited resources or conversely expending the least resources to obtain a given benefit, also suffers. Yet the two are crucial, are linked to effectiveness and affect performance. The foreword to the UK CIMA (Wise, 1995 p58) underscores some of these intricate mutual dependencies thus:

*“To most people the concept of making a profit or having a surplus arising from sick people is distasteful. Yet everyone accepts that the only way to provide better treatment to patients out of finite sums available is to improve the use of those resources. The problem is how to combine caring for health and life, which are beyond price, with the practical fact that if the price per effectively treated patient is reduced, more patients can be treated....How much is allocated to national health care and who pays for it and how – is political and a matter for politicians...How the funds provided are used to give best health care for all who need it – is a matter of good management.”*

To give this message weight, some writers such as Argenti (1993) have proposed that key financial analyses, ratios and benchmarks should be used. Whereas this may help, it is difficult in practice and even if it succeeded, the resultant measures would hardly be balanced. For instance, cost classification, accounting standards and integrity of financial information vary all over the world and these would render resultant figures incomparable. There is also an obvious folly in relying too much on numbers and financial information. In fact, Perrin (1998) argued that past performance measurements of the 1970s and 1980s, such as Management by Objectives and Programme Planning and Budgeting Systems failed partly because they were (p369) *“conditioned by the philosophy of the audit...to count only what they can put their finger on and cross their hearts about”*. This practice was in total disregard of research findings in the UK to the effect that organisations which focused on quantifiable measures were less effective than those taking broader perspectives. It is also known that if numbers are used too much they take on a life and reality of their own however meaningless they might be (Najam, 1996).

Therefore using financial statistics to measure NGO performance despite these weaknesses would not only constitute a misunderstanding of the work of NGOs (valuing what is measured rather than measuring what is valued) but it would rekindle the folly of statistics which Sir Josiah Stamp (1880 – 1944) is reported to have observed when heading the Bank of England (Perrin, 1998 p372):

*“The governments are very keen on amassing statistics. They collect them, add them, raise them to  $n^{\text{th}}$  power, take the cube root and prepare wonderful diagrams. But you must*

*never forget that every one of those figures comes in the first instance from the village watchman, who just puts down what he...pleases."*

Perhaps it is from this wisdom that in the UK the Charities (Accounts and Reports) Regulation 2005 made under the Charities Act 1993 clearly specified a financial governance and accountability mechanism and defined how financial accounting and reporting on governance should be exercised, including the standards and cost classifications to be complied with. It further insists on annual reporting and some form of examination (annual external audit, an independent examination and peer review) to uphold the integrity of financial figures (Morgan, 2008). Besides, the Charity Commission requires submission of a Standard Information Return (SIR) form which captures comparable non-financial information on larger charities. This discipline lacks in many other countries hence making it difficult to compare NGOs, especially across nations, on the basis of financial data.

Novib (Oxfam Netherlands) in conjunction with The British Council (BC), using its experience in working with SNGOs in East Africa, developed a framework in 2000 for evaluating NGO financial management (Novib, 2002). According to this framework the soundness of an NGO's financial governance can be measured against eight principles identified as:

1. Accountability; the means of informing all stakeholders about financial affairs of the NGO, usage and achievements so that opinions can be formed on the exercise of the delegated authority and holders called to account.
2. Transparency; setting systems and process to facilitate those who ought to know to know.
3. Custodianship; recognition that directors and managers do not own but simply hold resources of the NGO in trust for the benefit of the earmarked beneficiaries.
4. Integrity; honesty and trustworthiness in the service of the NGO to uphold personal and organisational trust and respect.
5. Consistency; maintaining systems, policies and processes to enable consistent treatment and comparative trend and cross-sectional analyses.
6. Non-deficit financing; ensuring planned expenditure is funded before expenditure occurs.
7. Documentation; ensuring financial affairs are well documented and records well kept using the double entry system of accounting for future reviews.
8. Disclosure; going beyond legal requirements for disclosure to ensure stakeholders are kept informed of successes, failures and critical information about the NGO.

This framework can be useful in rating the state of NGO financial management over time periods and across NGOs. Its power lies in the ability to bring issues of financial governance

and management and accountability together to gauge the impact on NGO performance. Although some researchers such as Behn (2003), Brown and Kalegaonkor (2002) and Forbes (1998) argue that it is very difficult to determine frameworks which could apply across NGOs, the Novib initiative demonstrates innovative approaches NGOs have a reputation for.

## 2.6 SUMMARY OF LITERATURE REVIEW

The literature review identified different perspectives on the origin, growth and role of NGOs; performance of NGOs and how it is currently construed and measured; the accountability mechanisms amongst NGOs; the regulatory environment within which NGOs operate and how it may impact on their performance; funding of NGOs and the associated effect on performance; and the role of financial governance and management on performance of NGOs.

Regarding the evolution, growth and the role of NGOs, literature showed that NGOs as we know them today emerged after the Second World War (Kerstin, 2002; Martens, 2002; Teegan et al., 2004) although organisations engaged in 'NGO activities' much earlier (FIM, 2006; Willets, 2002). NGOs grew rapidly from the 1980s (Barman, 2007; Edwards, 1994; Fowler, 1997b). They engage mainly in areas covered by the MDGs, namely poverty eradication, education, health, environment, global partnerships and community relations (Kendall, 2003; UN, 2007). However, NGOs are challenged to scale up their impacts, to develop a competitive strategy to cope with emerging risks and to seize opportunities, to diversify funding sources, to build solid business cases for funding and to develop strong brands (Lindenberg, 2003; Munck, 2002; Naidoo, 2004; Rojas, 2000). They are also challenged to improve their legitimacy (Anheier et al., 2001; Salamon et al., 2000), accountability (Hailey, 2003b; Lewis, 2002; Tandon, 1997), cost effectiveness (Caiden et al., 2001; Sowa et al., 2004; Wise, 1995) and governance (Callen, 2003; Carver, 2006; Hailey, 2003b; Herman, 2000; Low, 2006).

Regarding NGO performance and measurement, the literature showed that performance measurement is crucial as it helps managers to evaluate, control, budget, motivate, promote, celebrate, learn and improve (Behn, 2003). This is complex amongst NGOs because their activities are not routine, there are many objectives with some not so clear, there is a distortion between immediate outputs, medium term effects and long term impacts, and at times performance measurement processes distort the NGO's objectives or the goals of staff (Moore and Stewart, 1998). The existing literature shows accountability is vital as it keeps an NGO effective and legitimate (Edwards, 1994; Low, 2006; Moore and Stewart, 1998) but there is contention as to whether accountability should be NGO 'volunteered' or 'stakeholder demanded', which NGOs should provide formal accountability, in what ways ('closeness' or formal) accountability should be demonstrated (Rawls, 1972), whether as it currently stands NGOs already provide adequate accountability, and what the changing roles of NGOs imply. Some argue that NGOs should be accountable only to their legal owners or to those with the power to influence the achievement of their goals (Unerman and O'Dwyer, 2005). Yet others like Ebrahim (2003) tout identity accountability. Over time, three chronological streams of



NGO performance measurement emerge from literature: the borrowed universal stream, contextual stream and bespoke universal stream (Kendall and Knapp, 2000; Paton, 1998, 2003). The three streams are all built upon the traditional concept of value for money (economy, efficiency and effectiveness), dwell on inputs, processes and outputs, with the later ones somehow considering the contextual circumstances.

Regarding the regulatory environment, the literature showed that although some researchers argue for more space and self-regulation by NGOs (Lloyd, 2005; Moore and Stewart, 1998), others (such as Bernstein and Cashore, 2007 who studied general global governance) oppose it. In practice, governments are intensifying state regulation particularly around eight key areas (ICNL, 1997; Yaansah and Harrel-Bond, 1997). The UK and the USA regularly review their state regulation which now covers governance and is stricter on accountability (Morgan, 2007b; Williams, 2007; Wolfenden, 1978). In Kenya both state regulation and self-regulation co-exist but they are both not strictly enforced (Keengwe et al., 1998; Yaansah and Edward, 1995) and India's situation falls in between (Jalali, 2008).

The two main challenges to NGOs: attacks on their accountability and effectiveness and continued legislation by governments, can only be managed if NGOs tackle the identified weaknesses in their legitimacy, transparency and accountability, cost effectiveness, fraud, corruption and financial mismanagement, as well as NNGO-dominated agendas (Mawdsley et al., 2005; Mitlin, 2002; Naidoo, 2004; ODI, 1995; Salamon et al., 2000). NGOs can do more on this front, for instance through such initiatives as self-regulation and accreditation processes. Moore and Stewart (1998) found evaluators combine actual performance measurement, perceptions from stakeholders and clients and comparison with other NGOs to make a value judgement on an NGO performance.

Regarding funding and performance, literature review showed that NNGOs continue to attract more funds and the share from official and elite member sources earmarked for international causes seem to rise faster (Edwards and Hulme, 1995, 1997; Fowler, 1997b; Goddard and Assad, 2006; Taylor, 2002; Wallace et al., 2006). Consequently, NNGOs have become the main funders of SNGOs (Ahmad, 2001; Gariyo, 1997; INTRAC, 2004).

They work through partnership to achieve synergy, effectiveness, quality relations, clarity of purpose and preservation of NGO autonomy (Brehm, 2004; Brinkerhoff, 2004, 2003; Kanter, 1994). Partnership approach is criticised for leading to dependent vertical relations, creating donor-ship; creating dependent partnerships; making SNGOs subservient to NNGOs and promoting contracting (Fowler, 1998; Lewis, 1998; Lister, 2000; Sahley, 1995; Wallace et al.,

2006). In some cases, a few researchers such as Kendall and Knapp (2000), Lister (2000) and Martens (2005) argue that NNGOs are justified to control SNGOs they fund.

Regarding financial governance and management and performance, existing literature (Child and Rodrigues, 2004; Hailey, 2003; Rhodes, 2000) shows that governance is critical to NGO performance. Its failure leads to organisational indiscipline which often translates into fraud and corruption and eventual loss of trust. Corruption in particular diverts resources from the poor to the rich, escalates business costs, distorts expenditure patterns, dissuades funders and erodes trust; situations which negate what NGOs stand for (World Bank, 1996a). Indeed, some researchers detect a rise in NGO fraud, corruption and mismanagement (Gibelman and Gelman, 2001, 2004<sup>24</sup>; Wise, 1995). As Hailey (2003b) and Low (2006) contend, the buck ought to stop with the NGO board. Literature review also showed some linkages between different aspects of financial governance with NGO performance (Bradshaw et al., 1992; Callen, 2003; Carver, 2006; Smith and Shen, 1996). They include effective boards use more recommended board and other correct practices (Herman and Renz, 1997); include major donor representatives (Callen, 2003); are more involved in policy formulation, strategic planning, programme review, board development, resource development as well as in financial planning and control and resolution of disputes (Green and Griesinger, 1996); have a standard slate of officials; are active and set up and work through subcommittees (Smith and Shen, 1996); and have a positive and systematic association with measures of financial performance (Chait et al., 1991). In addition, Gariyo (1997) showed that different board typologies (family, invisible, staff and professional) exist in the South while Carver (2006) showed that even well constituted boards could be undermined by behaviour of members. Novib/BC principles of financial management (Novib, 2002) focussing on accountability, transparency, integrity, custodianship, documentation, consistency, disclosure and non-deficit financing was found useful in NGO assessment. This showed that NNGOs measure performance of SNGOs they fund and performance of SNGOs is somehow related to their regulatory environment, their board level financial governance and management, their accountability and the behaviour of their funders.

However, literature left gaps. For instance, it did not determine how NNGOs selected partners, measured their performance and used the results. Also missing were possible interconnections between the identified variables (performance, financial governance / management, funding and funding policies). Thus the five selected gaps in literature which the study addressed are:

- (i) Given the high dependency of SNGOs on NNGOs for funding and their partnership approach to work, how do NNGOs assess the performance of SNGOs they fund?

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<sup>24</sup> These studies were conducted in the USA and involve both USA organisations and others.

- (ii) Given the critical role that NGO boards play and the increasing attacks on NGO accountability, cost effectiveness, funding and impact, what weight do NNGOs give to the aspects of financial governance and management and how effective the board oversees management in the way they assess the performance of SNGOs?
- (iii) Against the background of reported increased cases of financial mismanagement, fraud and corruption in NGOs, how dominant is this amongst SNGOs? What form does it take and how is it related to the success and failure of SNGOs?
- (iv) Amid all these concerns, the fact that SNGOs lack adequate capacity and NNGOs are keen to demonstrate quick gains through projects although their policies call for partnership approaches, how do the policies of NNGOs towards SNGOs ensure that SNGOs perform?
- (v) Based on the understanding and explanations derived from the literature and empirical findings, how comprehensive are the existing models of NGO performance measurement? Can a better model of how NNGOs measure the performance of SNGOs they fund be documented depicting the findings from literature review and the research findings?

The need to fill these gaps is critical as NGO partnerships are gaining more prominence and their contribution is increasingly under scrutiny (Barman, 2007; Baruch and Ramalho, 2006; Kendall and Knapp, 2000; Salamon et al., 2000; Sowa et al., 2004; Unerman and O'Dwyer, 2006). A contribution in this area could help consolidate knowledge to facilitate improvements so as to respond in part to the many criticisms of NGOs.

This section concludes the formal review of literature which culminated in identifying the gaps to be addressed by the research and the conceptual frameworks to use to advance the study. The next chapter will develop the research methodology.

## CHAPTER 3

### RESEARCH METHODOLOGY

#### 3.0 INTRODUCTION

In the preceding chapter the existing literature with a bearing on this research was reviewed and gaps therein were identified. It became clear that further research would be useful to advance knowledge and to help bridge the existing gaps in the literature.

This research progresses this by exploring the following four research questions identified earlier (see 1.3):

1. How do NNGOs measure performance of SNGOs they fund and work with?
2. What weight is given to financial governance / management in measuring performance of SNGOs and therefore rating one SNGO more successful than another?
3. What role has financial governance / management played in the cases of SNGO excellence or failure?
4. How do financial governance / management and performance of SNGOs relate to policies funding NNGOs develop?

This research is therefore premised on the assumption that NNGOs as funders have innate systematic ways of understanding and assessing performance of SNGOs they fund. It is expected that this value judgement on performance shapes the policies NNGOs develop towards SNGOs. Research to unearth the truth should of essence be entrenched in the belief that a trained mind can explore these questions through a scientific examination of the mindsets of NGOs in their natural contexts. In this respect what constitutes reality should be that which is available to the senses. This is a fundamental belief to progress this research.

This chapter makes further advances in setting the ground for the research by identifying and justifying an appropriate philosophical stance, research strategy and a methodology for the study. The chapter in particular gives an exposition of the dilemmas researchers encounter in the search for truth and through a process of understanding the options available, eliminating options that were not suitable and justifying the selected options, selects stances for the research. It also delves into the specifics of how the research dealt with issues of case selection, data collection, data reduction and analysis.

### 3.1 PHILOSOPHICAL STANCE

Through the eyes of a teenager, the award-winning writer Haddon (2004) is perplexed by the multiplicity of truth. Three men sitting in a train when it crosses over to Scotland see a brown cow standing parallel to the train window in a field. The economist amongst them remarks (P143), *'Look, the cows in Scotland are brown'*. The logistician counters (p143), *'No. There are cows in Scotland of which one at least is brown'*. The mathematician interjects (P143), *'No. There is at least one cow in Scotland, of which one side appears to be brown'*. Although Haddon concludes that the mathematician is probably closest to the truth, philosophers could dismiss him since *'quod non erat demonstrandum'* [what was to be proven has not been proven]. Herein lies the complexity of philosophy: the love of wisdom that is pursued by study of the fundamental nature of knowledge, reality and existence or, simply put, the search for truth. What does it mean for a statement to be true? Debate rages in postmodernist circles where the traditional view of truth as objective and knowable is disputed.

Yet, philosophy is considered such a vital consideration for meaningful research that *'....social sciences are lost if they are not directly related to philosophical problems by those who practice them'* (Giddens, 1984 p. xviii). Consequently, although it is possible to proceed into research oblivious of the philosophical foundations, it is no longer accepted as wisdom-laden (Giddens, 1984). For this reason the researcher devoted a year to the study of philosophy and research methods.

Debates about the nature of human actions continue to confound researchers with difficult philosophical choices, especially since such choices directly narrow down methodological options and dictate modes of engagement and what constitutes warranted knowledge in research. Experiential psychology has shown that empirical research advances only when it is accompanied by logical thinking and not when it is treated as a mechanistic endeavour (Bolgar, 1965 as quoted by Yin, 1989). There are three<sup>25</sup> streams (Laughlin, 1995) of empirical investigation, from the initial two generally accepted extreme ones. They are Auguste Comte's rational view that through reason scientists can obtain absolute description of the world, totally escaping the contamination of the observer; Immanuel Kant / Georg Hegel's empiricist view that all we can ever know is that which comes to us through the senses; and the criticisms of the

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<sup>25</sup> Note that Gill and Johnson (2002) identified three main schools of thought, namely logical positivism, Popperian and Interpretivism and expanded them to four main streams which they identified as interpretivism, critical theory, postmodernism and positivism.

two<sup>26</sup> which led to the Immanuel Kant / Johann Fichte view that all findings are subjective since the observer can not be fully divorced from the research.

Laughlin (1995, p73) observed that Comte revised the rational stance in light of this criticism to amalgamate rationalism and empiricism into positivism which “...would allow absolute descriptions of the empirical world to be made distinct from any observer bias and clearly separated from any attitude concerning the need for change in the observable referent”. Positivism thus became a tight, rational, deductive process with clear rules on how to observe the world. Comte’s positivism exists in the modern world in four sub streams of positivism, realism, instrumentalism and conventionalism. Kantianism, on the other hand, exists in the modern world in three sub streams of pragmatism, ethno-methodology and symbolic interactionism. Whereas Comtean positivism requires both high theory choices in the form of prior theorisation and high methodological choice in terms of the level of theoretical nature of methods (Laughlin, 1995), Kantianism requires low levels on both fronts.

Laughlin (1995) argued that there is a middle ground between these two extremes and it is occupied by the mid-range thinking which requires medium prior theorisation and medium level of methodological choices. The middle range thinking is particularly suitable to research of an accounting nature. It mainly works through (p75):

*“...initial limitation of the social focus for the discovery process, not to the nature of the theory, methodology and change. It uses high level of theory and methodology with minimal change concern on a limited social concern with the hope that a grand, general theory for action and activity can be discovered in due course from the insights forthcoming.”*

Although the middle range thinking<sup>27</sup> is different, it draws much from the Comtean and Kantian approaches. It thus has an ontological belief in skeletal generalisations and skeletal theory with a broad understanding of relationships, has a medium emphasis on eventual change although it is open to both radical change and maintenance of the status quo, the epistemological stance that the observer is an important part of the process, and a methodological stance that a method can be defined and refined during the research, mainly qualitative data should be used, heavily descriptive case studies but with some analytical data should be used, conclusions should be tied to the skeletal theory and empirical richness can be derived, and the validity of research lies in the researcher and the researched.

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<sup>26</sup> Kant later on abandoned the belief that either of the two extreme streams could deliver absolute truth and criticised rationalists for generating form without content and the empiricists for deriving content without form.

<sup>27</sup> This is in line with the principles of meta theory (Latour, 1987) which emerged in the 1950s and which aims to take positive aspects from the different schools of thought (including the postmodernism school of thought) under given circumstances.

The three main streams are therefore distinguished in the same way the initial two extreme streams were, namely, as Gill and Johnson (2002) argued, on the basis of the stance the researcher takes in regard to ontology (or theory about the nature of the world), epistemology (or what constitutes knowledge) and the stances on these two fronts influencing the choice of methodology (a view on the nature and the role of the researcher in the process).

Research of this nature could hardly successfully proceed on the basis of pure Kant / Hegel empiricism. The research is based on the assumption that NNGOs have innate systematic ways in which they assess the performance of the SNGOs they fund and that it is possible to develop a skeletal model that could, subject to further research and within the confines of some contexts, be of use generally to assess the performance of funded SNGOs (Laughlin, 1995). There is also an underlying assumption that such a model can be built upon pre-existing prior conceptual frameworks found in literature. These views run counter to the original form of Kantian empiricism.

The original Comtean positivism would also be unsuitable for this study for a number of reasons. It has its foundation in a generalisable world waiting to be discovered and entrenched in beliefs that definable theories with hypotheses can be generated beforehand, the researcher can escape the hermeneutic circle to be totally independent of the research, and research is best done using structured and quantitative method so as to make tight conclusions using statistical inferences (Johnson and Duberley, 2000). In contrast, this research is based on NGOs which are dynamic, whose relations are complex and within contexts where multiple interactions occur, yet the researcher has no control over them. These conditions make Comtean positivism not exactly suitable. However, given the adaptations made to Comtean positivism, some of its aspects could still apply to the study.

The elimination of pure rational Comtean positivism and pure Kantian / Hegel empiricism whereas at the same time finding it suitable to retain some of their aspects leaves the middle range thinking (Laughlin, 1995) as a more suitable philosophical stance. A more elaborate exploration of NNGOs and SNGOs necessarily requires studies to take place in the contexts of these organisations. It was necessary that the research be conducted in one NNGOs' country and at least one SNGOs' country. The attendant inter-organisational dynamics are often complex to explore, especially when involving such different contexts and cultures. There is need to engage multiple senses, abstract and experimental reasoning to reach to the core. In this respect the Kantian / Fichte synthesis that the real-world exists and needs both epistemological and ontological objectivism holds and begs borrowed aspects of both positivism and Kantianism (Johnson and Duberley, 2000). Some of the aspects that this approach retains from positivism are some observer distance, part use of quantifiable data, use of cross-sectional data, validity

partly lies in the researched and low emphasis on change. Those aspects of Kantianism retained are that generalisations may or may not occur, prior hypotheses are neither possible nor necessary, the observer is important, and validity is partly dependent on the researched.

At the second level, this research could have proceeded on the basis of ethnographic studies, positivism or grounded theory. However, ethnography would have deprived the researcher of the objectivism which shorter periods of immersion present. Positivism, on the other hand, has served the physical sciences well since experimental and control samples can be used concurrently in a laboratory experiment. But the complexity of humans who experience the world, unlike animals and things which only behave in the world, make it hard to apply it in this situation. As Gill and Johnson (2002, p175) note, “...*the possibility of directly and objectively observing a phenomena [sic], and thereby accumulating the facts of the world so as to test the veracity of a theory, seems dubious*”. Yin (1994) also argued that this lesson ought to be a basic theme to meaningful research studies.

This research was based on the belief that NNGOs and SNGOs co-exist and work together and that NNGOs have systematic innate ways of measuring the performance of the SNGOs they fund. That using carefully selected quality case studies and allowing empirical data to play a much more prominent role than the researcher, skeletal models could be derived and enhanced with empirical data to reflect how NNGOs measure the performance of SNGOs in the funder and funded NGO context. The research thus leans most towards the middle on theory, methodology and change; on which specific front it recognises that (Laughlin, 1995 p81) “...*generalisations about reality are possible even though not guaranteed to exist. Yet...these will always be ‘skeletal’ requiring empirical detail to make them meaningful.*”

Having established the main philosophical domain, Jankowicz (2000) proposes that social research should proceed through systematic steps. These include the development of the research questions, conceptual analysis using ideas mainly from literature review, development of an analytical framework, then investigation into the set of issues using a constructivist or interpretive approach. Although this presents a logical approach, putting the development of an analytical framework before investigation requires prior knowledge of the span and nature of data to be gathered and confidence that adequate literature on the subject matter exists. The two conditions did not hold for this research, making the approach not particularly appropriate.

Bryman (1988) gave an alternative approach for social science studies in general. In his view, research that accepts the hermeneutic circle should flow through steps of research questions, identification of sites and subjects, collection of data, interpretation of data, conceptual and theoretical framework, then write-up of the research. Bryman’s (1988) approach, unlike



Jankowicz's (2000), gives the researcher wider space to adopt an open mind. The researcher can proceed with the study so long as s/he has determined what s/he wants to do and where to get the data. This approach lent itself more to this research and was consequently adopted.

Having so far set the ground for the adoption of the middle range thinking using the steps advocated by Bryman (1988), a critical reflection on how different approaches have served social research in the past might present further assurances.

Hawthorne studies (Lovett, 2004) progressed on the basis of positivism. When Mitlin (2002) sought to study relations between NNGOs and SNGOs in Kenya in 2002, she too resorted to adapted positivism and case study methodology as the most appropriate. In support of adapted positivism some social scientists believe that warranted knowledge 'originates' only from reality or the external world and should be directly and objectively experienced through our human senses. Halfpenny (1979) observed that since its inception, positivism has been adapted and its discredited simple forms abandoned to such an extent that modern day positivism remains pervasive and dominates most theory and research in the social sciences.

However, positivism generally equates human action to mere automatic responses to external stimuli, thereby ignoring human subjectivity. Its adoption inevitably leads to exclusive use of a nomothetic methodology to construct a theory which predicts human behaviour (Gill and Johnson, 2002). Positivists take the epistemological standpoint that warranted knowledge should be directly observable and theories should be confronted with facts of a readily observable external world. Adaptations have made positivism no longer synonymous with observing control and experimental samples in a laboratory environment. In general, as positivism is adapted, some of the earlier criticisms become irrelevant to pave way for its continued use in social research (Halfpenny, 1979). Thus, in this research the importance of contexts, organisational culture, contemporary nature of the research and human subjectivity could not be downplayed which made positivism, in its original form, hard to apply.

Such triangulation of research methods is not new in social science research. When Goddard and Assad (2005) investigated accounting and legitimacy in Tanzanian NGOs, they did so using a grounded theory as the principle methodology of inquiry, conducted fieldwork through case studies and analysed data by open coding advocated by Strauss and Corbin (1998). Parker and Rofley (1997) believe grounded theory is better placed to contribute important dimensions in finance-related research and does so by developing theories from detailed observations of complex social phenomena without defining the area of investigation or even prior assumptions. It therefore (Goddard and Assad, 2006 p380) *"...offers the prospect of providing useful confirmation or disconfirmation of the applicability of pre-existing theories as well as the*

*possibility of offering new theoretical developments.”* Grounded theory gives general observations with ramifications beyond the case studied and it became prominent in social research following the extensive work of Strauss and Corbin (1998). The authors believed that to explain social phenomena, it needed observation and experience and the research had to be inductive rather than deductive. This would help to fit the emergent theory to the data and hence make it more useful, plausible and accessible to practising managers.

In addition, the research questions formulated for this study and the context of the research do not readily lend themselves to either pure positivism or pure Kantianism. Neither do they lend themselves to any particular method.

The work of Hammersley and Atkinson (1983), although not NGO-specific, showed that in general triangulation can strengthen research by combining participant observation, interviewing and documentary sources, whereas Smith (1975) found that the use of multiple methods to address a problem can cancel out strengths and weaknesses to give more convincing findings. In some researches there could be no single way of collecting the data, hence making multiple methods necessary. This research, with the intention to gather views of many NNGOs in the UK on a standard set of broad issues, to engage a few UK NNGOs in greater depth on a few selected themes and to gather views from a few SNGOs on a few but very broad issues, could hardly be addressed using a single method.

It should also be recognised that a scientific examination of the mindsets of NGOs in their natural contexts was necessary and that although generalisations within given contexts might be possible, they are not guaranteed any more than change that might arise from the research.

### 3.2 USE OF CASE STUDIES

All the six common research strategies, namely experiments, quasi experiments, history, survey, ethnography and case study were available for use in this research. However, each of the strategies is most suitable to given situations. Yin (1994) argued that experiments, in particular, are known to deliberately divorce phenomenon from context so as to limit variables in a laboratory environment. They are best used in research requiring precision, a condition only rarely applicable in social research. Whereas history can handle entangled situations, it can only do so for non-contemporary (historical, past) events. Surveys also can deal with entangled situations but their ability to investigate the context of the phenomenon is greatly limited and as a result they try to limit variables to be analysed or questions to be responded to. Ethnography appeals to particular contexts where phenomena are of identical units and assumes deeper immersion helps rather than inhibits objectivism, a stance that is debatable.

Case studies are believed to offer better contextual analyses for social science studies in general (Berry and Otley, 1998; Yin 1994), a merit that is crucial to successful conduct of this research. The appropriateness of the case study approach has been successfully tried in large charity/NGO studies by such researchers as Randal and Palmer (2001), Tsamenyi et al. (2002), Wise (1995) and Yin (1981b) to explore different organisational issues.

Indeed, the case study research strategy is generally accepted as ideal whenever research is delving into issues of organisational or management study and city or regional planning. Other suitable areas are community psychology and sociology, policy, political science and public administration research and in the research for many dissertations and theses in social sciences (Yin, 1994). According to him, case studies are particularly suitable to investigate a contemporary phenomenon when it is so entangled in its context that it can not be easily divorced, and requires multiple sources of evidence. In support of this view, Robson (1993, p5) observed that:

*“Case study is a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple evidence.”*

The case study approach readily lent itself to the main stage of this research. Mitlin (2002) argued that as it relates to the study of SNGOs, case studies give more detail than is available in quantitative approaches as well as paying more attention to dynamic processes. Robson (1993) believed case studies were particularly ideal for investigations into real life situations and merited them with the ability to draw out meaning of events for actors, a positive step towards

understanding. Multiple sources of evidence that reinforce each other can also be used in case studies including interviews, review of documents and observation.

Thus case studies have a distinctive place in evaluation research. They can describe the real life context, benefit from the illustrative case study and explore situations in which the intervention being evaluated has no clear single set of outcomes. It can also be deduced from the work by Yin (1981a, 1981b, 1989, 1994) that case studies are best placed to illuminate a decision or set of decisions, for instance why a decision was taken, how it was implemented and with what results. The case study strategy is ideal in this case since the research deals mainly with the 'why' and 'how' questions, the researcher has no control over the behaviour of the events and the issue being dealt with is contemporary and quite entangled in its context.

The most logical approach to such a study would be one which surveyed to identify the most relevant variables to focus on then adopt an approach that allowed deeper examination.

However, the nature and diversity of issues at play in this research called for different approaches in different stages. For instance, the study of how NNGOs collaborated with SNGOs and how NNGOs measured performance of SNGOs in theory required kind of survey especially since the numbers involved were large and responses expected standard. Exploring the partnerships between NNGOs and SNGOs needed deeper understanding which surveys could not handle as well as case studies could. Consequently, the initial research on as many UK NNGOs as possible on a few standard issues with finite options was conducted by way of a telephone survey<sup>28</sup>. The follow-up deeper research on a few NNGOs and SNGOs but without much idea of what would emerge was beyond the capability of surveys and the case study approach was adopted.

Moreover, whereas interviews were the primary sources of data collection, it was useful to use alternative sources such as review of documentation and observation to corroborate and thereby enhance potency of the findings. Triangulation of methodology in different stages of this research was therefore found to be vital to capture a comprehensive, holistic and contextual portrayal of social phenomena, as Hoque and Hopper (1997) put it. The authors in particular highlighted the importance of theory and methodology triangulation in studies when elements of management accounting are involved.

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<sup>28</sup> Note that since this telephone survey was used for initial screening, it is considered as imbedded in the case study main methodology.

### 3.3 PHASES OF RESEARCH

Given the nature of this research, it was felt from the start that a field pilot study was needed to inform the methodology. The fundamental belief that NNGOs have systematic ways in which they measure performance of and rank SNGOs they fund also made it necessary for NNGOs to be involved both at the commencement and conclusion of the research. From this, a multiple five-phase research involving NNGOs in the UK and SNGOs in Kenya and India (see section 3.3.1 below) was designed to address the objectives of this study. The geographical spread of the research across three continents influenced the sequencing of the steps in the field research.

Phase 1 comprised pilot research to gain assurance that the proposed methodology for SNGO case studies was appropriate and parsimonious (see later sections and Chapter 6). It gave assurance that the variables under study had possible linkages to be pursued further, helped focus the research by eliminating unnecessary and duplicate questions and helped to fine tune the methodology. It was conducted on two SNGOs in Kenya and completed in January 2004.

Phase 2 comprised a telephone survey amongst NNGOs in the UK. The aim was to identify the relevant NNGOs and where they operated, to identify a suitable subset which actually worked with African and Asian SNGOs, to determine how they established and built relationships, what support they extended to each other and to consider how they measured performance and acted on the findings. It was completed in the UK in October 2004 and paved the way for substantive research which followed in a succession of three phases.

Phase 3 comprised field research in Kenya (see country selection criteria in section 3.4.1) during which four SNGOs were researched as well as detailed research into Kenya's national NGO sector regulation from a government ministry and interviews with a past political leader well known for criticising and deregistering NGOs. This was completed in May 2005.

Phase 4 comprised field research in India where four SNGOs were researched in addition to research on the organisation charged with the management of performance-linked accreditation of SNGOs in India. This was completed in November 2005.

Final Phase 5 was conducted in the UK with three NNGOs which acted as the pillars of the research. It comprised both research and debriefs partly for purposes of pre-testing findings from SNGO field research. This phase was completed in June 2006.

### 3.4 CASE SELECTION

#### 3.4.1 *Selection of countries of focus*

The design of this research made the quality of cases and their selection a critical stage of the research process. The following four broad criteria were selected to guide and facilitate the process of selecting the countries:

1. The significance of the context to ensure a rich mix of economic, political and social contexts. Literature review showed that factors like how developed the NGO sector was in a country, the regulatory framework, governance and government policy towards NGOs could be vital in shaping performance. NGOs could be drawn from these domains and compared.
2. Diversity to allow the research to consider NGOs in different geographical, legal and cultural contexts to account for their contribution to performance, if any. In the end, Africa, Asia and Europe were selected to also draw on the researcher's background and experience with NGOs in these areas. Since these continents are vast and diverse (e.g. Africa has about 54 different countries with some Anglo-phone, Franco-phone amongst other splits), careful selection of specific countries was necessary.
3. Level of entrenchment of NGOs to ensure selected countries guaranteed the desired rich mix of NGOs. In this respect the World Bank indicators and country ranking system (developed, developing and least developed) were adopted to help select countries.
4. Access to data required for the study so that only countries (and organisations) where access to critical information needed to progress the study could be gained were selected.

As a number of countries qualified based on these criteria, there was a need to fine-tune it further. First, the fact that the researcher was resident, working and undertaking studies in the UK made it a preferable country to focus on in terms of NNGOs. The researcher had broad knowledge of charities and their environment in the UK and could negotiate access. This was further entrenched by the status of the UK as a Commonwealth country with a strong culture of giving and with strong ties to countries in Africa and Asia.

The literature review highlighted the importance of regulatory framework as a control on probity of NGOs. In this respect, the close, almost stringent, control of operations of NGOs by the Government in India stood out. Did this stringent government oversight of NGOs make them perform better than in countries with less government oversight? Did they contribute to

the rapidly developing economy more than NGOs in LDCs? The researcher also had some experience working with NGOs in South Asia including in India and this was seen as vital to gain the required access.

Finally, the efforts made by the NGO fraternity in Kenya at self-regulation, as opposed to the strong state regulation in India, also stood out. If left to regulate themselves with little or no government control were NGOs able to raise their performance? The researcher, having grown up in Kenya and worked extensively with SNGOs in Kenya and knowing the culture, including local languages well, made Kenya an ideal country to focus on. Negotiating access for the research would not be a hindrance.

Although India and Kenya presented different cultures, both had well entrenched NGO sectors, Kenya as a vibrant LDC while India enjoyed rapidly developing country status and both dominate their geographical regions (in terms of GDP / development). SNGOs in both countries enjoyed close working relationship with NNGOs in the UK by virtue of their shared Commonwealth heritage. The three countries thus presented suitable areas to focus on.

#### *3.4.2 Negotiating research access*

Negotiation of research access started in the first phase of the research. During the telephone survey on suitable NNGOs identified from the BOND website, one of the key questions<sup>29</sup> was whether the NNGO would be willing to participate in follow-up research. From the list of five suitable NNGOs which indicated willingness to help, the researcher narrowed them to three on the basis of the criteria set here and in 3.4.1. The NNGOs gave some information, selected partner SNGOs for the research and participated towards the end of the research by giving more information, receiving feedback from findings on SNGOs and expressing their perceptions on the themes which emerged from the field research.

The survey sought the permission of NNGOs for SNGOs they funded to participate in the research. Most responded positively but sought assurances that they would not be cast in any negative light, that their contribution would remain as much as possible anonymous and that the SNGOs themselves retained the final decision on whether to participate or not. The caution with which NGOs treated their partners first showed at this stage. A number of NNGOs suggested ways to approach the SNGOs so that it would not appear that some were considered better performing than others. As will be discussed in 4.1, of the fifteen SNGOs approached by email and

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<sup>29</sup> This question was put to only a few of the NNGOs the researcher had earmarked, on the basis of the information available on the BOND database and personal knowledge, as those most suitable for the next stages of the research.

telephone, only 12 responded and four declined to participate on account of preoccupation with other tasks. The eight accepting to participate were eventually used.

#### *3.4.3 Selection of NNGOs*

The selection of NNGOs from the list of those expressing willingness to participate was designed to work in a way to ensure a balanced mix, as follows:

1. To bring out any contextual or cultural issues the researcher sought to get at least one NNGO (NNGO2 in figure 3.1) which had good knowledge of and worked extensively with SNGOs both in India and Kenya. It would play the anchor role.
2. A second one (NNGO1) was sought with equally good knowledge and extensive experience of working with SNGOs in India. It would bring in the South Asia perspective.
3. A third one (NNGO3) was sought with equally good knowledge and extensive experience of working with SNGOs in Kenya. It would bring in the East Africa perspective.

NNGOs were therefore ring-fenced during the initial telephone survey on this basis and their willingness to participate in the research. The three NNGOs selected using these criteria would give detailed and yet focused insights into how they measured performance of their Southern partners and any distinctions about their partners in each region. Information gathered from them would need to be corroborated to enhance quality. Where, say, NNGO2 working in both Asia and Africa indicated specific trends or features in one area, corroboration or negation was sought from the other two NNGOs specialising in that region.

The list of five which met these criteria was cut down to three NNGOs which were eventually used in the research.

#### *3.4.4 Selection of SNGOs*

As this research was designed to look at performance from the NNGO perspective, NNGOs were allowed to select SNGOs to participate in the research based on their perception of whether the SNGO was more successful or less successful. The guidance given for the selection process was that the NGO was in the region of study, had been in existence for over three years and had been funded by at least one of the NNGOs. Others were that it had its performance evaluated at organisational level and it was willing to participate fully in the research. As indicated in 3.4.2, NNGOs decided and guided the research on the first four criteria whereas the researcher had to approach the pre-qualified SNGOs to seek their willingness to participate.



Four SNGOs in India (SNGO4, 5, 6 and 7) were selected (see Figure 3.1). All the four had been funded by NNGO1. Some of them had also been funded by NNGO2. SNGO4 and 5 were judged as more successful cases by NNGO1 and/or 2 (or at least they had not been rated as less successful by either of the NNGOs). SNGO6 and 7 were considered less successful performers by both NNGO1 and 2 (or at least not rated as more successful by either of them).

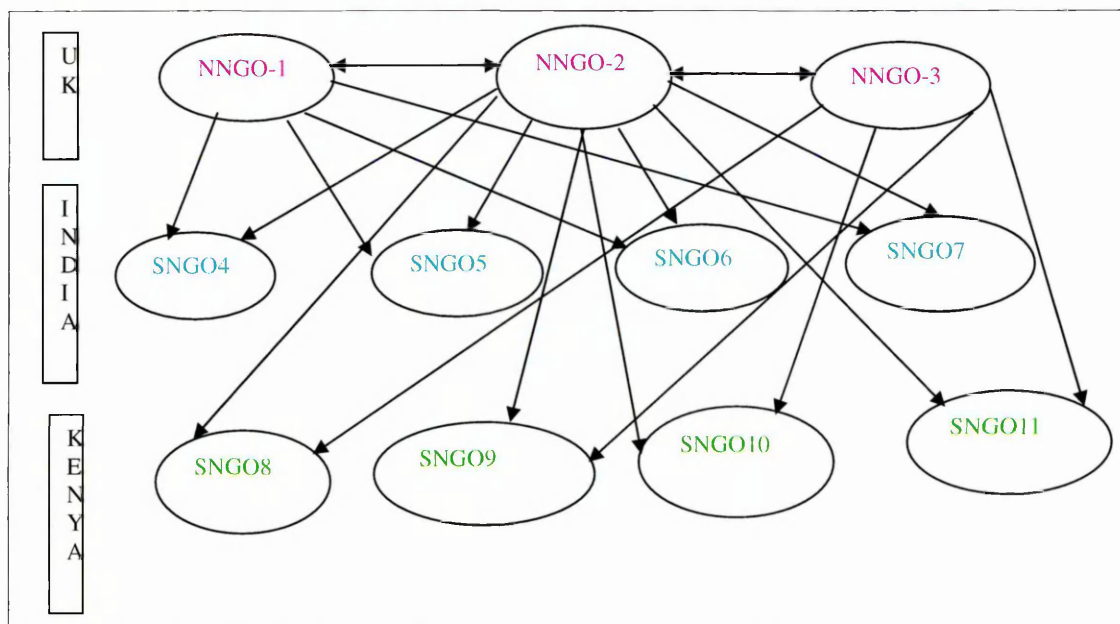
Four SNGOs in Kenya (SNGO8, 9, 10 and 11) were also selected. All four had been funded by NNGO3. Some had been funded by NNGO2 as well. SNGO8 and 9 had been judged as more successful cases by NNGO3 and/or NNGO2 (or at least not rated as less successful by either of the NNGOs). SNGO10 and 11 had been considered less successful performers by both NNGO3 and NNGO2 (or at least not rated as more successful by either of them).

The NNGO rating of the selected SNGOs as either more or less successful did not influence the fieldwork. The study was approached with an open mind. All SNGOs were subjected to the same data collection instruments, with the same rigour and evidence was collected from multiple sources for all the SNGOs (see also 7.2).

#### 3.4.5 Overall case selection strategy and protection

The nub of this research lay in detailed examination of the selected 11 NGOs (three NNGOs in the UK, four SNGOs in India and four SNGOs in Kenya) which had 16 distinct relationships between them (eight of them of more successful performance and the other eight of less successful nature). Figure 3.1 presents a snapshot of the NGO selection strategy for the study.

Figure 3.1: Case selection strategy



Anonymity was only accorded to the NGOs in the final version of the thesis to the extent possible. Since such disguise could not accord total anonymity, the situation was discussed with organisations during the selection process.

Confidentiality was also extended to the research respondents. It could not be guaranteed that respondents would remain unrecognisable. Information already in the public domain and which, in the judgement of the researcher, did not present harm to the organisations concerned was still disguised in an effort by the research to keep its part of the promise.

These assurances helped to encourage participation, courage and openness, including the expression of views and opinions on tape (see 3.6).

### 3.5 RESPONDING TO RESEARCH OBJECTIVES

On the basis of the foregoing approaches, in summary the study responded to each of the five research objectives in the following manner:

1. The investigation of how NNGOs evaluated performance of SNGOs they funded was initially addressed by a telephone survey amongst NNGOs based in the UK. They were identified by searching a database maintained by BOND to identify NNGOs working with SNGOs in Asia and Africa. Follow-up discussion with officials of selected NNGOs ensued. Findings from this survey and initial discussions were then followed up during the field study of SNGOs and the emerging research findings discussed once again with the NNGOs in phase 5 of the research.
2. To examine the extent of importance attached to financial governance and management in such measurement of performance, three approaches were adopted. The telephone survey captured the processes and experiences from the perspectives of NNGOs. Further discussions and desk studies were conducted on the three selected NNGOs to gather a more in-depth understanding of their practices. The evolving perceptions were shaped further by empirical findings from the field research on SNGOs. Finally, the debrief-cum-interviews with NNGOs in phase 5 served to reconcile and collate the views of NNGOs and SNGOs.
3. The possible linkages between financial governance and management practices of SNGOs and policies which funder NNGOs developed to guide the relationship were investigated in two ways. The survey amongst NNGOs revealed how they measured performance and developed policies towards SNGOs in theory. The field research highlighted how SNGOs experienced the process. Further discussion of emerging information with NNGOs helped to develop a unified stance on this process.
4. An exploration of the role financial governance and management played in cases of excellence and/or failure amongst SNGOs was done by selecting some 'more successful' and 'less successful' cases of SNGOs as judged by their funding NNGOs. One key NGO with experience in both Asia and Africa was selected during the initial survey. It identified a more successful SNGO in Asia and Africa, as well as a less successful case in each of the regions. Another NNGO specialising in Asia also selected a case of a more successful and a less successful SNGO in Asia. A third NNGO specialising in Africa also selected its most successful and less successful SNGO case. These clearly distinguishable cases and

relationships were then studied in detail to identify the 'traits' making them stand out with such performance.

5. The results of the literature review, gaps identified and information gathered from the analysis and synthesis of empirical data was modelled to provide a theoretical contribution to knowledge. By documenting a well understood and explained way of performance measurement, the study would facilitate further advances in NGO performance evaluation. Thus by identifying trends, matching patterns which emerged and building explanations, it was possible to document the process.

These five processes in the five phases combined to provide an appropriate approach and implied the main research had to be conducted by multiple case-single period<sup>30</sup> case studies. It was also inevitable to triangulate methodology at various stages with field research conducted using a multi-site, replication case study strategy and a telephone survey to focus the research before main field research.

Phases 3 and 4 with SNGOs were designed to take place over a period of nine months. Two days were dedicated to each organisation involved at its offices in the field (1 day on familiarisation with staff/environment, background research and review of documents, and the other on actual interviews). Ample time was spared for any re-visits necessary.

The main sources of data were telephone interviews in the first stage and both interviews and review of documentation in the second stage. These sources required more of qualitative, rather than quantitative, research as the most appropriate in most of the phases.

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<sup>30</sup> Case studies were conducted over a short period of time, typically two days each (as opposed to ethnographic or longitudinal case studies). A follow-up visit was done in the case of Kenya, otherwise follow-ups were by telephone and email to debrief and / or to cross-check some findings.

### 3.6 DATA COLLECTION METHODS

Data triangulation which involves using both quantitative and qualitative methods of data collection within a research is believed to generate “...a rich source of field data with internal checks on validity” (Halfpenny, 1979 as cited by Hoque and Hopper, 1979 p9). Triangulation of data collection approaches therefore allows qualitative analysis to enrich static quantitative research and allows qualitative data to benefit from quantitative analyses.

The research was planned with the intention of collecting data by three principal methods of: (1) telephone survey in the first phase, (2) semi-structured interviews<sup>31</sup> (involving members of the board, management, staff and other stakeholders) in all phases, and (3) review / analysis of documents in all the phases. Researcher observation and photography were also used but to a much lesser extent. Such multiple methods of data collection helped the research in three ways:

- (i) It allowed investigation into a broader range of historical, attitudinal and observational issues. It was possible, for instance, to delve into how partnerships were established, how communication had changed at different stages of the partnerships and to observe the state of physical facilities as well as the body language of respondents.
- (ii) It helped develop converging lines of inquiry. For example, cases of fraud and corruption alluded to by respondents were pursued by examining audit reports, correspondence with stakeholders and trends in funding over time.
- (iii) It boosted accuracy of, and confidence in, the research as only derived themes which were corroborated and stood up to scrutiny were short-listed and pursued further (see 4.6.3).

The document review was designed to enrich learning and focused on the style of correspondence, getting specific information and providing some insights. This was a safe approach to triangulation as a way to verify qualitative data (Yin, 1994). Of particular interest were communications, minutes of meetings, project proposals made, project reports prepared, external audit reports, investigation reports, project/programme evaluation reports, as well as relevant part of mass media and publications.

Interviews were semi-structured and guided by schedules with open-ended questions to capture facts, opinions and proposals. Due care was however taken (cross-checking, seeking ‘hard’

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<sup>31</sup> For NNGOs, interviews were mainly with members of management and staff; board members and stakeholders were not interviewed as their knowledge was expected to be limited on the operational issues of the study.

evidence and cross-examination) to ensure latent motives of respondents did not significantly mislead the researcher (see Appendices E and F for the questions used during case studies).

Focused interviews of about 1-2 hours were conducted and took the form of open-ended conversations but quietly followed a set of premeditated questions to corroborate facts already established. This involved questions being raised as naively as possible to empower the respondents.

Structured interview schedules were used in the earlier part of the research as a data-gathering tool for a telephone survey imbedded in this case study research (see Appendix C). Questions were thus used in all the three stages of the research to guide the process as shown below.

During the telephone survey questions (see questionnaire used in Appendix C) aimed at capturing general trends and selecting NNGOs most suitable for the next phases of the research. For instance, NNGOs were asked how they established contacts with their SNGO partners, what support they gave to SNGOs, in which SNGO processes they participated, whether they had any conditions that SNGO partners had to adhere to, how they formally evaluated the performance of their SNGO partners, how the quality of financial governance affected performance, when they measured performance of their partner SNGOs, how they detected and acted on good or poor performance, and how the performance of SNGOs could be best measured.

At the SNGO research stage, the questions encompassed all the aspects of performance. Representatives of SNGOs were specifically interviewed (see Appendix E) on what the mission, vision and values were of the SNGOs, the nature of conditions funders imposed on SNGOs, how the performance of the SNGOs was evaluated, the role and functioning of the board, the role of financial governance in performance of SNGOs, the SNGOs' critical success factors, whether SNGOs had changed the policies of NNGOs and vice-versa, and why the SNGOs believed they were selected for funding in preference of other SNGOs. The questions were selected to capture the perspectives of SNGOs on the whole partnership process.

At the NNGO research stage, the questions shifted to focus on the key themes built from the earlier phases of the research so as to test their validity and to gather any new perspectives (see Appendix F). The questions were posed to the NNGO representatives. Upon completing the formal interview, the researcher then summarised the opinions shaping up from the earlier stages of the research. This formed a base to discuss any points of agreements and differences. The questions were thus more focused, e.g. how the NNGO decided between funding one SNGO or another, how partnerships worked, the importance the NNGO attached to financial governance within the SNGOs they funded, how some cases of financial wrong-doings were managed, views on regulation and accreditation of SNGOs, the characteristics of their better performing SNGOs, and why some SNGOs excelled while others failed.

Systematic direct observation was also used to determine power relations and condition or status of facilities. Some still photographs were taken to augment the case study database but they served only a subsidiary role to expound on or corroborate facts already established.

All the interviews were conducted in the English language. Respondents were fluent in the language by virtue of their education, the fact that English was the official national language in both countries and their close association with British funding NNGOs. Only in rare cases, especially in Kenya where respondents knew the researcher was fluent in Swahili, did they use some Swahili words to stress some points. Where this was done and such quotes used in the analysis or the thesis, the researcher provided a translation to English.

In all cases, data gathered were organisation-wide to help understand governance, policies and overall management of NGOs. It was unlikely that junior staff would articulate such policy and management matters adequately. Key interviewees / respondents amongst SNGOs were thus selected at governance (board members) and management levels (CEO or programme directors / managers or departmental heads for finance, programmes, funding or administration). The CEO was used as the entry point to SNGOs. The researcher wrote emails to each explaining the nature of the research, connections to the NNGOs and the assistance sought. The dates of planned travel were also communicated to the CEOs with a proposed calendar of interviews by email and followed up by telephone discussions. The CEOs were requested to indicate their willingness to participate and the appropriate timing. The researcher then negotiated with the CEOs of the NGOs the most appropriate dates and times for the interviews. Interviews with members of staff and other stakeholders were excluded from this arrangement, their meetings being organised during or after the main interviews after assessing each NGO's circumstances.

Through triangulation using intra-organisational multiple interviews (at board, management, junior staff and stakeholders' levels), review of documentation and direct observation, some of the information gathered was cross-checked and verified. Information received using one source e.g. documents analysis, was cross-checked against another source, e.g. interview, and only included if it was corroborated. This conformed to established practice to select plausible lines of inquiry to focus on as practised by social scientists who adopt this strategy (Yin, 1994).

By the end of the research, 57 people had been interviewed: 11 board members, 7 CEOs, 20 managers, 12 ordinary members of staff and 7 other respondents. Table 3.1 presents a summary of statistics of the interviews.

Table 3.1: Summary table of research interviews

	Dates	Place	Board	CEO	Managers	Staff	Others*	Total
NU1	3/3/06	UK			1	1		2
	25/5/06	Kenya			1			1
NU2	24/3/06	UK			2	2	1	5
NU3	17/3/06	UK			2	1		3
	26/5/06	Kenya			1			1
SK1	25 - 26/4/05	Kenya	1		1	1	1	4
	24/5/05	UK	1					1
SK2	4 - 5/5/05	Kenya	1	1	2		1	5
SK5	27 - 29/4/05	Kenya	2	1	2	2	2	9
SK6	2 - 3/5/05	Kenya	1	1	1		1	4
SI2	27/10/05	India	1	1	2	1		5
SI3	28/29/10/05	India	2	1	3	2	1	9
SI4	26/10/05	India	1	1	1	1		4
SI5	24/10/05	India	1	1	1	1		4
Total			11	7	20	12	7	57

\* They were mainly drawn from among external auditors, key consultants and stakeholders with strong views.



### 3.7 DATA ANALYSIS

#### 3.7.1 *Analysis of telephone survey data*

The aims of the survey were to identify NNGOs which actually worked with African and Asian SNGOs, to determine how they established relationships, forms of support extended and received, how they managed partnerships and how they measured and acted on performance.

Data collected through the telephone survey with the help of structured questionnaires (see Appendix C) were analysed through summary tables of statistics and percentages. Descriptive analysis was also done for qualitative data which could not be tabulated and main findings also presented. The outcomes of analyses were depicted by means of modes / frequencies of responses, percentages and summary tables (see Appendix D). Information gathered in this phase was used to refine and focus substantive field research in the later stages, to determine the forms of collaboration between NNGOs and SNGOs, to isolate a subset of NNGOs to be used in subsequent research and to understand how in theory NNGOs measured and acted on the performance of SNGOs.

For the three selected NNGOs, follow-up meetings were arranged to pursue further some of the responses captured in the initial survey, to enhance rapport and also to seek their nomination of partner SNGOs which could be used in the follow-up research.

#### 3.7.2 *Analysis of case studies data*

The research data presented in Chapter 4 was mainly collected from five sources, namely interviews, reports, official documents and direct observation combined with still pictures. Interviews generated the bulk of the data. Interviews were conducted with member(s) of boards of SNGOs for about one-and-a half hours in each case, with Chief Executive Officers (CEOs) for one to two hours, and with senior managers (usually programme and/or finance managers) for one to two hours. Verbatim interviews were digitally recorded and stored. By re-playing the tapes, phrases were extracted and converted into written form.

Reports, mainly annual progress reports and audited accounts, were collected for four years between 2001 and 2004 and were analysed for key messages, opinions, and in the case of audited accounts, trends and ratios. Financial trends and ratios did not yield much in highlighting cross-cutting trends. This was mainly due to huge differences in conventions, analyses, classification and ways of analysis and presentation which made them incomparable. Where possible some evaluation reports were also collected and studied.

Official documents were mainly obtained from respondents and from documentation centres of the organisations studied. Usually these would be a collection of publicly available information which in the North would be available through websites. Confidential documents which were positive, such as external evaluation reports, were actually made available to the public through libraries. Such documents and publications were studied and brief notes made.

In some cases, additional information was gathered through discussions with persons external to the SNGOs such as external auditors, collaborating organisations and national regulatory or coordinating authorities. In Kenya, for instance, interviews were held with officials of the government body which regulates NGOs as well as with the immediate past president, a known NGO critic. In India, interviews were held with officials of an organisation tasked with building the credibility of SNGOs through a national accreditation mechanism.

Some information was collected in the form of still pictures depicting the state of infrastructure, physical facilities, key interviewees, awards and notices to the public. The pictures reinforced opinions built from other sources of evidence and were filed alongside other research data.

The steps used in the analysis of data may appear close to those of the grounded theory (Glasser and Strauss, 1967) but they differ in some respects. Grounded theory allows collection of data and analysis to proceed simultaneously, adopts a bottom-up approach in the development of a theory and delays the use of literature survey. Except for a departure in these three respects, the rest of the steps adopted conformed, in principle, to those advocated by the theory.

The main field research data were analysed by examination, categorisation, tabulation and combination of evidence. This case study phase was designed to allow analysis of the data from the 11 NGOs and 16 relationships by two main methods of pattern matching and explanation building. Two other supplementary methods used in the analyses were repeated observations and cross-section analysis (see section 4.6).

Pattern matching logic (Yin, 1989) was used to compare and trace the themes running through more successful SNGOs and those common to the less successful SNGOs. They identified cross-cutting patterns which were used to explain performance of SNGOs. If empirical patterns coincided with the ratings given by the NNGOs in phase 2, internal validity was strengthened (see section 4.6).

Relating the findings of these case studies to theory was designed to apply at ‘analytical’ rather than ‘statistical’ level. Analytical relations use previously developed theory (as happened in the earlier phases of this research through the identification of 29 themes narrowed down to six constructs) as a template with which to compare the empirical results of the case studies. If two or more cases from the different cultures (India and Kenya) supported the same theory, a degree of cross-cutting could be claimed (see section 4.6). However, it should be emphasised that tests for replication remained outside the scope of this research, probably an area for subsequent investigation.

### 3.8 QUALITY ASSURANCE AND ETHICAL ISSUES

#### 3.8.1 *Quality assurance issues*

The quality of the research design adopted for this study was assessed using the four quality criteria articulated by Yin (1994), namely construct validity, internal validity, external validity and reliability. These quality aspects were addressed in the research in the following ways.

Construct validity to ensure correct operational measures for the concepts of study was assured by rigorous review of the methodology to adopt, use of multiple sources of evidence and the establishment of a chain of evidence (triangulating data collection). Careful selection of the methodology and use of multiple sources of data to cross-check each other helped to minimise chances of the research veering off course.

Internal validity to ensure that a relationship indeed existed between the themes identified and how NNGOs measured the performance of SNGOs was addressed by both the quality of cases selected and by the pattern matching strategy. By selecting eight relationships of less successful and eight of more successful performance, then studying patterns across them, highlighted the extreme contrasts between them. The elimination of weak and grey area evidence also helped to ensure that only distinctively separable lines of inquiry were pursued.

External validity was expected to be possible once a rigorous methodology was adopted and documented for future follow up research. The detailed documentation in Chapter 4 was a deliberate step to achieve this. However, for the reasons explored in 7.4, the findings were expected to apply only to a well established and defined domain. Extending the validity of this study beyond this context and domain can only be on the basis of follow-up research.

Reliability was addressed by documenting the instruments and procedures used to aid future replication studies.

On the whole, it should be appreciated that these quality assurances can be provided by finance-related research only to limited degrees (Berry and Otley, 1998). The reasons for this vary and include the lack of control and the dynamic nature of organisations and management action in response to the volatile environment in which organisations operate. These limitations make replication and generalisation more difficult to achieve.

### 3.8.2 *Ethical issues*

Ethical issues of this research were reviewed alongside the criteria articulated by Berry and Otley (1998) which require researchers in social sciences in general to determine whether the study is harmful to any person or group either directly or indirectly; whether it particularly benefits or disadvantages a category of people and whether it serves to empower or dis-empower some people.

In some ways this turned out to be a sensitive research programme. It set out to understand, explain and document an existing, systematic process but ended up finding some differences between the stated and the practised process. Attempts to put the findings into wider perspectives could be construed as attempts to change what existed. The study also stumbled on troubled partnerships. Consequently, some parties who divulged sensitive organisational and personal secrets could be hurt by the study, especially if their identity became known.

The study had to deal with two issues: how to work with sensitive information to enhance knowledge while protecting the identities of organisations and respondents. Regarding the former, when confronted with the dilemma of using sensitive data which could harm respondents but inform the research, the default position was to use the data but not in a sensational way and to safeguard the identity of the respondent. In this way, the research could achieve its objectives by retaining sufficient integrity while at the same time protecting the respondents. Regarding the later, the study took a position to accord all the organisations and respondents as much anonymity and confidentiality as was possible. Even for those cases where damaging information gathered by the research was already in the public domain, this study took the position to still extend anonymity and confidentiality on its part.

In the final analysis, the general findings from the field research were shared with the participating NGOs and the limits of anonymity and confidentiality explained. No evidence was gathered that anything particularly sensational had come up which could jeopardise partnerships. Had it occurred, alternative approaches would have been sought / discussed.

The resultant model is expected to benefit all the key parties (SNGOs, NNGOs, governments, researchers and practitioners) (see also 6.5) without directly apportioning blame for any shortcomings, which also limits effects of any consequences. As already articulated in 3.1, this research could bring about changes in practice or none at all. The model documented is a reflection of reality; NGOs could decide to use it openly or latently to maintain the status quo.

### 3.9 SUMMARY OF RESEARCH METHODOLOGY

This research was based on the premise that NNGOs as funders have innate systematic ways of understanding and assessing performance of SNGOs they fund. This value judgement on performance was assumed to shape the policies NNGOs develop to govern partnerships. The research thus set out to explore the truth 'out there' through a scientific examination of the 'mindsets' of NGOs in their natural contexts.

The selection of methodology used the criteria of understanding and evaluating the options available, eliminating those found not particularly suitable and justifying those selected. The approaches on philosophy, research strategy and data collection were determined this way.

Regarding the philosophical stance, in the middle of the continuum of Comte's rationalism that is fronted by positivism and Kant's empiricism, some researchers, such as Berry and Otley (1998), Hoque and Hopper (1979) and Laughlin (1995), identified the mid-range thinking which has proven more appropriate for finance-related research. It benefits by utilising a combination of the good aspects borrowed from rationalism and empiricism. It was found appropriate and adopted for this study. It requires medium prior theorising and a medium level of methodological choices. It believes in only skeletal generalisations with broad understanding of relationships, is open to eventual change, recognises the researcher, allows method refinement during the research and relies on qualitative data from descriptive case studies. It derives conclusions tied to the skeletal theory and empirical richness besides recognising that both the researcher and the researched give validity to the research. The actual steps followed conformed to those advocated by Bryman (1988) for social sciences in general.

Triangulation of methodology in different stages of the research (e.g. the use of embedded telephone survey in a predominantly case study approach and using several data collection approaches) was considered vital for a comprehensive, holistic and contextual portrayal of social phenomena. Hoque and Hopper (1997) and Mawdsley et al. (2005) particularly highlighted the importance of theory and methodology triangulation in studies, especially when elements of management accounting are involved.

The research was conducted across three continents in two years and involved five phases: a pilot study, a telephone survey in the UK, and case studies in Kenya, India and the UK. NNGOs which participated in the telephone survey were identified from a database of UK NGOs which work abroad with a focus on Kenya and India. Careful selection of NGOs led to the selection of eleven quality cases (three NNGOs and eight SNGOs). Between them, sixteen performance

contrasting relationships were pursued using pattern matching and explanation building strategies (Yin, 1994).

Data on UK NNGOs collected by telephone survey were analysed by descriptive summary statistics, tables and percentage. The outcomes of analyses were depicted by means of modes / frequencies of responses, percentages and summary tables.

The quality of the research was modelled along the principles advocated by Berry and Otley (1998) and relied to a great extent on the quality of the cases, data collection methods, quality of the research data and the way they were analysed. Construct validity was addressed through a carefully selected methodology and triangulation of methods and ways of data collection. Internal validity was addressed by the quality of the cases and pattern matching logic used to draw out extremes. External validity was expected to a much lesser extent and was addressed by detailed documentation of the process, while reliability depended on the researcher and the researched as well as the documentation of the process. It was, however, found that due to the dynamic nature of finance-related research some of the quality measures could not be applied as easily as in other fields.

Finally, the researcher dealt with some ethical concerns relating to the confidential nature of information and the sensitivity around the subject of the research. While not unnecessarily withholding sensitive information to enhance validity of a contribution to knowledge, sensationalism was avoided and anonymity and confidentiality extended to the cases and respondents. Consequently, some data were presented in more general and restrained ways.

This chapter has set and justified the research strategy and methodology. The next chapter introduces the cases involved in this research and presents the empirical data gathered in the five phases of the research and how it was analysed to derive meaningful constructs.

## CHAPTER 4

### FINDINGS FROM DATA

#### 4.0 INTRODUCTION

This chapter presents the data collected in the course of the study using the methodology explored in Chapter 3 and describes the process of data analysis used. It also gives some organisational and contextual information on the cases involved. The chapter is structured in sections reflective of the five phases, namely: pilot phase, telephone survey and case studies in Kenya, India and the UK. A summary is provided at the end of the chapter to interface it with the next chapter.

To accord the cases protection promised, their identities were disguised by using acronyms. The sequence adopted assigned prefix letters which broadly described the case followed by a unique case identification number. Accordingly, SKP1 refers to SNGO in Kenya in Pilot phase No. 1; SK2 refers to SNGO in Kenya No. 2; SI3 refers to SNGO in India No.3, whereas NU4 refers to NNGO in the UK No.4. It will be noted that cases SK2 and SK4 in Kenya and SI1 in India are missing from this chapter and the rest of the thesis. This implies that there were other organisations, not part of the eleven selected, whose contribution was not used as the research progressed. For instance, in Kenya and India it was necessary to hold interviews with the NGO Board and Credibility Alliance, respectively to understand the national regulatory environments.

All the SNGO cases were classified by their funder NNGOs according to their performance as either more successful or less successful. Those classified as more successful performers were SK2 and SK6 in Kenya and SI2 and SI5 in India. Those classified as less successful performers were SK1 and SK5 in Kenya and SI3 and SI4 in India. Without challenging these value judgements, the researcher sought to understand how NNGOs arrived at these characterisations, the traits attached to them and implications of the characterisations.

The direct quotations in this chapter are derived from research data and are preceded by numbers in brackets. They refer to location of the quotation mark in the documented excerpts of interviews and therefore provide a vital trail in the research evidence.



## 4.1 PHASE 1 - PILOT RESEARCH IN KENYA

### 4.1.1 Organisation SKP1

Organisation SKP1 was a local NGO registered in Kenya and operating in Western Kenya. It was started in 1995 with a grant from the Rockefeller Foundation. It has an annual budget of £107,500 (81% of it from overseas-based funders), a net assets base of £68,000 and a staff force of 17. Its main funding partners are Ford Foundation, Rockefeller Foundation, NU1, Cordaid, K-Rep, Gatsby Trust, NU2 and the World Bank.

Findings showed that funders usually assess performance of SKP1 and on that basis continued funding and recommended it to other NNGO funders. The policies in place, the board and the management were vetted and approved by the key funders who also continuously evaluated financial governance aspects using auditors, consultants, peers and their own staff members.

### 4.1.2 Organisation SKP2

Organisation SKP2 was in transition. It was initially registered as a programme within a church in 1993 with the objectives of promoting better smallholder agriculture, small business management and provision of micro-credit services. It focused on women most affected by lack of food and income. SKP2 had a turnover of £87,500 (67% from overseas -based funders), a net assets base of £107,500 and a staff force of 23. It directly benefited 8,000 members and benefited 50,000 indirectly.

The research found that SKP2's first set of policies were developed by a consultant paid for by an NNGO. Subsequent changes were reviewed by consultants who had the confidence of both the NGO and its funders. Changes were eventually presented to the board for approval.

The board was the overall policymaking body. It comprised nine elected members and the CEO served as its secretary. Board members were elected every three years through an Electoral College system. About 2,000 members elected from the grass roots level represented the various beneficiaries. A new, quasi-funder board had been convened. When the initial main funding contract ended a few years before, SKP2 approached other possible funders. Eventually one NNGO agreed to help SKP2 but on condition of substantial changes such as splitting the NGO into a commercial and a charitable unit, a new board of elected officials, a capacity development plan and that SKP2 would share plans, budgets and key decisions with the funder.

Interim findings from the pilot cases indicated that NNGOs had different ways of measuring SNGO performance, NNGOs paid a lot of attention to the board and financial governance and management. While NNGOs affected SNGOs' policies, the reverse did not hold true.

## 4.2 PHASE 2 – UK TELEPHONE SURVEY

The telephone survey was designed to identify the process and extent of NNGO/SNGO partnerships, ways of collaboration, how they related to each other and measured performance. It also identified NNGOs to be researched in more depth and their partner SNGOs to participate in the follow-up research. A structured questionnaire (see Appendix C) was used to capture a variety of generic data. A summary of the survey responses is provided in Appendix D. The survey attained a response rate of 80%, as 28 of the 35 NNGOs short-listed from BOND website (see Appendix A) responded to the survey. The responses from this survey helped to focus follow-up research and to corroborate empirical findings.

Results of the telephone survey showed that all NNGOs had formal standards / policies, procedures, conditions and controls which SNGOs had to adhere to in order to be funded and 68% of NNGOs formally evaluated the performance of SNGOs they funded, while 14% were non-committal (see questions 5 and 6 in Appendix D). The conditions imposed covered planning, monitoring and reporting (100%), evaluation (75%) and financial management (50%). The conditions were mainly developed by SNGO-appointed consultants (89%) and jointly by NNGOs and SNGOs (14%) without any NNGO admitting to leading the task. The survey showed that in 89% of the cases the LFA was used in planning and it was often (68%) selected by the SNGOs.

Changes in the funding conditions were often triggered by results of an evaluation (75%), laws governing NNGOs (54%), laws governing SNGOs (43%) and changes in the SNGO (39%).

The survey revealed that NNGOs listed various ways to identify SNGOs to work with and measured their performance over time. In general, NNGOs identified counterpart SNGOs using consultants in 32% of the cases, by selecting from numerous solicited and unsolicited applications in 18%, using their own field staff in 25%, from the registers maintained by authorities in 11% and through recommendations by other NNGOs in 7% of the cases. NNGOs also met SNGOs during general meetings and conferences in about 7% of the cases (see question 2 in Appendix D). Once identified, NNGOs formally evaluated the SNGOs, entered formal contract, started funding relationships and continuously monitored how well they delivered against the agreed objectives to assess their performance.

The survey results reaffirmed that NNGO/SNGO 'partnerships' were widespread. In such partnerships the downward flow was usually in the form of funds (100%), goods in kind (64%), capacity building and technical assistance (100%) and human resource (36%). The support was

targeted at different levels in the SNGO (projects 54%, programme 29% and institution 75%). In return reports (100%), knowledge and experience (89%), programme delivery (100%) and publicity (93%) flowed from SNGOs back to the NNGOs. It was also found that NNGOs engaged SNGOs at different stages. At times to prepare and submit joint funding bids (39%), at other times when the NNGOs had already mobilised the resources needed for a course (43%) and at times to do monitoring and evaluation (7%).

NNGOs measured performance of SNGOs using consultants (43%) and staff from both NNGO and SNGO (43%) and if an SNGO's performance was good, the NNGO could promote it to other funders (46%), extend its contract (43%), use it as a model for others (21%) or increase its funding (18%). On the other hand, if performance was judged poor, the NNGO could fail to renew the contract (68%), stopped the contract (50%), withheld funding (43%) or offered more help in capacity building and technical assistance (43%). The NNGOs believed performance measurement could be better achieved and improved by using beneficiary satisfaction indicators (82%), feedback from stakeholders (39%), a consultative process (39%), experts (29%) and diverse methods (25%).

When it came to financial governance, NNGOs used local external auditors (82%), external consultants (64%), NNGO or SNGO staff (11%) and other means (29%) to assess the SNGO. Financial governance was particularly considered influential on performance as weaknesses were considered symptomatic of a bigger problem (75%), could erode trust in the NGO (75%), triggered off other violations (68%), undermined achievement of objectives (61%) and even threatened funding of partner NNGOs (46%). The survey revealed that NNGOs got to know of financial governance problems with SNGOs they funded during evaluations (75%), during reviews (64%), at initiation of partnerships (29%) or due to other triggers (29%).

In general, the survey showed that NNGOs measured the performance of SNGOs they funded (see question 8.2 and 8.3 in Appendix D) by examining and making a judgment on how well the SNGO managed its resources (68% of respondents), extent of the SNGO's internal problems and how it managed them (64% of respondents) and how devotedly it stuck to its mission (54% of respondents). The main SNGO performance outputs (question 3.2 in Appendix D) were reports (100% of respondents), program delivery perception (100% of respondents), publicity (93% of respondents) and knowledge generated (89% of respondents). The over reliance on the Logframe (86% of the cases) (question 6.2 in Appendix D) and beneficiary satisfaction (82% of respondents) (question 12) is consistent with findings at the interview stage. They indicated that they measured performance right from the fit in mission through planning and delivery to outputs.

The survey also identified a broad spectrum of eligible NNGOs and their counterpart SNGOs which participated in the follow-up research. Five NNGOs were then selected and further narrowed down to three, during the second round of discussions, which were eventually studied. The three NNGOs identified a total of fifteen counterpart SNGOs to participate in the research but made it clear that the final decision on whether to participate or not lay with the SNGOs. The number of SNGOs was eventually reduced to eight after the initial round of telephone and email communication. Four of the SNGOs declined on account of time constraints and the other three did not respond to the requests.

### 4.3 PHASES 3 – RESEARCH ON SNGOs IN KENYA

The study on SNGOs in Kenya explored a number of issues starting from how they developed partnerships with funder NNGOs, how the partnerships operated, how the NNGOs measured their performance, the state of their financial governance and management, their perceptions on what made some SNGOs excel and others fail, amongst others. The aim was to determine what happened in practice and to relate it to what the NNGOs had indicated in the survey, as well as to determine why the NNGOs rated specific SNGOs the way they did. Four SNGOs (two more successful and two less successful) were researched in Kenya.

#### 4.3.1 Organisation SK2

##### 4.3.1.1 Background information

The mission of SK2 was to provide and promote leadership, solidarity and collaboration among its members for collective action towards effective HIV/Aids responses. Its vision was to see an HIV/AIDS -free Kenya.

It was a national NGO registered in 1990 and its membership included other NGOs, CBOs and faith-based organisations dealing with HIV/Aids and STI in Kenya. It helped to enhance the capacity of its members, did advocacy and campaigns to influence the policy framework, enhanced access to information and helped members to mobilise resources. It was both an umbrella organisation and an implementing NGO. Its funders included UN agencies, the World Bank, USAID, DfID, GTZ, NU3, NCA, Care International, NU2 and Pathfinder International. It had an annual budget of about UK£350,000 and an assets base of about UK£50,000.

SK2's board comprised eight members, mostly prominent members of society working as HIV/Aids consultants. Two members were co-opted to represent the youth and PLWHAs.

##### 4.3.1.2 Findings from data

The CEO believed SK2 was a case of good partnership between NNGOs and SNGOs due to the mutual respect between them, as he explained (51):

*“Partnership occurs in two levels i.e. we have things to do for them such as listen to them and ensure our agenda incorporates them, report back to them and achieve what we agreed. We have to work with them to achieve what we plan to [do]. Some partners give us resources...we are moving from that level.”*

This concept of partnership had worked well for the NGO. For instance, SK2 got the USAID's chief of policy to help derive a strategy for SK2 that was accepted by funders. SK2 was also granted an accountant who helped set up SK2's financial management system. This closer working made communication easier and the relationships flourished. The CEO to SK2 (56) commented that amongst the lessons SK2 had learnt was that:

*"In a partnership we have come to value that we must remain credible, transparent and accountable and this includes ability to deliver, on quality and in time. But we have to avoid wasting too much time on chasing money and disrupting staff contracts (if you lose staff it is very hard to build a team all over again)."*

The board and CEO were clear on the need to focus and be loyal to SK2's well thought-out and documented mission statement. Pressed to explain how the mission defined their work and how this was achieved, the CEO (51) noted that:

*"Some partners come in with very little finances but we agree to help CBOs; at times disagreements come up. Some ask us to do some things at given resources. Some come in with an agenda and want you to fit in it and we sometimes come up and say we can not do this. You can not manage an organisation based on a funder's directions."*

Such belief in a mission made SK2 shift its focus from chasing money as many NGOs did in Kenya. It no longer mattered to SK2 how much money was available; so long as a project did not fall within its objectives, SK2 did not pursue its funding. Temptations occurred but the board and management were resolute about "...People who want to fly in for one day, they are all over and want you to do ABC. We find that totally unacceptable."

For a long time, SK2 used LFA to plan but had recently stopped. Whereas American NNGOs insisted on proposals being made using the LFA, many European NNGOs preferred different frameworks; usually RBM. SK2 found LFA quite a difficult process but whenever it raised concerns funders provided external consultancy support. SK2 eventually yielded (CEO to SK2):

*"...We have been using the LFA for long and we are now abandoning it for Results Based Management. This is in line with global change as reflected by many of our funders such as UNDP, HIVOS etc. Some INGOs guide how to make the proposal and the framework to use; some even wait and approve your project then give you a framework for reporting. This forces you to think again."*

However, SK2 was conscious that the RBM framework was deficient in some respects (78):

*"RBM does seem to over-stress effectiveness and ignores efficiency and economy. As for SK2, it's tricky to state but I think we achieve on all fronts although we leave the economy aspect to the finance department. SK2 on the whole has enough controls to*

*ensure these. Funders also at times look at such organisational aspects but in most cases reports are accepted as presented."*

SK2 had been evaluated on several occasions in the past; a move that both management and the board appreciated. The evaluation was done by staff of funding partners or by consultants appointed by funders. Usually the reasons for external evaluation were to facilitate decisions to fund new projects, continue funding existing projects, increase funding or for assurance when projects were ongoing or when they came to an end. The various reports made available showed good evaluation results for the NGO subject to some highlighted administrative weaknesses.

The World Bank funded Europe-based Global Fund had become the key funder of HIV Aids projects all over the developing countries. SK2 invited Global Fund to evaluate it so as to pave way for a funding relationship. The results were positive and Global Fund ranked SK2 amongst the top 15 best organisation (38) on HIV/Aids matters in the East Africa<sup>32</sup> region.

To demonstrate its honesty in delivering quality projects, SK2 extended a 'no delivery no payment' guarantee to some of its funding partners and some took it up, especially at the initial stages of establishing relationships:

*"[For] Quite a number of funders we now agree that I shall do this work and if I do not deliver then do not pay me. This sends the message that money is not the most important thing. We do not work [due to money] but to objectives. If we state we shall deliver a report tomorrow we shall do whatever it takes to deliver it tomorrow."*

The management agreed that such arrangements constituted contracting for services rather than partnership. However, they felt many organisations were going that route and it was fine so long as the organisations shared mission/vision/objectives.

SK2 consistently held its AGM and conducted peaceful elections where members elected board members. It appeared that HIV / Aids was such a technical area that persons with the required technical skills had an advantage in being elected to the board. All the board members except the youth and PLWHAs representatives were renowned HIV/Aids consultants. It was common for board members to be re-elected until they completed the maximum possible terms. The board convened quarterly and had constituted smaller subcommittees which worked more closely with management.

A dedicated team of staff were in charge of the M&E process. They made regular field trips to monitor projects and prepared reports for management, board and some funders. This was done

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<sup>32</sup> The area comprising Kenya, Uganda and Tanzania as opposed to the East Africa Community which also includes Rwanda and Burundi.



through talking to beneficiaries, doing financial assessments and sharing the resultant reports with partners. Funders occasionally sent their own representatives to conduct M&E.

On probing, the programme manager explained the approach to measuring success of their projects:

*“Performance of projects is measured by: does target community conceptualise the project, are beneficiary members happy with what it achieves, and is management good enough? Political interests come in as well and there will always be critical persons.”*

More gaps also emerged when finer details were probed, e.g. how the members of staff determined that management was good enough and that the community was involved in conceptualising projects. The management was quick to agree that there was more laxity in measuring its own organisational performance. The methods used tended to measure outputs rather than results or impact (45):

*“M&E has been very weak on results and impact...we have been dwelling more on outputs such as how many workshops were held and how many people attended.”*

Although this was inadequate, it was quite widespread and many other organisations used it without even realising how deficient it was. The CEO found solace in the belief that knowledge of a problem was one step closer to finding a solution.

#### 4.3.2 Organisation SK6

##### 4.3.2.1 Background information

The mission of SK6 was to provide education and rehabilitation services and training for economically and socially disadvantaged children and youth to reduce urban and rural poverty. A new strategic plan had been finalised which changed the strategy of SK6 from service delivery to becoming an umbrella organisation focused on campaigns and policy advocacy.

SK6 was started by a group of European missionaries to address problem of street children and the cycle of poverty. In 1993, SK6 undertook a major restructuring exercise to escape from ‘founder member syndrome’ which was crippling the NGO. SK6 was revitalised in the process and soon it started winning awards for effective partnerships and fundraising.

In 1993, the current CEO took over from the founder member. He doubled the annual budget in a year and was awarded in Kenya, in the UK and in Tanzania between 2001 and 2004 for excellence in fundraising. SK6 was hailed by its funding partners and respondents as well as other local NGOs in Kenya as an example of a successful model local NGO.

SK6 had an annual budget of UK£1.5m having risen steadily from UK£250,000 in 1993 to UK£750,000 in 2002. It had a staff force of 82.

The board is headed by a career diplomat and comprised eminent professionals in the country.

#### 4.3.2.2 Findings from data

A SWOT analysis of SK6 and an elaboration on how the board and management engaged and reported to funders made it clear that SK6 identified, admitted and proactively sought collective solutions to problems. SWOT Analysis was conducted every 3-5 years as part of strategic and operational planning. SK6 had finalised a strategic plan to address its identified weaknesses, capitalise more on its strengths and change its mission slightly to ensure it fully exploited the opportunities while side-stepping some of the threats.

SK6 conducted biannual reviews of its work and invited funders to a validation workshop. Annual progress and audit reports were also sent to all key stakeholders (including funders) and every two years representatives of management and the board visited key funders and held a round table meeting with all of its funders. These forums gave funders considerable chances to raise issues and to engage SK6 in vital debates.

Funders reciprocated this good will gesture by making available the required funding, often for long periods, often at short notice, and with minimal conditions. To retain its edge, the management of SK6 embraced a continuous internal reflection and renewal programme. Members of staff were encouraged and often sponsored to undertake further education and training so as to update their skills (CEO to SK6):

*“...Staff must undertake training and retraining to be creative and help transform SK6. We give them both professional and academic renewal; tomorrow we are talking a new language of advocacy and campaigns and they need to understand it. I challenged them that our education achievement in 2001/02 was a very minute drop in the ocean. We doubled in a year our contribution. Now with free education we should move our rehabilitated children into government schools. That is networking for performance. It is our own critical reflection.”*

The long serving donors were equally visionary about giving management challenging goals. A conditional endowment fund was established in Germany for the benefit of SK6. It provided a clear additional motivation for management to ensure proper administration and financial management (218):

*“Commune Development International helps the CEO and finance plus some administrative functions – it is more of an endowment fund but with agreed conditions. For SK6 to benefit from it in any year the CEO must raise minimum 80% of programme funding and the chief accountant must ensure there is no fraud or financial malpractice at all before you get any funding in that year. Money is only transferred after audit reports are received, discussed and these two conditions are confirmed.”*

Therefore, by managing the organisation well the management attracted additional unrestricted funding. This amount could be substantial and would reach UK£70,000 per year.

Although SK6’s monitoring and evaluation system was still traditional, it satisfied funders. SK6 only engaged in real projects planned using the LFA, hence with clear objectives, activities, benchmarks and objectively verifiable indicators. Donors were willing to fund every project.

The chairperson to the board, a retired career diplomat who had also served in the military forces before venturing into diplomacy at ambassadorial level, used his diplomacy skills to a good effect (CEO to SK6):

*“My chair to the board is a diplomat...and at one point he would tone me down to ensure we engage funders but in a diplomatic way to avoid squabbles and confrontation. I had told one funder off who was micromanaging us. I asked him to apply for CEO’s job to manage if he was unhappy playing a funder/partner role. I told him to stop links. By the time he reached his office ... my fax was there stopping the relationship. His headquarters came in and I stated my facts...they came here for reconciliation and gave me Kshs 4m [£30,000]! Principles are vital and stick to them.”*

Other respondents acknowledged that the knowledge and experience of the CEO and the chairperson of the board had combined to help SK6 engage in more creative and effective approaches to fundraising, networking and exploring alternative avenues for development. The fact that the organisation had more than doubled its income in a period of five years and had a solid base of funders attested to this. The arrangement with Commune Development International by which funding was released based on good management was also considered a case of creativity in management and fundraising. SK6 also developed various leagues of “Friends Circles of SK6” in Kenya, Germany and the Netherlands who independently fundraised for SK6. SK6 had also developed its own ways of earning income through investments in fixed assets and other money market opportunities.

### 4.3.3 Organisation SK1

#### 4.3.3.1 Background information

SK1-UK and SK1-Kenya<sup>33</sup> shared the same vision and mission. They were formed to fund and implement water, education and health projects in Southern Kenya. Their vision was to uplift the living standards of a nomadic community in Kenya. Nomads are mainly migrant herders and live in the arid and semi-arid parts of Kenya.

The NGO served its mission through the relief of hardships, sickness and distress by advancement of education, provision of health facilities and provision of water, the relief of hunger and distress in times of famine and disaster by providing emergency supplies, and the provision of facilities to advance the Christian religion.

SK1-UK was formed in 2001 and registered as a charity in the UK. It started implementing its projects in Kenya through a local church organisation. This arrangement did not work well as the local organisation allegedly embezzled funds. For some time, SK1 worked through another existing SNGO. Although this arrangement worked well, SK1-UK desired an organisation which shared its mission and vision in total. It opted to start and register its own counterpart SNGO. SK1 had an annual budget of UK£ 75,000 and a staff force of ten.

#### 4.3.3.2 Findings from data

Attempts by SK1-UK to register a trust and later an NGO in Kenya did not materialise as the local law required local trustees and directors, respectively, to be in control. SK1-UK eventually opted to register as an NGO and selected local leaders whom it enlisted as directors and a European expatriate as the CEO. After registration of SK1-K, the two organisations sought to sign a Memorandum of Understanding (MoU) but they did not agree on their respective responsibilities. It was drafted by SK1-UK and sent to SK1-K to sign but instead SK1-K sought legal aid, redrafted and sent back a counter MoU. SK1-UK had the patronage of two eminent religious leaders while two trustees also managed the charity. The board of SK1 comprised six members: three local leaders and the CEO selected by the trustees of SK1-UK and the two trustees of SK1-UK.

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<sup>33</sup> SK1-Kenya and SK1-UK were two separate organisations. The former was an NGO registered in Kenya and the latter was a charity in the UK. However, they were treated as a single NGO in this research as SK1-UK could not qualify and was not amongst the NNGOs selected but it played a pivotal role in the registration, governance and funding of SK1-Kenya. Representatives of both organisations were interviewed.

Operations commenced before the MoU was agreed. Funds were channelled from SK1-UK to SK1-K to fund operations that were not agreed on. The local directors who felt isolated by the CEO signed blank cheques but they declined to sign after some time. A substantial amount remained tied in the bank account as a result. SK1-UK resorted to channelling funds through the CEO's personal bank account. Accusations and disagreements undermined operations to an extent where arbitration was sought through SK5. Court action seemed imminent if the arbitration process, ongoing by the time of research, failed. Respondents highlighted SK1 as a case of failed partnership and other potential NNGO funders which SK1 had approached such as NU2 and NU3 declined to fund it.

The trustees of SKI-UK did not trust their selected local directors and rarely communicated with them. In fact, the chairperson to the board of SK1-K wrote to the government authorities to have the activities of the NGO explained to him (1):

*"I wrote to District Commissioner (DC) to follow procedure as the DC is the chairperson to the District Development Committee and needs to know all NGOs. I wanted to be told by the DC the activities of SK1-UK and SKI-K since as the chairperson I did not even know."*

In this way, the chairperson hoped to highlight the problems within the organisation, the perceived quality problems with its work and the failure by SK1-K to engage the community.

The chairperson to the board recalled a meeting which discussed what SK1 would do in ten years but there were no formal documents (strategic plan, business plan or operational plan and budgets). Nevertheless, the respondents believed the NGO worked on developing the district. Perhaps this state of affairs reflected the vision of the UK-based founder trustees. They visited the area several years before to learn the culture of the inhabitants; a culturally rich community of nomads. They spent some nights in the best lodge available in the leading town, yet the lodge lacked electricity, running water and it was infested with rats. They decided to do something for the community. With such a vision they registered SKI-UK as a charity in the UK, recruited local directors and a CEO and registered SK1-K. They then started to mobilise funds in the UK.

Since the NGO started operations in 2001, no independent evaluators were contracted or allowed to assess the progress made by the NGO. Internal dissent simmered over the quality of projects and the level of involvement of the beneficiaries in needs assessment exercises. As the chairperson of the board noted, SK1 had good projects. However, some did not meet the government's specifications, for instance on the minimum size of classes and the depth of boreholes. In fact, the board questioned the technical competence of the expatriate CEO (16):

*“... Nobody knows anything about XX. He came to Kenya a long time ago. He is an engineer but [he] is not amongst engineers registered in Kenya.”*

SK1 did not designate a section or staff to deal with monitoring and evaluation (M&E) aspects of its programmes as was common amongst other similar organisations. To the management of SK1, this did not overly concern them since they were serving a community which had virtually nothing so anything should have been appreciated. When this question, alongside that of community involvement, was put to a trustee of SK1-UK, the response confirmed this view. According to him (20):

*“Only people who give the money need to be happy, not one single person more. Beneficiaries have no right and do not even need to know who provided the money and at what cost their needs have been met. Once their needs are met, theirs is simply to say thank you very much.”*

The disagreements had escalated to a level where the chairperson alleged that his security had been threatened and he had made a formal report to the Kenya Police (10):

*“I was warned via my sister in law ‘This man we shall finish him if he does not return our money’. Now I have reported to police. Here is a problem, the position of chair is not recognised and communication leaves him out.”*

Whereas the UK- based directors believed the chairperson of the board was corrupt (see also 5.3) and incompetent and he should not be involved in the affairs of SK1 or any other NGO for that matter, they did not know how to seek his removal from the role of chairman.

#### 4.3.4 Organisation SK5

##### 4.3.4.1 Background information

The mission of SK5 was given as (CEO to SK5):

*“To provide overall leadership to the NGO sector by championing the values of probity, transparency, accountability, justice and good governance, enhancing the self-regulation of its members, and by assisting NGOs to realise their potential in providing services that improve the socio-economic status of the Kenyan society in a sustainable, just and equitable manner.”*

SK5 was registered as an NGO and mandated to develop and adopt a code of conduct and such other regulations as could facilitate self-regulation of NGOs on matters of activities, funding programmes, training, development of national manpower and institutional capacity building. SK5 also helped to build capacity of NGOs and to secure work permits and open bank accounts for its members. It arbitrated amongst NGOs and could recommend deregistration of an NGO to the government department which registered and de-registered NGOs. All NGOs registered in Kenya automatically became members of SK5.

Although created by a parliamentary Act, SK5 did not receive any funding from the government but instead it derived its income from members' subscription fees, from income generating activities and from funding partners. It also implemented projects just like any other NGO.

SK5 had about 3,300 members but only a few of them honoured their annual subscription fee obligations. SK5 had an annual budget of UK£175,000, an assets base of UK£85,000 and a staff force of fifteen. The capital reserve was depleted by consecutive annual deficits since 2003 and stood at UK£ -30,000 during the research.

##### 4.3.4.2 Findings from data

SK5 had a chequered history. By the time of the research, most funding partners had either pulled out or suspended funding. Some members of the board had resigned and there were open disagreements between SK5 and NU3.

The law required SK5 to have 15 elected board members with the CEO as an ex-officio member. If a vacancy arose on the board, members could be nominated pending the next elections which took place every four years.

Many board members backed a leading opposition party which won the 2002 national elections and formed the government. A number of them were subsequently offered government appointments. According to a board member, the new chairperson did not work well with the

rest of the board, staff and funding partners. As board members resigned, the chairperson continued to nominate replacements. By the time of the research, the board had only three elected members and 12 were co-opted. On 9/11/04 four board members resigned together at a public press conference, giving poor leadership as the cause. They were alleged to be aligned to NU3.

There were also partnership problems related to financial management. The financial accounts of SK5 used to attract qualified audit opinion until financial consultants were brought in. They then started attracting unqualified audit opinion but with a proviso (auditor's reports):

*“Without qualifying our opinion, we draw attention to note 1 to these financial statements, which explains the justification for the use of the cash basis in accounting for subscription income and note 19 on the going concern of SK5.”*

This was an indication that SK5 was basically 'living hand to mouth' and had a doubtful future. It was not surprising that respondents highlighted SK5 as a case of how the willingness of NNGOs to work in partnership can be frustrated as well as how partnership can either build or destroy local SNGOs. Both NU2 and NU3 felt they could have impact on the whole NGO sector in Kenya through SK5. Some members of SK5 board identified NU2 as 'a building partner' and NU3 as a 'destroying partner'.

SK5 has had many funders with some supporting SK5 for long periods and with substantial investment in its programme and organisational management. A funder took the lead to organise a package to rescue SK5 after some problems in the past threatened its survival. NU3 and NU2 joined in to fund three key positions of CEO, programme manager and finance manager. Therein lay the genesis of problems which SK5 would deal with for a long time (a director of SK5) (160):

*“As a new team we had now some confidence and ABC continued funding us...in fact me, XX and XY came in as ABC nine months' rescue package. However we had no money so NU3 and NU2 agreed to fund us to some extent. At some point XX and XZ fell out and XZ asked the board to sack XX. The board did not sack her but XZ declined to be a board member at the next AGM so long as XX was [the CEO]. We also realised NU3 was really working with the regional networks (of SK5) and we suspected it wanted to work with them directly; it even gave some money to start off so [NU3] pushed us to sign MoU with them. We called network leaders and we discussed MoUs at YMCA but we proposed that since they (networks) lacked legal status and were only our networks we had to agree on code of conduct and penalties for misbehaviour. They were reluctant and the CEO withdrew SK5.”*

Communication between SK5 and its funders was rather restricted, formal and mainly through the CEO who admitted that communication with funders was difficult. The relationships in general had gone through troubled times (CEO to SK5) (113):



*"We are trying now to strengthen our partnership with them (partners). Some of them, I'm told, had problems. Donors want to help where there is good governance, when there are problems with governance then donors do not like it because there are many wrangles. I can now happily report that we are improving and even my position used to be vacant, with somebody in an acting capacity. Now it is better."*

A long serving director of SK5 apportioned blame between the board, management and funding organisations (director of SK5):

*"Care Kenya had a white man who campaigned ... and he got more votes than any black board members. [He] really added value to the NGO board by using his experience. Organisations can add value and that is the role they should play. Others can be a bottleneck and that is what I think NU3 was. After agreeing to give money they came in to dictate how management should behave...even stationed an accountant here. In fact NU3 used money to campaign to take over the board. They paid travel and hotel costs and heavy allowances to bring in delegates to vote for NU3 directors on SK5's board."*

Unlike in some organisations where respondents knew their organisation's mission, the CEO of SK5 seemed at a loss to articulate his (108):

*"The mission of the SK5 is...uumh...to be sure so that [mutters his own name] is not just saying his own things I will give you this document to read all about it. It has everything about our mission and what we do [hands over leaflet on mission/vision/values then takes a short break and upon return]...you will note there that we have mission, vision and mandate.....Mandate [is] very important to ensure operations[are] within legal framework."*

When the same question was put to the treasurer, he referred the researcher back to the SK5 Magazine but hastened to add (128), "[The magazine] says what we ought to be doing, how far we go to do those things I don't know" before going more philosophical on the mission and vision of the SK5 (138):

*"At independence the government promised eradication of poverty, disease and ignorance; session paper 10 of 1965. Me and you had nothing to do. People felt they needed to do something themselves and could not as part of government since they were not. They formed non-governmental organisations. Those who formed such with a purpose such as SK6 succeeded. Founders had to retire and some had made money. People flocked in simply because there was money in forming one...they had seen a vehicle marked NGO and preferably a four wheel drive and this vehicle is in Nairobi."*

A manager of SK5 agreed that the SNGO's mission was widely encompassing so as to attract diverse funding. His hypothetical stance on NGOs was that (196):

*"Many third world NGOs do not have any good vision or motive; NGOs are formed on the basis of what we can get funding for. Kenya Pastoralists Forum, for instance, had a very good vision to bring pastoralists together and help them achieve survival and development. One would expect an NGO serves its purpose and once done you can fold but many can never realise their vision hence live into perpetuity. Today somebody registers NGO and tomorrow he is doing something else...they smell where the money is...and I always tell them off."*

Poignant silence pushed him into an enlightening soliloquy on the state of performance measurement within SK5 and what some funders were doing (179):

*“How do donors or ourselves measure performance of SK5? This is one area SK5 has really failed and even the CEO must admit this. Performance has never been formally measured. Last year, ODA project assessed if funders and members expectations were met but a thorough evaluation audit of SK5 is now only planned by a major funder. It will look at both financial and programmes for a period of three years...He was sent to look at leadership, management, capacity to implement programmes, the management attitude to initiate good relations with other donors, etc. They will review the SK5 in entirety.”*

Funders had offered considerable support to SK5 in the past, for instance in developing the prevailing financial policies and procedures SK5 was using (184):

*“Finance manual was due to funder pressure and was actually financed by NU3 after many [funders] accused SK5 of poor financial reporting to funders, poor controls, etc. The job was subcontracted to [a consultant] in 1989 and he made the manual. We have quite a number of problems with it and my initiative to update/revise it has not worked. Last year a financial officer from [another funder] agreed that some of their funds should be used to revise the finance manual, so revision will be soon.”*

The ready acceptance of a funder-fronted development of the finance manual could be traced back to the imminent risk of losing funding. The contracts reached with many funders required robust financial management to ensure accurate and timely financial reports were submitted and this was not working well; a failure which often attracted some punishment until SK5 agreed to address the matter (194):

*“Donor reporting was regular as many donors gave advance and we had to report and invoice to get funds, some reports were needed biannually, some yearly and NU2 and NU3 only needed reports at the end of the project period. Many did not reserve the right to come and inspect books. NU3 did not have the clause but at one time they just sent in their auditor when they felt things were not right. However they did not find anything wrong.”*

A number of respondents believed the governance mechanism of SK5 was greatly compromised (a manager with SK5) (152):

*“At the moment it’s a legality issue. Lawyers talk of the letter and spirit of the law. According to the letter it is o.k. but the spirit is violated as it goes against the wish to have members elect their leader. When members have to be appointed then it becomes tricky, i.e. how were they nominated or selected. Any person serving an NGO who is a fully paid up member qualifies to be nominated.”*

The results showed in the skills available on the board, as a manager remarked (155):

*“On the profile of the board members, professionalism has not been a major factor considered. You can get there a lawyer, an accountant, etc., but more by coincidence. I know there is one lady who I know is very conversant with management and the board has over- used her. She is put as the chair of most task forces. I do not think that we have the required skills on the board.”*

Evidence was obtained showing that M&E was not regular or participatory and any allegations about results could not be objectively verified. SK5 had several ongoing projects which did not have funding and restricted fund balances not backed by bank balances. With more funder interest in regular and timely reports and tying release of funds to them, SK5 enlisted the support of funders to develop a financial management system although controls remained poor (finance consultant of SK5) (186):

*“We introduced [an accounting system] and we can now produce reports more regularly e.g. per donor, per programme, etc. showing budgets, spent, balances, variances...the accounting package has helped to produce information at the strike of a button. The system now works well but the controls within the system are not reliable...they need to be reinforced. I used to pressurise the accountant that I had to review things before being posted but they would do it when I was away shortly. When I eventually got my annual figures I could not understand them well. We should ensure information that goes in is accurate, correct and reliable.”*

#### 4.4 PHASE 4 – RESEARCH ON SNGOs IN INDIA

The study on SNGOs in India, as in Kenya, explored a number of issues starting from how they developed partnerships with funder NNGOs, how the partnerships operated, how the NNGOs measured their performance, the state of their financial governance and management, their perceptions on what made some SNGOs to excel and others to fail, amongst others. The aim was to determine what happened in practice and to relate it to what the NNGOs had indicated, as well as to determine why the NNGOs rated specific SNGOs the way they did and how they used the performance rating they determined.

##### 4.4.1 Organisation SI2

###### 4.4.1.1 Background information

The mission of SI2 was to help the disadvantaged children of immigrant workers in India by consolidating assistance of the state, employers, employees and other stakeholders to ensure adequate facilities were made available to such children while their parents worked. Education was considered an important intervention to help them escape abject poverty and entrapment in the lower social classes.

SI2 was registered as an NGO in 1969 under the Societies Registration Act XX1 1860 in both Punjab (also under Punjab Act 1957) and New Delhi. To facilitate tax benefits, SI2 also registered under s.12A of the Income Tax Act 1961 and the FCRA 1976 to allow receipt of overseas funding. Its MOA specified its objectives as to run mobile crèches for children of nomadic construction workers, to develop integrated day care programmes for children from economically deprived areas of society, to provide need-based training and to undertake related community-focused activities. Its genesis was need-based (CEO to SI2) (40):

*“SI2 is today 35 years old; the children of construction workers were out like rubble, in the dark and in the heat. Our founder had a vision and a dream for the poor people. She decided to do something for the children. When she did that she realised the older children were also coming to the sites as older children usually looked after the young ones and when you take away the young ones the older children have nothing to do.”*

SI2 had a large number of partners including local and international NGOs, contractors, government and diplomatic bodies. They gave SI2 material and technical support (e.g. technical expertise on IT, architecture, legal expertise and management of cyber cafes).

About 53% of SI2's annual budget of UK£350,000 came from foreign agencies. Of the balance, 18% came from contractors and 9% from general donations. In total, 74% of resources were spent on field programmes (education, nutrition, health and communication, including salaries of programme staff), 16% on training / advocacy / lobbying, 2% on fundraising and 8% on administration. SI2 had 14 employees.

The governance of SI2 was entrusted to the national General Body and the Governing Council. The AGM, contrary to expectations, was held every three years and members of the General Body could then be elected to join the Governing Council.

#### 4.4.1.2 Findings from data

The relationship between SI2 and some partners stretched back many years. SI2's approach was to always strike a compromise rather than fuel a confrontation. In fact, since SI2 fought for the rights of the children of migrant construction workers and had successfully lobbied for changes in government laws, one would expect it to be at constant loggerheads with construction companies. On the contrary, construction companies were amongst the strongest partners SI2 had and they provided funds, computers and motor vehicles. SI2 had never taken any contractor to court but instead worked with them to put plans in place to ensure compliance with the laws. Respondents believed that the strategy was more effective than a confrontational approach.

SI2 was conscious that to survive there were some issues (73) on which it could not compromise. The founder member stressed some of these principles as fundamental for the prosperity of the NGO. It only focussed on the migrant child, its development and education.

The Governing Body was not only a subset of the General Council but the cream of it, as it selected the most experienced, reputable, dedicated and experienced members to give closer policy guidelines to the organisation. Membership of the Governing Body was not by election but by invitation. The onus of identifying eligible members lay with the management who recommended them to the rest of the Governing Body. It also appeared that once invited to the Governing Body one remained there almost indefinitely unless management became unhappy with one's performance (48):

*"Our members are people who are not public figures...with long association of working with children and other people, some experts, e.g. in nutrition, chartered accountants, etc., and they are all there by invitation. Once invited, they are there for life unless they are sleeping all the time in which case we write to them politely."*

This situation introduced yet another scenario where directors were not only appointed on the recommendation of the management but were also performance managed by the management.

In the past, board members used to manage SI2 as well and drew payments as consultants. This had changed and board members were only drawing sitting allowances, and fees when they offered consultancy services (CEO to SI2) (48):

*“Initially senior management was done by the board members themselves. For about 10 years since I came in, there has been a big shift between (the roles of) management and governing bodies. The board is there for policy, guidance, consultancy on key areas like legal / financial / communications, etc., and to ensure SI2 works well. The board meets once in two months. Executive Director and management meet much more often and oversee the day to day management.”*

Finally, SI2 believed it established and maintained relationship with funders through regular communication, agreement on reports and regularity and by keeping to the agreement.

In response to why funders were willing to work with SI2 in particular, a director was candid (59):

*“Why are partners happy to work with us? We are old, very well established, an organisation known for quality. Recognised in early childhood care...there is hardly any other organisation working with children and young people. We have a reputation for ourselves, we have been able to also provide evidence we are an organisation with high sense of values, moral values, credibility in the way we use finances and for the high quality of work.”*

However, the CEO felt funders, in their effort to make their work easier, forced standardised proposal writing (74) and used them to evaluate NGOs and to decide on funding. Some SNGOs, like SI2 she argued, were not excellent at writing proposals but could implement projects efficiently using motivated staff they had retained and trained for long periods.

#### 4.4.2 Organisation SI3

##### 4.4.2.1 Background information

The mission of SI3 was to mobilise resources to offer integrated development services to the most disadvantaged people in North India, in accordance with the Christian faith of the founder members and the sponsoring Christian denomination.

SI3 was established in 1978 under the Societies Registration Act XII of 1860. It was also registered under FCRA and under the Income Tax Act Sections 12(A) and 80(G). By the time of the research, SI3 provided community-based health services through its Primary Health Care (PHC) programme covering 151,000 people in 118 villages and district-wide eye care services. It also ran a district hospital for 1.5 million people. It had an annual budget of UK£375,000, mostly from service charges. The proportion contributed by overseas funders was declining.

SI3 had a complex governance structure. There was a board, commonly referred to as society, consisting of 20 board members elected “on the basis of merit and technical requirements”. The setup was celebrated as bottom- up with its grass-root support base buttressed in Village Level Committees organised by SI3 staff. No activity or intervention was established without the full participation of the democratically elected committees.

##### 4.4.2.2 Findings from data

SI3 started small before becoming an integrated development programme. With a large number of diverse projects, the director was at pains to explain its current mission:

*“Our vision...we have very clear mission and vision...when we started we said we shall focus on the poorest of the poor. We had the option to go to big villages and we were invited but the government said anybody could do that...go to poor villages and do something there, they said. We asked ourselves what if we fail and we said even if we fail we shall have learnt something.”*

SI3 claimed to have a democratic governance system which gave power to the beneficiaries. However, the CEO admitted that in fact control, by virtue of SI3 being a church-sponsored NGO, lay with the Bishop of the sponsoring church. He appointed the CEO and directors from those proposed by staff and management and endorsed by the beneficiaries. Neither was the role of the board so clear to the chairperson who had to read it from official documents.

SI3 enjoyed good interactive communication with its funding partners. The long association of the CEO with most of them had strengthened the partnerships. The headquarters of SI3 doubled up as the board chairperson's residence.

Funders had conducted 11 studies and evaluations on the NGO. Each programme had its own evaluation team and there were overall internal and external evaluation committees. However, not all organisations shared the results of their evaluation; something the CEO frowned at (173):

*"We appreciate their feedback but some do not give us. Feedback can help us. Those from USAID only give reports to USAID, not to anybody else...they just say your programme is very good. It is like saying your tea is very good. Some tell us the shortcomings and what we must improve on. That is better for us, otherwise if you send in an evaluator who tells you things they can't tell us, how does that help anybody?"*

To demonstrate its own confidence, SI3 had put itself forward for assessment in a renowned European contest. This entailed its programmes being selected and examined by 15 international experts then summarised and posted in the 'Library of Congress' of the USA government. The annual contest usually involved 600 NGOs and SI3 came out among the five finalists (156) in the health sector. The board chairperson accepted the awarded in Europe.

The church tended to influence who could be approached for funding. Faith-based funders contributed a substantial part of funding of SI3. Some funding had been declined (CEO to SI3):

*"... Our donor agencies and us have objectives that are almost the same. We had one from EU that liked our programmes but their ways of operating and expectations were very different from ours and we did not go beyond that; we could not deliver what they wanted. In Aggrawal we recently received some funds and the donor told us what to do and we looked at it and said we are wasting our time."*

Besides external evaluation SI3 had a well established internal system of M&E which used its own staff, at times with external help (e.g. from the staff college which had top people in health in India, Accounts section of the government's department of home affairs, the Supreme Court, etc.). A monitoring officer evaluated each month if the targets were met and reported to the board and external partners through management.



#### 4.4.3 Organisation SI4

##### 4.4.3.1 Background information

The mission of SI4 was to coordinate the meagre resources of people living in poverty and to leverage them with assistance from the state, local and international partners for the purpose of alleviating poverty and suffering in the suburbs of New Delhi. SI4 believed that people considered poor had some resources (skills, produce, will, etc.) which could be managed to better their circumstances. SI4 believed if health and education were offered to people they would become productive to improve their own circumstances. SI4 was registered as an NGO under the Indian Societies Registrations Act. It was also registered under FCRA as well as under the Income Tax Act to receive contributions tax free.

It started in 1994 with a community dispensary in government premises within the Municipal Corporation of Delhi and later added a library, computer laboratory, tailoring, embroidery and other income generating activities (IGA). By the time of the study, SI4 had an annual budget of about UK£155,000.

The two founder members, ex-senior civil servants, headed both the board and the management. The state government provided a substantial part of SI4's fixed assets (land and buildings) and funds and the government-owned Indian Airlines helped to market SI4, SI4 had 26 employees.

##### 4.4.3.2 Findings from data

A lengthy interview failed to distinguish the board of SI4 from its management. The two interviewees interchangeably referred to themselves as the president and secretary of the board and as the joint executive managers who had made big financial investment in SI4 and hoped to recoup in returns. The motive for support by the government could not be established.

SI4 had invested substantially in IT for three main reasons: to ensure good communication with stakeholders, to market its products and to earn income through training programmes.

SI4 did not prepare a strategic or a business plan. To measure its own performance, SI4 considered (CEO of SI4) (133):

*“...turnover and beneficiary and outreach, i.e. the number of people we reach. The other way by which we measure our performance is acceptability of our credentials and how well we manage our act. We are called by many people who need our assistance and in fact we*

*try to avoid some where we might not have meeting of minds. You might have an NGO do something bad and you go down with it. We are selective on whom to associate ourselves with."*

SI4's turnover and membership had risen rapidly and the directors were invited to advise other organisations, mainly government bodies.

All other funders, except the government, had stopped funding SI4. In one funder's view, it was indicated that in fact SI4 could pass off as a profit-making company limited by shares and only working with employees disguised as members. The directors disagreed. Members were beneficiaries who were occasionally consulted. When questioned whether the members could vote the directors out or if they knew the NGO's funders, the directors merely laughed it off. When probed, the CEO explained that:

*"We have 26 full- time employees...above us (management; the 2 directors) there is God...we do have a governing body. We have people from the beneficiary groups. We bring them together many times a year. Many are in the slums just near here so we meet them very often. We meet our field staff every day."*

The directors seemed surprised when asked if any other partner organisation had formally evaluated the NGO but expressed willingness to be "audited at any time". They insisted on sitting in when the finance manager was interviewed.

Typical of entrepreneurs, they attributed the success of SI4 to themselves (CEO of SI4):

*"We have great commitment. There is no substitute for commitment. You can have a lot of money but you do not succeed. We also have very strong monitoring and evaluation...We never took any money out of it [SI4]...XX and I put in about UK£50,000...it needs that level of commitment. Eminent people from all works of life associate with us."*

#### 4.4.4 Organisation SI5

##### 4.4.4.1 Background information

SI5 was an apex body for NGOs in India, registered in 1988 as an NGO under Societies Registration Act 1860. It had 30,000 member NGOs from 23 states by the end of 2004. SI5 sought to emancipate and to strengthen the voluntary sector in four ways namely by: (1) influencing national government policies and laws, (2) influencing the policies and programmes of multilateral and bilateral donor agencies, (3) improving governance in civil society organisations, and (4) building and sustaining state level coalitions.

SI5 sought to find the rightful position for NGOs in India; a position where NGOs could influence public policy and operate effectively to bring change for the betterment of society. This was necessary to change perceptions. The National Planning Commission had prepared a draft national policy on the voluntary sector which referred to them as “...mere providers of relief and rehabilitation services and contractual labourers for the government”. It also defined “voluntary activists” as “...those who work for organisations for free and find their livelihood elsewhere”. SI5 therefore aimed to emancipate and strengthen the voluntary sector through professional management to a level of positive recognition.

SI5 worked in partnership with many organisations in and outside India. It had an annual budget of UK£112,000 of which 88% came from NNGO partners.

SI5 has a General Body comprising all its NGO members. It was the supreme body which elected 21 working committee members who in turn elected the chairperson and the secretary. The chairman in turn selected the CEO of SI5.

##### 4.4.4.2 Findings from data

The CEO of SI5 believed that to guarantee credibility and legitimacy, attributes that the civil society demanded of the government and other organisations, required NGOs to adhere to certain norms. SI5 was a key founder member of Credibility Alliance which was tasked with ensuring that NGOs in India were credible, transparent, democratic and accountable. Similarly, SI5 led a consortium of partners to develop OSANGO to help NGOs to self-assess their own performance, accountability, governance and management. It was sold mainly to NGOs. The CEO attributed the ability of SI5 to attract 88% funding from funders to governance:

*“It is imperative for SI5 and all NGOs that if the governance structures are weak then the organisation will become weak. SI5 is successful because it has very strong governance structure.”*

The arrangement where the governing board elected the Working Committee which elected the chairperson to the board who then selected the CEO created direct authoritative links between the members, the board and the management. At each AGM, elections were held and a third of the directors were replaced. Respondents also identified the virtue of credibility whereby SI5 delivered its part of the bargain. This permeated through the whole organisation. The board agreed with the partners on what needed to be done and the CEO was entrusted with the strict delivery and reporting thereon (CEO of SI5):

*"I came here from [a] corporate sector background. After one year my performance was measured against criteria such as what my established relations with the government were, how well I guided staff, how well I worked with the governance structures, etc.. My performance was reviewed and discussed for 3.5 hours and it was agreed that I had made good progress. On that basis, my contract was renewed. Performance at individual or organisational level is dependent on the criteria for success."*

Since SI5's objective were to inculcate professional management in NGOs to raise the sector's profile, the need to critically evaluate and accept only members who met and upheld certain norms was important (a director of SI5):

*"We have set very clear prescribed principles and norms for selection of NGOs. Members must also submit reports (annual, audited accounts, their governance structures, major activities they undertake, etc.) each year."*

SI5 requested prospective members to seek membership of Credibility Alliance as well. Through this the organisation was assured that only accredited reputable organisations were recognised and promoted. The CEO believed the funders assessed SI5's performance in a number of ways (37):

*"In summary, the critical issues in NGOs' performance are identity, sustainability, ability to influence government policies that define regulatory environment, governance structures, legitimacy, transparency, accountability, public/private/NGO partnership [and] for umbrella organisations like us, the size and quality of members, style of lobbying, i.e. good lobbying rather than activism."*

Identity was considered crucial (CEO of SI5) "...We can not allow ourselves to lose our vision by chasing and doing work funds are available for, rather than what we set out to do. Many NGOs die because of such lack of position." The importance of funders was also underscored in shaping a general opinion about SI5 (27):

*"I have to admit that the other important way some outsiders measure our performance is by looking at how funders look at and support us. I'm happy they now look at us very positively."*

## 4.5 PHASE 5 - RESEARCH ON NNGOs IN UK

The interviews with NNGOs did not aim at gathering data on all aspects of their work but mainly on the issues of how they funded SNGOs, evaluated the performance of SNGOs they funded and developed policies to govern the partnerships. The second aim was to test out some of the themes that had emerged from the study so as to gather their perceptions thereon.

NNGO respondents objected to the request to tape the interviews. Consequently, only a very few direct quotes which could be written in shorthand during the interviews were used. In some cases, quotations from the documents made available were used instead.

### 4.5.1 Organisation NU1

#### 4.5.1.1 Background information

*“NU1 aimed to reduce poverty by enabling marginal African farmers and herders to make sustainable improvements to their well-being through more effective management of their renewable natural resources. NU1 worked in partnership with communities, governments, local organisations, international NGOs and the private sector to develop strong rural livelihoods and then share the results out for maximum impact.”*

NU1 was a UK- registered charity with a board in the UK and had just established another board in South Africa on which the UK Director sat, to help access funds there. Total expenditure by NU1 had risen gradually from UK£3.5M in 1999 to UK£5.1M in 2004. It worked in Kenya, Tanzania, Uganda, South Africa, Ethiopia and Sudan by making grants, providing human resource, sponsoring or undertaking research and acting as an umbrella body.

Its flagship programmes were in areas of animal welfare, farmer capacity building, agricultural research, products marketing, and agricultural funding for technology and training. NU1 worked with SNGOs either directly or through these programmes.

NU1 had scaled down its funding conduit role after it *“got its fingers burnt by not being able to build the capacity of recipient NGOs”*. NU1 however maintained its own grass roots presence by formulating and implementing its own projects to ensure research fed into and benefited from project implementation. Working through intermediary SNGOs diluted the information.

#### 4.5.1.2 Findings from data

NU1 started its relationships with SNGOs with an initial evaluation of the board and management, formal registration documents, strategic plan, organisational structure, past evaluation reports and audited accounts.

The second stage involved agreeing on what the SNGO would deliver, the level and duration of funding, the period and detail of reporting and other conditions. Once a contract was signed and operations began, there followed regular visits / monitoring by NU1's field-based and HQ-based staff and review of progress and financial reports received. There was also desk-based monitoring of how communication flowed and how enquiries were responded to. These stages involved different NU1 units and external specialists like auditors, facilitators and evaluators.

Over time, NU1 was able to distinguish more successful SNGOs from less successful ones. Some SNGOs had their contracts terminated or not renewed, whereas others were given more funds, for longer periods and with lesser conditions. In general, NU1's experience in Kenya showed that:

1. Rich individuals in the South contributed in many other ways to society, e.g. by building schools, 'harambee' (public fundraising) and self-help initiatives
2. Private companies in Kenya helped NU1's work but with little resources. For instance, Safaricom (a subsidiary of Vodafone UK) contributed handsets for use by veterinary doctors in the rural areas but insisted on publicity and the use of its own top-up cards
3. The Kenya government assisted in some ways, e.g. by financing a training event and advisory unit to disseminate best practice and contracted NU1 for some projects. In Ethiopia, the government contracted NU1 for training.

#### 4.5.2 Organisation NU2

##### 4.5.2.1 Background information

*“NU2 worked with others to overcome poverty and suffering... To achieve the greatest impact, we work on three inter-linking fronts:*

*(1) save lives by responding swiftly to provide aid, support and protection during emergencies; (2) develop programmes and solutions that empower people to work their way out of poverty; and (3) campaigns to achieve lasting change.”*

NU2 was a charity registered in the UK with a UK-based board of trustees but working globally. Total annual turnover had increased rapidly and at the time of the study was around £200m. It had operations in 70 countries, including India and Kenya.

NU2 worked across these countries, coordinated by the regional offices, on 11 Strategic Core Objective (SCO) areas of trade, education, debt and aid, livelihoods, HIV/Aids, gender and equity, conflict and natural disasters, the private sector, climate change, democracy and human rights and pastoralism. It intervened through grants, service provision and sponsoring research.

NU2's flagship programmes in India and Kenya were in the areas of water and sanitation, education, trade, HIV/AIDS, gender and equity, democracy and human rights and conflict and natural disasters.

NU2 maintained a delicate balance between operational projects through its own offices and non-operational projects through SNGO partners. Usually, NU2 preferred to intervene in emergencies and disasters by way of operational projects due to their sensitive nature, delicate requirements for interventions and NU2's comparative advantage in such situations.

##### 4.5.2.2 Findings from data

NU2 identified SNGO partners and supported them in ways similar to NU1 (see 4.4.1.2). It had a formal way of assessing performance of SNGOs and had designed training programmes to enhance their capacities. Its values were based on five principles which drove its global work and partnerships, namely:

1. All human lives were of equal value and everyone had fundamental rights that had to be recognised and upheld at all times.
2. Poverty made people more vulnerable to conflict and natural disasters yet much of this suffering was unnecessary and had to be relieved.

3. People's vulnerability to poverty and suffering was increased by unequal power relations based on gender, race, class, caste and disability; women, who make up the majority of the world's poor people, were especially disadvantaged. Unequal power relations had to be addressed wherever they occurred.
4. In a world rich in resources, poverty was a morally indefensible injustice which could be overcome. Poverty, vulnerability and suffering were not pre-ordained events. All too often, poverty was the result of decisions taken intentionally or unintentionally by those in power. Unjust policies and practices, nationally and internationally, had to be challenged/ removed.
5. With the right resources, support and training, people living in poverty could solve their own problems. Everyone has a personal responsibility to cooperate and work with others to overcome poverty and suffering.

Consequently, NU2 had developed an 11-point scale for assessing performance of SNGOs it funded. They were internal guidance issued by NU2 to its regional centres and comprised:

1. Compliance with legal and financial requirements under both UK and local legislation.
2. Compliance with contractual and financial obligations agreed with donors, suppliers, banks, staff and partners.
3. Ability to monitor project / programme cycle and supply up to date financial information.
4. Ability to keep cash at optimal level to balance operational needs and risk of misuse.
5. Ability to review on ongoing basis financial risks and financial obligations on restricted income and from partners.
6. A good linkage between annual business plans and strategic plans and ability to provide finance plan of each programme to be supported over two years.
7. Clear and concise business plans with details of SCOs, funding sources and their certainty and named project partners.
8. Ability to use agreed business plans and budgets as a basis for financial /programme management.
9. Accounting transactions, records and reports that agree to defined standards, procedures and guidelines, including NU2's.
10. Monthly financial returns and period end reports of acceptable quality to donors, auditors, external bodies and intended users.
11. All assets, including for NU2 and other donors, properly accounted for, accounting records complete, up to date and reflected value of the assets.



### 4.5.3 Organisation NU3

#### 4.5.3.1 Background information

*“NU3 envisions a world without poverty and injustice in which every person enjoys their right to a life with dignity...[and aims]...to work with poor and excluded people to eradicate poverty and injustice. [In this way]...poor and excluded people and communities will exercise power to secure their rights; women and girls will gain power to secure their rights; citizens and civil society across the world will fight for rights and justice; and states and their institutions will be accountable and democratic and will promote, protect and fulfil human rights for all.”*

NU3 worked towards alleviation of poverty and distress, educating the public on their causes and effects and carrying out any other ancillary charitable purposes in Africa, Asia, Caribbean, Central America and South America. To address the root causes, NU3 also engaged in campaign and lobby work to influence policies of the UK Government, influential institutions such as the World Bank Group and the UN agencies to change policies and practices which exacerbated poverty. It had an annual income of £110m at the time of the research.

Both NU3 UK and NU3 International were UK charities with boards of trustees in the UK. However, the international head office was in Africa from where other regional offices were managed. Other members of NU3 Group were registered and had independent boards elsewhere. Besides, NU3 had some specialised advocacy offices in East Asia, the EU and East Africa as well as in Rome, London and Washington DC. From here, NU3 worked on rights-based and other issues such as women's rights, right to education, right to food, right to human security in conflicts and emergencies, right to life and dignity and the right to just and democratic governance.

NU3 spent about 47% of its total resources in Africa, 22% in Asia, 6% in Latin America and the Caribbean and the remaining 25% in the North. Besides mobilising institutional funders, mainly DfID, NU3 had a supporter base of about 600,000 regular individual contributors.

#### 4.5.3.2 Findings from data

NU3 generally required its partners to plan and monitor on the basis of the LFA. LFA demanded a top-down approach where mission and vision dictated the objectives which in turn dictated programmes and projects to be implemented. Activities as well as their related costs were then derived. OVIs were then incorporated to help monitor progress. In practice, this only happened after considerable technical support from NU3 or its consultants. In some cases, especially for young, small SNGOs, NU3 gave so much help that it was accused of micromanaging them.

NU3 also had a policy of not taking great risks with funds of its benefactors. In this respect it tended to fund small partners with smaller amounts and to monitor them very closely as their systems were usually weak. At times, NU3 had problems when larger and more established SNGOs came on board. NU3 had fallen out with some partners who found it too patronising.

There were cases where NU3 had to apply different measures in evaluating performance of certain SNGOs. This happened when NU3 was funded by sources requiring these approaches. NU3 frequently used external consultants, external auditors and peer reviewers .

NU3's main institutional funder, DfID, had introduced a much more flexible funding arrangement under the PPA facility. This gave NU3 the flexibility to use funds as it wished, subject to thematic and geographical area definitions agreed on, and to report flexibly (submitting organisational expenditure reports). In this case, NU3 fell back to its standard partner requirements. If a partner had a proven past record then conditions would be relaxed.

## 4.6 DATA REDUCTION AND ANALYSES

### 4.6.1 *Organising and making sense of data*

The process of organising and making sense of data commenced during field research although its conceptualisation started much earlier. At the end of each day of research, recorded tapes were reviewed and verbatim phrases converted into written form. The same was done for reports and notes taken so that short but relevant phrases were available in writing.

At this stage a decision had to be made whether to analyse the data manually or using computer software. Qualitative data analysis software such as QSR NUD\*IST and ATLAS.ti (Miles and Huberman, 1984) could have been useful. However, such packages tend to assume data is generated by native language speakers and is therefore of a standard language which can be digitally transcribed. Native English speakers did not agree to recording of the interviews and for the rest more effort was required to decipher which words were used and with what meaning. The contextual circumstances of this research required more intense researcher interaction with the data and computer software could not help much.

All the written phrases of each organisation were then brought together and chronologically numbered. This was done for all the SNGOs and resulted in the following counts:

Table 4.1: Documented sentences / paragraphs per SNGO

	Kenya			India	
1	SK1	1 – 36	1	SI5	1 – 39
2	SK2	37 – 105	2	SI2	40 – 106
3	SK5	106 – 196	3	SI4	107 – 142
4	NGO Board	197 – 207	4	SI3	143 - 203
5	SK6	208 – 234	5		

The numbers assigned to phrases remained fixed throughout and provided a trail (by connecting statements in the thesis to the originating organisation/document, the respondent who provided it and, where possible, the place on the audio tapes).

Based on the four objectives of the research, direct phrases touching on or relevant to an objective were distinguished and classified by a colour scheme as follows:

- Objective 1: How NNGOs measured performance of SNGO = Deep Yellow
- Objective 2: Role of financial governance and management in such performance measurement = Yellow

- Objective 3: Role of financial governance and management in excellence or failure of SNGOs = Red
- Objective 4: Linkage between state of financial governance and management and performance of SNGOs and policies of funders = Black and underlined.

By reading and re-reading through the summary phrases, words most frequently used in relation to a given research objective were identified. These words, in their various forms of prefix-core-suffix (e.g. perform = performance = performed = performing = underperforming) were recorded and a count of their frequency noted.

Table 4.2: Excerpts of commonly used words / phrases

1. <u>bridge gaps</u>	2. <u>capacity</u>	3. <u>close relations</u>
4. <u>briefcase organisations</u>	5. <u>capital assets</u>	6. <u>close relationships</u>
7. <u>budgeting</u>	8. <u>cash basis</u>	9. <u>code of conduct</u>
10. <u>bully</u>	11. <u>challenge</u>	12. <u>code of conduct</u>
13. <u>bureaucracy</u>	14. <u>changed</u>	15. <u>colonialism</u>
16. <u>bureaucratic</u>	17. <u>chauvinist</u>	18. <u>communicate</u>
19. <u>capacity</u>	20. <u>clan</u>	21. <u>communicate</u>
22. <u>capacity</u>	23. <u>clans</u>	24. <u>compare</u>
25. <u>capacity</u>	26. <u>cleanest man</u>	27. <u>competent</u>

The next step was to highlight the contexts in which the most frequently used words and phrases were used and to put them into broad groups. A cut-off line was drawn on basis of frequency. It showed the most frequently used words, not in any particular order, were the following

Table 4.3: Most frequently used words in relation to a research objective

No.	Research Objective	Distinction Scheme	Most Frequently Used Words
1	How NNGOs measure performance of SNGOs they fund	1. Deep Yellow	2. Mission 3. Vision 4. Governance
2	Role of financial governance and management in Performance	5. Yellow	6. Manage 7. Trust 8. Financial Management 9. Control 10. Corruption 11. Relations 12. Success
3	Role of financial governance and management in excellence or failure of NGOs	13. Red	14. Partner 15. Problem 16. Perform 17. Poor 18. Transparent
4	Financial governance and management and performance in developing funder policies	19. Black underline	20. Funder 21. Review 22. Evaluate

The next step involved highlighting all paragraphs, phrases or sentences with these words so as to examine the context in which they were used. They were assigned numbers and copied onto small cards to facilitate the process. The fact that phrases were already coloured-per-objective helped to categorise the words and phrases into broad groups per objective.

With such short paragraphs/sentences/phrases sorted out per objective, they seemed to provide solutions/responses to some objective-specific issues/sub-questions. The analysis at this stage focused on determining the main issues of concern in the field to which these words and phrases were symptoms of or alluded to. For instance, in the case of objective 1 (deep yellow) (How NNGOs measure performance of SNGOs), the following six broad issues could be identified:

1. Communication with funders
2. Clarity and focus of mission statement
3. Clarity and robustness of planning and follow-up
4. Independence of evaluation process
5. Legitimacy of board and skills represented
6. Monitoring and evaluation (regularity, participation and objectivity)

The same lengthy process was applied to all the objectives. In the end, the process distilled data to a total of 29 issue statements / phrases of which:

1. Six related to vision, mission and governance, addressing objective 1, i.e. how NNGOs measured the performance of SNGOs they funded,
2. Eight related to management, trust, financial management, control, corruption, relation and success, addressing objective 2, i.e. the role of financial management in measurement of performance,
3. Eight related to partner, problem, perform, poor and transparent, addressing objective 3, i.e. role of financial management in excellence or failure of SNGOs, and
4. Seven related to funder, review and evaluation, addressing objective 4, i.e. how financial governance / management and performance influenced funder policies.

The twenty-nine statements as derived from the data are shown in Table 4.4.

Table 4.4: 29 derived themes for rating SNGOs

No.	Thematic Statement / Question
1	Communication with funders rare and formal, CEO only, and problems not readily accepted
2	Focus and loyalty to well thought out and documented mission statement
3	Planning not clear enough to do activity budgeting or to monitor progress in implementation
4	Independent evaluators either not used or critical of progress
5	Legitimacy of board questionable and some skills lack on board
6	Monitoring and evaluation not regular, participatory or can not be objectively verified
7	Funder conditions generally relaxed and flexible, e.g. on reporting, variance, etc.
8	Long- term funders non- existent or reducing funding as exit strategy
9	CEO and managers understand and can intelligently discuss financial management without recourse to Finance Manager
10	Internal trust and confidence in capabilities and work of CEO and Board
11	Stable and consistent level of reserves that can be used in times of hardship
12	Can only spend or commit within confines of secured funding and will discuss need for deviations beforehand
13	Well qualified and experienced accountant
14	Reputable international accountancy company regularly used (audit / consult)
15	Detailed financial policies/procedures discussed, agreed, documented and adhered to
16	Net current assets low or negative
17	Free and regular communication that identifies and solves problems to pre-empt need for legal threats or redress
18	Auditors give some form of qualification to their audit opinion
19	Funders not readily allowed or encouraged to validate reports
20	Board openly involved in financial management at top / policy level
21	Bulk of budget spent on Direct Projects
22	Senior managers or board members seem more concerned with personal benefits
23	Management tends to conceal or not admit to problems. Solutions and changes have to be forced.
24	Continuous internal reflection and renewal (capacity building and learning)
25	No clear additional motivation of managers for good administration and financial management
26	Indicators that funders trust SNGO and invite it to participate and influence funders' strategies and plan of work
27	Real results that can be objectively verified, i.e. by direct implementation of projects with verifiable indicators
28	Indicators that Board chair is either not knowledgeable or undiplomatic or micromanages
29	Old and repetitive approaches to fundraising and stuck to old avenues for development

Attempts to analyse organisations at this stage was futile and required yet another step. It was difficult to link evidence directly to the sub-questions but it would be less difficult to link evidence to statements. Short statements were consequently derived from each of the issues. For instance, the following statements were identified in the case of objective 1:

- 1) There was regular communication, at different levels, with funding partners and problems were readily accepted and communicated
- 2) Mission statement was too wide and deviations were made to secure funding
- 3) There was a clear strategic plan developed using a recognised planning framework which showed linkage of activities
- 4) Independent evaluators were used and attested to good performance
- 5) Legitimacy of the board was questionable and the board lacked some skills
- 6) Regular participatory monitoring and evaluation was done using objective means

It was clear that some of these statements were positive while others were negative. Note, for instance that whereas the statements not coloured in Table 4.4 are generally negative, those coloured are generally positive. This would present additional problems in rating SNGOs and more so in addressing objective 3 on excellence and failure. A pragmatic way around this was to make all statements positive and put them on the right hand side of the broad sheet. Conversely, the negative versions of these statements were derived and put on the left hand side of the broad analysis sheet. In the case of objective 1, for instance, the following part of the broad sheet emerged:

Table 4.5: Portrayal of thematic statements linked to objectives for rating of SNGOs

Negative Thematic Statement	Theme or Issue	No.	Key Words	Positive Thematic Statement
Communication with funders is rare and formal, CEO only, and problems are not readily accepted	How NNGOs measure performance of SNGOs	1	Mission Vision Governance	Regular communication, at different levels, with funding partners and can admit to problems
Mission statement is too wide and/or deviations made to secure funding		2		Focus and loyalty to a well thought out and documented mission statement
Planning is not clear enough to do activity budgeting or monitor progress in implementation		3		Clear strategic plan, recognised planning framework has been employed and activity-based budgeting used
Independent evaluators are either not used or are critical of performance		4		Independent evaluators used and attest to good performance
Legitimacy of the board is questionable and some skills are lacking		5		Legitimately elected board of directors with diverse skills is in place
Monitoring and evaluation is not regular, participatory or not objectively verified		6		Regular participatory monitoring and evaluation is in place using objective means

The broad sheets were enlarged further on either side by including specific columns for each of the SNGOs researched in the country. The final country-specific broad sheet at this stage linked the research objective (theme/issue), selected key words as used by respondents, the corresponding 29 positive and negative thematic statements and extension columns for all four SNGOs in the country both on the right and the left hand side. This provided a template which when populated with empirical data would provide a snapshot of how the eight SNGOs in the research matched or deviated on a given standard yardstick. Each country had one broadsheet. Tables 4.6 and 4.7 present extracts from this sheet. The numbers under each case column refer to the direct quotations in the data which led to that rating. The theme refers to the broad area of research the statement related to, while the numbers at the other extreme side refer to the theme number (a total of 29 themes were selected). The full versions of the broadsheets are presented in Appendices G and H.



Table 4.6: Left hand half (negative) of broadsheet analysis

SK6	SK5	SK2	SK1	Negatives Thematic Statement	Theme / Issue	Key Words	No
	113, 132, 135, 136, 143, 145, 159, 168, 171, 177, 188, 194		13	Communication with funders is rare and formal, CEO only, and problems are not readily accepted	How NNGOs measure performan ce of SNGOs	Mission Vision Governance	1.
	108, 128, 138, 141, 190, 196			Mission statement is too wide and deviations made to secure funding			2.
	110, 116, 179		13	Planning is not clear enough to do activity budgeting or to monitor progress in implementation			3.
	179, 194, 112, 135		11, 16	Independent evaluators are either not used or are critical of progress			4.
	113, 130, 131, 151, 152, 153, 155, 159, 160, 193		21, 10, 30, 32, 33	Legitimacy of the Board is questionable and some skills lack			5.
	138, 139, 149, 179, 186, 191	43, 45	11, 20	Monitoring and evaluation is not regular, participatory or can't be objectively verified			6.

Table 4.7: Right hand half (positive) of broadsheet analysis

No.	Key Words	Positive Thematic Statement	SK1	SK2	SK5	SK6
7.	Mission Vision Governance	Regular communication, at different levels, with funding partners and can admit problems		51, 52, 56, 60, 84		219, 220, 222, 223, 225
8.		Focus and loyalty to a well thought out and documented mission statement		40, 53, 55, 59, 70		210, 213, 216, 221, 225
9.		Clear strategic plan, recognised planning framework has been employed and activity-based budgeting used		37, 39, 41, 42, 50, 61, 62, 83, 85, 81		208, 209
10.		Independent evaluators can attest to good performance		38, 69		220, 222, 221
11.		Legitimately elected Board of Directors with diverse skills is in place		47, 86		208, 232, 233
12.		Regular participatory monitoring and evaluation using objective means		78, 79, 80		219, 220, 221

The broadsheet was now ready to analyse empirical data formatted into written and numbered sentences/phrases. Inputting data involved the laborious task of reading and re-reading all coloured comments / statements / phrases collected per SNGO and placing them where they were relevant in the analysis sheet. Questions were used to evaluate the data, e.g. Did a phrase

denote evidence to support a positive or negative attribute? Did it negate a positive attribute?

Table 4.8 gives a snapshot of the status at this stage (see Appendix H).

Table 4.8: Selection of themes for further inquiry

			Black = Expected (affirmation)	Amber Colour = Contradictory Findings / preliminary elimination				
			Red = Not Expected (negation)	MS = More Successful and LS = Less Successful				
Kenya			Thematic Statement / Question			Kenya		
Total	MS NGO	LS NGO	Negative	No.	Positive	MS NGO	LS NGO	Total
2		2	Communication with funders is rare and formal, CEO only, and problems are not readily accepted	1	Regular communication, at different levels, with funding partners and can confess problems	2		2
1		1	Mission statement is too wide and deviations made to secure funding	2	Focus and loyalty to a well thought out and documented mission statement	2		2
2		2	Planning is not clear enough to do activity budgeting or to monitor progress in implementation	3	Clear strategic plan, recognised planning framework has been employed and activity based budgeting used	2		2
2		2	Independent evaluators are either not used or are critical of progress	4	Independent evaluators can attest to good performance	2		2
2		2	Legitimacy of the Board is questionable and some skills lack	5	Legitimately elected Board of Directors with diverse skills is in place	2		2
2		2	Monitoring and evaluation is not regular, participatory or can't be objectively verified	6	Regular participatory monitoring and evaluation using objective means	2		2
1	-1	2	Rigid funder conditions that are very strict on reporting	7	Funder conditions are generally relaxed and flexible e.g. on reporting, variance etc	2		2
2		2	Long term funders non existent or reducing funding as exit strategy	8	Long term funders exist with stable or increasing levels of funding over time	2		2
0	-1	1	CEO and managers can't discuss details of finances and willingly refer one to Finance Manager	9	CEO and managers understand and can intelligently discuss financial management without recourse to their Finance Manager	2	-1	1
2		2	Internal disapproval of capability/ performance of CEO and Board	10	There's internal trust and confidence in capabilities and work of CEO and Board	2	-1	1
-1	-1	0	Reserves non existent or greatly fluctuate year to year	11	Stable and consistent level of reserves that can be used in times of hardship	1	0	1
-1	-1	0	Will occasionally commit or spend without secured funding or fall back contracts	12	Can only spend or commit within confines of secured funding and will discuss need for deviations beforehand	2		2
-2	-2	0	Accountant not qualified /experience	13	Well qualified and experienced accountant	1		1
0	-1	1	Local accountancy company used mainly to audit: at times not regular	14	Use reputable international accountancy company regularly used (audit / consult)	1		1
2	0	2	Financial policies are either not detailed or out of date or not documented or not adhered to	15	Detailed financial policies/procedures have been discussed, agreed and documented and are adhered to	2	-1	1
1	0	1	Net current assets are low or negative	16	Positive and stable net current assets	1	0	1

Upon completion of this task some rough pictures started emerging. It was becoming clear, for instance, which SNGOs had more evidence on the right hand side (implying they were more successful according to the empirical data from the South) and which ones had more evidence on the left hand side (implying they were less successful).

#### 4.6.2 Analysing and positioning data

The pattern matching analysis strategy (Yin, 1994) required data to be organised in such a way that the behaviour of each SNGO in respect to each of the themes shown in the broadsheet was clear. This required the broadsheets to be narrowed down through some form of further analysis. This was done by developing another simpler form which showed for each of the themes for each country which SNGOs behaved as expected (notice in section 3.5 that NNGOs had already identified the more and less successful of the SNGOs). For instance, did a less successful SNGO in India have more evidence in the 'less successful' column on the left hand

side of this table? Did a more successful SNGO in India always have more evidence in the 'more successful' column on the right hand side of the broadsheet? Or was the evidence contradictory? It should be noted that at this level the research was assessing two sets of data: empirical-based perception based on study of SNGOs' mapped against the perception data from NNGOs. Pattern matching logic of analysis progressed on this basis, comparing empirically-based patterns which emerged from the research with the pre-existing patterns based on classification of SNGOs by the NNGOs to create patterns which could be matched.

For each SNGO with evidence to support expected behaviour, in relation to any of the 29 themes, a score of +1 was awarded. For any which violated expectation, a score of -1 was awarded and zero was given if data were not collected or were inadequate to rank an SNGO. The scores were summed up. Any theme adding across to more than 1 (meaning more evidence was gathered in support than against) was analysed further. This level of judgement was necessary to put the 29 themes to a rigorous test in order to derive a shorter list of themes which had clear back up data. This step cleansed the data by eliminating inconsistent data.

There were three distinct data positions, refer to Table 4.8, which the analysis yielded, namely:

1. Strongest evidence - to pursue theme: For instance, theme 1 would be retained because the two more successful SNGOs showed evidence which supported regular communication, at different levels, with funding partners and the management could admit problems (positive). Conversely, evidence was collected about the two less successful SNGOs, showing that communication with funders was rare and formal, CEO only, and problems were not readily accepted (negative). Other themes in this category include 3, 4, 5, 6 and 8. Overall, therefore, there was sufficient distinction to warrant further exploration of this issue.
2. Grey area evidence - borderline theme: In the second instance, theme 7 could be eliminated because whereas the two more successful SNGOs had evidence to show that funder conditions were generally relaxed and flexible, e.g. on reporting and variances (positive), only one of the less successful ones showed evidence to the contrary (negative). The other less successful SNGO in fact showed evidence to support the positive version of the statement. The same, on the opposite side, appeared under theme 15. Overall, therefore, there was contradictory evidence on this front although it was not overwhelming and the statement could be eliminated or retained for subsequent analysis.

3. Weakest evidence - to eliminate theme: In the case of theme 13, only one of the two more successful SNGOs had a well qualified and experienced accountant (positive), whereas no adequate evidence was collected to assess the capacity of the accountants in the other more successful SNGOs. The two less successful SNGOs in fact also had well qualified and experienced accountants. This contradicted expectation. On this basis therefore, qualification and experience of the accountant was not exclusive to less or more successful SNGOs. It was a contentious issue which could not be pursued further.

In sum, therefore, from this analytical step, only themes with strong and positive net scores (ideally of 2 on both sides) had shown clear distinction between more successful and less successful SNGOs. The lower the net score the weaker the evidence and the higher the prospects of elimination. With a score of zero, elimination was assured. The result of this analytical step, on a country basis, is discussed further below.

#### 4.6.3 Identification of themes

The following themes were selected for further analysis from SNGOs researched in India:

Table 4.9: Selected themes in India

Black = Expected (Affirmation)			MS = More Successful, LS = Less Successful						
Red = Not Expected (Negation)									
India			Thematic Statement / Question				India		
Total	MS NGO	LS NGO	Negative	No.	Positive	MS NGO	LS NGO	Total	
0			Planning is not clear enough to do activity budgeting or to monitor progress in implementation	3	Clear strategic plan, recognised planning framework has been employed and activity based budgeting used	2		2	
1		1	Legitimacy of the Board is questionable and some skills lack	5	Legitimately elected Board of Directors with diverse skills is in place	2		2	
-1	-1		Rigid funder conditions that are very strict on reporting	7	Funder conditions are generally relaxed and flexible e.g. on reporting, variance etc	2		2	
0	-1	1	Long term funders non existent or reducing funding as exit strategy	8	Long term funders exist with stable or increasing levels of funding over time	2		2	
0			CEO and managers can't discuss details of finances and willingly refer one to Finance Manager	9	CEO and managers understand and can intelligently discuss financial management without recourse to their Finance Manager	2		2	
0			Internal disapproval of capability/ performance of CEO and Board	10	There's internal trust and confidence in capabilities and work of CEO and Board	2		2	
2		2	Financial policies are either not detailed or out of date or not documented or not adhered to	15	Detailed financial policies/procedures have been discussed, agreed and documented and are adhered to	1		1	
1	-1	2	Funders not readily allowed or encouraged to validate reports	19	Funders are allowed and actively encouraged to validate reports and work		-1	-1	
1		1	Board has only limited (or too much) involvement in financial management	20	Board is openly involved in financial management at top / policy level	2		2	
0			Un-proportionately high ratio of expenses on administration costs	21	Bulk of the budget is spent on Direct Projects	2		2	
1		1	Senior managers or board members seem more concerned with personal benefits	22	Senior managers and Board members put interests of beneficiaries first	1		1	
0			Results of work done can not be objectively verified; often coordination not direct projects	27	Real results that can be objectively verified i.e. by direct implementation of projects with verifiable indicators	2		2	

In the case of Kenya, a slightly higher number of themes remained relevant for further pursuance. The following were selected for further analysis from SNGOs researched in Kenya:

Table 4.10: Selected themes in Kenya

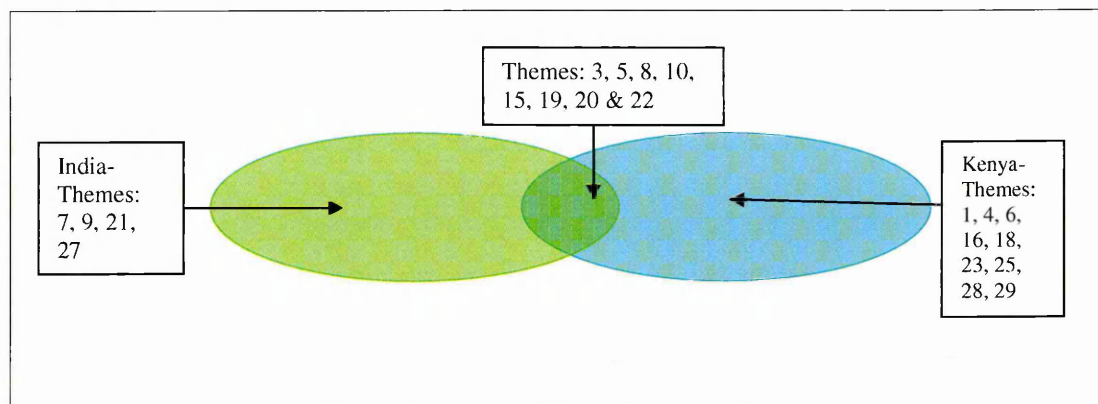
Black = Expected (affirmation) Red = Not Expected (negation)			MS = More Successful, LS = Less Successful					
Kenya			Thematic Statement / Question			Kenya		
Total	MS NGO	LS NGO	Negative	No.	Positive	MS NGO	LS NGO	Total
2		2	Communication with funders is rare and formal, CEO only, and problems are not readily accepted	1	Regular communication, at different levels, with funding partners and can confess problems	2		2
2		2	Planning is not clear enough to do activity budgeting or to monitor progress in implementation	3	Clear strategic plan, recognised planning framework has been employed and activity based budgeting used	2		2
2		2	Independent evaluators are either not used or are critical of progress	4	Independent evaluators can attest to good performance	2		2
2		2	Legitimacy of the Board is questionable and some skills lack	5	Legitimately elected Board of Directors with diverse skills is in place	2		2
2		2	Monitoring and evaluation is not regular, participatory or can't be objectively verified	6	Regular participatory monitoring and evaluation using objective means	2		2
2		2	Long term funders non existent or reducing funding as exit strategy	8	Long term funders exist with stable or increasing levels of funding over time	2		2
2		2	Internal disapproval of capability/ performance of CEO and Board	10	There's internal trust and confidence in capabilities and work of CEO and Board	2	-1	1
2	0	2	Financial policies are either not detailed or out of date or not documented or not adhered to	15	Detailed financial policies/procedures have been discussed, agreed and documented and are adhered to	2	-1	1
1	0	1	Net current assets are low or negative	16	Positive and stable net current assets	1	0	1
1	0	1	Auditors give some form of qualification to their audit opinion	18	Auditors attest to sound financial management	2		2
0	0	0	Funders not readily allowed or encouraged to validate reports	19	Funders are allowed and actively encouraged to validate reports and work	2		2
0	-1	1	Board has only limited (or too much) involvement in financial management	20	Board is openly involved in financial management at top / policy level	2		2
2	0	2	Senior managers or board members seem more concerned with personal benefits	22	Senior managers and Board members put interests of beneficiaries first	1		1
1	0	1	Management tends to conceal or not admit to problems. Solutions and changes have to be forced.	23	Management can identify, admit and proactively seek collective solutions to such problems	2		2
2	0	2	No clear additional motivation to managers for good administration and financial management	25	There is clear motivation for management to ensure proper administration and financial management and ways to verify	2		2
2	0	2	There are indicators that the Board chair is either not knowledgeable, or un-diplomatic or micromanages	28	The chair to the Board is knowledgeable yet diplomatic in approach and gives management and funders space	2		2
2	0	2	Old and repetitive approaches to fundraising and stuck to old avenues for development	29	Creative approaches to fundraising, networking and explores alternative avenues for development	2		2

#### 4.6.4 Cross-cutting themes

By studying the sets of retained sub themes above, it was possible to identify cross-cutting themes as well as those themes with a discernible pattern albeit country specific. The eight themes cutting across the two countries (see Figure 4.1) were 3, 5, 8, 10, 15, 10, 20 and 22.

Four other themes were true but only relevant to India and eight other themes were true but only relevant to Kenya. Country-specific themes which did not hold true in the other country of study were dropped at this stage. It was only on the basis of findings supported by both countries that further synthesis progressed.

Figure 4.1: Synthesis and selection of themes across Kenya and India



As depicted above, the eight themes cutting across the two countries and which clearly drew the line between ‘less successful’ and ‘more successful’ performers amongst the SNGOs, as judged by the NNGOs which funded them, were:

- 1) Theme 3: There was a clear strategic plan, and a recognised planning framework and activity-level-based budgeting were used. More successful SNGOs had these while less successful ones did not.
- 2) Theme 5: There was a legitimately elected Board of Directors whose members had diverse skills. More successful SNGOs had this while less successful SNGOs did not.
- 3) Theme 8: There were committed long-term funders whose funding was stable or increased over time. More successful SNGOs had such funders unlike the less successful SNGOs in this research.
- 4) Theme 10: There was internal trust and confidence in capabilities and work of the CEO and the board. More successful SNGOs had this while less successful ones did not.
- 5) Theme 15: There were detailed financial policies and procedures which had been discussed, agreed and documented and were adhered to. More successful SNGOs had this while less successful ones did not.
- 6) Theme 19: Funders were allowed and actively encouraged to validate the reports submitted by SNGOs. More successful SNGOs did this whereas less successful SNGOs were reluctant to do it.
- 7) Theme 20: The board had the capacity and got actively involved in financial governance and management at the policy level; striking the proper balance between policy guidance and micro-management. Less successful SNGOs in this study fell short of this expectation.

- 8) Theme 22: Members of the board and management were perceived to be pursuing the interests of the stakeholders. More successful SNGOs were perceived in this light while for less successful SNGOs members of the board and management were perceived to be pursuing their personal interests.

#### 4.6.5 Grouping themes into constructs

On this basis, the deeper review of data gathered on these themes was conducted and the synthesis report in Chapter 5 developed. It will be noted that these themes were grouped into some logical constructs. The objectives of the research were used in this consolidation to help derive broader and logical categorisations of the identified themes to respond to the broad objectives of the research. A construct combined aspects of different themes from the list above. The five constructs identified were:

- A) NGO sector regulation, self-regulation and accreditation (addressing aspects of themes 3, 5 and 15),
- B) Board governance: regulation and motivation (addressing aspects of themes 3, 10 and 20),
- C) Financial management, fraud and corruption (addressing aspects of themes 8, 10, 15 & 22),
- D) Funding (addressing aspects of themes 8, 19 and 22), and
- E) Development of partnerships (addressing aspects of themes 3, 8, 10 and 19)

This matching depicted interlinks between the themes and derived constructs. When brought together in a table, their weights were estimated as shown in Table 4.11.

Table 4.11: Weights of themes mapped onto constructs

		Constructs					No. of constructs to which this theme contributes
		A	B	C	D	E	
Theme	Theme No. 3	√	√			√	3
	Theme No. 5	√					1
	Theme No. 8			√	√	√	3
	Theme No. 10		√	√		√	3
	Theme No. 15	√		√			2
	Theme No. 19				√	√	2
	Theme No. 20		√				1
	Theme No. 22			√	√		2
Weight- of themes supporting a construct		3	3	4	3	4	17



In the light of the conceptual frameworks discussed in 2.2, these constructs covered the broad areas of organisational analysis, namely the 3Es or value for money model and aspects of Friedman's theory on expenditure patterns. For instance, the 3Es were measured at the different processes (input, process and output) of an organisation. In this case, inputs were covered by constructs B and D; process assessment by constructs A, B, C and D; and assessment of outputs by constructs C, D and E. Friedman's theory could be explored by constructs B, C and D.



#### 4.7 SUMMARY OF FINDINGS FROM DATA

This chapter has built on the earlier chapters by presenting the cases studied in the course of this research. It has also presented the findings from the data gathered. Findings were obtained from: telephone surveys conducted on 28 NNGOs, follow-up interviews with three NNGOs, interviews with eight SNGOs, and interviews / debriefs with the three NNGOs. Excluding pilots and other data sources, interviews were held with 57 respondents comprising 11 board members, seven CEOs, 20 senior managers, 12 ordinary staff members and seven other persons.

Case study data were first converted from audio and documents to written texts and classified based on the four objectives of the research. All direct phrases which were relevant or touched on an objective were retained and sequentially numbered for ease of further analysis to highlight the most frequently used words and phrases and their contexts. They were captured in summary tables and inherent themes examined. Identified themes were pursued to identify any patterns which were then used to derive explanations.

Through a deconstruction and reconstruction process based on words, phrases and themes, voluminous data collected during research were crystallised into twenty-nine themes. They were further reduced through an analytical elimination process to eight which cut across the eight SNGOs researched. The themes were mapped onto five broad and logical constructs using the objectives of the study as a guide.

The next chapter subjects these findings from data, now condensed into five key constructs, to further analysis to derive some meaning in furtherance of the objectives of this research.

## CHAPTER 5

### EXPLORATION OF KEY ISSUES

#### 5.0 INTRODUCTION

This chapter explores the constructs identified in Chapter 4 using empirical findings as well as insights from the literature as part of the process towards the achievement of the objectives of this research.

The chapter is organised into five sections built around the five. The first section explores the macro aspects of NGO sector regulation, self-regulation and accreditation, starting at the global down to national level. The second section explores governance of NGOs by examining how boards are regulated, their roles and the various characteristics of effective boards. The third section then crystallises on financial management, examining financial wrong-doings at both board and management levels. The fourth section examines funding of SNGOs and the final section examines the process through which NNGOs and SNGOs develop partnerships. The conclusions towards the end recapitulate the discussion in the chapter in an emerging contribution to knowledge which will be explored in the penultimate chapter of the thesis.

#### 5.1 NGO SECTOR REGULATION, SELF-REGULATION AND ACCREDITATION

##### *5.1.1 Status of global NGO regulation*

As demonstrated in section 2.3, some researchers such as Bebbington and Riddell (1997) and Bernstein and Cashore (2007) made a strong case for state regulation of NGOs, especially in the developing countries where effectiveness of the NGO sector depends on the political and economic environment within which NGOs operate. Their eventual thesis was that effectiveness of NGOs would be enhanced by a relatively strong state with the capacity and disposition to provide services and to defend rights.

Comparative studies conducted in the UK and Africa (Yaansah and Edward, 1995; Yaansah and Harrel-Bond, 1997) identified seven key NGO regulatory roles played by governments. These were registration, co-ordination, fundraising, expatriate staff regulation, staff protection, criminal behaviour deterrence and control of the agenda of NGOs. Governments were found to enforce these roles by various ways and means and proponents of state regulation were convinced that more stringent regulation would shape further the operations of NGOs. In fact, Morgan (2007a) and Williams (2007) showed that state regulation had intensified in both the UK and the USA in the last few years and more legislation was planned. Bernstein and Cashore

(2007) went a step ahead to argue that non-state governance, especially at the global level, could not be legitimate.

However, it was argued that bodies tasked with NGO oversight were often too over-burdened and under-resourced to carry out their work effectively. One explanation explored in Chapter 2 was that there were far too many NGOs and the number seemed to grow exponentially; proportionately beyond the abilities of the regulatory bodies.

Critics of state regulation of NGOs such as Lloyd (2005) and Moore and Stewart (1998), on the other hand, advocated 'political space' and therefore self-regulation. NGOs in various countries had taken steps to form their own self-regulatory umbrella bodies. These steps accorded NGOs that 'political space', i.e. an environment for voluntary associations to organise themselves without governments' intrusion (Loft et al., 2006). They saw the only role for the state as being to encourage popular participation and to provide the appropriate 'fiscal environment', rather than being overly concerned with maintenance of power (over-regulation).

#### *5.1.2 NGO regulation in the three countries*

The study showed a discernible trend whereby, although NGOs hailed self-regulation as the way to go, the more developed economies were in fact legislating more. Such economies showed more regular review and updating of relevant laws and only left the NGO sector to supplement government efforts through self-coordination and development. Table 5.1 below gives a snapshot of the regulatory situation in the three countries:

Table 5.1: Regulation of NGOs

Area	United Kingdom	Kenya	India
Main Regulator	Charity Commission (government department)	Kenya NGO Board SK5	Ministry of Home Affairs Reserve Bank of India
Regulatory Framework	Charities Act 2006 Charities (Accounts and Reports) Regulation 2005 Charities SORP Charity Commission Directives and Guidelines Auditors and independent examiners	NGO Act 1990	FCRA 1976 Societies Reg. Act 1960 Companies Act 1956 Indian Trust Act 1882 Regional State Acts
Main self-regulatory body	Fundraising Standards Board	SK5 <sup>34</sup>	SI5
Nature of self-regulation	Regulation of fundraising activities of voluntary organisations Enforcement of sound accounting and reporting practices	Regulation of all registered NGOs, including receiving and reviewing annual returns and recommending punishment	Coordination of activities, including state advocacy, research and capacity building. Involved in development and preservation of NGO integrity

Source: Jalali (2008); Keengwe et al. (1998); Morgan (2002); The Institute of Chartered Accountants of India (2002); Yaansah and Edward (1995).

As can be noted above as well as in section 2.3, the UK had regularly reviewed laws relating to charities. The self-regulation role in the UK was peripheral and restricted to the Fundraising Standards Board and the role of the professionally qualified independent examiners (Morgan, 2007a). Although NCVO and BOND were concerned with the coordination, capacity building and propagation of common interests of their members, their role was not strictly self-regulation.

India, on the other hand, introduced new legislation with time, as exemplified by FCRA (see Appendix K). The work of the government-appointed National Advisory Council was expected to lead to a comprehensive review of the NGO law (Jalali, 2008). The sector remained largely regulated by the state. However, regulation by the state was largely targeted at NGOs receiving funds from overseas. Only those came under the direct control of FCRA which required NGOs and their trustees to apply, be vetted, and registered by the state. They were expected to apply each time they intended to receive funds, indicating the source and intended use (CEO of SI5):

*“The FCRA was passed in 1976 to regulate and monitor flow and use of aid funds; any NGO with foreign funds must have FCRA registration or get special permission to receive the funds. About 25%, say 300,000, of all NGOs are FCRA registered. It is not easy to get this registration. The Home Ministry is involved, police have to investigate and give their*

<sup>34</sup> SK5 and SI5 are self-regulatory organisations which were case studies in this research (see sections 6.3.4 and 6.4.4).

*report, the sector will also give a report, then you must open a separate bank account to manage foreign funds and you must report quarterly.”*

Regular returns had to be submitted and at the end of the year any funds received and not spent were treated as profits and taxed accordingly. The main objective seemed to be the preservation of the state sovereignty by ensuring NGOs did not use funds from abroad to undermine the political establishment (Jalali, 2008). NGOs not receiving funds from abroad were not bound by the provisions of the FCRA.

The third sector organisations had mobilised themselves and taken the initiative towards self-regulation with financial governance, performance and management at the centre of their initiative. They contended that this gave the sector firm ground to argue for less state regulation, as the CEO of the NGO spearheading self-regulation in India noted (CEO of SI5):

*“Financial management is very important in success or failure of NGOs. It is pursued vigorously by funders and NGOs; they monitor systems until they get reassurance. In India we have worked hard with International Certification Register (ICR) India and have now developed accounting standards for NGOs in India. You know most NGOs used to do their accounts the mercantile way rather than on accrual method and these were very misleading to funders and government as you could never understand their financial position or compare an NGO with other NGOs.”*

This gesture in itself underscored the scepticism with which the government viewed NGOs, especially the ones with foreign funding. NGOs on their side viewed the greatest threat as arising from the local NGOs which usually lacked the required quality of governance and management. It was also recognised by the NGO fraternity that the number of NGOs had mushroomed and some had no intention of playing by the rules, as a CEO volunteered (70):

*“Unfortunately there are over 1 million NGOs and over half are set up to short circuit and take advantage of resources. I’m sorry to share this with you; in those cases then, its relevant.... We now have Credibility Alliance for organisations that are concerned with these things and are trying to do something about it to address the issues.”*

Even in the case of Kenya where self-regulation was often touted as the government policy (Yaansah and Edward, 1995), closer examination showed this was not entirely true. The Kenya NGO Act gave the power to regulate the NGO sector to both the NGO Board (a government department) and SK5 (self-regulation body; an NGO in itself) as the CEO of the latter explained (107):

*“One can argue that we have state control in the sense you cannot just wake up and start operating an NGO without going through the Government arm for vetting and registration; then we are there to regulate NGOs once they have been registered. There is both state control and self-control.”*

The law enacted in 1990 to regulate NGOs had only undergone cosmetic amendments and still stood despite its inability to stand up to the demands of the time as a director of SK5 argued. The two regulatory organisations were also so resource-constrained that they openly admitted to being unable to do their jobs effectively.

Although the Kenya NGO Board introduced the NGO Sector Policy Review in 2004 to form a basis for review of the NGO Act, no progress had been achieved. The two key players traded accusations when confronted with the state of flux in the sector; as an NGO Board official reaffirmed during the research (202):

*“Allegations are rife of mismanagement amongst NGOs but it’s an issue for [the] SK5 mainly since self-regulation is the policy. The NGO Board can take some decisions, e.g. deregistration as the last resort ...the NGO Act at present is silent on governance / boards to NGOs.”*

This, alongside the presence of ‘briefcase NGOs’ (see 2.3.2 and Appendix K) made a mockery of accountability in NGOs. The failure of the law to regulate board membership was seen as a loophole which instigated, proliferated and condoned this malfeasance.

A recent major initiative then was the formulation of a Statement of Recommended Audit and Accounting Practice (SORAAPs), an addition to the Kenyan law to regulate accounting, auditing and financial reporting by NGOs. This was modelled along the lines of the UK SORP (a legal requirement) and the initiative by SI5 in India (a requirement of self-regulation). The guidelines awaited enactment although local NGOs were sceptical. It seemed a law which NGOs were not yet ready for. Only INGOs with the required human capacity and systems had voluntarily adopted it (a consultant-cum-auditor of SK1 and SK5) (189):

*“SORAAPs if adopted would need gazette-ment by the Attorney General's office before becoming a requirement. This is not yet done and thus it is not a requirement but some NGOs do it voluntarily as a good practice. Mainly INGOs in Kenya have adopted it to improve their financial reporting but not wholly. Local small NGOs are constrained by capacity of finance staff they can afford and have. Donors are not ready to help them by financing the accountancy function but simply programmes. Secondly, it is the level of external auditing as scope of audits is always limited by clients...”*

The other thing which became clear, especially in the case of Kenya, was the Government’s failure to help fund the NGO sector’s regulators. The NGO Board, a government department, was so much under-funded that it was approaching external funders to support its work. Similarly, SK5 (the self-regulator) did not get any funding from the government at all and continued to use restricted funds for administration. In India, the government fully funded the department in the ministry responsible and had even extended some support to self-regulation initiatives.

NNGOs, on the other hand, tended to give some weight to the state of national regulation in assessing performance of SNGOs. In fact in the survey, 43% of them (see Question 5.3, Appendix D) said they would change their policies towards SNGOs in response to SNGO state regulation; just below the 54% who would in the case of a change in their own national laws. However, they were conscious that this was not easy, even for the Northern governments. NU1<sup>35</sup>, for instance, believed that it was very difficult to achieve total state regulation of the NGO sector in the UK (a respondent from NU1):

*“Although the UK Charity Commission is supposed to be amongst the best there is in state regulation of the NGO sector, it still fails to do it as per expectation.”*

NNGOs also recognised that there would always be a role in regulation of the sector for NGOs themselves as a group or individually. When they organised themselves to bring more order in the way they operated, NGOs sent out a strong statement to governments and funders. It was also a good statement of commitment when NGOs funded such an arrangement on their own. NNGOs also believed funders should not be called upon to fund state regulatory bodies; they should be funded directly by the governments.

To NU1 it appeared that governments were not so much interested in regulating NGOs for their orderly contribution to development of society but for their own security reasons. For instance, a manager with NU1 asserted:

*“Ethiopia is in the process of passing a law that NGOs should not undertake advocacy and lobbying work or try to influence policies in any way. There is risk that NNGOs [that do not adhere to this] may fail to get registration and some may even be deregistered.”*

NU2 insisted that all its SNGO partners had to have boards of governors who played a clear management oversight role. Such a condition was rooted in NU2’s experience that at times senior managers of SNGOs actually initiated, condoned or propagated fraud and corruption. Due to weaknesses or absence of national regulatory oversight, there was a need to have alternative means to implement change and punish errant officials.

NU2 had tried, without much success, to ensure governments in the South effectively regulated their NGOs. Although many governments had shown willingness to do so and actually initiated the relevant legislation, they had been unable to enforce or to keep the legislation up to date. NNGOs attested to insuperable bureaucracy whenever they pushed things through the state mechanism. At times, governments accused funders of neo-colonialism when NNGOs criticised or exerted pressure on the governments (see also 5.3.2). NU2 had found it politically correct to

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<sup>35</sup> This refers to NNGO UK No. 1. See also 4.0 for a key to such abbreviations.

work only latently behind SNGOs by leveraging them with technical and resource support rather than appearing to drive the reform agenda.

Likewise, NU3 was a major contributor to SK5. When SK5 started experiencing problems, NU3 was the first NNGO to send a finance officer to work there and to convince a consortium of funders to participate in a rescue plan. It continued to fund and tried to change SK5 for a long time and at one point about three of its senior staff members were on the board of SK5. This was unacceptable to some board members who openly accused NU3 of undermining local SNGOs (see also section 4.2).

NU3 had repeatedly displayed this commitment in other countries. It believed there was a big role for self-regulation since state regulation had failed and there was not much evidence that it would succeed, especially in the South. The onus had shifted to NGOs themselves to prove they were well managed and they could isolate those that were not.

It was therefore not surprising that NGOs were willing to try out new ways owing to the apparent failure of both state regulation and NGOs' self-regulation.

### *5.1.3 Towards self-accreditation*

Information gathered during research seemed to signify a general shift in focus from state and self-regulation to self-accreditation. The UK had Guide-Star UK whereas India had Credibility Alliance as national self-accreditation bodies. Only Kenya lacked such a body with a national outlook.

At the individual level, NGOs were increasingly ranked on their performance. In the US, for example, both Worth and Forbes magazines assessed annually the efficiency and effectiveness of a selection of NGOs. Consultants also specialised in giving guidance on which NGOs were most effective and the American Institute of Philanthropy providing annual Charity Rating Guides and Watchdog Reports (SustainAbility, 2003). These trends signalled new pressures for NGOs, their management and boards, and NGOs worldwide seemed to feel the heat.

The UK had already embraced the practice through Guide Star UK, a charity with links to Guide Star USA but which also received financial support from HM Treasury. Guide Star UK used information captured on SIR forms submitted as part of annual returns for larger charities.

India was following closely in these footsteps and in fact showed signs it would go further. Credibility Alliance was started by Indian SNGOs with the help of NNGOs. It aimed to restore credibility of SNGOs by setting criteria, assessing and accrediting SNGOs standing up to



specific requirements. This seemed to be a mark of honour to the SNGO just in the same way as ISO accreditation was to a company. Member SNGOs took pride in such membership, as one respondent explained (71):

*“We are members and once you become a member there are some ethics you have to follow to demonstrate transparency and accountability. It is self-regulation by NGOs on their own; by NGOs who are fed up with those bad members spoiling the reputation of the NGO sector and have stood up to say no; let us stand up to be counted.”*

However, for Credibility Alliance to get legitimacy as a national NGO accreditation body, it needed to enlist more of the 1.2 million NGOs in India. The 30,000 it had enlisted constituted such a small proportion of the total. Consequently, Credibility Alliance was involved in vigorous campaigns to recruit more members. This could have implied relaxing the criteria set as minimum qualifications for admission but no evidence of this was found. The only loophole detected was that NGOs were tested only for admission purposes but no effort was taken to ensure that enrolled members maintained the minimum standard of performance agreed without relapsing. The tension between more enrolment and maintenance of quality presented a paradox which could undermine the usefulness of the system.

In the case of Kenya, emphasis had not moved much beyond self-regulation. Thus, the two bodies entrusted with regulation of NGOs in Kenya were yet to take effective command of this role. The fact that they did not have accurate statistics on the number of NGOs in Kenya or the number of people they employed or resources they commanded was symptomatic of this state of affairs. The organisations agreed that despite an overlap in their roles, lack of or inadequate resources had constrained their work. They both strived for external funding but, by the time of this research, without much success.

Although efforts to accredit NGOs in Kenya seemed absent, there were small but disjointed initiatives perhaps needing to be consolidated into a formal sector-wide initiative. SK5 tried to introduce some of the aspects through SORAAPs. There were also efforts by ‘Operation Filimbi’ [Operation Whistle Blower] but mainly in surveillance against abuse of public resources. It investigated and published such abuses and mobilised mass action mainly against government rather than NGO officials. It therefore appeared that in this development Kenya had been left behind due to inertia.

NU1 believed that owing to state failure in NGO regulation it was necessary for SNGOs to do something on their own (a manager with NU1):

*“Informal identification of a mechanism and funding of a good accreditation system that sets clearly articulated yet attainable criteria would be a huge step forward. [NU1] tried an accredited training programme in Nigeria at one time. The aim was to demonstrate that*

*[NU1's] training was better than others available and to offer a promise to sustain the standard. Key questions arise; who should enforce it (NNGOs, SNGOs, etc.)?"*

NU1 believed that if such a step was successful it would be a lesson for the developed world as well (a respondent from NU1):

*"At the moment, if we were asked Can [NU1] handle £2m of EU funds? Who could answer no and state why not without such an evaluation system?"*

Such criteria would be useful and perhaps a way to strengthen such an accreditation system was to set and rank NGOs against key competences such as:

- ability to have an operation plan (with budget and funding) agreed three months before a new year started;
- ability to have a progress report a month after the relevant period ended;
- ability to provide audited accounts with a clean audit opinion six months after year end; and
- ability of the full board to convene every three months.

Similarly, NU2 was amongst the first movers of self-regulation. It was initially felt that if the state failed to regulate NGOs, then NGOs could mobilise themselves to ensure some order was maintained amongst themselves. Quite a number of national self-regulation umbrella bodies came into force. However, they did not work effectively for a variety of reasons including lack of funding. External support was viewed with suspicion by both governments and some NGOs, especially in the early stages of political independence of some states.

NU2 had not gathered much information about the accreditation process in India but it seemed a worthwhile effort to achieve what NU2 had always hoped for. It would be a more acceptable home-grown solution. NU2 could not commit itself to eventually rely on such an accreditation mechanism to identify SNGOs to work with but it promised to take time to study the concepts and the practice before taking periodic stances.

In the UK, NU2 was by virtue of being a larger charity with turnover in excess of £1M amongst charities required to submit additional information through SIR to the Charity Commission. It perceived the efforts by Guide Star UK as being useful but with potential to get better over time and mature into an accreditation system. By the time of the research, the system merely gave summary information of a standard nature and left users to make their own judgements.

NU3 did not have much experience with self-accreditation systems amongst SNGOs. It participated in the UK Guide Star system. However, this was by compulsion and the benefits

were yet to be realised. NU3 perhaps believed the third world would have to wait and judge how it worked in the West before adopting similar measures.

However, NU3 would remain open to see how such systems evolved over time and what role they played in promoting proper SNGO management before deciding if any reliance could be placed on them in selecting and assessing performance of its SNGO partners.

#### *5.1.4 Issues arising from NGO sector regulation*

As past research had shown (ICNL, 1997), states all over the world regulated governance of NGOs but to varying degrees. Whereas such regulation was intensifying in the North, the South was encouraged to go more towards self-regulation, probably due to distrust of the intentions of the state and its ability to play the role of an honest regulator when in funding rivalry with NGOs. In the South, both state and self-regulation measures had largely failed through a number of factors. Self-accreditation was rapidly taking root but it was still mired in paradoxes relating to legitimacy and quality of service.

Governments in all the three countries studied tended to regulate NGOs in the same way as other nations: through registration, coordination, fundraising, staff regulation, staff protection, deterrence of crime and control of the NGO agenda. It was noted that governments in the South lacked resources to do this effectively yet researchers attested to more need for effective regulation in the South (Fowler, 1997a; b).

Despite all the available evidence, in public NNGOs insisted that their decisions on which communities or SNGOs to channel their resources through were not dictated by how well the NGO sector was regulated at the national level but by the need and their own policies on areas and sectors of focus. The closest NNGOs came to admitting that regulation, self-regulation or self-accreditation affected their decisions was when they declared that the risk of failure and cost of success played a vital part. NU2 and NU3 also admitted that approval of partnership was based on ability of the SNGO to deliver and the contract was accompanied by an organisational development plan. If huge resources were needed to leverage an SNGO to deliver, then this undermined efficiency and effectiveness and chances of continued or enhanced partnership. NU3 at times tried to divorce from this connection in the belief that helping an SNGO to develop in the end benefited the nation, as other NNGOs did not have to do the same again.

It should also be mentioned that this contention was, to some extent, rooted in how the NNGO treated such expenditure on development of SNGOs. In the case of NU3, such expenditure was treated as part of direct expenditure to tackle objectives, not as part of administration or

programme management. If it were, it would directly impact on how the public perceived its efficiency.

Even without saying so, the efforts NNGOs had made to develop and ensure that national regulation and accreditation mechanisms worked was also an indication of the importance they attached to them.

Finally, all three NNGOs agreed that most of their policies, systems and procedures were developed to deliver on requirements of the UK Charity Commission which safeguarded the interests of their funders. The funders, in their own right, only come second in influence. This also applied in part to SNGOs in India. It followed therefore that regulatory bodies had a vital role to play in orderly management of NGOs but only if well funded and effective. This tended to explain why the most influential factor on policies and procedures of SNGOs was the NNGO funder factor, not the regulatory body, and this explained accusations that SNGOs were more subservient to their foreign funders rather than of their beneficiaries or national economies.

In sum, therefore, governance of SNGOs at national statutory level presented a major challenge to effective partnerships between NNGOs and SNGOs. Prior efforts by NNGOs had not yielded much success. SNGOs seemed to realise this dilemma which could easily stall the mega million partnership business and, through self-regulation, acted on their concerns. It was apparent that their action, like that of NNGOs which intervened through statutory regulation, had similarly not achieved much success. In such cases, focus shifted to individual NGO's own structures of governance to achieve that which could not be achieved at higher levels.

## 5.2 BOARD GOVERNANCE: ROLE, REGULATION AND MOTIVATION

### 5.2.1 *Role of the board*

It was determined in section 2.5 that boards of NGOs were expected to govern (Tandon, 1997). This implied determining the policy direction the NGO would take, making plans and policies, employing, supporting, evaluating CEOs, approving budgets and monitoring expenditure, raising funds and promoting the cause of the NGO (Callen, 2003). Increasingly trustees were held accountable by society, NGOs themselves, other stakeholders and the law. All the NGOs involved in this study had boards in place and appreciated this supreme role of the board. However, Carver (2006), Charity Commission (2007), Hailey (2003b) and Herman (2000) argued that the existence of a board with the required diversity of skills were not enough to guarantee performance, there were a number of other variables at play.

### 5.2.2 *Regulation of boards*

It was determined both in the literature (ICNL, 1997) and during the research that boards could make more meaningful change when there was a good and enabling regulatory framework. This would define bounds of acceptable behaviour and safeguard interests of NGOs from being overstepped by individual interests of board members. During the survey, 75% of the NNGOs considered loopholes in financial governance a symptom of bigger problems and a stimulus for distrust in SNGOs. Another 68% felt it triggered off other violations, while NNGOs attributed poor SNGO performance partly to a laxity in board oversight in such areas as resource management 68% , internal problems 64%, and a drift from the mission 54% (see questions 10 and 8.2 in Appendix D).

In the UK, NGO boards were regulated by the statutes and case law, as well as by guidelines of the Charity Commission such as guideline number three (CC3) (Morgan, 2007a). They collectively defined the roles, functions and accountability of trustees. They also defined in what ways trustees could or could not transact with their charities, including guidance on allowances they could draw and what was considered fair and reasonable. Where doubts existed, trustees were encouraged to seek guidance from the Charity Commission. In return, the Charity Commission, through an amendment in Charities Act 2006, extended to trustees protection from individual liability if they followed the guidelines.

In Kenya, the statutes were rather silent on governance of NGOs. Consequently, very few restrictions stood in the way of anybody who wanted to be a director of an NGO or in the ways a director could transact with the NGO. The extent to which this could be explained by the fact that NGOs did not rely on public funds over which the government was accountable but instead

on funds mainly from abroad was not clear. Given that Kenyan SNGOs largely relied on foreign funding, Friedman's theory (Friedman, 1980) would consider it a case of one spending another's money on somebody else, hence lacking any direct motivation for economy, efficiency and effectiveness.

In India, the government had a legislation regulating funding, utilisation and accountability for funds of foreign funded NGOs but left locally funded NGOs to the oversight of their respective funders. This means that whereas in Kenya the government was unconcerned with how SNGOs spent funds from funder NNGOs, in India the government was overly concerned.

### 5.2.3 Measuring performance of boards

The study showed that there were specific areas on which NGO boards were evaluated by a cross-range of stakeholders. These expectations, both from SNGOs and NNGOs, tallied with literature. Boards were assessed on six dimensions, namely conduct of regular and fair elections, whether the board was distinct from but able to oversee management, whether it had good working relationships with both the staff and management, whether it had relevant diverse skills, whether it had a reasonable definite period of service and whether it had constituted effective operational subcommittees.

Three other new ones emerged from SNGOs and NNGOs involved in this research, namely the ability of the board to forge sound relationships with key stakeholders (especially funders), ways to ensure those seeking to serve on boards were motivated by philanthropy and magnanimity and the need for ways and means to check that boards did not abuse their power, rights and privileges. When SNGOs were measured against these criteria, they rated differently as shown in Table 5.2.

Table 5.2: Functioning of board

Organisation	Regular and fair board elections	Board distinct from management	Good relations with funders & management	Effective sub-committees	Relevant diverse skills	Definite, reasonable board terms
1.2 SI2	No – by invitation	Yes - changes ongoing	Yes	No	Yes	No
1.3 SI3	No	No	Yes	Yes	Yes	Yes / No
1.4 SI4	No	No	Yes	No	Yes	No
1.1 SI5	Yes	Yes	Yes	Yes	Yes	Yes
1.8 SK1	No	No	No	No	No	No
1.5 SK2	Yes	No	Yes	Yes	Yes	No
1.7 SK5	No	No	No	No	Yes	No
1.6 SK6	Yes	Yes	Yes	Yes	Yes	Yes

Source: Empirical data

Based on the six measurable areas of distinction, the well performing SNGOs largely tended to have fair and regular elections, boards of directors clearly distinct from the management, good working relationship with both management and funders, effective subcommittees often with relevant diverse specialist skills which worked well with management, and had a definitive reasonable period of service for board members.

It can also be noted from the table that the case was clearer cut in Kenya than in India (note how the more successful SK2 and SK6 rated). In India, even the less successful SNGOs (SI3 and SI4) exhibited some of the positive attributes expected only in more successful SNGOs.

In conclusion, there was some evidence that funders tended to place some importance on board governance. This was shown by the behaviour of funders in the level, period and frequency of funding they gave to different SNGOs. The initiatives and investments by NNGOs to intervene at board level also provided some evidence of the importance they attached to the board. Functional boards showed more of the identified positive attributes than did the less effective ones. Whether by extending rewards funders believed a good board probably guaranteed proper oversight of financial and general management is an area needing further research.

#### *5.2.4 Board vis-à-vis management*

The balance between democracy and competency in board service had been a major challenge to most of the NGOs researched. SNGOs saw the need and were often encouraged by NNGOs to empower their members by ensuring free and fair democratic board elections. On the other hand, NNGOs pushed for knowledgeable and competent persons who could give policy directions to their SNGOs. The two forces, push from above and below, at times clashed as was evident from the pilot cases and in some SNGOs researched (see Table 5.3). Often the push from above prevailed to the detriment of the general membership, forcing a situation conforming to findings by Fowler (1997a) and Wallace (2006) who both alluded to the old adage of ‘whoever pays the piper calls the tune’.

The cases of SK1 and SI3 brought to the surface the tension between boards and management. In these instances, the CEOs became too powerful to the extent of controlling their boards for two different reasons: great support from key funders in the former and all powerful ‘founder members’ in the latter. In both the CEOs had power to appoint and dismiss members of their boards based on how satisfied they felt the boards served them. The board members found it hard to govern and instead become subservient to the management.

Regarding the need for ways and means to tame abuse by boards, evidence emerged from Kenya and India that there was no legally enforceable guidance on who could or could not serve

on boards and what they could legally expect in return for serving. It appeared from this research that NGO board membership remained positions of rewards but not commensurate responsibilities. Board members were rarely held accountable for mistakes under their watch. In the eight cases reviewed, there were limited examples of action taken against errant board members. In fact, there were cases where no action was taken even when strong evidence existed that board members had acted improperly. Only in two cases were board members relieved of their duties, in the cases of SK5 and SK1. In both, the board members still resisted their dismissal. For instance, SK5 reached a point of disintegration yet the board chair, believed to be the source of problems, refused to leave<sup>36</sup> as a fellow board member confided (158):

*“...Three staff members resigned in a week... Her election had many funders write immediately in November...some members of the board held a press conference and resigned in public citing poor leadership. New funders withdrew from talks but Bread for the World, ACBF and DfID continued but expressed displeasure. The main one, ACBF, wrote and demanded organisation-wide evaluation.....their consultant came for OD assessment, we learnt they were unhappy and if they continued it would be with stringent conditions. In fact, I learnt they had agreed to freeze our account in Harare...”*

It appeared two categories of board members existed in Kenya: the already wealthy with a genuine will to help society and opportunists who saw the role as a stepping stone to power and wealth. Although a strong sense of ethics was evident, as all the board members interviewed felt it was wrong to transact unfairly with the NGO or to demand too high allowances and costs, the reverse happened in three out of the four cases. Instances were highlighted where board members used their positions for strategic reasons too, as an entry point to government appointments. Some board members seemed to be motivated by pecuniary benefits such as huge allowances, recovery of excessive costs or ability to influence award of jobs and contracts in a way to benefit themselves or just to ‘build a name’ in anticipation of election to political offices (a respondent from SK5) (153):

*“Board membership is valued for exposure and the allowances and other benefits of having such a position. Our members get a small allowance, travel and accommodation. As a first point of contact for NGO stakeholders, the SK5 becomes attractive to some people. If they do not come, some develop cold feet. I know of one who after elections asked about allowances and was not happy, so he stepped down at the end of the year.”*

Generally, in India, all four NGOs tended to have a mixture of both positive and negative attributes. A new class of board members existed. They served on the board by virtue of their specialist knowledge which the NGO required but which they offered on a consultancy basis. In two of the four cases studied, this was accepted, and it was hardly seen as unethical. In one case,

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<sup>36</sup> Eventually, the Government took the bold step of immediately and summarily dissolving both the board and management about two months after this study.



SK2, the consultants-cum- board members used to manage the NGO until a few years before, as the CEO of SI2 explained (51):

*“Initially senior management was done by the board members themselves. For about ten years since I came in there has been a big shift between [the roles of] management and governing bodies. The Board is there [now] for policy, guidance, and consultancy on key areas like legal, financial, communication etc. and to ensure SI2 works well. The board meets once in two months. Executive Director and management meet much more often and oversee the day to day management.”*

While in another, SI3, the headquarters of the NGO doubled up as the official residence of the CEO who, as a founder member, also chaired the board. Both were potentially serious cases of conflict of interest that could damage the NGOs. With time, some of the SNGOs seemed to realise the inherent weaknesses in governance and resultant risks. One had just put in place a new board of directors and a separate management team, both distinct from consultants who used to carry out all three roles. The latter had started grooming a senior member of staff to take over the helm of management. Both of these cases were at the behest of funder NNGOs.

Although there was an emerging positive trend in both Kenya and India where established personalities were accepting board membership without any other latent motives, they were few. Consequently, a few names appeared on far too many boards and they ended up missing vital sittings or failing to contribute in any meaningful way to some of the boards of which they were members; perhaps part of the people Carver (2006) addressed when he wrote *‘How good people can inadvertently abuse the board’s trusteeship’*. In the second instance, such persons were mainly urban- based and hence far removed from the rural areas where some of their NGOs operated. However, when they served, their contribution was of distinctive quality, like the ex-diplomat who saved a Kenyan NGO from tricky disputes on several occasions (228).

In the UK, prior to the Charities Act 2006, trustees could not normally transact with the charity and were expected to volunteer their services, including the provision of expert advice. They could recover the direct expenses of attending meetings or undertaking work for the charity but not payment for their time. The 2006 Act relaxed this slightly to allow for services unrelated to the trustee role, but only under very specific criteria (Morgan, 2007a). Charities are required by law to disclose the total expenses incurred by trustees for public consideration. A deviation from the behaviour prescribed by law for trustees could result in them being held personally and severally responsible in courts of law.

The responses by funder NNGOs to practices they did not approve of varied from withdrawal to an attempt to change the situation either within the individual SNGO or at a higher, often national. For instance in Kenya, NU1 opted to tackle the issue head on at the SNGO level (a director of SK5) (163):

*“NUI now saw a chance to influence who came to leadership. They opted to actually finance campaigns...that was NUI xx and another who wanted to come to the board. They came into politics of the SK5... and they were all elected to the board except one. People knew what was happening and NUI had ferried people in and paid their expenses to vote. In elections that is illegal and people agreed they got good per diem and were housed at Lenana Mount and Silver Springs hotels. This action brought a shift between local and international NGOs; they said NUI has the money and they can ride over other NGOs. NUI has done this before with another organisation. Many are shying off from NUI. NUI was perceived as a bully. NUI’s xx is now regional director... he is a top man.”*

As such acts of boldness sunk in, evidence was obtained to show that SNGOs were slowly becoming wary of such consequences. They responded by being very selective on the funder organisations to approach, as one officer frankly admitted (CEO of SI5) (33):

*“As an organisation we are very selective in choosing organisations to fund us. We never want an organisation that will want to interfere in our governance or management. You must agree and believe in us, then let us do our work and give you reports. We won’t allow funders to sit on our governing board. Please stay away, we will give you reports. Defining who to get money from allows you to ensure your confidence and direction.”*

When the overall question was raised of why some SNGOs succeeded and others failed, two responses seemed to embody what others believed but might not have been courageous enough to state as succinctly (an official of SK4) (205 & 207):

*“As a check now, SK4 does not register any NGO where the CEO is also a director. Cases abound of very strong CEOs who spoil NGOs as they hand pick and control directors...board is as good as the CEO.”*

*“Why some NGOs fail and others succeed? governance. When they start they do very well. Usually the founder has vision and strength until they reach some level of growth and systems and procedures start coming in, the founder member starts losing control and feels threatened and poor management [sets in]. Managers overstay and run out of ideas but insist on keeping positions of leadership.”*

#### 5.2.5 Issues arising from board governance

Increasingly, NGO boards were gaining wider mandate requiring more specialist skills. As NGOs managed larger budgets, their boards were gaining enormous powers which could be abused easily. There was need for effective legislation to set bounds for their operation. The fact that a number of members of NGO boards were implicated in financial wrong-doings confirmed this need, as did an examination of motives for board service.

In general, effective boards tended to be those which held fair and regular elections, were distinct from management, maintained good relations with key stakeholders especially funders and the management, had effective subcommittees, diverse relevant skills, a definite period of service, individual members driven by genuine will to help, and ways and means to safeguard the interests of the NGO when they conflicted with those of individual board members.

Management was also accused of many cases of financial wrong-doings and mismanagement. In some instances, they had been accomplices by failing manage malpractices perpetrated by board members. In other cases, management had become so powerful that it controlled the board. This tended to be more common in founder member-led NGOs.

It appeared that NGO boards, as the custodians, dictated the direction the NGO took. In many cases board members' individual interests conflicted with those of the NGO. Statutory intervention could play a critical mediation role but since it had failed in the South, a real problem persisted. It was possible that some frustration could stem from failure of both statutory level and organisational level governance. This presented another critical challenge to the state of the partnership. Evidence from this research showed the need for more effective legislation in the South to regulate membership, roles, accountability, responsibility and the conduct of members of boards.

### 5.3 FINANCIAL MISMANAGEMENT, FRAUD AND CORRUPTION

#### 5.3.1 *Financial wrong-doings at board level*

The theme of fraud, corruption and financial mismanagement cropped up whenever NGO management came up for discussion in all the interviews held in Kenya and India. Although very few organisations admitted to any form of vice, they readily had cases of SNGOs beleaguered by financial mismanagement, making it one of those vices that affected the whole sector 'except us'. They were also enthusiastic in highlighting it as one of the key factors which undermined funder confidence in the sector (68% of respondents attributed SNGO poor performance to resource mismanagement, 100% of NNGOs were involved in the SNGO planning process, and 82% engaged local external auditors)(see questions 8.2, 5.1 and 9 in Appendix D) . Some even felt there was a substantial number of NGOs formed and thriving on these malpractices. For instance in India, two respondents felt it was widespread (70 and 128):

*"Unfortunately there are over 1 million NGOs and over half are set up to short-circuit and take advantage of resources. I'm sorry to share this with you; in those cases then it is relevant.... We now have SII for organisations that are concerned with these things and are trying to do something about it to address the issues..."*

*"In financial accountancy, we may be among very few organisations in this country...I don't want to sound arrogant but they are very, very few...they can be counted on top of the hand. In our case, we are up to date. If you tell us tomorrow 'I am coming for an audit', we are ready."*

Financial mismanagement, unlike fraud and corruption (see 5.3.3), could occur both consciously and unconsciously. As for incompetence, it was very hard for officers to admit to mismanagement and neither were they in breach of any specific law. However, NGOs often faced serious consequences by picking up losses and other consequences of financial mismanagement by their officials.

Closer examination of the practices within SNGO boards (see Tables 5.3 and 5.4) showed that most of them had one form or another of financial mismanagement. Analysis of data gathered on financial mismanagement in some cases involved members of both the board and management, although the forms differed at these levels. Table 5.3 examines the eight SNGOs against five common forms of financial mismanagement: members of the board entering into contracts to supply goods and/or services to the SNGO on whose board they sat, board members awarding themselves allowances or costs respondents found too generous and unjustified, board members unduly influencing contracts the SNGOs made, board members influencing management on employment, and board members sanctioning use of restricted funds in violation of the conditions of the contracts the SNGO made with its funders.

Table 5.3: Forms and prevalence of financial exploitation at board level

	SI2	SI3	SI4	SI5	SK1	SK2	SK5	SK6
Contract with NGO	√	√	√				√	
Unjustified allowances / costs	√		√		√	√	√	
Influence contracts	√	√	√	√	√	√	√	
Influence employment	√	√	√		√		√	
Misuse restricted funds							√	

In both India and Kenya, there were cases where members of the board directly or indirectly, often using a company or business or a friend as a smokescreen, contracted with NGOs they served. In some cases, this would be to provide services such as consultancy, conference organisation, security, office upkeep and insurance. In other cases, this would be for cars, stationery, computer systems, printers, furniture, office equipment and land. The problem in such cases arose through conflict of interest as the directors had to make the final decision in the interest of the NGO, yet members had vested interests in the decision as well. In all, this affected four of the eight SNGOs studied.

In over half of the NGOs studied, members of staff expressed fears that board members awarded themselves high and unjustifiable allowances. Types of allowances commonly given were for sitting, travel, meals, accommodation and compensation for other expenses. Since the board members set and benefited from these allowances, they often set them at very generous levels. A casual check upheld this assertion. In two of the NGOs, meals allowances were paid despite the fact that during sittings the NGOs actually provided the meals at no charge to board members. The rates set for accommodation also had no relation to, and were way above, the hotel rates in the target areas. In all, this affected five of the eight SNGOs.

In awarding major contracts, the boards often had to make the final decision. Cases were highlighted where if contracts were not awarded to benefit colleagues on the board, they were given to firms having some connections with board members. In some of these cases, corruption was intimated and respondents were fully convinced that fraud and corruption took place. This contributed to financial losses, as a conflict of interest situation inhibited the ability of directors to save the SNGO money. In all, this affected seven of the eight SNGOs studied.

The other area of concern was employment, mainly because unemployment rates were high in both India and Kenya. It was alleged that board members coerced management to employ their relatives and allies in the NGO and such employees spied on management and other members of staff. In two cases, members of staff in fact only agreed to be interviewed at a hotel rather than at their organisations' premises. It later transpired that this was due to fear that relatives of board members would spy on them. Members of staff who had complaints against the NGO had to be careful with such members of staff. Financial losses arose as the SNGO was compelled to

employ beyond the establishment, to pay for non-existent skills or to pay such employees higher salaries. In all, this affected five of the eight SNGOs.

In one case in India, medical doctors employed full-time by an NGO concurrently ran their private clinics. They sometimes referred patients from the mission hospital to their private clinics thereby depriving the employer of income. Opinions were split as to whether this constituted a financial wrong-doing. Some members of staff felt it did, NNGOs felt it was obviously so, but some members of the NGO's management indicated that this was a nationwide practice widely accepted and practised in India including the biggest employer of doctors, the government. Requirements to the contrary would drive away doctors as they were in short supply in India or lead them to demand too high salaries. The practice was common even in the UK and this made SNGOs discontent and to read in it hypocrisy by NNGOs.

Some of these study findings conformed to the findings from the literature review (Bradshaw et al., 1992; Callen, 2003; Carver, 2006; Chait et al., 1991; Gibelman and Gelman, 2004; Green and Griesinger, 1996; Herman, 2000; Iecovich, 2005). The only difference was that whereas the literature revealed their existence at management level, this study showed its existence at board level amongst SNGOs.

Finally, there was evidence in most of the cases of misuse of the NGO's assets by board members. This included borrowing the NGO's vehicles for private use, use of office computers and communication facilities for private work, or giving NGO staff like drivers, messengers and secretaries board members' private work. This often translated into extra costs for the SNGO.

### *5.3.2 Financial wrong-doings at management level*

All the NNGOs surveyed indicated that they gave financial support to their SNGO partners, matched only by the extension of capacity building and technical assistance (see question 3, Appendix D). NNGOs followed this support closely with participation in the strategic planning (89%) and annual budgeting processes (100%) and even provided policies to be followed by the SNGOs in planning (100%), financial management (50%), and monitoring and reporting (100%). This underscored importance of financial management in NNGO/SNGO partnerships.

There were also several cases of poor financial planning and control imputed to the management of NGOs. They included alleged management complicity in financial wrong-doings at the board level. The dominant forms are captured in Table 5.4 below.

Table 5.4: Forms and prevalence of poor financial planning and control

	SI2	SI3	SI4	SI5	SK1	SK2	SK5	SK6
Lacks strategy for sustainability	√			√	√	√	√	√
Can not vet claims from board members		√	√			√	√	
Commits expenditure without funding <sup>37</sup>	√	√					√	
Can not strike proper salary structure					√	√	√	
Is greatly criticised by auditors			√		√		√	
Ignores audit recommendations			√		√		√	
Pays inflated bills					√		√	

It can be seen that the most dominant form was the inability of management to develop good sustainability strategies for their NGOs. Amid different definitions of sustainability, in this case it was assumed to be the ability to keep the NGO in service of its mission for at least a year if external funders ceased to support the NGO<sup>38</sup>. This eliminated a few cases where management believed that by getting more foreign funders they had effectively built a sustainable funding base. Experience had taught some that external funding came in bounds and ceased abruptly, probably owing to exchange of information between NNGOs. The situations of SK5 and SK1 on the one hand and SK6 on the other were cases in point. This affected six of the eight SNGOs.

In SK5, the malpractice manifested in use of restricted funds on administration, employing staff at unaffordable and unfunded salaries, signing contracts in anticipation of unsecured funding, granting excessive allowances, showing inability to uphold conditions in contracts with funders, misusing transport facilities and being unwilling to accept recommendations of consultants and external auditor (a manager with SK5) (172 & 171):

*“CEO then decided we move office at a very high rise in rent [in the hope they would share the space and costs with another British charity but the deal fell through]...We were making contracts before we signed the fall-back contracts and exposing ourselves. A decision was also made to employ other staff who were not funded, hoping that subscriptions would rise to cover the costs: legal officer, research officer, personal assistant to CEO...These unwise decisions constituted financial mismanagement.”*

*“We incur expenditure without budget lines...we are now using restricted donor funds irregularly... decisions on computers, networks, very expensive CEO, office change saw us spend over (£30,000) from donor funds and that deficit still exists...board made decisions and contracted without consulting me as acting CEO and the finance manager.”*

The theme of institutional racism also emerged in one of the cases where an official of an NNGO, the UK-based arm of SK1, admitted that he did not trust African board members and he could not constitute a board without a European on it, claiming that locals had proved not worthy of trust (a trustee of SK1) (26, 32 & 33):

<sup>37</sup> This often meant using restricted funds to pay for expenses not qualifying under the funding agreement.

<sup>38</sup> Note that this is a Northern definition of sustainability as taken from Morgan (2002). Literature showed that SNGOs considered sustainability to be the ability to decline some forms of funding.

*“I told them straight to their faces that I did not trust them at all. XXX got annoyed and said ‘Why are you treating us like children?’ and I told them ‘In fact I’m not treating you like children but like thieves’...XXX wanted me to have a local board without any European so that he could just control them. No way, I can not have a board controlling money without a European on it...I have never trusted Africans and the only time I did it was with XXX but he just proved my fears.”*

However, this case seemed isolated and further interviews with the claimant seemed to point to his abrasive character and negative past experience which seemed to underlie the outburst.

The inability of management to tame financial abuse by the board was the second most widespread weakness. Management had custody of financial resources and could decline some of the unjustified claims and demands by board members but they did not. This was common in four of the eight SNGOs studied. Why the management failed to exercise due diligence in these cases needs further research. Was it due to complicity, fear, lack of capacity or something else?

Others were entering contracts which bound the NGO without securing funding first, inability to work out a sound remuneration structure for members of staff, weaknesses in internal controls highlighted by external auditors, inability to take corrective action following external audits and payment of inflated bills.

It should be noted that poor financial management was a problem for both NNGOs and SNGOs. Quite a number of voluntary organisations in the UK showed poor financial management. Mismanagement seemed to relate to capacity while fraud and corruption related to improper motives. This turned the issue from one of capacity or ability to one of morality and legality.

In Kenya, the weaknesses in control were manifested in bribery, payment of unjustified allowances, forged documents, over-pricing of claims or negotiating inflated invoices to siphon resources from NGOs, and in misuse of assets. In India, they were shown in misuse of assets, using NGOs’ resources for private gain and use of forged documents at the expense of NGOs.



### 5.3.3 Dominant forms of financial wrong-doings

The dominant forms of fraud and corruption the study found are summarised in Table 5.5.

Table 5.5: Dominant forms of financial wrong-doings

	SI2	SI3	SI4	SI5	SK1	SK2	SK5	SK6
Misuse of SNGO's assets	√	√	√	√	√	√	√	√
Inflated salaries and allowances		√		√	√		√	√
Bribery to influence decisions			√		√		√	
Inflated prices for goods and services		√			√		√	
Forged documents to draw refunds		√			√		√	
Insider dealing		√			√		√	
Writing off debtors		√				√	√	

It appears alleged misuse of NGO assets was the most common form of corruption and it showed across all the eight SNGOs, straddling more and less successful SNGOs alike. It involved use of vehicles, computers, office supplies and stationery, office space and NGO staff. However, there was a sharp division in opinions. Whereas SNGOs believed private use of some of the assets such as cars, computers, office space and staff was a standard benefit in line with practice in those countries, NNGOs felt it was clear case of corruption. This would appear a paradox since some of these practices were also common and generally accepted in the UK.

The other categories of fraud and corruption were paying inflated salaries and allowances, offering or accepting bribes to influence decision making, paying inflated invoices in return for some other benefits, forgery of documents, insider dealings to win contracts, and writing-off debts or receivables of NGOs in an un-procedural and often fraudulent and corrupt manner. In two of the less successful cases reviewed in Kenya, some evidence was gathered, including signed audited accounts and funder actions, to show that different forms of the vice were rampant in the organisations.

One of the less successful cases in Kenya, SK1, was on the verge of falling out completely with its key UK NNGO funder, accusing some board members of corruption. The local board members of the SNGO also raised allegations of financial impropriety on the part of the NNGO. This stalemate degenerated into other serious allegations when the UK-based representative of the NNGO was contacted. In this instance, cases of the vice manifested themselves in inflated prices for goods and services, asking for 'kickbacks', practising nepotism in employment, lack of controls and CEO's getting approvals from the UK-based funders without the knowledge or approval of the local board, as the local chairperson of the board explained (director, SK1) (5):

*“...bank account was opened in September. In November ... £20,700<sup>39</sup> came in... It took long before board knew. XXX then came with 3 cheques...one blank cheque for £15,000... stated that money was ... to buy a car. XXX bought a car ... proper processes were not followed and board was not aware or consulted.”*

*“... I wrote to them (funders) that sometimes I wonder how the developed world works.....I don't want any confidentiality. I want the right people to get the right information...How can they hand money over (£25,000) to an individual?...Iko maneno mingi sana [there is more here than meets the eye]...I don't want you to hide them. In fact, if you can get people in charge of transparency give them...I will give you all the relevant information...I will give you everything...kila kitu...nitakupa kila kitu [everything...I'll give you everything].”*

In response to these allegations of financial impropriety on the part of the funder NNGO (SK1-UK), a representative of the NNGO felt that in fact it was the local board which fronted corruption and financial mismanagement (a trustee of SK1-UK) (15 & 28):

*“SK1's xx is a liar and a thief. I will use anything within my power to ensure he never holds any position of responsibility or leadership where trust is involved. In his past roles, including as the head of XXX, he only helps his own clan of people from around XXX area. At one point, we agreed to cost share some shallow wells with them. SK1 xx went behind our back and was telling XXX to inflate the prices by Kshs 40,000 [£300]. That was so as to steal from us. How do you work with such a partner? Whenever he buys something he is always negotiating 'one for me and one for you'.”*

In India, not many open cases were unearthed but other subtle forms surfaced such as inability to distinguish the organisation's resources from the CEO's personal resources, members of the board working as paid consultants to the same NGOs they served at terms they set, and employees of NGOs running their rival competitive practices beside their full-time work. In some of these cases, the interviewees did not detect anything unethical. They seemed so common and regular that they were assumed normal practices yet funders sneered at them. Nonetheless, respondents were quite aware that corruption was rampant in the entire Indian economy and NGOs should not be isolated for condemnation (a director of SI3) (177):

*“... We have a graph of corruption; Nepal is the highest, China and Sri Lanka were the least. For India, they could not include it because there is so much corruption that it could not fit in. We have lost 1 Crore [ten million Indian Rupees or £122,000] because we could not bribe; we also told off [an NNGO] as they felt we could solve a problem by bribing but we said we can not bribe; that is encouraging corruption.”*

In the second less successful case in India, SI4, the founder directors, themselves former government employees, used a loophole in the law to register as an NGO what was de facto a private for-profit company. The 'NGO' used this status to be gifted an office block, tax-free status, government grants and use of a government mechanism to market its goods and services overseas and to enrol more members in rural states. Funders saw through this scheme and steered clear of the SNGO.

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<sup>39</sup> Amounts given in local currencies, Kenya Shillings and Indian Rupees, have been converted to UK sterling equivalents.

Although in two of the cases, SNGOs accused NNGOs of condoning or even encouraging corruption, the NNGOs seemed to have been driven by lack of confidence in alternative channels for getting things done. The NNGOs thus perceived this as the only opportunity to get action.

Whereas cases of fraud and corruption were rare in the UK, it is remarkable that during this study the National Audit Office (NAO) uncovered fraud within the Community Fund (CF) and consequently issued a qualified audit opinion. The vice in this case was manifested in voluntary organisations<sup>40</sup>, some hastily formed, making multiple applications for grants and the CF failing to verify the applications or to follow up to ensure the funds were used for purposes intended. The CC had also taken action against some charities mainly for failing to submit their annual returns and had investigated a number for financial impropriety, none amongst cases selected for this study. In the enacted Charities Act 2006, safeguards were introduced to protect 'whistle-blowers', auditors and examiners to empower them more to identify and raise such cases.

In a way, therefore, the UK tended to safeguard against financial wrong-doings by putting into place guidance mechanisms and to detect and deal with problems early. SORP, for instance, prescribed minimum requirements, and legislation also required accounts of NGOs to be externally audited or examined by an external examiner or using independent examiners or the peer review mechanism depending on the amount funds it managed.

Respondents tended to agree, and this corresponded to the work of Gelman and Gibelman (2004, 2001), that financial governance and management was one of the key causes of NGO failure. This is exemplified by these summaries from different respondents (comment 64 by CEO of SK2, comment 149 by a board member of SK5 and comment 224 by CEO of SI5):

*"I agree governance and financial management are main causes of organisational failure. Many SNGOs can't even determine what salaries to pay or not to pay and that can lead to failure. A poor governance and finance system will inevitably lead you to failure..."*

*"Does poor financial management affect performance of SNGOs? The answer is yes, a big yes, financial management affects how an SNGO performs. As treasurer, the finance manager has to brief me on all finance matters. But there is a very big gap between the two that the treasurer can not perform his functions or be in charge of finances... Secondly, as an SNGO, you can not afford a competent and well qualified accountant. You attract whoever you can afford. In computer language, they say garbage in garbage out. In...we pay [£250 per month] and you can tell what kind of input you expect from such a person! When we employed ...at about [£1,200 per month] salary, we could not afford it."*

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<sup>40</sup> Like SNGOs receiving funding locally in India (Jalali, 2008), there is hardly any oversight of voluntary organisations in the UK not also registered as charities beyond the requirement to keep books of accounts for tax purposes (Morgan, 2002).

*“Why do some NGOs fail and others succeed? Fundamental problem is mainly financial mismanagement and human resource mismanagement. If government could zero in on problems in NGOs you would be surprised...it is an area of paradoxes; NGOs preach one thing and practise another.”*

#### 5.3.4 Mapping financial governance and management

The Novib / British Council (BC) model for assessing financial governance and management of NGOs (see section 2.5) could be used here to make a quick assessment of the level of financial management within these SNGOs.

By using the totality of perceptions built from data collected during the research and the Novib/BC model, the eight SNGOs in this research could be mapped against the eight pillars of the framework with the following results:

Table 5.6: Mapping SNGOs' wrong-doing on Novib/BC Principles of Financial Management

	SI2	SI3	SI4	SI5	SK1	SK2	SK5	SK6
Accountability		X	X		X		X	
Transparency		X	X		X		X	
Custodianship	X	X	X	X	X	X	X	X
Integrity		X	X		X		X	
Consistency				X	X		X	
Non-deficit financing		X						
Documentation			X		X		X	
Disclosure	X	X	X	X	X		X	

This mapping isolates custodianship, disclosure, accountability, transparency and integrity as the main problems, in that order, of financial wrong-doings in SNGOs researched. When viewed in performance compartments, only custodianship and disclosure problems straddled the two sets of more successful (SK2, SK6, SI3 and SI4) and less successful (SK1, SK5, SI3 and SI4) SNGOs. Any efforts to improve financial management amongst SNGOs in India and Kenya needed to target the two and to cascade down to include the other forms identified above. The principle of consistency failed to give any recognisable pattern between the two categories.

Leading NGOs across the world, through WANGO, had introduced an accountability charter requiring NGOs all over the world to do self-evaluation against the charter and sign up if they met and promised to uphold the requirements. This was yet another form of accreditation transcending national boundaries which could help address the loopholes despite scepticism such as those raised by Bernstein and Cashore (2007).

### 5.3.5 *Issues arising from financial mismanagement, fraud and corruption*

Some forms of financial wrongdoings tended to be common amongst SNGOs. They cut across employment, remuneration, management of contracts, misuse of resources, inability to take and act on advice and lack of effective strategies for sustainability.

These vices were common both at board and management levels. Under normal circumstances, the board is expected to hold management accountable. When the board is implicated in perpetrating some of these malpractices, its effectiveness is greatly undermined. A mix of weak organisational governance and management could combine with weak government regulation and poor NGO self-regulation to undermine the trust and confidence in the NGO sector.

The law was either non-existent or generally silent or not enforced in key aspects of SNGO governance. This seemed to be attributable to limited resources on the side of the state and to some extent preoccupation with other more pressing national problems.

This study showed that SNGOs needed to find ways to improve their governance and management. The fact that custodianship and disclosure were major problems for both more successful and less successful SNGOs was an impetus for SNGOs to try harder. A real threat existed since more governments in the South were becoming democratic and could once again become viable and preferred means of achieving social change and erode NGO funding.

On the whole, SNGOs had failed in several ways to measure up to expectations in financial management. Some of the basic principles of financial management such as custodianship and disclosure were not effectively upheld. This presented another critical challenge to the state of NNGO/SNGO partnership. However, the issue of culture and contexts seemed to play a role. There were cases classified by NNGOs as financial mismanagement but which were not considered so in other circumstances. There was therefore a need for NNGOs to examine definitions of financial wrong-doings by considering different cultures and contexts.

## 5.4 FUNDING OF SNGOs

The telephone survey showed that all NNGOs extended some form of funding support to SNGO partners (see question 3, Appendix D). Table 5.7 shows aggregated income profiles of the eight SNGOs studied, analysed and averaged over a period of four years using empirical data. Some contrasts can be drawn with the funding of NNGOs as portrayed in Appendix L.

Table 5.7: Income profiles of NGOs

NGO	% of Income from Private Companies	% of Income from Local Grants	% of Income from Own Service Charges	% of Income from Foreign Funders	Total Income
SI2	18%	9%	-	53%	100%
SI3	-	10%	75%	15%	100%
SI4	-	5%	95%	-	100%
SI5	4%	14%	12%	70%	100%
SK1	-	-	-	100%	100%
SK2	-	-	18%	82%	100%
SK5	-	8%	13%	79%	100%
SK6	-	3%	46%	51%	100%

This summary tends to uphold the long held view that some SNGOs are overly reliant on external funding. It can be noted also that for Kenyan NGOs the case was more pronounced with all the four SNGOs receiving over 50% of their funding from sources external to the country. In fact SK1 relied solely on external funding and its collapse was imminent following irreconcilable disagreement with its funder NNGO. The other less successful NGO in Kenya, SK5, was already in turbulence as external funders had collectively withheld funding. These two cases signalled the risks inherent in over-reliance on donor funding, however diversified, and supported findings in literature review (Fowler, 1996; Wallace, 1997). The diversified funding of SK5 despite its less successful performance could be explained by its national presence and quasi-legal mandate which made it influential. The two more successful cases, SK2 and SK6, were progressing in raising part of their funds from charges for their services.

In India, it can be noted that the more successful cases (SI2 and SI5) had diversified their funding sources and were in fact raising funds locally from private for-profit companies and from local not-for-profit funders. The highest and the least reliant on external funders received 70% and 0% respectively of their total income from such source compared to 100% and 51% in Kenya. It was also noted that when NGOs in India became less successful performers leading NNGOs to withdraw funding, the SNGOs tended to explore other possible forms of funding.

In both Kenya and India, accountability seemed to reflect this state of over-reliance on external funders. Whereas Indian SNGOs insisted that they met both the government's requirements and those of external funders, Kenyan SNGOs only cited meeting requirements of the funders. It can be discerned from the two cases that SNGOs were keener on requirements with some consequences. In India the government and funders threatened their survival while in Kenya only funders did but the government could be ignored with little or no consequences.

It was also noted that critical initiatives like Credibility Alliance, SI5 and OSANGO put great emphasis on meeting funder conditions ahead of accountability to governments and they mentioned accountability to beneficiaries only in passing. In this way, SNGOs, through survival instincts, became rather subservient to the NNGOs funding them.

Another empirical finding almost gets lost in the table above; the high level of creativity shown in fundraising mainly by the two more successful SNGOs in Kenya and all four SNGOs in India. It ranged from performance-tied conditional funding, creation of strategic alliances with the government and parastatals, performance validation roundtable meetings for funders, initiating cycles of friends, forging alliances with key stakeholders and seeking specific sponsorships for which results could be directly monitored independent of the SNGO.

It can also be noted that all cases from India enjoyed some local funding and in all the cases a good part of local funds came from the government. This is in stark contrast to the situation in Kenya where none received any funding from the government. In fact some cases were highlighted in Kenya where government officials expected, and often demanded, facilitation in the form of allowances, transport and supplies from the SNGOs.

The findings also indicate the concept of partnership has evolved. It had changed greatly from what it was initially (working together by utilising strengths of each partner) to become synonymous with funding (see, for instance, the substantial resources UK NNGOs raise for international aid in Appendix L). One CEO shared his SNGO's past experience (51):

*"About 5 years we never managed budgets; we just allowed a partner good in something to do it, Red Cross did mobilising, Amref did publication, Catholic Church..., Action Aid would pay for some administrative functions, etc.; we had equal responsibilities and implemented jointly. Now we receive money and at the start we lacked know-how and I relied on an external accountant who helped us build systems."*

Such was the genesis of partnership. For a myriad of reasons, NNGOs found it more practical just to fund on the basis of agreed work plan and output. Funds, being liquid assets, had far

more inherent risks of misuse. When the funder/beneficiary relationships emerged, it became untenable to uphold pure virtues of partnership so funder NNGOs turned beneficiary-NGOs into sub-contractors who wasted a lot of time in the process, as one respondent summarised (56):

*“In a partnership we have come to value that we must remain credible, transparent and accountable, and this includes ability to deliver, on quality and in time. But we have to avoid wasting too much time on chasing money and disrupting staff contracts. If you lose staff it is very hard to build a team all over again.”*

Attempts to analyse NGO efficiency during this study were not particularly successful. It was not possible to compare core administration and programme management costs (indirect) to direct costs across SNGOs. This was due to lack of a sector-wide costs classification protocol resulting in different SNGOs applying different definitions to cost classes and some subsuming administration costs into programmes. In the UK, this problem was minimal as SORP clearly defined costs to be reported under different categories, thereby facilitating NGO to NGO comparisons. In Kenya, SI5 attempted to go this route by contracting PriceWaterhouseCoopers to develop Statement of Recommended Accounting and Auditing Practices (SORAAPs) for use countrywide. The initiative overestimated the capacity of NGOs to implement. Although they awaited consideration and eventual enactment by the government, immense difficulties were foreseen in compliance by smaller NGOs. Consequently, the only evidence gathered were perceptions of efficiency. Both in Kenya and India the less successful cases had the conviction that their support costs were quite low in comparison to INGOs with local offices since they spent excessively on security, transport, staff salaries and staff benefits. Their levels of remuneration were termed ‘obscene’ and ‘bearing no relation to cost of living or inflation’ by one SNGO in India. There were also allegations that NNGOs seemed more interested in quick results to justify their investments than in impact (80 and 173):

*“Funding organisations are very resistant to building organisations. They need to understand and build capacity, invest in people and resource mobilisation for the organisation, yet some funding organisations are very resistant to support these.”*

In a way, the power in NNGO/SNGO partnership seemed to represent different things to the parties. Although some of the less successful SNGOs alleged NNGOs did not listen or learn anything from them, some of the more successful had evidence of real instances in which they impacted on policies of NNGOs. SK2 believed it changed NNGO’s strategy to HIV/AIDS (60):

*“Can we influence NNGOs? [The] initial strategy was prevention and we went back to discuss whether that was the best way. We identified areas they could chip in and their new strategy now talks about care for HIV/AIDS patients. They have helped us, through staff collaboration, to review our internal systems and procedures. On policy issues, we raised approaches to advocacy so that they can work here; you need to respect age and relationships and you can not just approach it like in the West and we managed to change*



*it. They also helped us to ensure money through the state involved us to make sure it reached the beneficiaries and the Head of State endorsed it. These issues show mutual collaboration and we influence them and they influence us on HIV/AIDS; maybe because we have more experience than them.”*

When pressed to explain why NNGOs would listen to and learn from one SNGO while to a great extent ignoring another, the CEO volunteered two reasons: one inward looking – to help the SNGO and the other outward looking – to help the NNGOs (210 and 220):

*“Do we promote/demote partners to donors? Does it help or destroy us? Our success is back to values and ability to see value of one’s conviction, openness, honesty, integrity, exposure, etc., virtues that give them very solid base against which to fund raise. I have done fundraising in Europe so I understand how to help them to help us in fundraising. We communicate and I invite them one to two times a year and we send them just with field officers to the field just after my briefing; I never go with them to avoid influencing them or projects. Then we debrief over lunch. We do round table with all our funders each two years, we send regular reports.... We are frank and we try to pre-empt problems by assuring them that we do self-examination, discover and address our problems from time to time.”*

*“We look at the partners with a lot of love and they look at us with a mixture of love, hate and suspicion; they sometimes look at us as corrupt organisations....”* CEO of SI3 (170)

Besides funding, there were also other forms of support which NNGOs extended to SNGOs based on negotiation and assessment of the capacity of the SNGO. In some cases, where an NNGO was happy with an SNGO’s work but not with its capacity, support widened to include capacity building and technical assistance. In such cases, the NNGO would pay external parties to train and build capacity of the SNGO. The NNGO would also send in technical assistance through consultants or its own staff to assist the SNGO in specific areas and even sponsor staff of SNGOs for specialised training. Often these areas tended to be in developing intervention strategies, monitoring and evaluation, IT and financial management. The fact that technical training and capacity building were extended by all the NNGOs surveyed (see question 3 in Appendix D) tended to isolate them as the default solution to assessed inadequacies in SNGOs. This conformed to literature review (Sahley, 1995; Wallace et al., 2006). Combined with such technical assistance, NNGOs often found it necessary to provide extra support in the form of equipment and goods in kind, staff and others such as equipment hardware and software. These would be for computer systems, communication systems, vehicles and motor bikes.

In a few cases where projects involved substantial procurement of goods and services, NNGOs often seemed more comfortable in carrying out the procurement process; entrusting the SNGO only with distribution. This practice was common in emergency and relief operations where quick yet costly action was necessary, the SNGO did not have well qualified procurement staff and the NNGO felt it was risky giving the role to the SNGO. It should be mentioned that this type of support was only possible for NNGOs with their own presence in the country.

## 5.5 DEVELOPMENT OF PARTNERSHIPS

### 5.5.1 Identification of partnerships

Four types of relationships seemed to emerge from the study, mainly starting with contract for services and maturing into a more solid, trust-based, mutual relationship. In the first scenario, an NNGO and an SNGO would jointly bid for a project. In the second type, an NNGO would win a project on its own then contract an SNGO for some aspects of the project. In the third instance, an NGO would identify an SNGO as a partner and on the basis of agreed objectives advance funds and other resources. Finally, an NNGO could develop some trust and confidence in the SNGO and on that basis give general unconditional grants to leverage the SNGO's work. All eight SNGOs had experienced these relationships with different funders at different times. Yet, the survey amongst NNGOs showed that they brought in SNGOs as partners from the onset which depicted the establishment of partnerships as an event rather than a process.

Generally, NNGOs tended to fund SNGOs on basis of some form of understanding (contractual rather than merely on the basis of trust), especially when funds were involved. This view came from a cross-section of SNGOs, each with its own justification and merits (22, 65, 55 and 68):

*"The support from our partners comes in two forms. Some on the basis of an MoU especially if actual funds are being sent, and others are on the basis of just mere agreements but without any formal MoU. MoUs are necessary to guide later if problems arise where money is involved."*

*"For us we have both grants and contract for services. It's very encouraging but some give you very little money and do too much monitoring and in fact spend more on the monitoring... If you are experienced, you can make it immediately. Some who know us well just commit money and tell us to go on with work....so we design projects and go on with it."*

*"In some cases, we agree on contracting the services: come in because you have the money and we have the capacity to do ABC. I do it and charge you for it. It helps us to remain focused and without too much influence from partners. We retain reserves from such and beef up our systems using such resources".*

*"Some NNGOs now ask you to bid with them as counterparts and if they win then they subcontract you for specific components. If you become very inquisitive then you are dropped and another local counterpart is taken on board."*

NNGOs indicated that some of their funders at times insisted on existence of partners in the South before applications for funds were considered. These conditions tended to dictate at what point SNGOs were brought into the picture, before or after funding was secured.

The actual identification of which SNGOs to bring on board was done more through past experience and by word of mouth recommendation from other NNGOs (25%) and through the use of consultants (32%). Very rarely were selections based on the many unsolicited

applications NNGOs received (18%) or on using the available databases (11%) (see Appendix D). Only one NNGO had developed its own means of identifying new SNGOs.

#### 5.5.2 Formalisation and growth of partnerships

A trend emerged where trust gradually developed through a number of steps, depending on the nature of the relationships. Six of the eight NGOs researched in India and Kenya had experienced three distinct levels. Initially, they would get a little funding on the basis of a well agreed work plan and substantial monitoring would follow to ensure they delivered. In such cases, funds were either released in instalments upon certification of good delivery of the agreed work plan or the organisation had to carry out the work and then invoice later. At the second level, more funds would be approved while monitoring reduced and NNGOs would advance funds and expect reports at periodic intervals. At the third level, NNGOs were willing to contribute general funds to help the SNGO implement its work without prescribing what exactly the funds would be spent on. The usual reports of the SNGO such as the annual reports and audited set of accounts were sufficient for funders. This level appears similar to the PPA arrangement found in literature review which DfID had adopted for funding some NNGOs on specified programme areas (Wallace et al., 2006). At this level, the NGO would also recommend the SNGO to other prospective funders. There was overall satisfaction amongst the SNGOs when this level of trust was reached (64, 65):

*“About effectiveness, efficiency and economy, we respond to all of them. Administration costs are in the range of 7% so there is a sense to economise. We are working in a very professional manner to deliver what we promise and communicate reasons if we have changes... If you see people come to you and say ‘We shall fund you for ten years and use the money the way you want’...yes...I now have 3 organisations that have come and told me ‘Here is the money, spend it the way you want’. There is nothing in trust better than that and it gives our staff confidence and security.”*

*“NU3 gave me (£1,250) and asked me to do anything I wanted to do but just ensure it contributed to the programme and I found that very interesting.”*

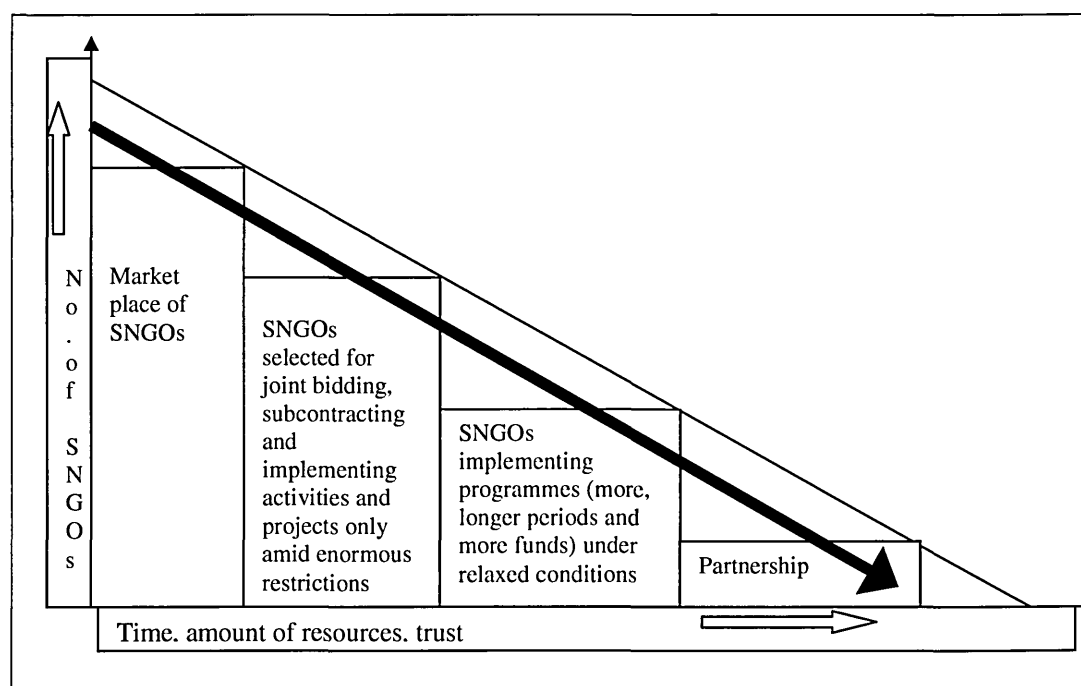
At this level, the conditions remained the same and only the amount of funding was varied, depending on how the funder perceived the NGO's performance. In some cases in India where funding came from the government, it seemed these steps were not followed strictly. Lack of government funding to SNGOs in Kenya made comparisons difficult.

In almost all cases, NNGO/SNGO partnerships were governed by signed contracts, probably because money was always involved. The conditions in the contracts varied and tended to become more relaxed as time passed, trust developed and more resources were entrusted. At its height, partnership would be governed by organisational-wide support over a long period of time and involving more unrestricted funds. This meant funding could be used on any aspect of

the NGO's work and accountability was limited to annual organisational-wide reports. Only in very exceptional cases would funders provide unaccountable grants.

This empirical-based process through which NNGOs established working relationships with SNGOs and how the relationships matured to a level where it was considered as partnership is depicted in Figure 5.1.

Figure 5.1: Position of partnership in NNGO/SNGO collaboration hierarchy



At the first stage, NNGOs encounter a whole market place of SNGOs they could work with on given activities, projects or programmes. They may have been recommended by other NNGOs, may have worked with them in the past, may have been short-listed by consultants, may have applied for funding or may have been selected from existing databases either in the South (with governments or self-regulation or self-accreditation authorities or with umbrella NGOs).

NNGOs somehow vetted these SNGOs and ended up selecting a few to jointly submit bids or to subcontract or work with to implement specific activities and projects limited in time and funding. Since the NNGOs did not yet know much about the SNGOs, they imposed enormous conditions and restrictions and kept funding volumes to a minimum.

As the NNGOs got to know SNGOs better, good working relationships and trust developed. This would lead to collaboration in implementing more programmes for longer periods and

involving more funds. The conditions and restrictions thus became relaxed on planning, release of funds, monitoring and reporting as trust and confidence grew in the relationship.

Eventually, the NNGOs established good working, funding and reporting relationships with the SNGOs. Trust was developed and the NGOs had confidence that each would play their part satisfactorily. The NGOs started releasing organisational development funds and contributing to the capital and administrative budget of the SNGO. Conditions were further relaxed and the NGOs engaged in mutual implementation with open communication channels. Grants were at times released or support given as a contribution to the SNGO's total strategic or annual plans without restrictions. As the figure shows, it was only at this level that real partnership, as espoused in the literature (Brinkerhoff, 2003, 2004; Covey, 1995; Ebrahim, 2003; Gray et al., 2006; INTRAC, 2001; Lewis, 1999) seemed to flourish between NNGOs and the SNGOs.

### 5.5.3 Forms of SNGO accountability

The research highlighted a long history of the current accountability mechanism between SNGOs and their funder NNGOs (Goddard and Assad, 2006; Herman and Renz, 1997; Lloyd, 2005; Unerman and O'Dwyer, 2005). A board member of SK5 summarised this history and how accountability had changed thus (142):

*"...they (NNGOs) gave us the impression that their duty was to feed us and ours was to give them reports after some months. That has changed; you [NNGO] now give money and want to know what has been done. Where are these children I'm feeding? What is this omena [sardines] they are fed on? Can a child feed on one kilogramme of omena? So you go to Garrisa [remote town in Kenya] to verify it. Then Heifer International could come in. Because I'm Heifer International you must buy heifer and so I buy it, but I can't care for it so it dies. This brings me close to NUI and NU5..."*

The case of one NNGO which came in with power of money and resources to push for changes beneficiaries did not appreciate is worth highlighting. By associating with the local authorities, the NNGOs was in fact perceived to be forcing changes in a culture and context it least understood. The would-be beneficiaries only saw the project as chores and eventually undermined it (board member of SK5) (148):

*"One...NGO came and dug holes to be used as toilets to answer public health concerns. They later went through the chief who warned everybody to dig latrines. They said, 'Yes, Bwana Chief' [local administrator] and made walls but they did not dig holes. So the Chief moved about and stated that everybody had toilets until when he discovered [that no holes had been dug] and complained in a baraza [public gathering]. One man said, 'Bwana Chief, we had started building the toilet for you but you did not come back'...You can not develop a community unless you understand it."*

Such sentiments about how NNGOs pushed things directly or through administrative authorities yet with little appreciation of the culture and contexts emerged both in Kenya and India. They

indicated that at times NNGOs were out of touch with local reality but still wanted to push their own cause through regardless as another CEO, of SI2, indicated (78):

*“Can I talk, because I have done my home work? There are some funding organisations that focus on quantifiable outputs; impact, etc. and sometimes they do not see the finer details, innovation, etc.. Some provide for programme and nutrition but say we can not support salaries; excuse me, if you do not provide for salaries [long pause, as if lost for words], it's not administration but programme! There are some funders who do not want to fund any administration but how can you deliver programmes without administration?”*

When things seemed not to improve as expected, NNGOs at times preferred the easier way out by simply pulling out of the funding relationship usually gradually and thereby skirting around the problem. In fact, the telephone survey (question 8.1, Appendix D) showed that 50% of the NNGOs would stop a contract whenever poor performance was detected and 43% would withhold funding immediately.

SNGOs, on their part, tended to do everything possible to meet the accountability needs of funder NNGOs. At times these demands seemed contradictory and tended to fluctuate. In general, demands started at the strategic planning stage where SNGOs tended to align their objectives with those of the targeted funder NNGOs using planning frameworks prescribed by NNGOs. This was the case in the two pilot cases and in three main cases. NNGOs usually provided consultants to facilitate these workshops which could imply full knowledge on their part. The positive aspect was that raising such issues at the strategic planning stage meant all stakeholders were informed and had a chance to debate them, lack of choice notwithstanding.

Derived annual work plans and budgets were then shared and negotiated with prospective funder NNGOs which would formally endorse them and pledge their contribution. At this stage, the whole process would be formalised into a contract specifying contributions of both parties and performance expectations. For instance, contracts studied would specify that funds would be released in instalments, the SNGO would then submit quarterly progress reports to trigger off further release of funds and at year end a mutually agreed external auditor would examine the books of accounts and send copies of resultant reports to the funders. A provision was often inserted that all records and activities of the SNGO would be open at all times for inspection by representatives of the NNGOs. The need for a mid-term external review and an end of project evaluation was also often included.

With such obligations and sanctions, SNGOs tended to focus on meeting their part of the bargain so as not to jeopardise funding. In at least two of the SNGOs, the services of external consultant-accountants had been enlisted with the responsibility to generate and help submit funder NNGO reports. Funder NNGOs were charged for this service and often paid.

At the end of each quarter and financial year, the SNGO would submit to the NNGO progress reports which included financial reports. This showed progress of implementation, milestones attained, constraints encountered and how tackled, utilisation of funding and, if necessary, a request for additional funding.

In some of the cases, funder NNGOs also sent their own staff and consultants on monitoring tours to the project areas. Their reports combined with reports of external auditors to give NNGOs a broad spectrum of views to generate a balanced opinion of the progress of the SNGO.

#### *5.5.4 Issues arising from development of partnerships*

As demonstrated in section 5.4, most of the SNGOs involved in this research over- relied on foreign funders for sustainability. This tended to make them subservient and mostly accountable to their funders. Their performance was geared towards meeting the needs of their funders almost to the total exclusion of all other stakeholders. There was some evidence that SNGOs influenced programme policies of NNGOs although only in a few isolated cases.

Based on this research, it was apparent that NNGOs selected partners from the SNGO market place on the basis of recommendations of consultants and using their own past experience and recommendations from informal networks. In this regard, there seemed to be just a few major NNGOs which invested in identifying and nurturing SNGOs before marketing them off. This role had hitherto remained unexplored. Once identified, partnerships tended to grow organically through a number of steps and to mature into trust-based organisation-wide support with fewer restrictions. Establishment of partnership was thus a process rather than an event.

NNGOs affected SNGOs extensively from the strategic planning level right through annual planning, implementation, day-to-day operations and monitoring to evaluation. This level of presence tended to make SNGOs prioritise interests of the NNGOs. Partnership had also evolved in forms of support which had increasingly become financial. This presented special challenges and relationships had become more formal, based on signed contracts and with much closer monitoring. Reports, both from SNGOs and from NNGO appointed teams, remained the main means of accountability.

SNGOs were gradually adopting self-accreditation mechanisms to accord funders and other stakeholders alternative means of comfort on the use of their resources. However, this initiative was riddled with paradoxes brought about by such tensions as quantity and hence credibility vis-à-vis quality and hence restrictions. The need to sustain quality once accreditation was obtained needed to be addressed.

## 5.6 PERSPECTIVES OF NNGOS ON IDENTIFIED THEMES

The themes identified by this analytical process were discussed with NNGOs as part of the validation and debriefing process. The ensuing sections highlight the perceptions of the NNGOs on the selected themes; later grouped into five constructs towards end of Chapter 4 and discussed in detail in the preceding five sections of this chapter.

### 5.6.1 *Theme 3: Strategic plan, planning framework and budgeting*

All the three NNGOs identified the presence of a strategy and cascading it down to influence activities as a crucial link in relief and development work. Yet NNGOs believed that often this was too complex a task SNGOs. NNGOs therefore prescribed the planning framework and methodology to be used by SNGOs.

NU3 required its partners to plan and monitor on the basis of the LFA. This approach demands a top-down approach where mission and vision dictate the objectives which in turn dictate programmes and projects to be implemented, activities and their related costs, OVI incorporated to help monitor progress and success factors enumerated to indicate risk of failure.

NU3 had not experienced many SNGO failures, an achievement it attributed mainly to its own risk-averse way of operating. According to NU3, SNGOs succeed because of a few key reasons such as the presence of a clear mission, vision, values and commitment, as well as determination and will to overcome adversity by sticking to agreed plans and budgets.

In the case of NU2, some guidelines had been issued to its programme managers to follow in selection of partners. They included examination to ensure compatibility with NU2's mission, values, credibility, accountability, diversity and gender equality, and agreement on support required to deliver effectively.

For measuring performance of partner SNGOs, NU2 implemented an 11-points criterion. Three of them were specifically on financial planning, control, monitoring and reporting as follows:

1. Linkage between annual business plans and strategic plans and ability to provide finance plan of each programme to be supported over two years.
2. Clear and concise business plans with details of Strategic Change Objectives, funding sources and their certainty and named project partners.
3. Ability to use agreed business plans and budgets as a basis for financial and programme management.



This process was considered well served by LFA which NU2 recommended to all its partner-SNGOs. Occasionally, NU2 provided support to help SNGOs to internalise the process.

In NU1's experience, more successful SNGOs exhibited such characteristics as demonstrating that they contributed to a global initiative, especially one promoted by NNGOs, beneficiary involvement and external monitoring. Many SNGOs received high performance rating for their work on micro-finance, gender and Poverty Reduction Strategy Papers (PRSP) initiatives. The linkage had to be demonstrated through a logical step that required a tested methodology.

In practice, this only happened after considerable technical support from NNGOs and/or its consultants in the form of training, facilitating and driving the process. In some cases, especially for new and small SNGOs, some of the NNGOs had extended so much support that they were accused of indoctrinating and micromanaging them.

#### 5.6.2 Theme 5: Legitimacy of board and diversity of skills

NU1 had learnt through experience that governance could be a source of as well as a solution to a number of problems faced by SNGOs. NU1 noted that:

*"Problems of governance amongst SNGOs can be described in three ways:*

- 1. There seem to be two types of boards amongst SNGOs: opportunists who are there because of what they can get out of it and the genuine rich type who are there because of the will to help but do not know how to. Both are ill equipped to play a meaningful role.*
- 2. There is a delicate balance between governance and management and the tendency for governance to usurp management role is common in the North. This is even more pronounced in the South where the other extreme also occurs; management usurping the board.*
- 3. There is the important matter of cultural differences, especially on the matter of the public good."*

There tended to be some order where the law prescribed governance of NGOs, e.g. in the UK through the Charity Commission. Elsewhere, national laws were silent on whether NGOs needed boards, who could sit on them and what functions they needed to play (officer of NU2):

*"As a result we, as NNGOs, tend to prescribe these things and ask SNGOs if they can take them up if they want our partnership. NGOs always assume it's a funding condition and usually try to swallow it wholesale."*

Where an effective board existed, it served a useful purpose in financial management by setting policies and ensuring they were adhered to by selecting and guiding quality management teams. In many other cases, boards existed just by name.

NU2 identified some over-riding factors in its decisions on selection of partners as *“...commitments to equality, participation by people themselves and financial probity”*. It believed that an effective board lay at the centre of these attributes and managed upward, downward and sideways linkages.

NU3 had established principles for working with partners. Honesty and transparency were critical and ensured that accountability was achieved at all levels for work, effectiveness and openness in judgements and communications, and solidarity with those poor, powerless and excluded in commitment to the fight against poverty. NU3 believed governance had a key role to play in this process. It had therefore adopted a macro approach where it aimed to intervene at national levels by strengthening national regulatory bodies which would then strengthen governance at organisational level. The over-riding aim was to keep management under check.

It should be noted that whereas all the three NNGOs identified an effective board as critical and actually put resources into its development, they were reluctant to enumerate, except NU1, what made a board effective beyond elaborating on its constitution and the role it had to play.

#### 5.6.3 Theme 8: Commitment and reliability of long term funders

The following two quotes were played to NNGO respondents who were then asked to react:

*“There are three partners who have been with us for over 25 years...almost life-long and all the rest can only fund us for a minimum of three years and a maximum of five years. Why? Because in three years you can do good SWOT analysis and five years is the period for our strategic plan. A mix of the two gives you stability. Mid stream we take on a few partners if a new project becomes crucial.”* (CEO, SK6, 10)

*“The guarantee I give to people who donate to us is that give us £5 and we deliver £5 worth of aid to XX; not a single cent goes into administration.”* (director, SK1-UK, 13).

Reactions by NNGOs to the first comment were almost similar. They felt it was a good thing to have a stable base of committed and reliable long term funders as it gave the SNGO latitude for a long time planning and cushioned against constant fundraising. They also read into it an existence of a mature partnership as they felt NNGOs could only make such long term funding commitment after lengthy and careful understudy of the SNGO's mission, vision, values and objectives, its board, management and ability to deliver on the objectives agreed. They also felt a bigger number of core funders to an SNGO sent reassurances to the existing and potential funders. Funder NGOs tended to get some reassurance when other big funders were on board for a long time. Probed whether such a situation could deny the SNGO of its own identity, NNGOs agreed that such a risk existed but was minimal as joint strategic planning and consultations must have taken place. Finally, NNGOs felt such funding was only possible at

NGO-to-NGO level cooperation rather than at programme or project levels and that showed mature partnerships.

Regarding the second quotation, NNGOs were sceptical that this was not possible unless the SNGO had its own sources of income to cover overheads. If so, then it presented the ideal SNGO every NNGO would aspire to work with. NNGOs wanted the bulk of funds to go to direct programs. If an SNGO could guarantee that a high proportion of funds raised went into direct action and its results were visible then it had very good prospects of attracting many long term funders. This was mainly because this showed an effective and efficient organisation that safeguarded the resources of the SNGO and managed pilferage.

#### *5.6.4 Theme 10: Internal trust and confidence in CEO and board*

The three NNGOs often defined governance in their partner SNGOs as if it was synonymous to the presence of a well constituted and functional board with oversight over management and resources of the SNGO. They all expressed the absence of cases of waste, fraud and corruption as a good indication of good governance.

NU1 conducted informal assessment of its SNGO partners over time and did so from different perspectives. Usually, initial evaluation started even before formal relationship commenced. Once an SNGO was identified, some information was requested from its officials (board and management) and included formal registration documents, strategic plan, organisational set-up, evaluation reports and audited accounts for a number of years. They were studied and if found acceptable, the next stage of engagement commenced.

NU1 expressed a belief that where an effective board existed it served a useful purpose in financial management by setting policies and ensuring they were adhered to by holding management accountable. If this happened well, internal trust and confidence grew in both the board and the management. In many other cases, trust and confidence were eroded by subjective and undocumented policies and ways of doing things.

NU2 believed that there was a big role for national umbrella bodies to play in ensuring financial probity as a way to cultivate internal trust and confidence. It extended some funding to such organisations, including SK5 and SI5, to strengthen their roles. NU3 also believed the ability to mobilise funds could generate confidence and trust in the board and management.

For its part, NU3 expected partners to adhere to specific principles which could not be negotiated. They needed to demonstrate solidarity with the poor, powerless and the excluded in commitment to the fight against poverty, and humility in presentation and behaviour. The latter

in recognition of the fact that partner SNGOs as well as NU3 formed part of a wider alliance against poverty.

NU3 expected honesty and transparency between the board and management of SNGOs with all stakeholders, and accountability to all stakeholders. If this was done then both internal and external trust and confidence in the board and management of the NGO were enhanced.

#### *5.6.5 Theme 15: Documented and enforced financial policies and procedures*

NU1 had experienced financial mismanagement amongst both SNGOs and NNGOs, although it believed it was more latent amongst NNGOs. In general therefore, whereas SNGOs showed more clear cases of fraud and corruption, NNGOs on the other hand showed considerable wastage and abuse of resources.

In some cases, SNGOs were defended as they could not afford the high cost of proper financial management (Officer of NU1):

*“It can be argued that proper financial management is expensive and possibly beyond the reach of many SNGOs. For us here at NU1, we spend about £300,000 per year on financial management. Yet we demand an SNGO on a shoe-string budget of £75,000 per annum to maintain the same standard of financial management. How?”*

In another instance, NU1 believed SNGOs often mismanaged financial and other resources because they lacked sufficient motivation to curb it. This was mainly due to the fact that SNGOs received most of their funds through other organisations. They hardly ever had to face the actual donors to solicit funds and defend their actions.

For NU2, the starting point for any partnership was an assessment of the extent of fit in mission, vision and values between the two organisations. Only if this was successful did NU2 go to the next step of formalising the partnership. The contractual arrangement specified the contribution of all parties, change to be achieved, how to monitor progress and how to account for resources.

Of the 11-point criteria NU2 developed and implemented to assess performance of partner SNGOs, eight of them (73%) on issues of financial governance and management, namely:

1. Compliance with legal and financial requirements under both UK and local legislation
2. Compliance with contractual and financial obligations agreed with donors, suppliers, banks, staff and partners
3. Ability to monitor project and programme cycle and supply up to date financial information
4. Ability to keep cash at optimal level to balance operational needs and risk of misuse

5. Ability to review on an ongoing basis financial risk and financial obligations on restricted income and from partners
6. Accounting transactions, records and reports that agree to defined standards, procedures and guidelines, including NU2's
7. Monthly financial returns and period end reports of acceptable quality to donors, auditors, external bodies and intended users
8. All assets, including for NU2 and other donors, properly accounted for, accounting records complete, up to date and reflecting value of assets.

NU2's belief in the importance of financial management is well known, well emphasised and well documented. In fact, it was touted amongst its objectives and values and was raised from the very start of any funding relationship.

In addition, NU2 insists that all its partners had to be open and allow NU2 to inspect their books of accounts any time it so wished. NU2 did this using its programme officers, finance staff or external auditors / evaluators. This assessment had to be done each year. Due to an increase in use of external auditors, NU2 was developing an audit protocol to specify the scope and approach to be adopted as well as planning to shortlist auditors to be used. Reliance on any auditors had raised some problems in the past as some failed to undertake critical examination.

Despite all these efforts, NU2 still experienced incidences of financial mismanagement amongst partner SNGOs. In the past, it uncovered such cases in its projects implemented by both partners as well as by its own local offices. NU2 has developed and delivered a specific training in financial accountability and procurement to most of its partners through its regional offices. The key message was that financial wrong-doings could not be defended or tolerated.

For NU3, honesty and transparency were vital for the attainment of accountability at all levels. Accountability ensured work effectiveness and openness in judgements and communications. It was not NU3's policy to have all its partners undergo external audits except for the relatively bigger organisations with a perceived higher risk and those funded by sources explicitly requiring annual external audits. For the rest, joint and continuous monitoring took place with funds only released in instalments after satisfactorily accounting for earlier instalments.

NU3 also appreciated that national laws could greatly help to ensure proper financial governance and management amongst SNGOs but it did not put much hope into it. Governments in the South had shown considerable weaknesses and it would be too optimistic to

expect efficient regulation of SNGOs. NU3 identifies financial governance and management as amongst the major causes of SNGO failure.

#### *5.6.6 Theme 19: Funders allowed to validate work and reports*

In the experience of NU2, ability and willingness to communicate and share frankly failure and success stories seemed to mark out some SNGOs. Those doing so tended to be trusted more as forthright partners. As a consequence, they were more receptive to independent visits to their projects by staff and representatives of NU2.

NU3 shared its belief in the added value of independent validation of achievements. In fact some of the principles it adopted in partnerships included: (1) courage of conviction that required creativity and radical, bold and innovative action, without fear of failure, in pursuit of making the greatest possible impact on the causes of poverty, and (2) independence from any religious or party-political affiliation. NU3's independent evaluators looked into such issues, amongst others, to ensure that only the right partners were used.

For NU1, whenever a contract was signed with a partner, the next stage involved regular visits / monitoring by NU1's field-based and headquarters-based staff and review of progress and financial reports received. There was also desk-based monitoring of how communication flowed and how enquiries were responded to.

These stages involved different departments at NU1, including programmes team, finance team and research team. In some cases, external specialists such as auditors, facilitators and evaluators were contracted to make certain independent and objective assessments.

NU1 had determined that SNGOs which were more open and communicated and participated to have their work known and disseminated were often favourably rated. It was even better if they were open to stakeholders to verify their work. Some erroneously assumed that failure and constraints needed to be hidden.

In NU1's experience, more successful SNGOs exhibited the following paraphrased specific characteristics:

1. Demonstrated impact and creativity in fundraising (e.g. with micro-finance) which often succeeded. SNGOs unable to focus well on and succeed in fundraising or short term in focus often did not succeed.

2. Less successful SNGOs were usually very poor at measuring their own impact to demonstrate that they were valuable to national development or that they did so at comparatively lower cost. Unless demonstrated, the assumption was that it was not done.
3. SNGOs showing they had contributed to a global initiative, e.g. one promoted by NNGOs, would usually be judged favourably. Many SNGOs received high profile rating for their work on micro-finance, gender and PRSP (poverty reduction strategy papers) initiatives.

#### *5.6.7 Theme 20: Board capable and effectively engaged in financial governance*

NNGOs were clear on their expectations on the board of SNGO partners. They expected a board which had the required skills in order to provide the level of leadership required. Amongst the critical skills they identified were on broad development issues, finance, fundraising and management. They tended to put some premium on prior experience or proven track record. The pilot cases showed that NNGOs went to great length to ensure this was achieved. In SKP1 they hinged support to constitution of a new board with the required skills. This was repeated in SK5 where its funder NNGO attempted to forcefully change the board and upon failing majority of funders pulled out. It was also repeated in SI2 where funders changed the way the board was constituted. By the time of research SI3 was making changes to its board so as to attract funders once again.

NNGOs stressed that effective boards needed democracy in its composition and to have the skills required. They stressed the need for a balance between management and the board with the board's mandate lying in members and stakeholders and the management being accountable to the board. All the three NNGOs had experienced cases where the CEO was too powerful to appear to be managing the board and other cases where the board tended to micromanage. They noted that both extremes were detrimental to the success of the SNGO.

When probed on the role they expected effective boards to play, they often highlighted strategic planning, employing and managing the CEO, setting policies and procedures and ensuring they were complied with, fundraising, protecting the resources of the SNGO, vetting annual budgets, monitoring performance in the year and taking corrective action, reviewing the annual accounts and the auditor's reports and taking the necessary action. Quite a number of these roles relate to financial governance and management and NNGOs readily confirmed that an effective board needed to have a good hold on the financial governance / management of the SNGO.

#### *5.6.8 Theme 22: Management and board prioritise SNGO's interests*

Perhaps one area which all NNGOs and SNGOs agreed on in theory was that they were mere custodians of resources from donors and funders meant to be used for selected target beneficiaries. If this was done by minimising resources spent on support functions, then the NGO had a better opportunity to invest more in programmes and hence deliver greater impact. NU2 also recognised that there was a big role for national umbrella bodies to play in ensuring financial probity and extended some funding to national bodies entrusted with such roles.

NU3 aimed to work only with partners which shared its values. The five main values to be upheld by such partners were mutual respect requiring recognition of innate worth of all people and the value of diversity and equity and justice so that work could be targeted to ensure equal opportunity to everyone, devoid of any discrimination. Adherence to these principles had to be demonstrated at the board and management levels for the partnership to succeed.

NU1 had set policies which recognised that where it worked, governments had tried to regulate NGOs without much success. Governments set criteria but they did not have in place adequate enforcement and monitoring mechanisms to enforce adherence. In this case, a 1:1 relationship had to be strict enough to guarantee success and needed to be developed gradually to reduce risks of failure.

NU1 recognised key areas for success in its work as planning, progress monitoring and evaluation and financial management. NU1 usually prescribed or worked with SNGOs to develop and agree on policies and key performance indicators in each of these areas.

All three NNGOs agreed that an SNGO where staff, managers and board members unduly benefited from its resources inevitably led to poor SNGO performance. This in turn diverted resources of the SNGO and undermined impact on poverty and suffering amongst the target beneficiaries.

#### *5.6.9 Development of funder policies*

One of the greatest influences on policies which NU2 developed was the regulatory environment in the UK. Policies on human resources, programme planning, reporting and financial management were designed to meet requirements of the Charity Commission, including SORP on finances.

Funding partners of NU2 also had some major influence on such policies. NU2 had to review and enrich its own policies by studying requirements of funder organisations such as the EU,



DfID, and the UN. This was in the belief that by complying with key requirements of such organisations the requirements of almost all other funders would be accommodated. In some instances, NU2 had to work with some of the partners to draft policies such as the standards to be applied in implementing humanitarian programmes in emergencies.

Most of the policies which NU3 adopted, especially on programme focus, planning, monitoring and financial management, aimed to support or to give comfort to all its stakeholders. Key influences on policies were NU3's own funders, as well as the regulatory authorities in the UK. Legal requirements were often given first priority, followed by requirements of key funders and eventually the need to entrench best practice. Of course, some conflicts did occur and NU3 had to resolve them through its own board of trustees.

Initial NU1 policies were dictated more by practices of other UK-based NNGOs operating in Africa, as well as the perception of its board, the requirements of SORP and the conditions imposed on NU1 by its own funders. NU1 recognised that although it could afford to employ qualified and competent accountants to ensure compliance with SORP, SNGOs often could not afford to do so.

All three NGOs agreed that the impact of partner SNGOs on formulation of their policies was minimal, if any at all. In fact, some evidence of such influence could be more easily identified in approaches to programme work (e.g. in approach to HIV/Aids, to human rights, to community participation, and in micro-finance projects) than in administration and financial management.

## 5.7 SUMMARY OF EXPLORATION OF KEY ISSUES

NNGOs measured the performance of SNGOs they funded by paying special attention to the regulatory environment in which the SNGOs operated. They particularly focused on three aspects of regulation: national state regulatory framework (Bebbinton and Riddell, 1997; Bernstein and Cashore, 2007), NGO sector self-regulation (Lloyd, 2005; Loft et al., 2006; Moore and Stewart, 1998) and NGO sector-specific accreditation. Amongst them, state regulation was the most developed and focused on seven key areas (ICNL, 1997; Yaansah and Edward, 1995; Yaansah and Harrel-Bond, 1997). NGOs' focus on state regulations reigned supreme, mainly because of the remedial powers states had over NGOs. In the South, organisations entrusted with enforcing state regulation were often under-resourced and with parochial focus. Efforts at self-regulation were not particularly successful largely because they were under-resourced and, in the case of Kenya, mismanaged. Self-accreditation was slowly making progress amid mounting problems. The UK regularly reviewed and updated its charity laws followed by India and Kenya lagged behind whereas self-regulation was most prominent in Kenya followed by India although the institutions in charge tended to be overwhelmed. Self-accreditation has gained prominence in the UK and in India where a paradox exists between the need to register many members so as to gain legitimacy and the need to uphold the performance of enlisted members. Owing to unsatisfactory performance of state regulation, self-regulation and self-accreditation in the South, NNGOs shifted focus to governance of individual SNGOs.

NGO boards had wide ranging responsibilities (Callen, 2003; Tandon, 1997). In the UK NGOs struggled to attract board members while in Kenya and India the struggle was to constitute boards that were representative (of stakeholders) and democratic (showed the will of members) yet with the required skills. However, Carver (2006), Charity Commission (2007) and Hailey (2003b) argued that even well constituted boards could still fail. The telephone survey showed that 75% of funder NNGOs believed that problems with financial governance were symptomatic of bigger problems while 68% believed they triggered off other problems. Generally, effective boards held regular and fair elections, were distinct from management, sustained good relationships with stakeholders, had effective subcommittees, had diverse relevant skills, and had definite periods of service. Board members who engaged in fraudulent and corrupt activities such as contracting with the SNGOs, drawing unjustified allowances and costs from the SNGO, unduly influencing award of contracts, unduly influencing employment, and sanctioning misuse of restricted funds usually undermined the performance rating of their SNGOs. In addition, boards were also assessed on three other new areas, namely the ability of the board to forge sound relationships with key stakeholders (especially funders), ways to ensure those seeking to serve on boards were motivated by philanthropy and magnanimity and they had ways and means to check against boards abusing their power, rights and privileges.

The study found financial wrong-doings to be rampant at both management and board levels. They manifested in areas of employment, remuneration, management of contracts, misuse of resources, lack of effective strategies for sustainability, paying dubious board claims, unfunded expenditure and failure to act on audit recommendations. Existence of fraud and corruption was supported by evidence obtained on misuse of assets, bribery, inflated prices, forged documents, insider dealings as well as writing off debts un-procedurally. However, cultural and contextual variables were found to be crucial but often underplayed in performance measurement. Mapping them against the Novib/BC principles of financial governance and management identified key weaknesses in custodianship, disclosure, accountability, transparency and integrity. When viewed against performance, problems of custodianship and disclosure straddled both the more successful and the less successful SNGOs.

The study showed that the SNGOs researched over-relied on NNGOs for funding. Consequently, NNGOs tended to focus on financial mismanagement, fraud and corruption as key indices of poor performance whereas SNGOs focussed on accountability to their funders.

The study showed partnerships started with contract for services and matured into more solid, trust-based, mutual relationships. Relationships often turned formal when resources became involved. NNGOs selected partners from the SNGO market place on the basis of recommendations of consultants and using their own past experience and recommendations from informal networks. Once identified, partnerships grew organically through a number of steps and matured into trust-based organisation-wide support with fewer restrictions. In general, as time passed trust developed and NNGOs relaxed funding conditions, increased funding amounts, widened scope of support and reduced the number of SNGOs they dealt with. Partnerships therefore only existed at the apex of these relationships and its establishment was a process rather than an event as the telephone survey had indicated.

NNGOs emphasized that they considered it vital for SNGOs to have good strategic plans, to use established planning frameworks and to derive detailed annual budgets; to have legitimate boards with diverse skills; to have long term committed and reliable funders; to have both trusted CEO and boards; to document and enforce financial policies and procedures; to allow external validation of its work and reports; to have capable boards effectively engaged in financial governance; to have the board and management prioritise the interests of the SNGO and to be receptive to the adoption of new policies to align it more closely with funder NNGOs.

Having explored the key issues which emerged from the research, the next chapter will bring together findings from the literature review and the research in an effort to document a performance measurement model.

## CHAPTER 6

### DOCUMENTATION AND EXPLANATION OF NGO PERFORMANCE MEASUREMENT

#### 6.0 INTRODUCTION

The five key objectives of this research were presented and discussed in Chapter 1. They are to investigate how NNGOs evaluate performance of SNGOs they fund, to examine the importance attached to financial governance / management in such a process, to explore the role of financial governance / management in cases of excellence or failure amongst SNGOs, to investigate any linkages between financial governance / management and performance of SNGOs and the policies of funder NNGOs. Chapter 1 set the context and the background for the study. Chapter 2 reviewed the existing literature in detail and Chapter 3 presented and defended the research methodology adopted. Chapter 4 presented the cases involved in the research, the findings from data and derived the key themes and constructs. Chapter 5 then explored the constructs further in response to the first four research objectives, based on the literature review and empirical findings. This chapter brings all the foregoing chapters together by combining the findings from the literature review with empirical findings to document and explain the model NNGOs use to assess the performance of SNGOs. In this way, the chapter addresses the gaps identified during the review of literature. Given the scope of this chapter, an overview of the work done and findings made so far, which will be drawn upon in developing the model, is necessary.

#### 6.1 REVIEW OF WORK SO FAR

Having defined and placed NGOs in context, it was established that NGOs recorded dramatic growth from the 1990s to become key players in the state of the modern world (SustainAbility, 2003). The contribution of NGOs was determined as mainly to provide services to 'complement, supplement, extend and influence' social services (Wolfenden, 1978). NGOs also play a crucial innovation function by raising and trying out new solutions to societal problems; serving the crucial advocacy and watchdog function, thereby acting as dramatic catalysts for social change; serving the expression function not only to give a voice but also as a voice of the voiceless; and serving the community building function by organising events, fundraising functions and other ways which promote community development and cohesiveness (Kendall, 2003) (see 2.1). However, NGOs were challenged to scale up impact, diversify their funding sources, build solid business cases for funding and develop strong brand names (Paton, 2003). They were also challenged to improve their legitimacy, accountability, cost effectiveness and governance (Paton, 2003; Tandon, 1997; Unerman and O'Dwyer, 2006; Wise, 1995).

Chapter 2 further underscored and entrenched the relevance of NGO studies by tracing and highlighting their evolution, growth and roles and examining the literature on the five objectives of the study. It found that performance measurement was no longer optional and its measurement involved a demonstration of accountability and credibility which NGOs measured using three streams of frameworks. The three (borrowed universal stream, contextual stream and bespoke universal stream) had their strengths and weaknesses and could be used concurrently. It was determined that statutory regulation of NGOs was given weight in performance measurement although there were debates for and against it. In general, more developed economies tended to strengthen it. It was established that funding formed the greatest of linkages of NNGO/SNGO partnerships and that funding depended much on credibility and trust. Financial governance and management were also found to have become crucial in performance measurement. Against this background, the role of the research was articulated.

Using the methodology selected and defended in Chapter 3, the research findings were presented in Chapter 4 and analysed so as to derive the overarching constructs which were explored in Chapter 5. These were the state of NGO sector state regulation, self-regulation and accreditation; the state of NGO board governance, its regulation and motivation; the extent of financial management, fraud and corruption; the state of funding; and the development of partnerships. Chapter 5 discussed these constructs in detail to respond to the first four objectives of the study.

This chapter responds to the last objective. The resultant model of NGO performance measurement is documented and discussed alongside its application and limitations.

## 6.2 LIMITATIONS OF EXISTING MODELS

The existing models of NGO performance assessment were broadly categorised into three groups, namely the universal borrowed stream (Hailey, 2003a; Kendall and Knapp, 2000; Lawrie, 1993; Reider, 2001), the contextual stream (Paton, 2005; Rojas, 2000; Wallace, 2005; Wise 1995) and the bespoke stream (CES, 2000; Kendall and Knapp, 2000; Sahley, 1995; Sowa et al., 2004) (see 2.2.3). The models from the universal borrowed stream were found to dominate existing literature. Contextual stream models were found to be emerging and whereas their key proponents had strongly advocated recognition of context in performance measurement they did not propose specific alternative frameworks. Efforts to generate bespoke performance frameworks distinct to the third sector had largely received lip-service with only a few researchers and organisations (for instance CES, 2000; Kendall and Knapp, 2000; Paton, 2003) actually put forward alternative bespoke performance frameworks for NGOs.

However, as part of this research, a critical analysis of the existing literature was made to identify the gaps as well as to test how well theoretical concepts stood up to empirical tests. Six key limitations or rather misconceptions were identified in the existing frameworks. They present the researcher's own reflection on existing frameworks under the lens of empirical knowledge. They relate to boundaries which delineate governance, the confines of performance measurement, importance attached to financial governance and management, state of NNGO/SNGO partnerships, the capacity of SNGOs and the centre of focus in NGO accountability. The existing dominant models generally make some assumptions about NGO performance which the study found constraining. These limitations are briefly discussed below.

### 6.2.1 *Limitation 1: Unexplored facets of governance*

NGOs have raised and acted on governance for some time. Governance is ordinarily considered as the set of processes, customs, policies, laws and institutions which direct, administer or control an organisation (Herman, 2000). It should guide relationships between participants to determine the direction and performance of organisations (Low, 2006). It is usually associated with accountability and fiduciary duty, both of which aim at good behaviour and the protection of intended beneficiaries (Perrin, 1998). Yet respondents from NNGOs researched indicate that this broad definition was narrowed when it related to NGOs. It was generally assumed that amongst NGOs, governance referred to the relationship between management and board as well as to the absence of fraud and corruption. So long as a well constituted board existed which was representative of the general membership, which held management accountable and which ensured absence of fraud and corruption, then governance was assumed well served (see also question 10 in Appendix D).

This notwithstanding, the existing literature assumes that performance is a product of the quality of relationships between groups of participants. It does not delve deeper into the micro intra group dynamics. This research showed that the validity of this understanding was questionable. It takes for granted that once a board is in place it has some way in which it is regulated, probably by the state, and a mechanism to deal with deviant behaviour, and that there is no need to explicitly guard the NGO against board members. It also assumes that all boards in existence are in fact of the professional type (Gariyo, 1997). Finally, there is a latent assumption that individual members of boards are driven by philanthropy and shared interests with their NGOs (Kendall and Knapp, 2000). Both empirical evidence and the literature (Carver, 2006; Gibelman and Gelman, 2004; Shah, 2007; Williams, 2007) show board regulation to be an issue of immense impact on performance of NGOs. In addition, some SNGO boards are of types rather than professional (Gariyo, 1997) and therefore need different reinforcing mechanisms to make them effective. It was also shown that some individual board members were driven by motives other than philanthropy. The silence of existing frameworks to recognise these concerns presents serious challenges and calls for re-documentation to take account of this existing knowledge.

#### *6.2.2 Limitation 2: Attempts to divorce performance from context*

Most of the current models, especially since the contextual stream has been largely dismissed or ignored (Drucker, 1990<sup>41</sup>; Oliver, 2005; Paton, 2003; Wallace, 2006) also assume that most aspects of performance can be given a universal definition to facilitate easy determination of acceptable from unacceptable behaviour. Within this decision framework, the models assume that there are straightforward answers to situations which may arise. Notice for instance the criticisms on the grounds that contextual approaches violate criteria of fair and impartial treatment of organisations (NAO, 2006; Paton, 2003). For instance, the respondents amongst NNGOs held strong positions that for a manager to make personal use of a car or computer owned by the NGO was wrong, for a full-time employed doctor to have parallel private medical practice was wrong, for a manager to use his own house as the headquarters of the NGO and charge rent was wrong, and for members of the board to act as consultants to the same NGO was wrong, as they presented conflicts of interest. In contrast, SNGO respondents did not see these as straightforward cases of wrong-doing. They felt there were cases where such actions would be merited, even necessary, to serve the objectives of the NGO. In fact, some of the practices were common in the North and this raised complaints about double standards. Similarly, some NNGOs prescribed ratios of expenditure which they upheld in the North to apply to SNGOs.

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<sup>41</sup> This book covers organizations in general and is based on work done in the USA.

In brief, most of the current models assume that contexts and environments are not such important issues as to warrant their incorporation in performance frameworks. In a way, this is an imposition of funder NNGO ethos about what is right and what is wrong to different SNGOs which work in completely different contexts and cultures. It was paradoxical that some of the practices funder NNGOs condemned amongst SNGOs were practised and generally accepted in the North. A case was raised where when officials of an NNGO, put in the same environment and context in which one SNGO operated and tasked with securing a work permit for an expatriate member of staff, agreed to offer a facilitation payment. They explained it away as the ‘...only way of doing things here’. Their colleagues amongst NNGOs felt this was unacceptable and corruptive behaviour.

It is clear that contexts and environments can be quite different between NNGOs and SNGOs, yet both the dominant universal borrowed stream and universal bespoke performance frameworks streams assume that a single definition of performance is possible. In any case, NGOs mainly seek to enhance people’s quality of lives within their communities and their particular circumstances should count for something. Here again, this premise is at variance with reality and requires that existing models be reviewed to take account of such emerging knowledge.

### *6.2.3 Limitation 3: Down-playing financial governance and management*

Current models tend to hold a latent assumption that although financial governance and management are important aspects of internal management of NGOs, they are too sensitive to be confronted head on, as this could harm good partnerships. They assume that SNGOs would feel offended if such issues were raised (Child and Rodrigues, 2004; Mawdsley et al., 2005; Naidoo, 2004; Najam, 1996; Shah, 2007). The closest NNGOs came to confronting them was when they appointed consultants in whose terms of reference they included input/output or value for money assessments. A few bold ones appointed external auditors to conduct annual or special or investigative audits. Since this area is sensitive, much of the evidence NNGOs get is in the form of after-the-event anonymous letters from stakeholders.

This research showed that NNGOs and most of the SNGOs concur that financial governance and management are critical to performance of NGOs. It also showed that this is no longer an issue to be swept under the carpet. SNGOs admitted to the existence of widespread financial mismanagement, fraud and corruption, and were eager to discuss ways to tackle it. Better performing SNGOs which believed in good governance and management took initiatives by designing innovative ways to demonstrate their commitment to these ideals. They did so through self-regulation mechanism and through self-accreditation in an effort to ‘isolate, name



and shame' those NGOs with poor governance, financial mismanagement, fraud and corruption. Since both initiatives tending to be voluntary, they presented good tests of real commitment amongst SNGOs, the aspects should be explicitly brought into the mainstream performance frameworks.

#### *6.2.4 Limitation 4: Assumption of harmony in NNGO/SNGO partnerships*

The current models also take it for granted that NNGOs and SNGOs work in relationships which constitute the much touted partnership. They assume that these partnerships have clear and systematic ways for partners to select each other, share vision, values and objectives, fully trust each other, mutually learn from each other and adapt their policies accordingly (Ashman, 2001; Bebbington and Riddell, 1997; Ebrahim, 2002, 2003; Keengwe et al., 1998; Lewis, 1999; Mitlin, 2002) (studies by Ebrahim were done in the USA). Empirical evidence showed that 'partnership' could be a misleading term to explain the NNGO/SNGO relationships, except for the very few at the apex (see 5.5). Four different phases of relationships were shown to exist, starting with restricted funding for implementation of specific projects amid tight monitoring and ending with more relaxed organisation-wide unrestricted funding.

Empirical evidence showed that there was no clear or systematic way in which NNGOs selected their partners. It was found that partnership did not exist until a very late stage, usually SNGOs were compelled to learn from NNGOs and to adapt their policies to bring them in line with the requirements of funder NNGOs, NNGOs only learnt from and adapted their programme policies based on experience from the better performing SNGOs, and in some cases inflexible funder policies were detrimental to SNGOs. This area therefore presented the fourth dimension in which existing models are incomplete in capturing the existing practice.

#### *6.2.5 Limitation 5: Misplaced concern with SNGOs' capacity to perform*

A belief was found amongst SNGOs that because of the bad example set by a few SNGOs, funder NNGOs tended to band and dismiss them all as non-performing, potentially fraudulent and corrupt, and lacking the required capacity and commitment to achieve the desired results (Kanter, 1994; Lister, 2000; NAO, 2006; Novib, 2002; Sahley, 1995). During this research, at least one NNGO was shown to uphold this view. The expressed views of the NNGO which funded SK1-K to the effect that it could not trust a board which did not have Europeans on it was a symptom of this stereotype. The fact that NNGOs in this study almost always responded to problems through capacity building (see questions 3 and 8.1 in Appendix D and section 4.5) tended to bear this out. Also in support of this view were efforts by NU2 to take all its SNGOs

through training on fraud and corruption, and the generally high level of education, training and experience found across both performing and non-performing SNGOs.

The research showed that lack of or poor capacity was not always the reason for SNGOs' non-performance (see 4.6.5). At times, it was just infiltration into the sector of wrong persons with improper motives behind SNGO facades. There were many SNGOs just as concerned with good governance and management as were NNGOs. They made noticeable strides towards self-accreditation in an effort to promote and uphold improvements while isolating SNGOs which were not committed to these ideals. New performance measurement frameworks should consider such soft issues which are hard to address through capacity building and the sector's own efforts, such as the accreditation of the SNGO, in assessing performance.

#### *6.2.6 Limitation 6: Rhetoric of beneficiary reverence*

Finally, the conclusion by Leat (1993) that voluntary organisations must serve their consumers in order to achieve their goals but to survive they only need to please their donors underscores the complexity of these relationships. This is consistent with findings by other researchers (Edwards & Hulme, 1995; Fowler, 1997a, b; Gariyo, 1997) that NNGOs contribute very large proportions of funding to SNGOs which gives them control over the latter. Bradshaw et al. (1992) and Carver (2006) found problems in funding to be symptomatic of other problems such as internal management and governance. These findings are consistent with the findings of this research. Yet this knowledge has not been formally accepted as part of NGO performance assessment. Apart from the UK-based arm of SK1 which considered its interests to be of higher gravity than that of the beneficiaries, the rest of the NNGOs insisted that SNGOs should focus on serving the beneficiaries. This position was inconsistent with the reality reflected in empirical findings and shows the conflict between the ideals NGOs hold and the rhetoric. The SNGOs which failed to serve the interests of their funders (for instance by changing and harmonising objectives, adhering to the funding conditions, and planning and reporting as prescribed in Appendix D) often faced greater sustainability risks. Documentation of performance measurement frameworks need therefore to extend to funders the importance they command in practice rather than persist in the rhetoric that beneficiaries matter most. This may hold for as long as SNGOs continue to spend funds for which NNGOs are accountable.

These six dimensions provide a sound interface between existing literature and empirical findings of the research. It is upon this platform that efforts to develop a more complete NGO performance assessment framework were built. After identification of this platform, the actual empirical findings which fed into the new model can be discussed.

### 6.3 ISSUES IDENTIFIED

NGOs pay great attention to performance. It seemed a way to justify their existence and to attract and retain the needed support from stakeholders. Consequently, NNGOs tended to strive to channel their resources to partner organisations, programmes and projects which not only delivered but which demonstrate the greatest impact on the MDGs. The majority of SNGOs also considered performance as the key measure of their contribution. A few SNGOs were alleged not to consider performance important as they were formed by owners bent on exploiting SNGO status.

This research showed that when funding partner organisations, NNGOs tended to get involved at various stages so as to optimise chances of success. They intervened at national policy level to ensure that NGOs operated in an orderly environment conducive to achieving results. They intervened at the SNGO's strategic planning level to ensure that the mission, vision and values were compatible. They intervened at operational planning level to ensure that objectives set contributed to the objectives NNGOs intended to serve. They also intervened during implementation to ensure SNGOs remained on course and problems which arose were attended to, at the reporting stage to ensure reports received were compatible and could feed directly into forward reporting, and at evaluation to get assurance and to learn from emergent lessons.

In general, NNGOs in this study tended to fall back on a blend of frameworks, each serving a specific purpose. Usually the primary framework would be from 'the borrowed universal stream' (see 2.2.3). The LFA appeared particularly popular amongst the British NNGOs. Despite its strengths, the model is seriously constrained in giving assurance of value for money. Besides the LFA framework, the RBM was often used or accepted by the NNGOs. It also had problems in assuring value for money. The rest of the frameworks in this stream such as the TQM, BPB and BSC tended to be largely ignored. Yet the latter two had more strength in assuring value for money. Chapter 2 explored the possible reasons for this.

NNGOs were generally reluctant to adopt contextual stream frameworks (see 2.2.3). This may be explained by a number of reasons. They could include the lack of concrete frameworks which NGOs could adopt, the limited comparability between SNGOs which context-based approaches presented and the fact that such approaches tilted away more power towards the SNGOs to be evaluated and away from the NNGOs which did the evaluation. By pushing 'universal borrowed stream' frameworks to different contexts and situations, NNGOs were essentially promoting their own conception of what was good as fundamental and adequate for SNGOs as well (Paton, 2003). This can be catastrophic. In fact, some SNGOs were selective

and avoided funding from NNGOs with such policies. However, it should be noted that this was observed only in a few SNGOs which had alternative sources of funding to fall back upon.

There were quite a number of aspects borrowed from the ‘bespoke universal stream’ (see 2.2.3) and used by the NGOs to blend the primary frameworks. In particular, NNGOs tended to focus on the identity of an SNGO, its legitimacy, accountability, key programme performance indicators and leadership beyond the demands of the primary frameworks adopted. In a way, this pushed their concern for performance from project and programme levels to organisational level, thereby bringing them back into the domain of the 3Es (see 2.8.1).

This practice where NNGOs adopted a blend of performance frameworks tended to show the tensions NNGOs were embroiled in: nostalgia for the past proven frameworks, reluctance to fully adopt contextual streams, and fear of stepping into the ‘bespoke universal stream’ with both feet. This appeared such an entrenched belief amongst the NNGOs which ought to be reflected in new models. For instance, although respondents from NNGOs agreed that they measure performance of SNGOs in different ways which were not adequate, they were reluctant to show unqualified support for the contextual ways SNGOs advocated for measuring performance. Research which leads to development of new models should recognise and respect this attitude to risk associated with change amongst NGOs.

The research found that the key instruments in measurement of performance were reports. They came in different forms, such as strategic planning reports, operational work plans, progress reports, annual reports and evaluation reports. Two areas were treated with utmost importance in these reports: the reporting of programme and financial aspects. In all sixteen relationships researched, regular progress reports were a key requirement. The reports had technical and financial sections and the partner SNGOs were required by the conditions of funding to prepare and submit their own reports. NNGOs always reserved the right which they often exercised to send in their own staff or appointed consultants to verify these reports or to submit parallel ones. This emphasis shows that NNGOs tended to attribute greatest reputation risk to these two areas. Problems with financial reports would almost always lead to funding continuity problems. All SNGOs and NNGOs researched were candid that inability to deliver the objectives of a partnership or problems with financial governance or management would almost certainly strain or even halt the partnership. Binding contracts stated as much and cases were found where funding had been terminated which were explained by problems in financial governance and management or a change in programme focus (see also question 8.1 in Appendix D). Conversely, SNGO partners which demonstrated great strength in these two areas were often perceived and promoted as better performers.

In general, NNGOs in this research tended to set their own administrative and financial policies and to apply them to SNGOs across the board. Although NNGOs extended the option to SNGOs to accept or reject the policies, this was not an exercisable option. An SNGO exercising it would be considered to lack the commitment to deliver and thus to have undermined the funding prospects. Some SNGOs were outspoken about such aloofness shown by NNGOs. There were some exceptions. Some policies on reporting, especially on regularity and depth, tended to be relaxed as funder NNGOs gained confidence in the ability of the SNGO (see 5.5). Similarly, in programme policies, NNGOs tended to listen and learn from those SNGOs which they considered most effective in a specific field where NNGOs considered their own knowledge limited. HIV/Aids, malaria and micro-finance stood out in this respect. Quite a number of NNGO programme policies towards SNGOs had changed in this way.

## 6.4 PILLARS TO NEW MODEL

The research uncovered a number of salient issues relating to measurement of NGO performance, financial governance, management and funder policies, in response to the objectives of the research. They were identified in Chapter 4 as the key constructs and explored at length in Chapter 5. They provide the pillars to the new model being documented and are explored in the following sections.

### *6.4.1 Sector regulation, accreditation and NGO level governance*

As shown in Chapter 2, NGOs are increasingly under scrutiny by different stakeholders (Barman, 2007; Baruch and Ramalho, 2006). It was also shown that some Northern governments were intensifying NGO laws (Morgan, 2008; Williams, 2007) whereas governments in the South were pressurised to give NGOs more space. They somehow stuck to some state regulation (Yaansah and Edward, 1995) but struggled to enforce it (Edwards and Hulme, 1995, 1997). The credibility of NGOs is demeaned when their performance and legitimacy are questioned. NGOs have to respond in ways to counter these forces.

This research established that NGOs have mobilised themselves and tried self-regulation with a focus on financial governance and management. They contend that this gives the sector firm ground to argue for less regulation by the state and offers some level of comfort in demonstrating performance to partners. NNGOs insisted that partner SNGOs needed to have boards of directors who played a clear management oversight role. This research showed that this condition could be rooted in the founded belief that at times senior managers of SNGOs actually initiate, condone and propagate financial wrong-doings. It also showed that as much could be said about boards of directors. Consequently, NNGOs have tried, without much success, to ensure governments in the South effectively regulate NGOs and their boards. Although many countries have shown the willingness to do so and actually initiated relevant legislation, they have been unable to enforce such legislation or keep it up to date (Yaansah and Edward, 1995). NNGOs have realised that working through the state mechanism is constrained by insuperable bureaucracy and at times triggers off accusations of neo-colonialism. NGOs in this research showed a tendency to skirt this by falling back onto reforming their specific SNGO partners. Even at this level, it appeared politically correct to work only latently behind SNGOs by leveraging them with technical and resource support but leaving them in the lead.

A parallel joint effort also emerged through self-accreditation. Through this approach, either through a coordinating authority or on their own, NGOs develop best practice standards for

members to uphold. NGOs applying for membership are assessed and only those meeting the criteria are accredited. It is expected that accreditation creates a pool of SNGOs in the market place which funders could easily tap into and be guaranteed a minimum level of standards and performance. Credibility Alliance in India is one such body started by joint efforts of Indian SNGOs and NNGOs.

The research underscored the importance of governance to performance. NNGOs were shown to assess the risk of failure and cost of success very carefully as part of the process of selecting partner SNGOs and programmes or projects to fund. Prospects of success for the latter depend on the institutional ability to perform. This relationship explains the common practice in which NNGOs only agreed to fund SNGOs which accepted the conditions attached. Some of the development plans perused tended to target capacity building in areas of governance, planning, monitoring and evaluation and reporting. If huge resources were needed to leverage an SNGO to deliver, it could undermine efficiency and effectiveness and hence the chances of commencing, continuing or enhancing partnership. In theory, one NNGO alluded to a shift of focus to the bigger picture. NU3 indicated that it considered organisational development as an investment which helped all work by the SNGO, be it by the government, other NGOs or international organisations. This would appear to open up NGO partnership to a global level.

At SNGO level, the NNGOs considered existence of a well constituted board of trustees as a fundamental requirement. They saw the board as a group of committed individuals with the required skills, time and a commitment to the promotion of philanthropy. They could act as the trustees of the resources of the NGO for beneficiaries and other stakeholders. However, the literature review (Gariyo, 1997) showed the existence of different types of boards (such as professional, family and staff boards). Existing performance models appear to take it for granted that boards prioritise the interests of NGOs and the target beneficiaries. This research showed that contrary to such a belief, quite a number of NGO boards were not of the professional type and had serious issues with accountability and fiduciary responsibility. Only three of the eight boards of SNGOs involved in this research could be considered as professional boards.

Regarding the evaluation of SNGO boards, empirical findings supported six areas (see 5.2) which were also identified by the existing literature. These are that there are regular and fair board elections, the board is distinct from the management, can forge good relationships with stakeholders, has functional subcommittees, has the relevant diverse skills, and has a definite period of service with a good succession arrangement. In addition, however, three new areas emerged, namely the ability of the board to forge sound working relationships with the funders as a special class of stakeholders, ways to ensure those seeking to serve on boards were

motivated by philanthropy and magnanimity, and the need for mechanisms to check that boards did not abuse their powers, rights and privileges.

It also emerged that the balance between democracy and competency in board service was a major challenge to most of the SNGOs just as it was for NNGOs. NNGOs often encouraged SNGOs to empower their members by ensuring they directly elected their board members. On the other hand, NNGOs pushed for knowledgeable and competent persons who could give policy directions to the SNGOs and adequately serve the ever widening board responsibilities. The two forces from above (funders) and below (beneficiaries) were at times irreconcilable and destructive (see 4.3). Also straining organisations were the different demands from different funders on governance while at the same time insisting that focus on satisfying beneficiaries should be supreme. More often than not, the push from regulators and funders prevailed and relegated interests of beneficiaries to the periphery in cases where the two were in conflict.

It appeared that NNGOs perceived a strong relationship between the performance of SNGOs and the quality of both statutory governance and SNGO level governance. NNGOs tended to be more willing to provide more resources more frequently and with fewer conditions if they got some assurance that the two levels of governance were in place and functional. However, the two governance levels tended to be inversely related. Where the statutory regulation was weak on governance, more emphasis was put to strengthen governance at SNGO level and vice versa.

#### *6.4.2 Financial governance and management in success or failure of NGOs*

Increasingly, NGO boards were gaining wider mandates (see 2.5) which required more specialist skills (Bradshaw et al., 1992; Callen, 2003; Chait et al., 1991; Charity Commission, 2007). Boards had enormous powers which could easily be abused (Carver, 2006). In light of the emerging evidence of boards which were of types other than professional (Gariyo, 1997), and more interactions between staff, management and boards (Harris, 2001; Iecovich, 2005) there was even greater need for an effective mechanism to oversee the integrity of the bodies and of the relationships. The fact that evidence was obtained which showed a number of members of NGO boards in this study were implicated in financial wrong-doings seemed to entrench this belief. The results of an examination of motives for board service (see 5.2) were also supportive of this need.

As expected, members of NGO boards had great leverage on the directions NGOs took and made key policy and at times management decisions (Low, 2006; Moore and Stewart, 1998).



The research exposed cases where board members' individual interests conflicted with those of the NGO. There is a role here for statutory regulation to give direction and punish errant behaviour. There appeared to be some frustration on the part of NNGOs that this role was left unattended. The frustration became more pronounced in cases of failure both at statutory and organisational governance levels. This presented a challenge to the state of the partnership. Models documented need to put this issue at the centre of performance assessment to align theory to practice.

Identifying and correcting poor financial management has always been difficult. Unlike fraud and corruption (see 2.5), perpetrators of poor financial management are at times unconscious of it. It is hard for officers to admit to incompetence or poor management. This is compounded by the fact that poor financial management does not breach any specific law. However, NGOs often faced the serious consequences of picking up losses and risks associated with this failure on the part of their officials. The research showed that certain forms of fraud, corruption and mismanagement tended to be common amongst SNGOs. They cut across employment, remuneration, management of contracts, misuse of resources, inability to take and act on advice and lack of effective strategies for sustainability. They were common both at board and management levels. The dynamics of governance required the board to oversee and hold management accountable as appropriate. When the board is accused of perpetrating some of these malpractices its effectiveness and moral authority are greatly compromised.

The research showed that cases of poor financial management were common. The most dominant forms were manifested in lack of or poor strategy for the NGO's sustainability, failure to uphold fiduciary duty and to exercise due diligence in vetting board claims, signing contracts without the hedging of secured funding, inability to develop proper remuneration packages for members of staff, weak internal controls which were criticised by auditors, ignoring audit recommendations, and paying bills which were clearly inflated. In some instances, the management failed to nip in the bud malpractices perpetrated by members of the boards. Yet in a few other instances, management would become quite powerful as to control the board. The latter tended to be common in founder-member led NGOs with family or staff types of boards.

Amongst the cases researched, SK1 was on the verge of failure owing to be poor financial governance and management. SK5 was similarly on the verge of failure and had in fact encountered serious incidences which threatened its survival in the past. They all stemmed from poor governance and financial management. Funders had abandoned SI3 which could have closed were it not for the ingenuity of the sponsoring church and the management to seek alternative sources of income. The main reason for the outward exodus by funders was poor

financial governance and management. SI4 was able to attract only minimal funder support mainly due to confusing organisational structure which distorted governance and management roles and eroded internal controls. Many other cases of SNGOs which had closed down due to mistrust by funders who suspected financial mismanagement, fraud and corruption were raised.

However, a review of the cases also brought to the surface consequences of contextual conflicts. There were some activities which funder NNGOs considered clear cases of financial wrong-doings but which were contextually acceptable to SNGOs. A few cases are worthwhile noting.

NNGOs considered the private use of official cars and computers by executives of SNGOs to be abuse of office and resources of the NGO. NNGOs argued for a clear separation between the person and the office and emphasised the custodian relationship between the two, yet similar practices were commonly tolerated in the UK. Elsewhere in the South it was widely accepted that executives of NGOs were entitled to such perks. The use of NGO car, laptop computer and mobile phone was considered a common incentive to attract and retain staff at that level.

In one SNGO, medical doctors employed full-time by the SNGO operated private clinics of their own and at times referred patients from the SNGO's clinics to their own. NNGOs considered this fraudulent and corrupt as it amounted to using one's office for private gain as well as 'stealing' time from the NGO. Yet this was the general practice in the South where doctors were in such a short supply that imposing conditions inevitably led to demands for very high salaries or to the departure of the doctors. The practice was also commonly accepted in the UK where medical doctors in full-time employment ran private clinics.

Then there was the case where a CEO used part of his own residence as the headquarters of the SNGO. NNGOs felt it would be hard to distinguish official from private expenses and naturally a conflict of interest situation would arise. They considered it a case of mismanagement. In practice, such cases were common in the South, especially in founder-led SNGOs, and at times the arrangements were preferred as they enhanced commitment of the CEO to the NGO and reduced costs. SNGOs felt that this was an efficient arrangement so long as funders or the board played a role to ensure both parties were treated fairly. It was commonly practised in the North.

Finally, SNGOs offered sitting and meals allowances to board members to encourage attendance at meetings. One of them at the same time provided free meals to the board members during meetings. NNGOs felt paying board members was an abuse of the NGO's resources in the first place. Provision of food in addition to the meal allowances constituted double payment and hence abuse of resources. Yet that seemed to be the norm and many people in the South

would be unwilling to serve on boards without such payments. In the South, food was always provided to visitors by a good host.

These cases highlighted the importance of contextual considerations in measuring the performance of NGOs and especially in making value judgments on financial governance and management. Existing models, although not focusing on performance measurement at this level, are mainly of the universal borrowed stream which assumes universal application of performance assessment tools. Considered from a different perspective, NNGOs are held responsible for the funding made available to them and thus have a responsibility to ensure that spending conformed to the contexts and expectations of their funders. Here again, there lay more tension between environments and contexts between the funders and NNGOs on the one hand and beneficiaries and SNGOs on the other.

A review of how NNGOs dealt with allegations or suspicions of financial mismanagement, fraud and corruption amongst SNGOs they funded revealed a number of issues. First there were no systematic ways in which NNGOs detected or gathered relevant information. Formally, they relied entirely on progress and annual reports and reports of external evaluators and auditors, whereas informally they relied on confidential reports and letters often sent to them anonymously with allegations. The terms of reference for evaluators and investigators often mentioned that financial management or input/output assessment needed to be conducted and reported. The teams selected to conduct evaluations hardly had financial experts or even financial management as a required critical competency. Resultant reports ended up making only a few general statements on financial governance and management, while auditors, who did a more in-depth review, conveyed their concerns through management letters which did not always reach funder NNGOs. When serious allegations surfaced, NNGOs tended to respond in different ways. The preferred approach was to negotiate a capacity building programme<sup>42</sup>. Some NNGOs took no steps (SI2), some initiated financial audits (SK5) and others conducted evaluations using their staff or consultants (SI4). These initiatives tended to drag on for a long time. Only in very rare cases would NNGOs stop funding or push for deep changes although many stated so (see responses to question 8.1 in Appendix D). None amongst those researched had contemplated legal action even when there was evidence of fraud and corruption and legal recourse was specified in the contract. In some cases, funder NNGOs just pulled out of the funding relationship probably to avoid bad publicity or due to lack of trust in the court processes in the South (Appendix D and SI3 and SI4).

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<sup>42</sup> This was often done despite the fact that capacity building can not address such conscious malpractices as fraud and corruption. It only seemed to present a politically correct way of appearing to address a serious problem.

For a long time, NNGOs seem to have over-relied on capacity building as a magic bullet (Lister, 2000; NAO, 2006; Sahley, 1995). Capacity building efforts put more emphasis on general management than on key functional areas. Project cycle, principles of management, gender mainstreaming, equity and environment are vital but seem well understood and appreciated by managers of SNGOs. Investment in training staff is no longer critical as both India and Kenya have surplus qualified labour with sizeable numbers already in the Diaspora. The research showed that real threat lies in such functional areas as effective oversight and governance, human resources management, procurement and financial management. Yet very few funder NNGOs were willing to tackle these areas head on due to a fragile partnership concept (see 4.3). NNGOs were thus timid in tackling some of these issues. Their response was commensurately superficial too. For instance, NNGOs which felt procurement capacity was inadequate often took back that responsibility from the SNGO. Where financial accountability was weak, funders seconded their own staff or consultants or auditors to help the SNGO. Perhaps different approaches would have been more effective. The study showed the major widespread weaknesses were in custodianship, disclosure, accountability, transparency and integrity, which contribute to poor performance. Specific measures to define, develop and to measure the state of these vulnerabilities and progress towards improvement were generally lacking in documented models but given attention in practice.

The state of affairs shown by this research portrays an inertia which is not only detrimental to performance but which also fuels the practice of registering SNGOs to skim off resources which NGOs command. It is necessary to strengthen performance models so that financial mismanagement is pre-empted or proactively monitored and quicker and more decisive steps taken when it occurs. The fact that most of the SNGOs, especially the more successful ones, share this view with funder NNGOs should give it the impetus and political acceptance required to bring it into the open as key determinants of NGO performance.

#### *6.4.3 Funding and funder policies on performance*

The research upheld the view of some researchers such as BOND (1997), Lewis (1999) and Lister (2000) that SNGOs are overly reliant on external funding and this has consequences. In both countries, it was apparent that NNGOs often drove the policies of SNGOs. To attract funding SNGOs needed to work in areas, on issues and at times funder NNGOs wanted. Once this fit was attained, NNGOs started prescribing operational policies. They often came in as attachments to funding contracts which SNGOs considered not negotiable. In two of the cases, NNGOs funded independent consultants who understood NNGOs policies and procedures to work with board and management of the SNGOs to develop acceptable policies to be used.

Such consultants reviewed existing policies in terms of adequacy to meet the requirements of the contract rather than the needs or circumstances of the SNGO. It is understandable that the process ended up replicating to a large extent the policies of funding NNGOs; with SNGOs only endorsing them.

Observation of the dynamics of funder policies as relationship matured through different stages showed some responsiveness. At the initial stages, funder NNGOs imposed conditions which were almost standard for all SNGOs. As the relationships matured and SNGOs proved themselves, some of these conditions would be relaxed. At some stage, NNGOs tended to be more receptive to changing their policies by adopting best practices on specific areas learnt from SNGOs, often areas of their own inadequacy. One would expect that a stage would come when the funder-funded NGO relationship would reach the apex of partnership where NNGOs would be willing to review their own policies to fully respect SNGOs' own ways of operation. In practice, this would be difficult to achieve as the relationships were usually a one-NNGO-to-many-SNGOs or many-to-many matrix; rarely did one-to-one relationships exist. None of the sixteen relationships examined had reached this full policy integration stage.

SNGOs researched tended to be more able to attract foreign rather than local funding. Perhaps this pointed to windows of opportunity arising from disharmony amongst NNGOs' funding policies which some SNGOs exploited. One CEO was candid that NNGOs tended to fund too high salaries in comparison to local salaries, yet NNGOs tended to evaluate funded salaries as modest in relation to their own. It also appeared that major NNGOs which had operational offices and programmes in the South besides funding local SNGOs were more equipped to challenge SNGOs. Perhaps this was because they understood the environment and contexts, common practices, local costs of doing things, common areas of abuse and applicable efficiency measures which differences in cost classifications distort. This is particularly vital to address such impediments to performance as nepotism, cost inflation and the problem of development attribution and to ensure prudent budget oversight.

Since this state of affairs gives funder NNGOs great leverage over SNGOs, new models should capitalise on it as an effective avenue to implement necessary changes.

#### *6.4.4 Development of trust-based partnerships*

Four phases of funding relationships emerged from this research, mainly starting with small grants tied to very specific conditions and maturing into larger, more flexible and organisation-wide unrestricted funding. The chronological phases involved were:

1. An NNGO would identify and start working with an SNGO on the basis of signed contract, tight conditions, closer monitoring and regular reporting in relation to specific projects or programmes.
2. The NNGO would start to relax slowly the conditions imposed by reducing complexity and regularity of monitoring and reporting.
3. The NNGO would start working with the SNGO at organisational level and even funding part of the overheads and investments amid much relaxed conditions.
4. The NNGO would develop full trust and confidence in the SNGO and start giving general unconditional grants<sup>43</sup> to leverage the work of SNGOs and to promote it to other funders.

There were allegations that NNGOs in the earlier stages of relationship with SNGOs tended to be more interested in quick results to justify their investments than in impact (the CEO to SI2):

*“Funding organisations are very resistant to building organisations. They need to understand and build capacity, invest in people and resource mobilisation for the organisation yet some funding organisations are very resistant to support these.”*

All eight SNGOs had experienced these relationships with different funders at different times but only two had reached the apex partnership after a long time. Some SNGOs had lost hope and preferred to operate at a lower level as contractors to NNGOs (CEO of SK2).

*“In some cases we agree on contracting the services; come in because you have the money and we have the capacity to do ABC. I do it and charge you for it. It helps us to remain focused and without too much influence from partners. We retain reserves from such and beef up our systems using such resources.”*

In this way, the concept of partnership between NNGOs and SNGOs seemed to hold only at the apex level and therefore reference to all NNGO/SNGO relationships as partnerships was rather misleading. Mutual learning, although with more inclination towards NNGOs, occurred at this stage. Since mainly SNGOs considered best performing attained this level, the poor performing ones having been dropped along the way, it can be deduced that NNGOs were more receptive to learning in a limited way from the better performing SNGOs.

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<sup>43</sup> This is more in line with the DfID's Poverty Partnership Agreements with major UK NNGOs. It commits block grants to leverage work on a given programme without much specificity and accepts recipient NNGO's general reports to justify expenditure.

It can be argued that real partnership only happened at the apex of NGO relationships when the association has matured and developed into a trust-based relationship. These cases were rare. Current models are based on the concept of partnership, yet not all NNGO-SNGO relationships technically constitute partnerships (Ashman, 2001; Brinkerhoff, 2004; Keengwe et al., 1998; Lister, 2000). Models needed to recognise that there are different phases and that real organisational level partnerships only exist at the apex where trust is present.

#### *6.4.5 Additional Issues - Opinion leaders in assessment of SNGO performance*

In addition to the five key specific issues which emerged from this research as discussed above, the research also raised additional issues. Identifying and measuring performance of SNGOs was a complex and time and resource-consuming activity. This research showed that it often required an NNGO with sufficient resources to buffer any side effects of failure by partner SNGOs. Smaller NNGOs tended to be more sensitive to the possibility of failure and hence were risk averse. Smaller NNGOs therefore tended to fly on the wings of larger NNGOs. UK NNGOs formed networks of those working overseas (BOND), and had networks of chief executives and finance directors. There were several other informal networks. Through these forums, NNGOs discussed and shared information about programmes and SNGOs which performed better<sup>44</sup>. Smaller NNGOs admitted to identifying partners based on information obtained in these networks while larger NNGOs agreed to partly identifying, nurturing and promoting some of the SNGOs to other NNGOs for funding (see also question 7 in Appendix D). SNGOs also admitted that securing funding from major NNGOs almost certainly opened avenues or enhanced prospects for further funding from other NNGOs. The better performing SNGOs therefore tended to target specific large NNGOs in order to get this mark of approval.

This development may be attributed to a number of factors. Some NNGOs seemed to adopt a more holistic approach to development where they invested in developing SNGOs as channels for development. Other NNGOs tended to work so well with specific SNGOs that when the former changed strategic focus, they were compelled to establish alternative survival lines for the SNGOs. The third possibility was diversification of risk. NNGOs were more comfortable co-funding alongside other NNGOs as this tended to give them comfort that they were not making solo critical mistakes and funding consortia made better decisions. This finding is important especially in cascading practices amongst NNGOs. Any changes targeted at and accepted by leading NNGOs are likely to cascade quickly down the NNGO fraternity. Emerging new models needed therefore to benefit from this fast track way to implement changes or entrench new practices.

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<sup>44</sup> Potential problems could be foreseen under the UK Data Protection Act should an SNGO feel aggrieved by an NNGO's passing such information to another NNGO which could otherwise have agreed to fund.

## 6.5 A MODEL FOR UNDERSTANDING NGO PERFORMANCE ASSESSMENT

It was determined that NNGOs constitute a class of distinct and complex organisations. They raise funds from different donors and countries and often spend them on different beneficiaries in different countries, have multiple accountabilities (Herman and Renz, 1997), have several and at times conflicting aims (Kendall, 2003), most of their results only manifest in the long term and, in fact, some work in areas where their success can only be shown through non-occurrence of what they fight against (Barman, 2007; Behn, 2003; Forbes, 1998). Such distinction has resulted in equally distinctive approaches to measuring their performance.

Kendall and Knapp (2000) proposed that both the ‘new managerial’ and the old ‘public administration’ approaches could be combined in a synergistic way to give more appropriate performance measurement frameworks for voluntary organisations. Paton (2003) proposed that desirable performance measures should be valid and reliable, parsimonious, comprehensive, acceptable / meaningful / credible, pervasive and integrative, relatively stable, practical and with explanatory power.

By analysing trends from previous work in this area, it was proposed in Chapter 2 that the bespoke stream presents a good foundation to build on in developing models to reflect how NNGOs measure the performance of SNGOs. The stream takes into consideration the distinctive nature of the sector and could be enhanced by KPIs to help rank NGOs in order of performance. Although there could be a temptation to achieve this solely by quantifiable indicators (Argenti, 2003), given the nature of NGOs this would be a travesty.

On the other hand, NGOs in this research demonstrated much nostalgia for the tested and proven universal borrowed stream performance approaches and tended to adapt them through blending. As Wise (1995) found close resemblance between the public and the not-for-profit sectors in the way they were structured and operated, it should be recollected that the dominant performance frameworks were borrowed and adapted from those in the public sector (Bashir, 1999; NAO, 2006; Wise, 1995) (see 2.2.3).

### 6.5.1 *Dimensions from literature review*

#### 6.5.1.1 *Value for Money*

As explored in 2.2.4, whatever different angles this subject matter is approached from, it always emerges that measurement of performance amongst NGOs can not be divorced from ‘value for



money', euphemism for combining quality and expense reduction. The phrase is now widely accepted to mean the 3Es as used in the public sector. Many authors and researchers, such as Bashir (1999), Kendall (2003), Lawrie (1993); Palmer and Randall (2002), Reider (2001), Rojas (2000) and Wise (1995) find it the strongest starting point to advance measurement of performance of NGOs. They share the view that the 3Es model, together with the subsequent modifications, should provide the foundation to address the issue of organisational performance management in the voluntary sector. As argued in 2.2.4, this research shares this view and places value for money at the centre of the model development process.

Efficiency generally refers to the relationship between inputs (economy) to output (effectiveness) and measures the extent to which inputs deliver intended results. It is usually measured in terms of money, time, people and quality (Bashir, 1999; Reider, 2001). Effectiveness indicates the value of the outputs from an activity as well as the extent to which those outputs conform to the specified need. It tends to be long-term in nature. An investment is thus effectively spent if it increases the value (quality or quantity) of the output (Bashir, 1999; Reider, 2001). Economy, on the other hand, measures the resources needed to deliver a service. In a way, it signifies absence of wastage and slippage. If all the resources input through an NGO translate to outputs then economy is well served. Practices such as fraud, corruption and financial mismanagement therefore undermine both economy and efficiency and through them, effectiveness (see also 2.2.4.1).

The 3Es provide a sound basis for measuring performance of organisations which are not motivated by profit. Since they could equally apply to the public and to the not-for-profit sectors, there should be other ways of distinguishing performance measurement between the two sectors. The two sectors may be close in structure and ways of operation (Wise, 1995) but they clearly have some subtle differences which are recognised in measurement of performance. In Chapter 2, it was argued that researchers recognise this but often proceed beyond the 3Es by going in different directions (see for instance Behn, 2003; Herman, 1992; Paton, 2003). This research has shown that there is one more distinguishing aspect between the public and the not-for-profit sectors: equity.

#### *6.5.1.2 Equity*

NGOs do not exactly act or perform like the public sector although their work is closely geared towards and leverages the work of the public sector. What sets NGOs apart is the way in which they select and serve their constituency. They aim at the all important concept of equity, as all the NGOs surveyed (see Appendix D) and used as case studies (see 4.1 to 4.5) strongly

demonstrated in their objectives and work. By pursuing social equity (Kendall and Knapp, 2000), NGOs often work with the marginalised groups to uplift their state, with those they perceive could help attain the equity and those they hold accountable for the inequity (Baruch and Ramalho, 2006). Equity is thus a central concept which should be recognised in evaluation of NGO performance. If an organisation did all that NGOs do but did not observe equity then debates would rage as to whether it is indeed a NGO.

Equity refers to balance or impartiality or uniformity in social welfare. It is a fact of capitalism that the traditional production system only produces that which is demanded (wanted by those able to pay). This is particularly so in the for-profit sector (Knapp and Kendal, 2003). Although the public sector may aim at equity, especially if it is socialist in orientation, often its efforts fall short of success, especially at the distributive level. NGOs come in to supplement such efforts. They aim at making goods and services accessible to those in need, carefully targeting their service, supplementing government redistributive policies and adopting approaches and delivery mechanisms which favour the needy.

Compared to the 3Es, equity is rather distinctive. The 3Es only relate to specific stages of the welfare system, e.g. economy mainly holds at cost / inputs level, efficiency only measures the relationship between inputs and outputs, while effectiveness only measures the relationship between outputs and outcomes. Equity on the other hand is pervasive and cuts across all three stages. It has to be shown in the input stage, in processes, in outputs and in outcomes. Equity therefore provides the fourth 'E'. The new model thus requires performance of NGOs to be demonstrated and measured in four dimensions: at the efficiency level, at the effectiveness level, at the economy level and at the equity level. A well performing NGO would need to demonstrate that it can mobilise sufficient resources and channel them towards its objectives; those objectives advance equity in and across societies; resources mobilised are wholly applied towards the outputs; and outputs directly impact upon the desired outcomes.

#### *6.5.2 Empirical dimensions*

The research highlighted five distinct constructs (see 4.6.5) which illuminate financial governance in NGO performance and its impact on funder policies. They are:

- the state of regulatory environment (state regulation, self-regulation and accreditation) and the context,
- the state of financial governance,
- the state of financial management,

- the state of NGO funding, and
- the stage of partnership development.

They present vital dimensions which merit incorporation into NGO performance measurement models.

The state of the 'statutory regulation' environment provides an indication as to the legality and protection against extreme flagrant malpractices (Yaansah and Harrel-Bond, 1997). As stated in sections 2.3 and 5.2, if statutory regulation functions well it gives some assurance that an SNGO is properly registered, its funding and accounting are regulated, its objectives are aligned to national objectives, welfare of staff is attended to, there is an absence of criminal behaviour, and any expatriate staff are only deployed if needed, qualified and vetted. This is crucial in setting the foundation for performance. If NGO self-regulation policy is in place then assurance could be obtained that tasks assigned are adequately undertaken (Lloyd, 2005; Loft et al., 2006). Self-accreditation mechanisms also give an indication of an SNGO's commitment and adherence to specified performance standards (Harris-Curtis, 2002). In practice, how entrenched self-accreditation was in a country and the status of the individual SNGO pointed to the level of performance to be expected. Self-accreditation attested to conformance to regulation, existence of definitive direction (mission, vision and objectives), ability to submit some reports within deadlines, self-expressed commitment to uphold good governance, and clean external audit opinions. They all gave some assurance on performance. Whilst valid membership could not prove performance, lack of membership could imply non- performance or lack of commitment. Finally, the environment and the context in which an SNGO operates help to distinguish acceptable from unacceptable interventions and practices. Inversely, a loosely controlled environment should imply more likelihood of non-performance unless there are other compensating mechanisms, often NGO level governance. These variables reinforce the stance taken against the misconception that performance has a universal definition.

Governance refers to the oversight and statutory requirements put on NGO boards as well as how the board is constituted, operates and how members are held accountable (Bradshaw et al., 1992; Callen, 2003). NGO level governance was found to be a crucial determinant of the SNGO's performance. The state of financial governance depended on the calibre of people (directors), policies and processes (3Ps) within an NGO (Carver, 2006). The research established the appropriate KPIs to evaluate performance of SNGO boards as the ability to foster good working relationships (especially with funders), how distinct it is from the management and thus able to exercise oversight, how it exercises internal democracy (fair and regular elections), the variety of skills available on the board, limitation in period of service, and the existence of functional subcommittees. This was found to be one of the critical areas which

distinguished a more successful SNGO from a less successful one. The commitment demonstrated to this area amongst both NNGOs and SNGOs underscored its importance. It should find its rightful place in the terms of reference in performance evaluation. The argument that equity is a pervasive quality of NGO performance which should be assessed alongside the 3Es also helps to bring financial governance into focus. They reinforce the stance taken that financial governance is down-played in NGO performance measurement.

Good governance contributes to good financial governance / management which translates to deterrence of fraud and corruption amongst other financial wrong-doings. This is achieved through good policies, procedures and the system of internal controls to ensure that individual interests (at board, management and staff levels) do not override the NGO interests (Carver, 2006; Chait et al., 1991). The research established some KPIs to measure the performance of financial governance / management. They include commitment to and exercise of accountability, transparency, integrity, custodianship, disclosure and consistency (see 4.6.5) which collectively safeguard financial resources. At management level, commitment to these principles would deter misuse of assets, unsustainably high salaries and allowances, bribery, inflating prices, forging documents, insider dealings and un-procedural debt write-offs. At the board level, they would deter trustees from contracting with the NGO, over-claiming allowances and costs, unfair employment, misuse of NGO resources and improper award of contracts. This is important as the state of financial governance / management, especially on fraud and corruption, was found to distinguish a more successful SNGO from others and to be a cause of NGO failure.

The research found funding to be so crucial in NGOs that it determined survival, especially those NNGOs dependent on a few sources of funding. SNGOs greatly relied on NNGOs for funding which they provided with conditions attached. It was also provided by way of different contractual arrangements and targeted at different levels of the organisation. It ranged from small funds targeted at specific projects with tight reporting requirements to large multi-year funding aimed at organisational-wide budgetary support with relaxed conditions. NGOs contracted for services or worked as partners sharing risks and rewards of their work. An NGO which attracted funding from many NGOs, including the top leading NNGOs, had better chances of additional fundraising as this was a testimony to its performance. A better performing SNGO would therefore show characteristics such as long-term funders who sustain or increase funding levels or relax conditions, more funders on board, some major funders, more organisational-level funding, fewer conditions tied to the funding and some future committed funding. Conversely, absence of these features signalled some problems with performance.

The stage of partnership establishes the level of progression on the development-of-partnerships continuum. The research established that SNGOs came on board in two ways: those initially identified by NNGOs and those recommended by other NNGOs. The relationship then grew over time as the partnership matured. Where an SNGO was on this continuum indicated its performance. Poor performers would be dropped at the early stages to leave only better performers. Amongst those remaining, the diversity and magnitude of funding would also point to levels of proven performance and the extent to which funder policies were relaxed. In this way, funders stood out as the main determinants of an SNGO's survival. This underscored the misconception that to succeed SNGOs should serve their beneficiaries.

### *6.5.3 Focus SNGO Performance Measurement Model*

#### *6.5.3.1 Overview of model*

The proposed 'Focus SNGO Performance Measurement Model'<sup>45</sup> merges the empirical findings of this research (see 6.4) with findings from the literature review (see 6.2 and 6.3) using pillars identified in 6.4. It combines qualitative and quantitative measures and leverages them with some critical KPIs in the areas of financial governance and financial management. The 4Es (Economy, Efficiency, Effectiveness and Equity) model derived from the literature (Kendall and Knapp, 2000; Lawrie, 1993; Wise, 1995) and from a combination of literature and empirical study (equity) form the goals for this model.

At macro level, the model recognises that an SNGO operates within sovereignties which impose varying degrees of statutory control. The more quality statutory controls are imposed and enforced, the more the chances of SNGOs' performing. Within these sovereignties, there are the less formal environments (legal/cultural) and contexts which also impose some practices and expectations which need to be recognised. It is within this environment that SNGOs organise themselves and within which they make a difference. Research shows that evaluators of SNGO performance should pay attention to the state of affairs at this level. The results of this analysis will guide the length and depth of further work in assessing performance of individual SNGOs.

The proposed model is presented in Figure 6.1 (below). The specifics of the model and explanation of its theoretical implications are discussed in the following sections. The contribution of the model is assessed in the next chapter (section 7.4).

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<sup>45</sup> This model is so called as it is a result of a focus on how performance is measured in practice and focuses on areas of critical importance often overlooked in literature and theoretical frameworks.

#### 6.5.3.2 Performance indicators level (4Es)

Measurement of performance of SNGOs should focus on the 4Es. There is hardly a single dimension to definition of NGO performance and neither can there be a single measure (Barman, 2007; Behn, 2003; CES, 2000; Forbes, 1998). This requires assessment approaches to be structured in a way to gather and systematically analyse data so as to make value judgements on the SNGO's effectiveness, efficiency, economy and equity. The pervasive nature of equity calls for special attention to ensure equitable resource planning, allocation and application which contributes in a meaningful way to the role of NGOs. The exploration of financial governance, the thrust of this research, highlighted the following areas which should be crucial in reaching value judgements on efficiency and economy.

#### 6.5.3.3 Operating environment level

When assessing performance of SNGOs, it should be appreciated that they operate within environments which require special consideration. The legal environment, if with good regulations which are enforced, may guarantee a certain minimum level of performance (Yaansah and Harrel-Bond, 1997). The SNGOs may negotiate with the governments and agree to put in place a self-regulation mechanism to supplement and/or replace parts of statutory regulation (Lloyd, 2005). They may also organise themselves and introduce self-accreditation mechanisms to enforce some standards of performance (Harris-Curtis, 2002). If there is an effective and enforced legal regulation system or self-regulation mechanism or a self-accreditation mechanism which generally works well then evaluators can make some assumptions about an SNGO with good standing. The culture may also impose particular ways of doing things which must be respected to effect meaningful change. The model adopts these as important operating environment facets identified by the research. They should be evaluated for general indications which contribute to the overall score before the focus shifts to the SNGO as an organisational player.

#### 6.5.3.4 Production level

At organisational level, SNGOs receive inputs which they process into outputs (Kendall, 2003). What happens at all the three stages (of input, process and output) directly impacts on the 4Es which are the goals of performance. At the inputs level, attention should be paid to both economy and equity. Good controls ensure that resources are mobilised from all possible sources and all resource inputs are channelled to processes without any slippage. If the resources are also channelled equitably, these will be indicators of good performance. At the

process level, attention should focus on efficiency and equity to measure how well the resource inputs are applied towards outputs and how equitably so. It is at this stage that an SNGO's policies, systems and procedures should be examined. At the output stage, focus should shift to equity and effectiveness with a view to assessing how well the outputs contribute to results and outcomes expected and how equitable the distributive mechanisms are. It would be an indication of good performance if there exists good attribution logic and a clear targeted group of beneficiaries who are most deserving.

#### 6.5.3.5 Financial governance level

In making these assessments at organisational level, a key consideration should be governance (Green and Griesinger, 1996; Rhodes, 2000; Wils, 1997). This area should not be considered surreptitiously but should be put directly into the terms of reference and be openly discussed amongst partners. The state of financial governance should then be measured using six KPIs: how democratic and representative of all the stakeholders the board membership is, how distinct it is from management so as to provide management oversight, how well the board forges relations with the key stakeholders (funders, beneficiaries, staff, management and government), how well the board has formed functional and effective subcommittees, the calibre of skills represented on the board and how they are used, and succession plans for the board which ensure members do not overstay. The old belief that to survive SNGOs should just serve the beneficiary no longer seems to hold. It should be noted that amongst the board subcommittees good performance requires vibrant finance and audit subcommittees which in turn push for good financial governance. How well the board serves its wider role (see 2.5) should help widen the scope when assessing governance.

#### 6.5.3.6 Financial management level

As the board oversees management, good financial governance should translate into sound financial management, as literature has shown (Callen, 2003; Carver, 2006; Chait et al., 1991; Green and Griesinger, 1996; Herman, 2000; Iecovich, 2005). The study showed that performance at the management level should focus on functional departments. Performance evaluators need to look specifically at the finance departments and test to what extent good principles of financial management are upheld. This can be done by focusing on and assessing performance against the six principles of accountability, transparency, integrity, consistency, disclosure and custodianship. Amongst the critical KPIs are those identified in the areas of financial management, fraud and corruption. They should be tested at both the board and management levels.

At the board level, the KPIs include assessment of whether the directors enter into contracts with the SNGO, board allowances and cost claims are reasonable, directors unduly influence contracts, directors unduly influence employment, and the protection they accord to the restricted funds given to the SNGO. At the management level, the KPIs should include assessment of the strategy for sustainability, ability to vet board claims, ability to match funding with expenditure, ability to strike an appropriate remuneration structure, nature of comments from external auditors, the extent to which recommendations are implemented, and reasonableness of the bills the SNGO pays. These areas clearly go beyond those identified by Gibelman and Gelman (2004).

Special attention should be paid at both the board and management level to fraud and corruption through the use of such KPIs as to assess any misuse of the assets of the SNGO, drawing of excessive salaries and allowances, bribery to influence decisions, inflated prices for goods and services, forged documentation, insider dealings and inappropriate debt write-offs.

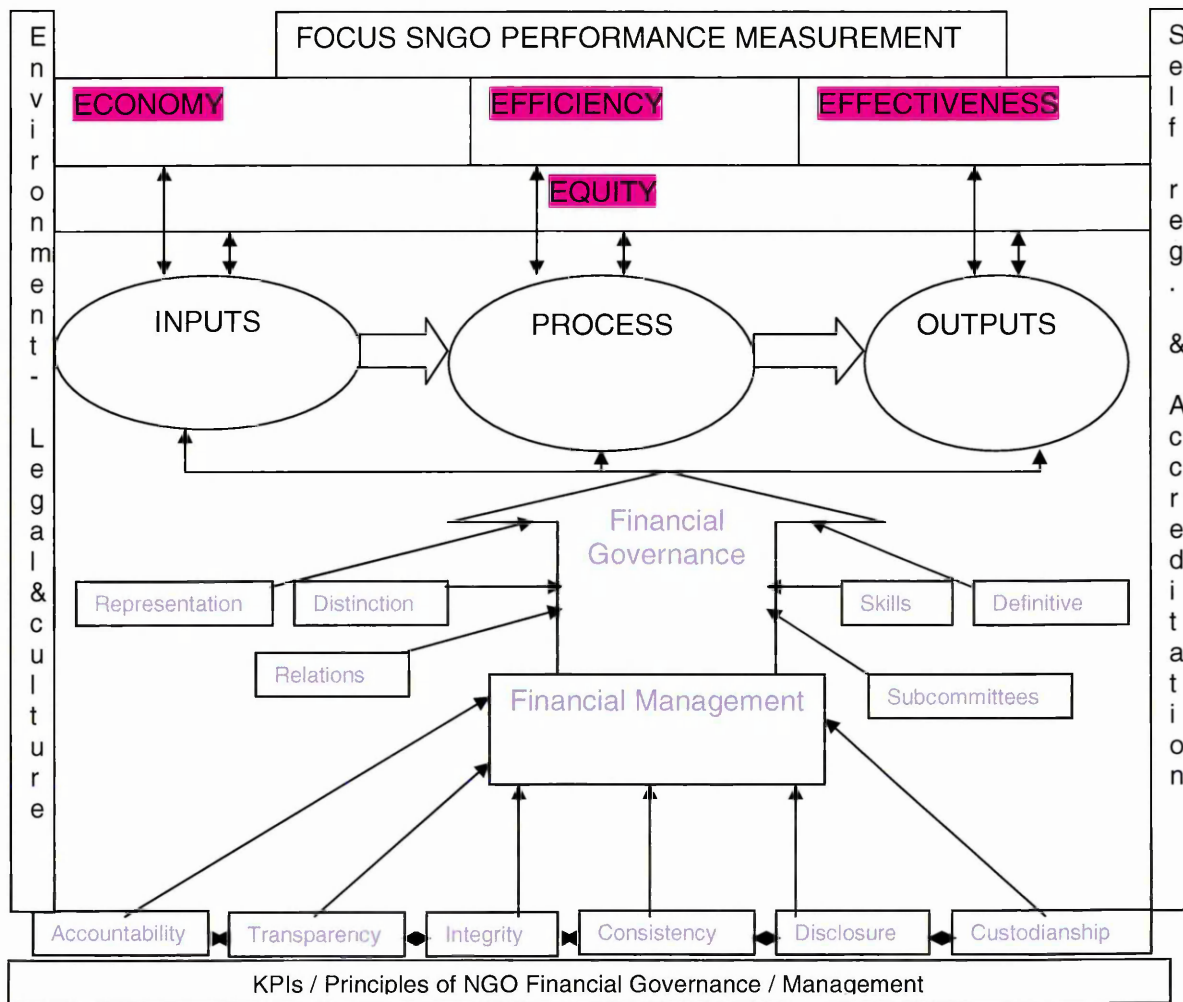
KPIs in these areas should be specifically assessed, as the areas have been found critical in distinguishing an excellent from a failing SNGO.

#### 6.5.3.7 Level of partnership development

Finally, the stage an SNGO has reached on the partnership development continuum (see 5.5.2), as well as the number of funders and the magnitude of resources channelled to it, should help evaluators to make some generic assumptions or judgements about the performance of the SNGO. It should start with establishing whether partnership indeed exists or the organisations are still in the early stages of collaboration. Relatively young SNGOs with limited funders and resources should be given more in-depth analysis in performance evaluation. For those with established funders, distinction in performance should be sought in the calibre of funders (big established brand names are better weighted), length of committed funding and funding trends over time. Well established partnerships will almost always be an indication that the pillars/principles of financial governance / management are in place and functioning well. Latent in this is the dismissal of proportion of SNGO self-generated income as a measure of performance but its use only as an indication of sustainability. Figure 6.1 models the interaction of these facets in practice.



Figure 6.1: Focus SNGO Performance Measurement Model



#### 6.5.4 Practitioners' use of model

One of the key implications of this theoretical model is that sound financial governance and management are pervasive in NGOs' operations and lie central to the achievement of NGO goals. They affect both management and the board and through them the various stages of the NGO production system (inputs, processing and outputs) which then leverages the 4Es which form the ultimate NGO goals.

For NNGOs and SNGOs, the model consolidates the processes they go through, especially by distinguishing practice from the rhetoric, for instance by bringing to the fore the importance of financial governance and management, the importance of focusing accountability on the funders, the differences between lack of capacity and lack of integrity, the special cultural and contextual environments in which SNGOs operate and the truth about the nature of their

relationships, and at what point collaborations turn into partnerships. NNGOs and SNGOs can, on the basis of these findings, hold frank discussions about their relationships and how they will ensure performance between them. They can set frank terms of reference for consultants.

Practitioners, especially evaluators, auditors and other consultants involved in assessing performance of NGOs, will find this model of particular importance. Not only will they have clearer terms of reference with an adequate mandate to evaluate financial governance, management and policies, but it will also give a broad framework to guide their approach. For instance, the model directs focus in performance measurement to the 4Es and guides through hierarchical steps of assessing the environment (national regulation, self-regulation, self-accreditation) and context of NGOs to drive initial impression and use that to determine how deep to delve at the NGO level. At NGO focus should start with an assessment of where it is in the relationship hierarchy governance and use that to determine how deep to delve into financial governance and financial management. In the same way, drafting of terms of reference should scan the different levels before determining areas of greatest threats to focus on. The model thus helps to focus various interventions, and facilitates the adoption of more comprehensive and structured approaches to evaluating performance of SNGOs. Consultants with little or no finance background but who are tasked to evaluate performance will find this model a handy tool to approach financial governance and management.

## 6.6 MODEL APPLICATION AND LIMITATIONS

Besides being useful to practitioners (see 6.5.4), this model can be useful to a cross-section of such other stakeholders as funders, researchers and governments.

Funders, especially NNGOs, will find the model illuminating in their quest to understand the complex dynamics which impact on performance of SNGOs and how they interact to shape performance. The model provides them with key areas to focus on and to incorporate in terms of reference to evaluate performance of SNGOs they fund. For instance, questions about the effectiveness of the regulatory environment, how equity is demonstrated at planning, resource utilisation and impact levels, how well the production of welfare process is controlled, and how well the financial governance and management are entrenched at all these levels. They will also find the model a good communication tool between themselves and the SNGOs they fund. Issues which NNGOs and SNGOs have both wanted to discuss but did not muster adequate courage to do so openly have, to some extent, been captured in the model. They include the role of financial governance and management, contexts and cultures, policy formulation, accountability focus and the state of their collaboration / partnerships. NNGOs can use the model to determine how and where best to intervene in a transparent way to bring about meaningful change which enhances performance of SNGOs. SNGOs will also find the model useful in understanding issues from the perspective of funder NNGOs and for self-diagnosis.

Researchers will find the model thought provoking as a reference point for some reflection and further research inquiry. It provides a deeper layer of theoretical understanding and it will help them to gain more in-depth understanding of the dynamics of performance measurement between NNGOs and SNGOs. This may challenge some existing beliefs as well as generate new areas for further research to update the theoretical knowledge and literature in this area. The model highlights areas which are vital but which existing literature was silent about (see 6.2). This should excite further research into what these new dimensions portend for the sector. There are a number of opportunities related to this model for further research (see 7.5) including similar studies within and outside the countries of this study to test external validity. Researchers in other sectors will find the study illuminative of the distinctiveness of NGOs and why general approaches may not readily apply to NGOs.

Governments, especially those in the South, can use the model to understand why NNGOs mainly provide conditional funds to SNGOs, vary conditions from SNGO to SNGO, and why NNGOs are reluctant to work directly through the government mechanisms. It will help them to focus the state regulation mechanism on more appropriate levels, for instance by assessing the strengths, weaknesses, opportunities and threats presented by alternative regulations so as to

derive a niche for intervention. Governments concerned with the evaluation of specific SNGOs will find the model provides them with a handy tool to approach issues of financial governance and management. The few governments in the South suspicious of NNGO/SNGO operations will find solace in this open way of communicating intentions of NGOs.

However, there are some limitations to the application of this model which should be highlighted. They revolve around the fact that the derived model is an interpretive one, more inclined towards explaining and deriving meaning than towards generalisation. This should be rationalised in light of the philosophical stance and the research strategy adopted in Chapter 3.

The model aptly captures performance measurement in practice between selected UK NNGOs and specific SNGOs they fund in Kenya and India. The UK charity law holds trustees accountable and responsible for performance of NNGOs, including oversight of all the NNGOs' resources, however and wherever spent. In this respect, it is understandable why UK funder NNGOs exercise more controls on SNGOs they fund. This may or may not apply to NNGOs in the rest of Europe, North America and Australia. The model should therefore be recognised as a result of limited tests in a distinctive setting. Further research is necessary to study how the trustees go about this role in other settings and to reflect emergent knowledge in improved models and theoretical frameworks. The model makes only a limited contribution in this way.

It should be emphasised that although the research established this model, in-depth review was focused on financial governance and management. Consequently, KPIs in these two areas only were identified and are incorporated in the model. This limits the contribution of the model only these areas. There are other aspects of SNGO performance which need focused research before a comprehensive NGO performance model can be derived, if at all possible.

It should be noted that the environment which surrounds NGOs includes statutory regulation, self-regulation, contexts and environments and self-accreditation. It is also in this environment that the majority of stakeholders (government, private sector, beneficiaries, staff, suppliers, publicists, funders and watchdogs) are found. The environment therefore is far more sophisticated and interacts in more complex ways with the SNGOs than is depicted in the model. It is complex for models to capture such aspects in their totality.

Finally, it is unlikely that NNGOs which do not have a large enough funding leverage over their SNGO partners will find this model practical. The model was built around unequal power relationships in which one organisation can subject another to a performance evaluation and influence its policies and practices. Taking it out of this context could easily invalidate it.

## 6.7 SUMMARY

This chapter consolidated the findings of the research and merged them with existing literature and frameworks in an attempt to reach a new frontier of knowledge. It reflected on and brought together the key findings of the literature review and empirical findings on NGO regulation, financial governance and management, development of partnerships, impact of partnerships on funder policies and the impact of over-reliance on foreign funding.

The findings from the literature review provided a good foundation upon which empirical findings of this study built the 'Focus SNGO Performance Measurement Model'. The model is based on both literature review and the empirical findings that (i) NNGOs measure performance of SNGOs they fund and do so in a distinct way which combines the universal borrowed, contextual and bespoke streams of performance measures, (ii) financial governance is given critical importance when NNGOs measure performance of SNGOs in practice but in theory its importance is often downplayed, (iii) financial governance and management lie at the core in cases where SNGOs have excelled or failed, and (iv) there is very little evidence of performance of SNGOs influencing administrative policies of NNGOs except in some new programme aspects where more successful SNGOs influence the evolving policies of funder NNGOs. The model was presented and discussed. It requires SNGO performance to be measured as the aggregate of performance ratings in four areas, namely at the environment level, the production level, the financial governance level and the financial management level. The specific KPIs to use at these levels to help gauge the performance of NGOs were discussed.

This chapter concludes the exploration of the research objectives. The research set out to determine how NNGOs evaluate performance of SNGOs they fund, to examine the importance attached to financial governance in such a process, to explore the role of financial governance in cases of excellence or failure amongst SNGOs, to investigate any linkages between financial governance practices of SNGOs and policies which funder NNGOs enforce, and to document and explain how NNGOs evaluate performance of SNGOs they fund.

Chapter 7 will reflect on the whole research process, then identify and propose some areas for further research.

## CHAPTER 7

### CONCLUSION AND REFLECTION

#### 7.0 INTRODUCTION

This final thesis chapter highlights the main conclusions of the study and takes a critical reflection on various aspects of the research, ranging from objectives, the methodology used to conclusions reached.

#### 7.1 NGO CONTEXT

The study showed that since their inception in the early nineteenth century NGOs have recorded such phenomenal growth that they are ranked amongst the players who shape the state of the world (Katz, 1999; Kerstin, 2002; Onishi, 2002; Salamon, 1993; SustainAbility, 2003; Willets, 2003). Johns Hopkins University (1999) estimated that in 1991 NGOs represented a £0.55 trillion industry employing 19 million fully-paid employees and constituting the eighth largest economy. *The Economist* (2002) estimated that NGOs had by 2002 surpassed the World Bank in amount of funds disbursed. The study also showed that NGOs serve a vital role towards the achievement of the MDGs and which Kendall (2003) expressed as mainly to complement, supplement, extend and influence social services. This summary view on the growth and the role of NGOs was shared by others, for instance the International Institute for Sustainable Development (2002) and Willets (2002).

Both in the North and in the South, the origin and growth of NGOs is attributed to failing trust in traditional institutions especially the government. Governments are perceived as bureaucratic, low in impact, poor in inclusion and wanting in demonstrating transparency and accountability (Ahmad, 2001; Edwards and Hulme, 1995, 1997; Fowler, 1996, 1997a, b; Kendall, 2003; Mosley et al., 1991; SustainAbility, 2003).

However, authors and researchers highlighted major problems which NGOs have to manage to merit and safeguard such privileged growth and funding. In general, they must be seen to be beyond the very problems which make funders lose trust in the traditional institutions. In addition, they must sustain their gains so as to maintain an edge over improving governments. NGOs are specifically challenged to scale up impact, diversify their funding sources, build solid business cases for funding and develop strong brand names. They are also challenged to improve their legitimacy, accountability, cost effectiveness and governance (Argenti, 1993; Cairns et al., 2005; Commission for Global Governance, 1995; Ebrahim, 2002, 2005; Fowler,

1996; Gibelman and Gelman, 2001, 2004; Hancock, 1989; Harris, 2003; O'Dwyer and Unerman, 2007; Paton, 2003; Sheehan, 1996; Rojas, 2000; SustainAbility, 2003; Wise, 1995). In short (Cairns et al., 2005 p135):

*“Nonprofits are expected to deliver value for money and to demonstrate that they are doing so. As Paton (2003) says, the environment of nonprofits is now permeated by ‘expectations of measurement’”.*

Fowler (1997b), Hulme and Edwards (1997), Mitlin (2002) and Wallace (2007) explored in detail the NGO aid chain and particularly funding relationships between NNGOs and SNGOs. They found that a substantial portion of aid flows from the resource rich North through NNGOs to the resource poor South through SNGOs. As NNGOs contribute up to 90% of SNGOs' revenue, they regularly measure performance of and rank SNGOs in the wider emerging market place of NGOs (Fowler, 1997b). Thus NNGOs and SNGOs provide a critical interface between funders and beneficiaries. It should worry development analysts and researchers that this trust relationship has not been sufficiently researched.

The research by Gibelman and Gelman (2001, 2004) focused on major public financial scandals within NGOs and their findings, often considered only a tip of an iceberg, insinuate widespread malpractices. It would seem the business of development is fraught with fraud, corruption and general abuse of resources entrusted (by funders) to custodians (NGOs) for beneficiaries (deprived people in the South). Other researchers shared these findings, for instance Edwards and Hulme (1997), Hancock (1989) and Mitlin (2002).

In a nutshell, the literature indicated that more and more resources were channelled to NGOs to achieve MDGs (Bebbington and Riddell, 1997; Charities Aid Foundation, 2007). More and more of these funds flowed in the aid chain from the North through NNGOs to the South through SNGOs and as these resources grew, more and more SNGOs were formed, creating a big market place (Edwards and Hulme, 1997; Fowler, 1997a). At the same time, more and more voices called the legitimacy and contribution of NGOs into question (Caiden et al., 2001; Gibelman and Gelman, 2001, 2004). NNGOs seemed to have devised their own ways of leveraging and evaluating performance of SNGOs they funded but existing literature did not capture wholly how this took place between a funder NGO and a funded one. At the same time, voices were gaining prominence, in the USA mainly, that the NGO fraternity was non-performing and fraught with abusive practices.

Against this background, the research explored the role financial governance and management play when NNGOs measure the performance of SNGOs they fund and how this value

judgement on performance impinged on policies they put in place to safeguard funders and beneficiaries alike. The merit of the research was traced to the ever rising prominence of NGOs, the role they play, the resources they command, how the funds flow through the aid chain and the key areas of NGO criticism. This research was premised on the foundation that NNGOs as funders have innate systematic ways of understanding and assessing performance of SNGOs and thereby making funding decisions on behalf of their constituents. The research adopted a distinctive approach of studying the practice (across three countries, eleven organisations and sixteen relationships) closely and using lessons learnt to inform theory. The final outcome is a contribution to the theoretical understanding and the resultant 'Focus SNGO Performance Measurement Model' which was presented and discussed in Chapter 6. A recapitulation of the key conclusions and a reflection on the process ensues.



## 7.2 REFLECTION ON METHODOLOGY

Before settling on a research methodology, the researcher undertook a year-long study of research philosophy, strategy and methodology, a course which proved crucial in evaluating philosophical underpinnings and the strengths, weaknesses and appropriateness of different methodologies.

The research reviewed the three mainstream philosophical paradigms (Gill and Johnson, 2002) and settled on the middle range thinking which allows researchers to adopt good aspects of both Comtean and Kantian approaches (Laughlin, 1995). The middle range approaches take the middle ground between the two extremes, and require medium prior theorisation and medium level methodological choices. The study also adopted the case study strategy. This was necessary as the research dealt mainly with the ‘why’ and ‘how’ questions, in circumstances where the researcher had no control over the behaviour of the events and the issues being dealt with were contemporary. The case study strategy stands out in such circumstances. Indeed it was defined as “...a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple evidence” (Robson, 1998 p5). The case study strategy was found to be prominent when qualitative approaches were adopted in research. Hawthorne studies (Lovett, 2004) progressed on this basis. When Mitlin (2002) studied the relations between NNGOs and SNGOs in Kenya she too resorted to the case study strategy. Wallace (2006) resorted to the same methodology when she studied funding relationships between NNGOs and SNGOs, and so did O’Dwyer and Unerman (2007) when studying the transformation of accountability relationship between funders and non-governmental development organisations.

A decision was also taken that triangulation of methodology in different stages of the research was vital to capture a comprehensive, holistic and contextual portrayal of the issues at play. Hoque and Hopper (1997) highlighted the importance of triangulating theory and methodology in studies with elements of management accounting. The strategy has been successfully used by other researchers such as O’Dwyer and Unerman (2007). When Cairns et al. (2005) researched the improvement of performance through the adoption and implementation of Quality Systems in the UK non-profits they resorted to triangulating survey and case study methodology.

On reflection, this research strategy seems to be emerging quite strongly. Its ability to leverage the exploration of contemporary issues in their natural environments despite the researcher’s lack of control over the events is a key strength. The need for triangulation is similarly becoming more important as it allows researchers to carve out key cases and / or variables to

focus on and a way to manage the scepticism associated with one-source-evidence. In this case, identifying NNGOs to focus on and to find out ways NNGOs collaborated with SNGOs was only possible through a survey. The in-depth study of the specific NNGOs and SNGOs selected needed to proceed as case studies. The fact that different respondents gave their own perception of events, and these perceptions often differed, required corroboration of interview evidence and its cross-checking (e.g. against documents and with third parties).

With the benefit of hindsight, prior knowledge of how NNGOs rated the performance of SNGOs did not affect the study. Evidence collected was cross checked and subjected to the same rigorous analyses regardless of whether the SNGO involved was less successful or more successful. In this way, the researcher's prior knowledge of their ratings did not influence the study.

### 7.3 REFLECTION ON RESEARCH FINDINGS

#### 7.3.1 *How NNGOs measure performance of SNGOs*

The NNGOs researched did not have any single framework for measuring the performance of SNGOs. Instead, they adopted a blend of frameworks which served specific purposes. Different funders tended to load different frameworks, making it very hard for SNGOs to cope with what they considered as chores. This is in line with the findings of Cairns et al. (2005).

In this research, the primary framework often tended to be the Logical Framework Approach from 'the borrowed universal stream'. It seemed most suited to the emerging intention of NNGOs to influence funded SNGOs right from the strategic planning level through operations to monitoring and evaluation. It should be emphasised that the pressure to conform to different funder-imposed performance systems presented as much if not more difficulty to establish coherence across systems (Cairns et al., 2005). The level of NNGOs' presence and the associated risk to withdraw funding tended to compel SNGOs to prioritise interests of the NNGOs. SNGOs strived to ensure that activities and resources were directed to serve the vision, mission and objectives of the NNGO even when this meant suppressing their own. Some researchers, for instance Edwards and Hulme (1997) and Fowler (1997), see this as an attempt to make SNGOs mirror the NNGOs which fund them; a struggle that is also common within the UK between the government and the charities they fund (Cairns et al., 2005; Harris, 2001; O'Dwyer and Unerman, 2007).

The research found out that NNGOs tended to give some weight to the state of national regulation in assessing performance of SNGOs. Where the national regulatory framework was weak NNGOs tended to exercise more caution and to invest more in NGOs' self-regulation as well as in strengthening the governance within individual SNGOs. The efforts NNGOs have taken to develop and ensure that national regulation, self-regulation and accreditation mechanisms work is an indication of the importance they hold in performance. It follows therefore that regulatory bodies have a vital role to play in orderly management of NGOs but only if they are facilitated to do it effectively. Those researched were not. This tended to explain why the most influential factor on policies and procedures of SNGOs was the funder factor, not regulatory bodies as was the case for NNGOs. This led to a lopsided perception that SNGOs merely served their foreign funders rather than their beneficiaries or national economies, as if NNGOs did.

There was a discernible trend whereby SNGOs negotiated for more space by campaigning for less government regulation and more self-regulation. It also emerged that governments in the South only reluctantly yielded to pressure to give NGOs space by allowing for less state and more NGOs self-regulation as shown by the governments' failure to co-fund both the state regulation department and the self-regulation authorities. Whereas NNGOs supported SNGOs on self-regulation, they appeared rather cautious about self-accreditation. Perhaps this could be explained by the paradoxes surrounding self-accreditation (see 5.5.4), the fact that it was a new concept yet to prove its worth or mere fear that not much good can come from the South.

It can be concluded that NNGOs impose a blend of assessment methodologies on SNGOs they fund, they consider the external regulatory environment in which the SNGO operates, and they generally support self-regulation and accreditation out of frustration with the failure of the state oversight mechanisms and to show solidarity with SNGOs in the cold war between SNGOs and governments. NNGOs eventually decided on the depth of intervention at SNGOs' level depending on the assurance they got from these external mechanisms.

### *7.3.2 Role of financial governance / management in performance*

In Chapter 2 it was established that NGO boards were increasingly gaining a wider mandate which required more specialist skills. They also command enormous power over the future and resources of the NGOs. It was also established that NGO boards in the South could be of different types such as family, staff, informal, invisible or professional boards (see 2.5).

The research found that amongst SNGOs, there were a few professional type boards and this situation created special problems. Past research assumed that all boards were of the professional type despite Gariyo (1997) in Africa, Harris (2001) in the UK and Iecovich (2005) in Israel having raised concerns about the ways boards were constituted and the effect on how they operated. This study examined motives for board service and the findings attest to their findings. In the case of SNGOs researched, effective boards generally tended to be those which held fair and regular elections, were distinct from management, maintained good relations with key stakeholders (especially funders), had effective subcommittees, had diverse relevant skills, and had definite periods of service.

In a number of cases, board members' individual interests were shown to be in conflict with those of the SNGOs they served. There was evidence of fraud, corruption and mismanagement which tended to stem from this disconnection. At the board level, outright fraud and corruption was evidenced by abuse of assets, bribery, inflated prices, unjustified costs and allowance

claims, forged documents, insider dealings as well as un-procedural writing-off of debts. At the management level, financial wrong-doings were manifested in unjust employment, inappropriate staff remuneration, manipulation of contracts, misuse of resources, inability to take and act on expert advice and lack of effective strategies for sustainability. This is generally in line with the findings by Gibelman and Gelman (2001, 2004), Williams (2007) and Wils (1997), although they mainly traced them at the management level.

On the whole, some SNGOs failed in several ways to measure up to expectations on financial governance / management. Some of the basic principles of financial management such as custodianship and disclosure were not effectively upheld. NNGOs, on the other hand, considered financial governance and management crucial in performance and tended in some cases to pull out and thereby compel the closure of SNGOs falling short of expectations. However, this tended to be done clandestinely. The environment, context and culture also played a role. There were cases which NNGOs considered financial wrong-doings but which were considered to be generally accepted, or in fact the only ways of doing things in the South. There is therefore need for NNGOs to examine definitions of financial wrong-doings to bring them to the forefront and to recognise cultures and contexts.

It can be concluded that NNGOs accorded weaknesses in financial governance and management a lot of weight in measuring performance of SNGOs. In a way, this was warranted as a number of cases of financial wrong-doings were evident at management and board levels. They present major threats to the NGOs' fundraising efforts and accountability. The existence of family, staff and other types of boards presented new challenges which the existing frameworks had largely ignored.

### *7.3.3 Excellence and failure amongst SNGOs*

Sections 2.4 and 5.4 showed that SNGOs over-rely on foreign funding for sustainability, in line with previous research findings (Fowler, 1997; Gariyo, 1997; Keengwe et al., 1998; Wallace, 1997; Wallace et al., 2006). It was also established that SNGOs did not forge good enough relationships with governments and the private sector in the South which yield funding. In section 5.2, it was shown that NNGOs can go to the extent of attempting a board coup d'état or even establishing their own SNGOs if the existing ones failed to conform or perform.

Besides such push factors there were also pull factors like the prestige, better remuneration for staff, respect from the government and other foreign funders, associated with foreign funding for SNGOs (Mitlin, 2002). These pressures often overwhelmed SNGOs. SNGOs needed to be

subservient and only accountable to their paymasters to survive, thrive and enjoy the associated benefits. Consequently, their performance was geared towards meeting the needs of their funders almost to the total exclusion of all other stakeholders.

It followed that SNGOs which fell short of performance expectations of their funder NNGOs encountered hard times. Conversely, those which met or exceeded performance expectations of their funder NNGOs thrived and excelled. In sections 2.4 and 5.4, it was found that SNGOs which excelled were rewarded by extension of funding periods, relaxation of funding restrictions, increment in funding levels, marketing the SNGO to other NNGOs for further funding, as well as using the SNGO as a champion in best performance benchmarking and commitment of organisational development funds (including for staff training and purchase of capital items). On the other hand, poor performance was punished by cuts in funding, non-renewal of funding commitments, and sustained or enhanced restrictions on available funding lines. At the very extreme, NNGOs stopped funding which denied SNGOs the crucial lifeline, such as SK1-K, unless they re-invented themselves and found other local sources of funding, such as SI3 and SI4. To this end, the study found as valid the conclusion by Leat (1993) that whereas NGOs need to serve the beneficiaries to meet their goals, to survive they must meet the needs of the customer (donor, grantor or testator).

The research established that financial governance and management tend to lie at the core of the process of performance measurement in general and determination of SNGOs which excel and those which fail. In fact, critical causes of NGO failure were identified as problems with financial governance, general management, human resources management and changes in funder focus. These were critical as they often distinguished more successful SNGOs from the less successful ones. SNGOs which showed strong governance and management, had a good team of well trained and motivated staff and a vision, mission and objectives well aligned to those of their funders tended to excel. Those which did not had failed or were on their way to failure. Both NNGOs and SNGOs researched tended to agree on this front.

It can be concluded that financial governance and management greatly distinguish excellent from failing SNGOs and should similarly lie at the core of performance measurement. NNGOs greatly determine the destiny of SNGOs, since these rely to a great extent on funds raised in the North and over which NNGOs are accountable. In response to these threats, SNGOs are gradually adopting self-accreditation mechanisms to accord funders and other stakeholders some comfort about their performance. As expected, the initiatives revolve around demonstrating that an accredited SNGO has a well articulated vision and mission, has solid governance and management, has well documented and enforced policies, is able to plan and

report in a proper and timely manner, is able to document policies and contributions and can stand up to external scrutiny of its effectiveness, financial governance and management.

On reflection, the decision taken in the early stages of this research to focus on financial governance / management rather than on financial management only served a useful purpose to widen further the variables for research. It is through financial governance that a clear connection was established between the objectives of the research and its final contribution.

#### *7.3.4 How performance impinges on funder policies*

The research established that once identified, NNGO/SNGO relationships tended to grow organically through a number of steps and matured into a trust-based organisation-wide partnership in which funding and reporting restrictions were relaxed.

There were a number of scenarios for growth of the relationships but all involved funding. They ranged from NNGOs and SNGOs jointly bidding for projects, NNGOs winning projects on their own then contracting an SNGO for some aspects of the projects, to NNGOs identifying SNGOs as partners and on the basis of agreed objectives advancing funds and other resources. However initiated, NNGOs needed time to develop some trust and confidence in SNGOs before giving general unconditional grants to leverage their work.

In Chapter 2, the reviewed literature identified mutual accountabilities and learning as key aspects of partnership. However, it was argued that based on this study partnership between NNGOs and SNGOs was rather a misplaced concept at all but the apex of the stages of NGO collaboration (see 5.5), a scenario which existing literature did not recognise. Even at the apex stage all the attributes of partnership were not attained as the funding dependency always presented glaring inequity.

In conclusion, NNGOs tended to set their own administrative and financial policies and to apply them to SNGOs with little or no regard to the situations of those SNGOs, even to those at the apex. However, NNGOs tended to relax the implementation of funding conditions for SNGOs which portrayed better performance. For programme policies, NNGOs tended to listen and learn from those SNGOs they considered better performers, especially in specific fields where NNGOs considered their own knowledgebase and experience limited. SNGOs had thus influenced their funders' policies on approaches to HIV/Aids, malaria and micro-finance.

### *7.3.5 Resultant 'Focus SNGO Performance Measurement Model'*

Based on both findings of the literature review and the study, it was possible to develop a new model of how NNGOs measured the performance of SNGOs they funded. The 3Es were found to serve performance of NGOs well, while equity was strongly supported by literature and field findings. The distinct funding relationship between NNGOs and SNGOs called for additional concepts and the expenditure patterns concept was found appropriate as a possible explanatory factor to account for some differences in behaviour between them given their different funding.

In summary, amongst the key factors which influenced SNGOs' ability to perform were the regulatory environment, their governance mechanisms, their management and the level they were at on the partnership development ladder. Regarding NGO governance, assessments considered how representative the board was of the key stakeholders, how distinct it was from management so as to be able to provide oversight, how well it related at professional level with management and key stakeholders, how well it constituted functional subcommittees, the presence of skills required to succeed and a clear succession mechanism for board members and their systematic succession. Regarding financial management, assessments paid special attention to ensure that there was a clear accountability mechanism to all key stakeholders, there was sufficient transparency, integrity was pervasive in the SNGO, there were documented and enforced policies to ensure consistency, sufficient disclosure was made to stakeholders, and the SNGOs demonstrated in practice their custodial role to their funders and beneficiaries alike.

In conclusion, the 'Focus SNGO Performance Measurement Model' represents an important contribution to the theoretical understanding of the performance relationships between funder NNGOs and SNGOs. Its strength lies in the ability to use empirical findings to address the six limitations inherent in the existing frameworks (see 6.2) which it does using contributions from a rigorous research. The framework is however based on specific contexts and such a limited number of cases that it can not be widely used without further research.



## 7.4 CONTRIBUTION TO KNOWLEDGE

This research has made a contribution at the level of theoretical understanding, achieved by way of a rigorous research approach focusing on sixteen distinct relationships derived from eleven organisations in three nations.

Besides analysing and categorising the existing performance measurement frameworks into three distinct streams (see 2.2.3) and identifying the growth levels leading to partnerships (2.4.1), the main contribution of this study is the 'Focus SNGO Performance Measurement Model' presented and discussed in Chapter 6. This model is considered an improvement on the existing ones as it benefits from and highlights subtle elements of NGO performance which existing models have often ignored or downplayed their importance (see 6.2). As an aid chain is as strong as its weakest link, the model argues in practice SNGO performance assessment focuses at assessed points of greatest weakness. However, the model does not advocate a complete tilting of focus as that would lead to an imbalance. Instead, it argues for a rebalancing of theoretical focus. The most important aspects of this model relate to NGO regulation, environment and context, financial governance, financial management and the funder role and how they can be incorporated in formal performance assessments.

It outlines the layers through which NGO performance is construed and measured, starting with the national regulation through the NGO governance to management and how the NGO interlinks with its stakeholders. It shows that regulation, the environment and the context are important in measuring and interpreting performance. Although possible, it is no longer wisdom-laden to assume universal ideals exist for SNGO performance measurement. It shows that statutory and self-regulation can play a crucial role if they are effective; otherwise, they present additional challenges to NGO performance assessment.

It also shows that financial governance and financial management play a crucial role in performance. Indeed in most cases financial wrong-doings presented life-threatening challenges to SNGOs. The success or failure of SNGOs is to a great extent attributable to weaknesses in financial governance and management. Although governance has been raised in the past by focusing on the existence of a board and the absence of corruption, the study shows that it runs deeper than this by analysing individual board members and the way they operate. The study identified the critical KPIs for NGO financial governance and financial management.

The other area of contribution to knowledge is the demonstration that SNGOs are equally concerned with proper governance, management and performance. It has long been assumed

that only funders are concerned and committed enough to take appropriate action. Through self-accreditation mechanism SNGOs have shown a tendency to tackle non-performers head on. SNGOs committed to performance are boldly setting up systems to identify and isolate those which are not. This marginalises non-performers and presents pre-selection criteria for distinguishing the many SNGOs which exist in the South.

The research has shown that despite the rhetoric that beneficiaries are key movers on matters of performance, in practice it is the state of financial governance / management and the resultant satisfaction of the funders which matters most. This could be due to the fact that effectiveness is well attended to at an early stage when NNGOs assess the fit of mission, vision, values and objectives of SNGOs and agree on activities. This leaves only operational issues with the leeway to derail SNGOs. The other area of misconception the study found is that NNGOs and SNGOs work in different collaborative arrangements, with only a few harmonious partnerships.

Finally, the research has shown the unexplored role of larger NNGOs in identification, nurturing and marketing of SNGOs. It shows a dependency amongst NNGOs, just as there is amongst NNGOs and SNGOs. The level and extent of this dependency in assessment of performance of SNGOs needs to be explored further for a more comprehensive understanding.

At methodological level, the research adopted a middle-range thinking philosophical stance (Laughlin, 1995) and employed a more rigorous approach through triangulation of research strategy (survey and case studies) and data collection methods (mainly telephone survey, interviews, documentation review and observation) to enhance data validity. As an emerging approach to social research, triangulation of methodology is still gaining ground and acceptance. The research adopted a rarely used yet a more rigorous approach by focusing the study on sixteen relationships (rather than organisations) to match patterns of eight more successful relations and eight of less successful nature to derive explanations. With eight contrasting relationships on each side, the possibility of leading to wrong conclusions was greatly minimised. Its success presents a methodological trial contribution to social science research of this nature.

## 7.5 LIMITATIONS AND FUTURE RESEARCH

There are various limitations to this research and resultant opportunities for future research which should be discussed. The research focused on a distinct category of organisations (NGOs) within the third sector and where there existed a distinctive relationship (funding) and in countries with a distinctive shared heritage (the Commonwealth). The findings should be interpreted within these confines. The research will greatly benefit from further replication studies to test whether the results hold more widely within these contexts and when some of these circumstances are changed.

The findings of the research are based on detailed examination of only sixteen different relationships from eleven NGOs. Although efforts were made to deliver the validity of findings to the greatest extent possible, eleven organisations and sixteen relationships constitute such a small number of cases that generalisation may not be easily claimed. This may be so even within the countries (India, Kenya and England) or the regions (South Asia, East Africa and the UK) of the study. It would be useful to replicate the research to determine the validity of the results under different conditions in these areas.

The research found a close relationship between how well the NGO sector is regulated (self-regulation or self-accreditation or statutory regulation) on the one hand and the level of partnership between the NGO sector and the other sectors on the other hand. Further research will be necessary to explore whether indeed the level of collaboration / funding the other sectors accord to NGOs depends on the perceived satisfaction with their regulatory environment. The complexity presented by the fact that the responsibility for regulating NGOs falls on a rival sector, the public sector, should be noted in such future research.

The role of major NNGOs in identifying and nurturing SNGOs which are then taken on board by the smaller NNGOs needs further research. From the evidence of this research it appeared that only larger NNGOs had the resources which could leverage the risk of taking on and trying out completely new SNGOs and investing in them to a level where they could be used easily by other funders. The current literature is silent on such a role and the findings of this study were not conclusive. Further research should explore this role as part of the wider NNGO/SNGO research. The results will benefit theoretical understanding and help in the merging of NNGOs should the pressure build up to a point where it can no longer be resisted. Related to this, further is necessary to pursue further the finding that NNGOs were more inclined to fund SNGOs which already had other NNGO funders. In particular, the perceived benefits of this needs to be pursued further.

The bigger issue of how NNGOs develop trust in SNGOs has benefited from some research in the past (Mitlin, 2002; Wallace, 2006). This study showed that in fact not all relationships between NNGOs and SNGOs constitute partnership; real partnership only occurs at the apex of these relationships. In the UK, vast research has been conducted on how funders develop trust in NGOs. It is believed that trust influences the act of giving (see 2.4.3). Logically, this should apply to cases where NNGOs fund SNGOs. It would help theoretical understanding if further research was conducted on the meaning and development of trust between NNGOs and the SNGOs they fund.

Finally, this research has provided a number of KPIs to assess the health of NGO financial governance and financial management. From where this research ends one would assume the indicators given are equal in weight, but that is hardly the case. Additional research is required to delve deeper into the weighting of these indicators and the scales of assessment. This will inject more objectivity into the assessment of financial governance and management instead of relying on perceptions based on broad indicators which can be misinterpreted.

## 7.6 PERSONAL REFLECTION ON THE RESEARCH JOURNEY

The researcher found this a journey of learning, reflection, adaptation and endurance.

At the commencement of the research, it seemed that it would be quantitative research which computed and compared both trends and cross-sectional analyses and ratios to show patterns. That track of enquiry was abandoned in the early stages when the study of philosophy the researcher undertook made it clear that it was necessary to explore the story behind the numbers. It later transpired that in fact number analyses could only have illuminated trends but would have lacked the explanatory power necessary to reach underlying conclusions. Even such trends would have been misleading given the differences in cost classification conventions.

When the research commenced it was meant to focus on financial management. By the time the initial literature review was completed it was clear that the main focus of the research needed to be reviewed. It became apparent that some organisational level aspects would be lost if the research started at management level. Here again a change was found necessary to shift focus from the narrower financial management to broader and more encompassing financial governance and management.

Not only were lessons learnt and adjustments made at the initial stages of the research but they continued throughout. During the initial field interviews it became clear that some assumptions made about respondents did not always apply to all of them. Whereas some respondents were more enthusiastic and offered too long answers, often becoming superfluous, others were too brief to a point where tactics had to change and follow-up interviews arranged. It also became necessary to include more organisations and respondents than had been planned. For instance, it became crucial to conduct some interviews with government regulatory authorities, NGO regulatory or accreditation authorities and auditors. Therein lay a conflict between appreciating contextual underpinnings and focusing the research to within the confines of only those issues intended. It remains unclear whether the line was drawn at the proper point.

For this research journey, the train left the station five years ago. However, the preparation for the journey started much earlier than this, probably as early as a decade and a half ago. By then the researcher worked as a financial management consultant in a Dutch development consultancy company operating in the East Africa region. The work on NGOs intensified then as donor governments stopped funding governments and started channelling substantial resources through NGOs which lacked adequate capacity. The researcher's work then focused on organisational evaluation / assessment and design and following up the implementation of

negotiated organisational development programmes. A reflection on over seven years of work and over 35 consultancy assignments the researcher worked on for a wide base of clients<sup>46</sup> made puzzling revelations. Funders and SNGOs often agreed on joint strategic planning, operational planning and budgeting, reporting and on monitoring and evaluation. However, problems usually arose during implementation and revolved around the use of resources. Even organisations led by distinguished personalities, including high ranking faith-based institutions' leaders, academicians and Nobel Peace Prize contenders / winners had problems with resource management. At the same time, staff working for NGOs seemed to be doing so well that civil servants and private sector employees were attracted to NGOs. When things seemed out of hand funders often just pulled out; leaving distraught staff and communities behind. Were NGOs, in attempts to serve the deprived better, hurting the intended beneficiaries instead? Only in some cases of extreme deprivation would funding continue under such austerity measures as consultancy visits to conduct audits every quarter before more funds would be disbursed. Yet, some small projects led by a handful of foreigners, often Irish or Dutch missionaries in rural parts of the third world, were doing so well in attracting donor funds.

Later on, the researcher joined a leading NNGO and had opportunities to coordinate and advise on financial management in regions which covered several countries in Africa (East, Central, South and the Horn of Africa), South Asia and East Asia. The researcher's next employment with a leading inter-governmental development agency in London and later with the leading international financial institution in Washington DC in the USA continued to broaden perspectives.

Looking back on this research and work with development organisations, a journey which has necessitated business, study and research visits to over twenty-five countries spread across Africa, Asia, Europe and the Caribbean, it is gratifying that things can now be seen in a better context. The research journey therefore marks the start of a much longer and worthwhile journey in life: the search for knowledge using more structured and rigorous approaches. If nothing more came out of this research journey, the knowledge empowerment process and the phenomenal skills and passion of friends I met on the journey more than compensates for the sacrifice.

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<sup>46</sup> Such as the Netherlands Government (DGIS), EU agencies, UN agencies, leading international NNGOs and the British ODA.

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## APPENDICES

### APPENDIX A: BOND LISTED UK NNGOS OPERATING IN KENYA

1. ABANTU for Development	30. Centre for Democracy and Development
2. ACORD	31. Charities Aid Foundation
3. Action Against Hunger UK	32. Charities Evaluation Services
4. Action on Disability and Development	33. ChildHope UK
5. ActionAid	34. Children in Crisis
6. ACTSA	35. Children's Aid Direct
7. ADRA-UK (Adventist Development & Relief Agency)	36. Christian Aid
8. AFFORD	37. Christian Blind Mission
9. AfPiC (Action For Peoples in Conflict)	38. Christian Engineers In Development
10. AFRICA NOW	39. Christian Partners in Africa
11. African Initiatives	40. Christians Abroad
12. Akina Mama wa Afrika	41. CODA International
13. Alliances for Africa	42. Comic Relief
14. AMREF	43. Commonwealth Human Ecology Council
15. APT Enterprise Development	44. Commonwealth Trade Union Council
16. ApTibeT	45. Computer Aid International
17. Associated Country Women Of The World	46. Concern Universal
18. BasicNeeds	47. Concern Worldwide
19. BEARR Trust	48. Conflict, Development and Peace Network
20. Befrienders International	49. CORD
21. BESO	50. Development Education Association
22. Book Aid International	51. ECHO International Health Services Ltd
23. British International Sports Development Aid Trust	52. Education for Development
24. British Red Cross Society	53. Engineers Against Poverty
25. British Trust for Conservation Volunteers International Department	54. Evergreen Trust
26. CAFOD	55. FARM-Africa
27. CamFed	56. Food for the Hungry UK
28. Cancer Black Care	57. Forest Management Foundation
29. CARE International UK	58. Forest Peoples Project
	59. FORWARD International
	60. Friends of Conservation
	61. Future In Our Hands
	62. FYF

63. Global Witness
64. GOAL UK
65. Hamlet Trust
66. Harvest Help
67. HDRA
68. Health Unlimited
69. Healthlink Worldwide
70. Help Africa Trust
71. HelpAge International
72. Homeless International
73. Hope for Children
74. Hugh Pilkington Charitable Trust
75. Human Relief Foundation
76. Humanitarian Aid Transport Services
77. Impact Foundation
78. Intermediate Technology Development Group
79. Interminds
80. International Alert
81. International Care & Relief
82. International Childcare Trust
83. International Co-operative College
84. International Community Assist
85. International Community of Women Living with HIV/AIDS
86. International Extension College
87. International Family Health
88. International Health Exchange
89. International HIV/AIDS Alliance
90. International Institute for Environment and Development
91. International Integrated Health Association
92. International Planned Parenthood Federation
93. International Records Management Trust

94. INTRAC
95. Joint Cooperation Trust
96. Kaloko Trust
97. Kingscare
98. Kulika Charitable Trust
99. Lasallian Developing World Projects
100. Learning For Life
101. Leonard Cheshire International
102. LEPR
103. Link Community Development
104. Living Earth Foundation
105. MANGO
106. Marie Stopes International
107. MBC Heritage of Islam Trust
108. MEDACT
109. Medical Aid for Palestinians
110. Mercy Corps Scotland
111. Methodist Relief and Development Fund
112. Minority Rights Group International
113. Motivation
114. Muslim Hands
115. Ockenden International
116. One World Action
117. OneWorld UK
118. OXFAM
119. PANOS
120. People in Aid
121. PLAN International UK
122. Population Concern
123. POWER
124. Project HOPE UK
125. PROMPT

126. Quaker Peace and Social Witness  
 127. Rainforest Foundation  
 128. Raleigh International  
 129. Reform Corporation  
 130. Relationships Foundation International  
 131. Reproductive Health Alliance Europe  
 132. Results Education  
 133. Riders for Health  
 134. Royal Commonwealth Society  
 135. Royal Society for the Protection of  
       Birds  
 136. Salesians Don Bosco (SDB) Trustees  
       Ltd  
 137. SCIAF  
 138. Send a Cow  
 139. Sense International  
 140. Sight Savers International  
 141. SIL UK  
 142. Skillshare International  
 143. Society for Environmental Exploration  
       (Frontier)  
 144. SOS Children's Villages UK  
 145. St Mathew's Children's Fund  
 146. Students Partnership Worldwide  
 147. Teaching-aids at Low Cost (TALC)  
 148. Tearfund  
 149. The Diana Princess of Wales Memorial  
       Fund  
 150. The European Children's Trust  
 151. The Leprosy Mission  
 152. The Mothers' Union  
 153. The Oasis Charitable Trust  
 154. The Resource Alliance  
 155. The Richmond Fellowship International  
 156. The Salvation Army  
 157. The Save the Children Fund

158. The Toybox Charity  
 159. The Welfare Association  
 160. Tools for Self Reliance  
 161. Tourism Concern  
 162. TRANSAID Worldwide  
 163. Transparency International (UK)  
 164. Tree Aid  
 165. Tropical Health and Education Trust  
 166. UK Committee for UNICEF  
 167. VETAID  
 168. Village AiD  
 169. Vision Aid Overseas  
 170. Voluntary Service Overseas  
 171. Volunteer Missionary Movement  
 172. War on Want  
 173. Water, Engineering and Development  
       Centre  
 174. WaterAid  
 175. WOMANKIND Worldwide  
 176. World Development Movement  
 177. World Emergency Relief  
 178. World Medical Fund  
 179. World University Service (UK)  
 180. World Vision UK  
 181. WORLDwrite  
 182. WWF (UK)  
 183. Y Care International

## APPENDIX B: DEFINITION OF TERMS

Civil Society	<p>Different researchers, for instance Anheier (2004), Haddock (1999), Johns Hopkins University (1999), Martens (2002), Morgan (2007a) and Salamon (1992) propose slightly different, but equally plausible, definitions of civil society. One common ground in their definitions is that they tend to converge on the space civil society occupies in society. Building on this area of consensus, this thesis adopts the definition advanced by Anheier (2004, p22) that:</p> <p><i>“Civil Society is the sphere of institutions, organisations and individuals located between the family, the state and the market in which people associate voluntarily to advance common interests.”</i></p> <p>Specifically, this includes voluntary and non-governmental organisations of many different kinds, philanthropic institutions, social and political movements, other forms of social participation and engagement and the values and cultural patterns associated with them (SustainAbility, 2003). The diversity within here is so large and includes some form of civil activity which may not be structured as organisations.</p>
Third Sector	<p>Kendall (2003), amongst others such as BOND (1997), Edwards (1994) and Forbes (1998), considers the third sector to be that which lies between the state (public) and the market (private) sector. In fact, Morgan (2008) narrows the definition to a set of organisations which do not distribute profit and are not part of the state. These definitions assume that all organisations can be classified into three main domains: the first, second and third sectors. The third sector thus includes an array of civil society organisations some of which could be profit- making social enterprises such as cooperative societies. It is for this reason that this inclusive approach to definition of the third sector is often criticised for defining it as a dumping ground for whatever does not specifically belong elsewhere. For this thesis, the definition given by Kendall (2003) and the distinction of the three sectors given by Morgan (2008) in which the first sector refers to the private profit-making sector, the second to the government and the third to the rest of the organisations.</p> <p>The two terms, the third sector and the civil society, tend to refer to organisations occupying the same space.</p>

Charities	<p>According to Morgan (2002), charities (as mainly used in the UK and Ireland owing to specific systems of the charity law), not-for-profit organisations (as used in parts of the North, mainly in the USA) and NGOs (as mainly used in the rest of the North and in the South) all refer to a subset within the spectrum of third sector organisations. In the context of the UK, Morgan (2002) defines a charity as any voluntary organisation that exists for the public benefit and has exclusively charitable objects that fit into one or more of four<sup>47</sup> ‘heads of charity’ named as advancement of religion, relief of poverty, advancement of education, and other purposes beneficial to the community. In section 2 of the Charities Act 2006, 13 heads of charity are specifically identified. Other researchers such as Anheier (2000), Drucker (1990), Fowler (1997a) and Gariyo (1997) broadly concur with this definition as well as the key characteristics of such organisations. Charities, which generally do not aim to make a profit at all (but should they make a surplus they do not share it out but instead retain it for ongoing development of their work), are formally constituted, independent and working for public benefit. The category is broad and includes even such organisations as trade unions, trade associations, professional bodies and political parties.</p>
Voluntary Organisations	<p>Cairns et al. (2005), Kendall and Knapp (2000) and Morgan (2002) broadly define a voluntary organisation as any civil society organisation within the third sector that is not profit-making (private sector) and not part of the state (public sector). Such organisations come into existence voluntarily and their ultimate governance is by trustees who mainly volunteer their services. Voluntary organisations seek to benefit society in some way.</p> <p>The definition, characteristics and positioning of NGOs within the civil society is perhaps best captured by Michael Edwards of the Ford Foundation (Edwards, 2000 p7) as:</p> <p><i>“....a subset of civic organisations defined by the fact that they are formally registered with government, receive significant proportion of their income from voluntary contributions (usually alongside grants from the government) and are governed by a board of trustees...if civil society were an iceberg, then NGOs would be among the more noticeable of the peaks above the waterline, leaving the great bulk of community groups, informal associations, political parties and social networks sitting silently (but not passively) below.”</i></p> <p>In the above analogy, voluntary organisations would constitute the remaining parts of the ‘iceberg’.</p>

<sup>47</sup> As discussed in the thesis, the four heads of charity were extended to thirteen a result of the amendments introduced by the Charities Act 2006.

Aid or Development Agencies	Martens (2005) defined aid or development agencies as organisations which redistribute income between donors and recipients. A domestic aid agency is one that does this when both donors and recipients live in the same political constituency while (p643) ‘... <i>foreign [or overseas] aid agencies target recipients living outside the donor’s constituency, usually in developing countries</i> ’. These terms are commonly applied in the UK. In the South the organisations which deliver welfare and development services are generally referred to as NGOs.
NGOs	Martens (2002, p280) defined NGOs as “... <i>formal (professionalized) independent societal organisations whose primary aim is to promote common goals at the national or international level.</i> ” NGOs are distinguished by unique characteristics (Unerman et al, 2006); foremost amongst them are the lack of a profit motive and/or non-distribution of their surplus revenue. They almost always work on issues of public interest although some NGOs engage in profit making initiatives but plough profits arising back to progress issues of public interest. Secondly, NGOs are independent from, but often work in collaboration with, both the state and the market. Thirdly, NGOs are uniquely governed by boards of trustees or directors who generate their mandates from members of the public they serve and who count amongst their ‘stakeholders’. Finally, NGOs are usually formal groups governed by some form of a constitution or similar document (Morgan, 2007a).

## APPENDIX C: QUESTIONNAIRE FOR UK SURVEY

1. How, in terms of age, size and type of work, would you describe your organisation?
2. How do you establish initial contact with the Southern NGOs you work with in partnership?
3. Which of the following types of support do you extend to your partner NGOs?
  - (I). Grants, (II). Contracts for services
  - (III). Equipment / Goods in Kind
  - (IV). Staff / Personnel (V). Capacity Building / Technical Support, (VI). Others, namely...
4. Are there any specific planning processes (strategic, business or operational) that the SNGO partner involves you in?
5. Do you have any set conditions or standards (policies/procedures/controls) partner NGOs must adhere to in order to qualify for your support?
  - 5.1 If yes, what areas of programme work do they cover?
  - 5.2 How were they developed?
  - 5.3 What would normally trigger off changes in these policies, procedures and controls?
6. Do you formally evaluate performance of your SNGO Partners?
  - 6.1 If yes, whom would you usually use to measure performance of the SNGOs?
  - 6.2 Which of the following common performance frameworks do you use to manage and measure performance of your SNGO partners?
    - (I). Logical Framework Approach (LogFrame) (II). Benchmarking
    - (III). Total Quality Management (TQM) (IV). Results Based Management (RBM)
    - (V). Balanced Score Card (BSC), (VI). Others, namely... (VII). Non at all
7. What would happen if a SNGO partner was found to be excellent at performance?
8. What would happen if performance is found poor and what would be the main causes?
9. Who amongst the following do you use to measure the state of financial management of your SNGO partners?
  - I. External Auditors hired locally
  - II. External Auditors contracted from the UK
  - III. Your own Finance Staff
  - IV. Your own Programme Staff
  - V. External Consultants
  - VI. Others, namely...
10. In your opinion how does state of financial management affect performance of SNGOs?
11. At what point are you able to identify and act upon SNGO partners with poor performance?
12. In your opinion how best can SNGO performance be measured and improved?



## APPENDIX D: SUMMARY UK SURVEY FINDINGS

A. Simple Answers and Frequency Counts				Yes count		No count		N/A count														
Do you have formal standards (policies/procedures/conditions/controls) partners must meet to qualify for your support?				28																		
Do you formally evaluate performance of the SNGO partners?				19		5		4														
B. Categorization and Frequency Counts																						
		Category	No.	%	Category	No.	%	Category	No.	%	Category	No.	%	Category	No.	%	Category	No.	%			
1.0	How long ago (in years) was your charity registered?	0 - 3 years	0	0%	3 - 5 years	5	18%	5 - 7 years	7	25%	8 - 10 years	7	25%	Over 10 years	9	32%						
1.1	What level of turnover do you have annually? (in £'000)?	upto £100	2	7%	£101 - £250	3	11%	£251 - £500	6	21%	£501 - £1,000	8	29%	Over £1,000	9	32%						
1.2	How many directly employed staff do you have (UK & overseas)?	1-50	5	18%	51-100	4	14%	101-500	7	25%	501-1000	9	32%	Over 1,000	6	21%						
2	How do you establish initial contact with SNGOs you work in partnership with?	Using consultants	9	32%	Unsolicited applications	5	18%	Using our own field staff	7	25%	Using available databases	3	11%	Other recommend to us	2	7%	Others (meetings mainly)	2	7%			
2.1	At what point do you bring SNGO partner(s) on board?	To jointly bid for funding	11	39%	To implement a funded program	12	43%	During implementation	3	11%	To help evaluate other SNGOs	2	7%									
3	What support do you extend to your SNGO partners?	Funds / Grants	28	100%	Contract for services	4	14%	Equip & Goods in Kind	18	64%	Staff	10	36%	Cap Building and TA	28	100%	Others					
3.1	At what level in the SNGO do you target this support?	At ANGO level	21	75%	Program Level	8	29%	Project Level	15	54%												
3.2	What does your NGO get from them in return?	Delivery of program	28	100%	Reports	28	100%	Knowledge	25	89%	Experience	8	29%	Field presence	17	61%	Publicity	26	93%			
4	In which of these SNGO planning processes do you participate?	Strategic planning	25	89%	Business Planning	3	11%	Annual Budgeting	28	100%	Cashflow management	7	25%	None of these								
5.1	What areas of program work do these conditions cover? (list and counts)	Planning	28	100%	Resource allocation	12	43%	Financial management	14	50%	Monitoring	28	100%	Reporting	28	100%	Evaluation	21	75%			
5.2	How were these policies/standards/procedures & controls developed?	Our consultants	0	0%	Their consultants	25	89%	On their own	18	64%	Jointly	4	14%	Other means	2	7%						
5.3	What would trigger off changes in these policies/procedures?	Our law	15	54%	Their law	12	43%	Changes in the NNGO	11	39%	Changes in the SNGO	12	43%	Some evaluation	21	75%	Other events	4	14%			
6.1	Who would you usually use to measure the SNGO performance?	Own staff	1	4%	Joint staff	12	43%	consultants	12	43%	Other NGOs	5	18%	Others	4	14%						
6.2	Which of these performance frameworks do you use?	Logframe	24	86%	Benchmarking	8	29%	TQM	3	11%	RBM	7	25%	BSC	0	0%	Others	5	18%			
6.3	Who selected the frameworks to be used by the SNGO?	NNGO	3	11%	SNGO	19	68%	Jointly	4	14%	NNGO consultant	1	4%	SNGO consultant	1	4%						
7	What would normally happen if a partner's performance is found to be excellent?	Extend contract	12	43%	Increase funding	5	18%	Promote SNGO to other funders	13	46%	Use as a model to rest	6	21%	Token appreciation	4	14%	Nothing					
8.1	What would normally happen if a partner's performance is poor?	Stop contract	14	50%	Withhold funding	12	43%	Cut back funds to them	10	36%	Not renew contract	19	68%	Offer more help	12	43%	Others	5	18%			
8.2	What would be the main causes of such poor performance?	Drift from mission	15	54%	Resource management	19	68%	Changed circumstances	11	39%	Problems with other stakeholders	7	25%	Internal problems	18	64%	Other causes	3	11%			
9	Who do you use to measure the state of SNGO financial governance and/or management?	UK external auditors	1	4%	Local external auditors	23	82%	Own finance staff	3	11%	Own program staff	3	11%	External consultants	18	64%	Others	8	29%			
10	In your opinion, how does state of financial governance and/or management affect performance?	A symptom of bigger problems	21	75%	Betrayal of the mainstay of NGOs	4	14%	Stimulates many other violations	19	68%	Leads to loss of trust in SNGO	21	75%	Undercuts objective achievement	17	61%	Threatens our own funding	13	46%			
11	When do you identify and act on SNGO partners with poor performance?	During visits	5	18%	During reviews	18	64%	During evaluations	21	75%	At initiation of partnership	8	29%	Other triggers	8	29%						
12	How can SNGO performance be best measured and improved?	Experts know best	8	29%	Through consultation	11	39%	Using Diverse methods	7	25%	Stakeholder feedback	11	39%	Beneficiary satisfaction	23	82%	Do not know	5	18%			

## APPENDIX E: SNGO FIELD RESEARCH QUESTIONNAIRE

	Key Questions for Board members		Key Questions for CEOs / Managers
2.1	Will you please briefly outline the history, vision and mission of this NGO?	3.1	Will you please briefly describe the size of this NGO for example in terms of turnover, staff numbers, offices, geographical spread, assets base, etc.?
2.2	What would you say are your NGO's current strategic objectives?	3.2	From my previous reading and discussion with your Board this NGO is quite successful. What would you identify as your NGO's critical success factors?
2.3	What do you see as the role of the Board in this organisation?	3.3	No doubt risk is one of the major issues you have to deal with in your management role. What do you see as your NGO's key risks?
2.4	How is the Board structured to make it operative? Does it work through subcommittees?	3.4	Partnership has become such a crucial factor in international development. Which organisations does your NGO work in partnership with and why?
2.5	What role does the Board play in enhancing or maintaining the good performance of this NGO?	3.5	Do your current INGO funders set any conditions or standards (policies/ procedures/ controls) you must adhere to in order to qualify for their support?
2.6	Partnership has become such a crucial factor in international development. How does this NGO work with other organisations in partnership?	3.6	I believe you as an organisation or your funding partners at times evaluate the NGO's organisational performance. Will you briefly explain how this is done?
2.7	In your opinion why do you think your funding partners opt to fund you and not any other NGO?	3.7	What specific requirements have funders introduced as a result of evaluation of your NGO?
2.8	In summary what do you believe to be the role of financial management in performance of NGOs?	3.8	How would you describe your relationship with your UK NGO funders?
2.9	From your experience what are your NGO's critical success factors?	3.9	Do you think besides getting support, you have influenced any policies adopted by your key funding partners at all?
2.10	Do you think besides getting support you have influenced any policies adopted by your key funding partners at all?	3.10	In summary, what do you believe to be the role of financial management in performance of NGOs?

## APPENDIX F: NNGO RESEARCH QUESTIONNAIRE

No.	Main Question	Probes
1	Partnership has become such a crucial factor in international relief and development. How does your NNGO identify and work in partnership with SNGOs and how formal are these relationships?	<ul style="list-style-type: none"> <li>✓ What mutual benefits / obligations accrue to either party?</li> <li>✓ Distinction between grant and contract for services</li> <li>✓ When is it project support, programme support or organisational support?</li> <li>✓ How does funding develop over time (value and aspects covered?)</li> </ul>
2	How does this NNGO reach a decision to fund one SNGO and not another and how are such policies developed?	<ul style="list-style-type: none"> <li>✓ What criterion is used for such decisions and how flexible is it?</li> <li>✓ What areas of programme management are governed by such policies?</li> <li>✓ Do SNGO partners have any influence on how the policies are developed?</li> <li>✓ Do funders have an influence; If so, what kind of influence?</li> <li>✓ What would make them enhance or curtail funding support?</li> <li>✓ Have you ever severed relationship with an SNGO partner? If yes, why?</li> </ul>
3	NGOs are known to be at the forefront in advancing participatory development through bottom-up approaches. Does your NNGO experience any tension in this respect between giving SNGOs more space while at the same time meeting expectations of your own funders?	<ul style="list-style-type: none"> <li>✓ Are there any planning processes that SNGO partners are involved in?</li> <li>✓ If yes, which ones and why?</li> <li>✓ What mutual benefits / obligations accrue to either party?</li> <li>✓ To what extent do funders determine conditions that are then passed over to SNGOs?</li> </ul>

4	I believe your NNGO regularly evaluates, either formally or informally, SNGOs you fund in order to make decisions about them. How is this evaluation generally done?	<ul style="list-style-type: none"> <li>✓ To what extent are 3Es used in evaluation?</li> <li>✓ Why is Log Frame so commonly forced on SNGOs as the performance management framework to use?</li> <li>✓ How is it used beyond planning / budgeting?</li> <li>✓ What problems have they experienced with it?</li> </ul>
5	In summary what do you believe to be the role of financial management in how you assess and rate performance of different SNGOs?	<ul style="list-style-type: none"> <li>✓ What is considered as “financial management”?</li> <li>✓ How does it affect performance?</li> <li>✓ How does the NNGO monitor SNGOs management of finances?</li> </ul>
6	Financial governance tends to come up quite often as the major consideration in funding SNGOs. What importance does your NGO place on it?	<ul style="list-style-type: none"> <li>✓ State level (statutory) governance</li> <li>✓ Organisational governance</li> <li>✓ How they ascertain that financial expertise is on the Board</li> </ul>
7	In some of the cases researched the issue of corruption came up from time to time. How does your NNGO tackle issues of financial corruption when it arises amongst SNGOs you fund?	<ul style="list-style-type: none"> <li>✓ Is it ever tolerated?</li> <li>✓ In which circumstances is it condoned?</li> <li>✓ Is it tackled head-on?</li> <li>✓ Does the NNGO run away from it?</li> </ul>
8	There is a discernible trend amongst SNGOs towards self-regulation and self-accreditation on the basis of national SNGOs’ own industry’s self-assessed performance. What are your general views towards this trend?	<ul style="list-style-type: none"> <li>✓ How much comfort does this give your NGO?</li> <li>✓ Is it a move you could contribute to at national level?</li> <li>✓ Has your NGO played any role in such initiatives in Kenya or India?</li> <li>✓ If so, what role?</li> </ul>
9	What would be the characteristics of your ideal SNGO, one that you would rate excellent; continually fund and market to other funders?	✓ Open question
10	In summary then, why do you think some SNGOs succeed and excel while others fail and eventually have to close down?	✓ Open question

## APPENDIX G: BROADSHEET ANALYSIS EXTRACT FOR KENYA

SK6	SK5	SK2	SK1	Negatives Thematic Statement	Theme / Issue	No.	Key Words	Positive Thematic Statement	SK1	SK2	SK5	SK6
	113, 132, 135, 136, 143, 145, 159, 168, 171, 177, 188, 194		13	Communication with funders is rare and formal, CEO only, and problems are not readily accepted	How NNGOs measure performance of SNGOs	1.	Mission Vision Governance	Regular communication, at different levels, with funding partners and can confess problems		51, 52, 56, 60, 84		219, 220, 222, 223, 225
	108, 128, 138, 141, 190, 196			Mission statement is too wide and deviations made to secure funding		2.		Focus and loyalty to a well thought out and documented mission statement		40, 53, 55, 59, 70		210, 213, 216, 221, 225
	110, 116, 179		13	Planning is not clear enough to do activity budgeting or to monitor progress in implementation		3.		Clear strategic plan, recognised planning framework has been employed and activity based budgeting used		37, 39, 41, 42, 50, 61, 62, 83, 85, 81		208, 209
	179, 194, 112, 135		11, 16	Independent evaluators are either not used or are critical of progress		4.		Independent evaluators can attest to good performance		38, 69		220, 222, 221
	113, 130, 131, 151, 152, 153, 155, 159, 160, 193		21, 10, 30, 32, 33	Legitimacy of the Board is questionable and some skills lack		5.		Legitimately elected Board of Directors with diverse skills is in place		47, 86		208, 232, 233
	138, 139, 149, 179, 186, 191	43, 45	11, 20	Monitoring and evaluation is not regular, participatory or can't be objectively verified		6.		Regular participatory monitoring and evaluation using objective means		78, 79, 80		219, 220, 221
	111, 112, 115, 132, 137, 143, 145, 158, 159, 160, 161, 194	66, 68, 72, 73, 74, 75, 89, 90, 92	32, 33, 34	Rigid funder conditions that are very strict on reporting	Role of Financial Management in Performance	7.	Manage Trust Financial management Control Corruption Relations Success	Funder conditions are generally relaxed and flexible e.g. on reporting, variance etc		51, 65, 73, 75		209, 216
	132, 143, 158, 159, 160, 163, 164, 165, 166, 177, 178		33	Long term funders non existent or reducing funding as exit strategy		8.		Long term funders exist with stable or increasing levels of funding over time		58, 59, 88, 105		209, 214, 229
	171, 188	82		CEO and managers can't discuss details of finances and willingly refer one to Finance Manager		9.		CEO and managers understand and can intelligently discuss financial management without recourse to their Finance Manager		61, 63, 64, 93	117, 195	209, 211, 212, 213, 220
	128, 132, 143, 145, 146, 158, 159, 160, 170, 171, 172, 173, 180, 188, 193		5, 8, 13, 14, 16, 17, 18, 20, 23, 26, 27, 28, 31	Internal disapproval of capability/ performance of CEO and Board		10.		There's internal trust and confidence in capabilities and work of CEO and Board	22, 23, 24, 25	48, 51, 52, 60, 69		208, 213, 215, 221, 227

# **APPENDIX H: BROADSHEET ANALYSIS EXTRACT FOR INDIA**

SI2	SI3	SI5	Negatives Thematic Statement	Theme / Issue	No.	Key Words	Positive Thematic Statement	SI5	SI3	SI2	SI4
			Communication with funders is rare and formal, CEO only, and problems are not readily accepted	How NGOs measure performance of SNGOs	1.	Mission Vision Governance	Regular communication, at different levels, with funding partners and can confess problems	21	173, 174	56, 62, 91, 97, 105, 106	119, 120
	150, 151		Mission statement is too wide and deviations made to secure funding		2.		Focus and loyalty to a well thought out and documented mission statement	1, 4	189, 190	40, 41, 42, 73	
			Planning is not clear enough to do activity budgeting or to monitor progress in implementation		3.		Clear strategic plan, recognised planning framework has been employed and activity based budgeting used	29		59, 63, 74	140
	193	33, 34	Independent evaluators are either not used or are critical of progress		4.		Independent evaluators can attest to good performance	37	156, 157	59, 106	133
	154, 155		Legitimacy of the Board is questionable and some skills lack		5.		Legitimately elected Board of Directors with diverse skills is in place	13, 14, 15, 17, 18		48, 49, 50, 52	
			Monitoring and evaluation is not regular, participatory or can't be objectively verified		6.		Regular participatory monitoring and evaluation using objective means	23	158, 161	63, 75	
66, 99, 100			Rigid funder conditions that are very strict on reporting	Role of Financial Management in Performance	7.	Manage Trust Financial management Control Corruption Relations Success	Funder conditions are generally relaxed and flexible e.g. on reporting, variance etc	22		65	
82, 83, 98	194		Long term funders non existent or reducing funding as exit strategy		8.		Long term funders exist with stable or increasing levels of funding over time	27, 28		56, 57, 76	
			CEO and managers can't discuss details of finances and willingly refer one to Finance Manager		9.		CEO and managers understand and can intelligently discuss financial management without recourse to their Finance Manager	16		60, 61, 78, 94, 95	128
			Internal disapproval of capability/ performance of CEO and Board		10.		There's internal trust and confidence in capabilities and work of CEO and Board	10, 24		51, 75, 97	

## APPENDIX I: RESEARCH DATA ANALYSIS PROTOCOL

Research Data were mainly collected from the following sources:

1. Interviews: were conducted with member(s) of boards for about one hour, with CEOs for one to two hours, and with programme and/or finance managers for one to two hours. Verbatim interviews were digitally recorded and stored, from which phrases were extracted and written verbatim ('transcribed')
2. Reports: Annual reports and audited accounts were collected for four years i.e. for 2001/2002 and 2003/04 and analysed for trends and ratios. No discernible trends arose from this analysis. Where possible, evaluation and progress reports were also collected and studied.
3. Pictures: Some still pictures were taken e.g. of offices, assets, key interviewees, awards and notices to public. They were used to inform opinions built from other sources and were all filed as part of the evidence.
4. Documentation: At least a half day was spent at the libraries or documentation centres of the organisations studied. Various documents and publications were studied and brief notes taken.
5. Where possible, brief discussions were held with external persons such as external auditors of the organisations, collaborating organisations and regulatory authorities e.g. in Kenya and India.

### Transcription and organisation of data

Phrases from tapes were documented verbatim by reviewing recorded tapes at the end of each day and 'transcribed' into written form. They were then combined. Based on four objectives of the research, distinction was accorded to any direct phrases touching on or relevant to an objective. To distinguish them, phrases were grouped for each objective and marked as follows: on how NNGOs measure performance of that SNGO = amber; on the role of financial management in such performance measurement = yellow; on the role of financial management in excellence or failure of SNGOs = red; and on linkage between state of financial management and performance of SNGOs to policies of funders = underlined.

By reading over and over the summary phrases, words most frequently used were identified. These words, in their various forms (e.g. perform = performance = performed = performing) were recorded alongside their frequencies. A cut-off line was then drawn on the basis of frequency. In this case, it emerged that the most commonly used words, not in any particular order, were mission, vision, govern, manage, trust, financial management, control, corruption, relations, success, partner, problem, perform, poor, transparent, funder, review and evaluate.

The next step involved highlighting all phrases / sentences which had such words so as to examine the context in which they were used. The phrases / sentences with these words were assigned numbers and copied onto small cards to facilitate the next step. The numbers assigned to phrases remained fixed throughout and were used in the thesis so as to provide an audit trail between statements in the thesis and the originating evidence. The fact that they were already distinguished helped put the phrases in their broad groups (the objective they addressed or touched on).

With such short phrases sorted out by objective, they seemed to provide short answers to some issues within the confines of each objective. The aim at this stage was to determine; 'If these are the solutions, what ought to have been the problem?' This lengthy process distilled a total of 29 short questions / phrases of which;

1. Six touched on vision, mission and governance; addressing objective 1 i.e. how NNGOs measure performance of SNGOs they fund;
2. Eight related to management, trust, financial management, control, corruption, relation and success and addressed objective 2 i.e. role of financial management in measurement of performance;
3. Eight related to partner, problem, perform, poor and transparent and addressed objective 3 i.e. the role of financial management in excellence or failure of SNGOs; and
4. Seven related to funder, review and evaluation and addressed objective 4 i.e. how financial management and performance influence funder policies.

Analysis broadsheets were then prepared showing these problems (framed as sub-questions) as rows under their broad categories. The six SNGOs were shown under columns. This provided a template which when filled in would provide a snapshot of how the six SNGOs in a country matched or deviated on a given yardstick. Each country had one broadsheet.

Futile attempts to analyse organisations at this stage compelled yet another step. It was difficult to link evidence directly to questions but it would be less difficult to link evidence to statements. Short statements were consequently derived from each of the questions. However,



some of these statements were positive while others were negative. This would present bigger problems especially in addressing objective 3 on excellence and failure. The best way out was to make all statements positive and put them on the right hand side of the broadsheet. Conversely, the negative versions of these statements were put on the left hand side of the analysis broadsheet.

The broadsheets were then enlarged (now showing central theme, key words, positive and negative statements and extension columns for all the six SNGOs both to the right and to the left hand side) and were ready to analyse the field data. Inputting data onto them involved the laborious task of reading over and over all the documented comments / statements / phrases collected for each SNGO and noting it where it applied in the analysis sheet. For instance, did a phrase denote evidence to support a positive or negative attribute? Did it negate a positive attribute? Some pictures started emerging at this point. It was becoming clear which SNGOs had sufficient evidence on the right hand side (suggesting they were more successful according to empirical data) and which had more evidence on the left hand side (suggesting they were less successful).

#### Data Analysis

To facilitate the pattern matching analysis strategy, the broadsheets were narrowed down through some form of analysis. This was done by developing another simpler form showing for each of the themes for each country which SNGOs behaved as expected. For instance, did a less successful NGO (as designated by its funders) in India always appear in the 'less successful – LS' column on the left hand side of this table? Did a more successful one always appear in the 'more successful' column on the right hand side of the broad sheet or did evidence contradict this? For each one behaving as expected (funder NNGOs' assessment agreed with empirical findings) a score of +1 was awarded. For any which violated expectation (funder NNGOs' assessment did not agree with empirical findings), a score of -1 was awarded. The scores were summed. Any theme adding across to more than 1 (meaning more evidence was gathered in support than against) was eligible for further analysis.

Pattern matching logic of analysis progressed from this here. By comparing empirically-based patterns which emerged from the research with the pre-existing classification accorded to the SNGO by the NNGOs, patterns could be matched.

Explanation building was done through an iterative process. For each case, a proposition on behaviour expected already existed (embodied in the 29 themes). If this behaviour was not proven (NNGOs' assessment did not agree with empirical findings; indicating inconsistencies in

data) then the proposition was abandoned and the next tested. In the end, the data filtered the 29 distilled themes to ten in the case of India (see Appendix H) and 15 in the case of Kenya (see Appendix G).

By studying the filtered themes in the two tables it became possible to identify those which cut cross, as well as those with discernible patterns but only relevant to one of the countries studied. The eight themes which cut across the two countries and showed a clear pattern between 'less successful' and 'more successful' performers amongst SNGOs were:

- (1) Theme 3 (Clear strategic plan, recognised planning framework has been employed and activity-based budgeting used)
- (2) Theme 5 (Legitimately elected board of directors with diverse skills is in place)
- (3) Theme 8 (Committed long term funders with stable or increasing funding levels)
- (4) Theme 10 (There is internal trust and confidence in capabilities and work of CEO and board)
- (5) Theme 15 (Detailed financial policies/procedures have been discussed, agreed and documented and are adhered to)
- (6) Theme 19 (Funders are allowed and actively encouraged to validate reports and work)
- (7) Theme 20 (Board has required capacity and is actively involved in financial governance/management, striking a good balance between policy guidance and micro-management)
- (8) Theme 22 (Managers and board members put interests of beneficiaries first).

Using the objectives of the study, the themes were grouped into broader constructs and data relating to the reviewed examined further and a synthesis report prepared on the five constructs:

1. Regulation, self-regulation and accreditation (themes 3, 5 and 15)
2. Board governance, regulation and motivation (themes 3, 10 and 20)
3. Financial management, fraud and corruption (themes 8, 10, 15 and 22)
4. Funding (themes 8, 19 and 22)
5. Development of partnerships (theme 3, 8, 10 and 19)

## APPENDIX J: 29 THEMES IDENTIFIED

			Black =	Expected (affirmation)				Amber Colour = Contradictory Findings / preliminary elimination			
			Red =	Not Expected (negation)				MS = More Successful and LS = Less Successful			
Kenya				Thematic Statement / Question				Kenya			
Total	MS NGO	LS NGO	Negative	No.	Positive			MS NGO	LS NGO	Total	
2		2	Communication with funders is rare and formal, CEO only, and problems are not readily accepted	1	Regular communication, at different levels, with funding partners and can confess problems			2		2	
1		1	Mission statement is too wide and deviations made to secure funding	2	Focus and loyalty to a well thought out and documented mission statement			2		2	
2		2	Planning is not clear enough to do activity budgeting or to monitor progress in implementation	3	Clear strategic plan, recognised planning framework has been employed and activity based budgeting used			2		2	
2		2	Independent evaluators are either not used or are critical of progress	4	Independent evaluators can attest to good performance			2		2	
2		2	Legitimacy of the Board is questionable and some skills lack	5	Legitimately elected Board of Directors with diverse skills is in place			2		2	
2		2	Monitoring and evaluation is not regular, participatory or can't be objectively verified	6	Regular participatory monitoring and evaluation using objective means			2		2	
1	-1	2	Rigid funder conditions that are very strict on reporting	7	Funder conditions are generally relaxed and flexible e.g. on reporting, variance etc			2		2	
2		2	Long term funders non existent or reducing funding as exit strategy	8	Long term funders exist with stable or increasing levels of funding over time			2		2	
0	-1	1	CEO and managers can't discuss details of finances and willingly refer one to Finance Manager	9	CEO and managers understand and can intelligently discuss financial management without recourse to their Finance Manager			2	-1	1	
2		2	Internal disapproval of capability/ performance of CEO and Board	10	There's internal trust and confidence in capabilities and work of CEO and Board			2	-1	1	
-1	-1	0	Reserves non existent or greatly fluctuate year to year	11	Stable and consistent level of reserves that can be used in times of hardship			1	0	1	
-1	-1	0	Will occasionally commit or spend without secured funding or fall back contracts	12	Can only spend or commit within confines of secured funding and will discuss need for deviations beforehand			2		2	
-2	-2	0	Accountant not qualified /experience	13	Well qualified and experienced accountant			1		1	
0	-1	1	Local accountancy company used mainly to audit, at times not regular	14	Use reputable international accountancy company regularly (audit / consult)			1		1	
2	0	2	Financial policies are either not detailed or out of date or not documented or not adhered to	15	Detailed financial policies/procedures have been discussed, agreed and documented and are adhered to			2	-1	1	
1	0	1	Net current assets are low or negative	16	Positive and stable net current assets			1	0	1	
1	0	1	Problems are not readily identified and addressed and threats or actual legal redress is contemplated	17	Free and regular communication that identifies and solves problems to pre-empt need for legal threats or redress			2	-1	1	
1	0	1	Auditors give some form of qualification to their audit opinion	18	Auditors attest to sound financial management			2		2	
0	0	0	Funders not readily allowed or encouraged to validate reports	19	Funders are allowed and actively encouraged to validate reports and work			2		2	
0	-1	1	Board has only limited (or too much) involvement in financial management	20	Board is openly involved in financial management at top / policy level			2		2	
-1	-1	0	Un-proportionately high ratio of expenses on administration costs	21	Bulk of the budget is spent on Direct Projects			2	-1	1	
2	0	2	Senior managers or board members seem more concerned with personal benefits	22	Senior managers and Board members put interests of beneficiaries first			1		1	
1	0	1	Management tends to conceal or not admit to problems. Solutions and changes have to be forced.	23	Management can identify, admit and proactively seek collective solutions to such problems			2		2	
2	0	2	Little or no evidence of internal reflection & renewal (capacity/learn)	24	Continuous internal reflection and renewal (capacity building and learning)			2	-1	1	
2	0	2	No clear additional motivation to managers for good administration and financial management	25	There is clear motivation for management to ensure proper administration and financial management and ways to verify			2		2	
1	-1	2	Some indicators of distrust and funders do not involve SNGO in its strategy or work plans	26	Indicators that funders trust the SNGO and invite it to participate and influence funders' strategies and plan of work			2	-1	1	
2	0	2	Results of work done can not be objectively verified, often coordination not direct projects	27	Real results that can be objectively verified i.e. by direct implementation of projects with verifiable indicators			2	-1	1	
2	0	2	There are indicators that the Board chair is either not knowledgeable, or un-diplomatic or micromanages	28	The chair to the Board is knowledgeable yet diplomatic in approach and gives management and funders space			2		2	
2	0	2	Old and repetitive approaches to fundraising and stuck to old avenues for development	29	Creative approaches to fundraising, networking and explores alternative avenues for development			2		2	

## **APPENDIX K: COUNTRY CONTEXTS AND REGULATORY FRAMEWORK**

A review of the country contexts provided a platform upon which closer examination of performance of NGOs in the three countries could be conducted. Following literature review and field studies, ten relevant distinctions emerged from summarising the context in the three countries. The ten areas of distinction were: forms of NGO registration, regulator and actual regulation of the sector, concentration of NGOs, level of self-accreditation and forms of NGO funding. Others were the level of partnership between the three sectors, motivation for board service and the extent of corruption and financial mismanagement in the sector. Table K.1 gives an overview of these distinctions as summarised from various sources, including BBC (2006), Keengwe et al. (1998), Morgan (2002), The Institute of Chartered Accountants of India (2002), Yaansah and Edward (1995) and Yaansah and Harrell-Bond (1997).

Legislation of charities in the UK began with the Elizabethan legislation of 1601 and a myriad of reforms and amendments have followed since (Morgan, 2002). The legislation focuses on registration, public fundraising especially for purposes not strictly charitable, ensuring money raised for charitable purposes is well spent and accounted for and collection of sector-wide data. In general, the current laws regulating charities in England and Wales are the (i) Charities Act 1993 (as amended latest in 2006), (ii) Charities (Accounts and Reports) Regulations 2005, (iii) Charities Statement of Recommended Practice (SORP), and (iv) Charity Commission's Common Directives and Guidelines.

For registration purposes, charitable organisations can register under any of the following legal forms (Morgan, 2002; Morgan, 2007a): a charitable trust, charitable association, charitable company, royal charter charity, Industrial and Provident Society (for benefit of community), a charity established by Act of Parliament (e.g. Church of England bodies) or as a CIO.

The Charity Commission, a government department operating independently, has legal mandate conferred by Charities Act 1993 (revised 2006) to regulate charities in England and Wales. The latest amendments to the Charities Act in 2006 affected definition, structure and role of the Charity Commission, fundraising, modernisation, transparency & accountability, SORP and reporting, and introduction of CIO. Depending on their turnover, UK charities are required by the Charities Act 2006 to register or seek exemption from registration, to keep books of accounts in line with the requirements of the SORP, to conduct external year end financial audits, to file annual returns including a copy of the audited accounts with the Charity Commission and to submit more details in the SIR form. The Charity Commission can sample some charities to follow up based on its review of the returns received or any other information gathered. The Charity Commission can conduct investigations and charge charity or charity officials who violate the set requirements.

Table K.1: Inter-country comparison of NGO context and regulatory framework

No.	Area	United Kingdom	Kenya	India
1	Legal forms	Charitable Trust Charitable Association Charitable Company Royal Charter Charities Industrial & Provident Society By Act of Parliament Charitable Incorporated Company (CIO)	NGO Trust Society	Society Public Trust - National Public Trust - Regional Non-profit Company
2	Main Regulator	Charity Commission / Government	Kenya NGO Board SK5	Ministry of Home Affairs Reserve Bank of India
3	Regulatory Framework	Charities Act 1993/2006 Charities Reg. 1995/2000 Charities Reg. 2005/2008 Charities SORP Charity Commission Directives & Guidelines	NGO Act 1990	Societies Reg. Act 1960 Indian Trust Act 1882 Companies Act 1956 Regional State Act
4	Number of NGOs and Self-Regulation	169,000 general charities None (NCVO)	10,000 estimated by SK5	1,200,000 SI5 <sup>48</sup>
5	Self-Accreditation	Guide-Star UK	None	Credibility Alliance
6	Funding	NGO income of £32.5bn Mostly from local sources, the government, government agencies, public donations and business initiatives	Gets 3.5% of GNI in donations Income of £0.1bn Of which 10% is local from: tax revenue, official aid, local gift economy and corporate investment and the market	0.3% of GNI donation Income £0.225bn 92.5% locally from tax revenue, official aid, local corporate investment and local gift economy and the market

Sources: BBC (2006), ICNL (1997), Keengwe et al. (1998), Morgan (2002), The Institute of Chartered Accountants of India (2002), Yaansah and Edward (1995) and Yaansah and Harrel-Bond (1997).

Self-regulation is a relatively new concept in the UK. The only prominent aspect of self-regulation was enacted as part of the Charities Act 2006 when the Fundraising Standards Board (FRSB) was allowed to set its own code of conduct to regulate fundraising amongst UK charities (Morgan, 2007b). However, the government retained the power to oversee how well the FRSB would manage this and to intervene if appropriate. Other regulatory changes underway included the selection and development of trustees, money laundering, treatment of fundraising costs, costing of time by volunteers, uniform cost classification and a UK Guide-star performance rating system.

<sup>48</sup> SI5 refers to SNGO in India number 5. Refer to section 4.0 for a full naming convention for the cases.

In the case of India, there are about four different forms of NGO registration (Jalali, 2008; Institute of Chartered Accountants of India, 2002). NGOs can be registered as:

1. Societies under the Societies Registration Act 1960. This can be central or regional with the respective state government. So far the states of Karnataka, Bihar and Tamil Nadu can register NGOs under their separate Societies Registration Acts.
2. Public trusts under the Indian Trust Act 1882. This requires a Memorandum of Association, Trust Deed and Bylaws to be submitted. The Trust Deed shows the objects, the author, trustees, beneficiaries and the trust property. The trust is registered by the Departments of respective state governments if immovable property is involved, otherwise it is registered centrally.
3. Non-Profit Companies under S25 of the Companies Act 1956 which applies uniformly across all the states in India. It allows a company to be registered without the suffix 'private limited' on the authority given by the Department of Company Affairs at the Ministry of Finance.
4. Public trusts under a regional state. The only two states allowed to register their own public trusts are Maharashtra and Gujarat. Organisations registered by such states have to register under the Act as well.

Besides, some of the international NGOs in India are not registered legal entities. They operate by virtue of clearance given by the Reserve Bank of India, the Central Bank of India and the FCRA 1976 under the Ministry of Home Affairs. This creates a legal form of Associations of Persons (AOP) (Jalali, 2008).

The most visible NGO law in India is the FCRA and it had 28,351 registered members in 2003/4 (Jalali, 2008). It requires any NGO which expects foreign funding to register with the government, to register for the purpose of receiving foreign funds, to submit planned annual activities and budget for government approval, to open a separate bank account to manage the foreign funds, to file annual returns including financial statements and to pay a portion of any funds remaining unused in the foreign currency bank account at the end of the year to the government as tax. The government appears vigilant to safeguard the national sovereignty by ensuring foreign funds are not used for subversive activities or for objectives counter to those of the government. The law is strictly enforced and some NGO officials have been charged under the FCRA which provides for imprisonment of up to 5 years and/or a fine for receiving foreign funds when not registered with or before FCRA grants permission (Jalali, 2008).

Self-regulation is more prominent in India. The sector has organised itself towards self-regulation and self-accreditation mainly through SI5<sup>49</sup> and Credibility Alliance. SI5 was formed to emancipate and strengthen the voluntary sector in four major ways, namely by: (i) influencing national government policies and laws, (ii) influencing the policies and programmes of multilateral and bilateral donor agencies, (iii) improving governance in civil society organisations, and (iv) building and sustaining state level coalitions. Registered NGOs voluntarily apply for SI5 membership and have to meet certain criteria. SI5 led a consortium of partners from South Asia, South Africa, West Africa and Latin America to develop the Organisational Self-Assessment of Non-Governmental Organisations – OSANGO (CYSD, 2007) as an NGO performance self-assessment tool. It focuses on performance, accountability, governance and management systems. Lloyd (2005) found OSANGO a good demonstration of the economies of scale advantage self-regulation makes possible.

In Kenya, NGOs are regulated by the NGO Act of 1990 which came into force in 1992 after NGOs, previously registered under the Companies Act and as societies under various ministries regularised their affairs to conform to the Act (Yaansah and Edward, 1995). The Act established two main bodies to regulate NGOs in Kenya:

1. The NGO Co-ordination Board, a government body established under section 3 (1) to oversee NGOs (with its executive directorate referred to as the Bureau), and
2. The National Council of Voluntary Agencies (revised to NGOs) established under section 24 to self-regulate the sector.

The NGO Board is a body corporate with perpetual succession, a common seal and ability to transact as a legal entity. It is assigned eight functions, namely to facilitate/coordinate operations of NGOs, maintain a detailed register of NGOs, receive/discuss NGOs' annual reports, advise government on activities/contribution of NGOs, review NGOs' register for consistency, give policy advice to NGOs, receive/review reports of the NGO Council and receive/review reports from the NGO Council in fulfilment of its self-regulatory functions. Its performance of these functions is wanting owing to a lack of capacity and resources as the government is unable to fully fund it (Keengwe et al., 1998).

The NGO Act assigned specific functions to the NGO Council subject to approval by the NGO Board. The self-regulation role of the NGO Council has not been successful (*Sunday Nation*, 2003). Its key functions and the level of performance can be summarised as follows:

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<sup>49</sup> Coded NGOs were used in the research and volunteered their information on condition that they will remain anonymous. See also Chapter 3.

1. To develop and adopt a code of conduct. The first 100 NGOs registered under the Act formed the NGO Council and prepared the Code of Conduct which, upon approval by the NGO Board, became law. However, it has not been strictly enforced and only a few NGOs are themselves registered and fully paid up members of the NGO Council.
2. To develop and adopt any such other regulations. No other major regulations have been developed and adopted since its inception despite the changing circumstances.
3. To prescribe rules and procedures for audit of the accounts of NGOs. In response to this function, the NGO Council developed SORAAPs but they are yet to be enacted and enforced. Only a few NGOs submit their annual returns. It lacks the resources to force the rest to submit returns or even to scrutinise those submitted.

The NGO Council therefore has a wide mandate to facilitate self-regulation of the NGO sector on activities, funding programmes, foreign affiliations, national security, training, development of national manpower, institutional building, scientific and technological developments and related matters of national interest. Yet, it is embroiled in governance and management problems leading ineptitude. In just five years, the Council had five different CEOs and three different board chairpersons. In fact before the dissolution of the previous board the legitimacy of the board was in question (*Daily Nation*, 2005).

In a nutshell, as shown in Table K.1 there is a distinct divide between the three countries in terms of how NGOs are set up and regulated, funding streams, extent of partnerships and financial governance.



## APPENDIX L: FUNDING OF NNGOs IN THE UK

The study of the UK's sources of NGO funding to NGOs by UK Giving and NCVO/CAF shows that 38% of funds come from the public sector, 35% from individual giving, 15% internal (own-generated funds) and 10% come from the voluntary sector (Charities Aid Foundation, 2007b). Wilding et al. (2006) showed that three-fifth of the UK population gave to charity monthly and in total such direct charitable giving constituted 0.9% of the GDP. The average annual donation was £170 per adult (£297 per donor per year) and total donations in 2004/05 were £8bn.

Elite donors, often managers and professionals, give £100 or more per month and their contribution constitutes two-fifth of total private charitable giving although they are only 5% of total donors. They are important supporters of NNGOs because of their commitment to international causes and they have a strong faith base. They have demonstrated superb response to such international causes as the Tsunami Appeal and to faith-based causes. In fact, as shown in Table L.2, when donations to international causes are combined with those for faith-based causes, they represent 28% of the total. It is for this reason that their impact on rising demand for accountability was highlighted in 2.4.1.

The research found that women were more likely to give to charity (62%) than men (52%) but men give more (about £27.70) than women (£23.30), people in London give most (a per capita of about £2 per month) and particularly staff in managerial and professional categories give more (66%, while for the rest only 51% gave to charity). Table L.1 lists the top 10 UK fundraising charities by total income in 2002-03 (latest statistics obtained).

Table L.1: Top ten charities by UK fundraising

No.	Charity / NGO	Rank 2001/02	Rank 2002/03	2002/03 in £'000
1	Cancer Research UK	1	1	243,541
2	The National Trust	3	2	160,583
3	Oxfam GB	2	3	189,000
4	British Heart Foundation	5	4	112,015
5	Royal National Lifeboat Institution	4	5	95,600
6	Salvation Army	6	6	90,064
7	NSPCC	7	7	79,459
8	Comic Relief	15	8	73,735
9	Macmillan Cancer Relief	9	9	71,070
10	RSPCA	10	10	68,159

Source: Adapted from Charity Aid Foundation (2007b)

Causes attracting most funds include medical research (18%), faith-based work (6%), overseas work (8%), hospitals/hospices (12%), children / young people (12%), disabled (6%), animals (7%), environment (2%) and other causes (5%). The UK's top 10 most popular causes in 2002-03 by voluntary income are shown in Table L.2.

Table L.2: Top ten most popular causes of UK fundraising

No.	Charity / NGO	No. in top 500	Voluntary income £m	% of voluntary income of top 10 causes
1	International aid	33	654	18
2	Cancer	21	417	12
3	Religious / general services	40	356	10
4	Heritage / Environment	28	351	10
5	Arts & Culture	53	341	10
6	Children	32	321	9
7	Religious / missionary	48	290	8
8	Animal protection / rescue	16	257	7
9	General social welfare	17	241	7
10	Disability	21	181	5

Source: Adapted from Charity Aid Foundation (2007b)

This shows high commitment by the government and individual donors in the UK which UK based NNGOs and SNGOs in Kenya and India should reciprocate through assurances that the funds are used in a proper way to further the causes for which they were given. This study aims to contribute in this way.