

Corporate governance for NGOs?

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Problems

In terms of the volume of official funding, the development NGO sector has been enjoying a boom since the early 1980s. Stimulated by concerns about the excesses of 'statism' and attracted by notions of 'strengthening civil society', bilateral and multilateral aid donors switched significant fractions of their budgets from national governments to NGOs.¹ Many countries saw an explosive growth in the number and variety of development NGOs. Endowed as it is with a high proportion of reflective and self-critical thinkers, the NGO community was not content simply to bask in the sunshine. There has been a ferment of concern, first about possible malign effects of this growth on the ethics, values, and organisational competence of NGOs, and, increasingly, about how to adapt to a less luxuriant future with a decline in the rate of funding increases.

The problems have been diagnosed in many different ways, and a wide variety of solutions propounded. It is, however, striking that there appears to have been very little discussion of an option that would be considered standard for a sector of private business whose products or procedures had come under serious critical public criticism and scrutiny: the introduction of collective self-regulation in order to re-establish public confidence in the sector. We argue that such collective self-regulation could make a significant contribution to solving four generic problems faced by development NGOs in poor countries, NGOs that depend to a significant extent on foreign funding. These are labelled the 'accountability', 'structural growth', 'evaluation', and 'economies of

scale' problems respectively. We first summarise these problems and then explain how collective self-regulation could help remedy them.

1 *The Accountability Problem*

This has both a 'real' and a 'perceived' dimension. The 'real' problem is quite clear and is articulated repeatedly by friends and critics of NGOs alike:

Who are these people accountable to? They set themselves up as specialists and experts on problems that they define themselves, live entirely on foreign money, and can do what they want provided they keep their funders happy. They claim to speak on behalf of the poor, the disadvantaged, women, the disabled, AIDS victims or whatever, but how do we know that they are in any way representing or serving their clients?

These concerns are not entirely misplaced. It is clear that some NGOs are not accountable even in the most narrow sense of the term, i.e. they are not in practice sanctioned if they fail to use their budgets for the purposes that their financiers intend. And most of that money is *public*: not necessarily 'public' in the sense that it comes from a government, but in the sense that it is given by a public somewhere and/or, more importantly, it is explicitly intended to have impacts over issues that in contemporary democracies are regarded as being the legitimate business of the state. Further, insofar as money is given to NGOs for the purposes of advocacy or to 'strengthen civil society', it is intended to change the way in which public business is done. Every widely accepted concept of good governance requires some kind of public accountability of organisations that (a) use public money and/or (b) are intended to influence public business. The widespread perception of weak or absent accountability becomes a problem for NGOs — and their funders — in many countries. Many national governments with an authoritarian streak view NGOs as a threat. They use the non-accountability of NGOs — or accountability to no-one except wealthy foreign organisations — as an excuse to harass and control them.

2 *The Structural Growth Problem*

Once they are successful, small businesses world-wide commonly face the problems of replacing one-person-management (or family-management) with a more institutionalised structure. The founder is used to having total control and doing things his or her way. It is difficult

to persuade her/him to create independent management or expert roles, or to respect the authority and autonomy of independent managers and experts once they are in place. The founder wants to continue to hire and fire staff as s/he feels like it, or to be the only person with full access to the accounts. It is at this point — when individual or family management ceases to match up to needs — that many small businesses fail to realise their potential, or simply fail. There are close parallels with NGOs, which are often founded and run by individuals or small groups who are dedicated to the organisation and the cause it represents. Perhaps they see their own dedication and commitment as the reason for success, and feel they are entitled to reap the fruits of success, even if these fruits only come in the form of such intangibles as recognition, respect, and status. Like small business people, the founders of NGOs may not want to share managerial authority and status with newcomers at the point where the organisation has the potential to take off into rapid growth. But take-off is likely to come even more suddenly to NGOs than to small businesses, and the consequent crises and conflict — between founders and their values, and ‘new professionals’ and their values respectively — tend to be even more severe and, sometimes, devastating.

Sheelagh Stewart’s research into NGO funding in Nepal and Zimbabwe shows that NGOs often achieve ‘funding success’ (e.g. large volumes of donor financial support) very quickly. Once they are ‘discovered’ and funded by one donor, the word about their existence quickly gets around small, in-country donor funding communities. Donors are keen to find good NGOs to fund. Partly because they lack criteria to judge NGOs (see below), donors tend to adopt what is for them individually a rational rule of thumb: do what other donors are doing. The result can be similar, on a much smaller scale, to the early 1980s when most international banks decided that Third World governments were the best available borrowers for all that money sitting in the oil exporters’ accounts. The result was over-lending and the Third World debt crisis. In Nepal and Zimbabwe, Stewart examined in detail the external funding history of 30 local NGOs in the period 1989–96. These were all urban-based organisations involved in advocacy issues. It is clear in retrospect that these organisations grew much faster over the research period than many other local NGOs.² Within a mere eight months of receiving their first significant tranche of external funding, their budgets had on average increased fivefold, and the number of staff employed had grown fourfold, as had the number of organisations from which they received funding. At the baseline point, they each received support from,

on average, 1.7 donors. At the end of the period, each was funded by an average of seven donors. Their experiences of rapid organisational growth were extreme, but illustrate in a graphic fashion a set of processes that have beset development NGOs world-wide.³

Very rapid rates of funding growth pose difficulties to all organisations, but especially to development NGOs. Their styles, ethos, and values are often severely challenged by the formality and the bureaucratic discipline that is imposed by the volume and variety of external funding from public organisations. Suddenly, it is the donors' needs, the regular reports, the accounting and honouring the 'contract' with the funder, that have priority. Internal power and status may shift to the staff members, often new 'professional' recruits who can understand donors' needs and can interact effectively with them. This is not the place to tell in detail how such tensions affect NGOs. Let us simply note that half the NGOs in Stewart's sample had undergone a severe internal crisis, typically between 18 months and three years after the receipt of the first major grant. The main point is that development NGOs face the same types of organisational growth problems as small business, but often in a very concentrated form.

The founders of NGOs often do not want to adopt the more formal ('bureaucratic') structures that are implied by rapid growth in funding and in the diversity of donor sources. Why should they accept the 'institutionalised suspicion' that the new professionals represent: strict external auditing; recruitment of personnel by open competition; submission of frequent, detailed reports to funders; formal minutes of meetings; and elaborate measurement and reporting of the 'impacts' and 'outcomes' of their activities? Founders may suspect that all this is an excuse to place power, authority, and perhaps even illicit resources, in the hands of the incoming professional managers, accountants, and impact evaluation specialists. Their suspicions may be true. But that is a matter of individual cases. The fact is that 'institutionalised suspicion' is essential to the proper functioning of any large scale organisation and especially to one that, like all development NGOs, has a significant public dimension.

There is plenty of scope to debate the precise arrangements for institutionalised suspicion (and we return to this below), but arrangements of this kind must be in place. Without them, organisations lose the confidence of those stakeholders who do not exert direct, personal control over the organisation. NGOs need institutionalised suspicion as much as any other public organisation. Indeed, the whole of the NGO community has an interest in the establishment of effective arrangements

for such suspicion within all organisations in the sector. It is a matter of the reputation and trustworthiness of the sector as a whole. Allegations that some NGOs are unaccountable or untrustworthy will reflect on the sector as a whole in the eyes of the public, government, 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.

3 The Evaluation Problem

This is most immediately a problem for donors, but failure to resolve it eventually reflects back on NGOs, so it should be perceived as their problem. This, simply stated, is: 'How do we know whether NGOs are being effective and making good use of their money?' The consequent debate is wide-ranging and not at all specific to NGOs. Demands for formal, quantitative performance evaluation of organisations receiving public funding are becoming the world-wide norm. Performance evaluation is relatively easy in 'post-office'-type organisations where (a) activities are routine, (b) objectives are few and clear, (c) there is no great distinction between immediate 'outputs', medium-term 'effects', and long-term 'impacts', and, (d) outputs, effects, or impacts can be measured relatively cheaply and reliably without the measurement process itself distorting the objectives of the organisation or the goals of the staff. Few public organisations are like post-offices. Many, including many development NGOs, are very different: their activities are experimental rather than routine; their goals are often intangible (such as changing the consciousness of clients or the opinions of policy-makers); they may be operating in the face of official obstruction and hostility; and it may be difficult to find other organisations with which their performances can usefully be compared in any quantitative sense.

In such circumstances, people (donors) who wish and need to evaluate organisational performance have to do the best they can. They have three broad sets of options, and will tend to choose a variety rather than any one approach. The first is directly to measure performance where this appears feasible and is not likely to lead to too much distortion. The second is to obtain feedback from clients and other stakeholders about how well they perceive the organisation to be doing. The third is to see how far the organisation matches up to norms for organisations of its type in terms of its structure and processes: is the auditing process as rigorous as one would expect? Are the assets and liabilities reported to the extent

one would expect? Are the procedures for recruiting and renewing staff contracts adequate in the circumstances? The more an organisation meets (or exceeds) norms about structure and process, the less its evaluators (donors) need concern themselves with other types of evaluation. Being seen to be a well-structured and well-run organisation may be a valid alternative to direct quantitative performance evaluation, if that evaluation is problematic and intrusive.

4 The Economies of Scale Problem

Most NGOs are very small. They lack easy and cheap access to the specialist knowledge they require. For example, they may be aware that 'staff development' is important, but have little idea about how to do it. They end up sending their staff for English language and computer training and asking donors to fund someone to go on such overseas training seminars as come to their attention. They may be struggling with the different reporting requirements of different donors, and have no access to someone fluent in written English who knows what Oxfam America requires, and how this differs from the demands of the Swedish International Development Co-operation Agency. Or, they may succumb to a very tempting funding offer from a hitherto unknown source without being able to check out the donor. Only later do they discover that part of the price they pay is providing support to Christian evangelism. Informal communication and various types of national NGO resource centres help to deal with these issues, but not very effectively. One major problem is that the NGO sector is internally competitive, in the worst sense of the term (see below). This militates against co-operation to overcome economies of scale problems.

Solutions

There is no silver bullet that in one shot will solve these four problems of accountability, structural growth, evaluation, and economies of scale. There is, however, a relatively standard set of organisational technologies that take us a good way with each of them: the introduction and enforcement, by NGOs collectively, of national norms of corporate governance for NGOs. Because NGOs in many countries are, with good reason, nervous of anything that even hints of more regulation and control by government, it is appropriate to talk first of who should be setting norms before discussing what the norms might look like, and how they might improve things.

NGOs could (we mean should) form voluntary national professional associations, like associations of engineers, accountants, or insurance companies, aimed at promoting the sector, partly through self-policing of standards. 'Policing' is, however, too strong a term. We are talking of 'norms' rather than 'rules'. One would not want nor expect these norms to be applied rigidly. This would be contrary to the flexibility and adaptability that should be as central to the practice of NGOs as it is to their values. Norms might take the following general form: an NGO that has been in existence for three years or more and has an annual budget exceeding X should be expected (a) to publish an annual report within Y months of the end of each financial year, (b) to disclose in that report all payments made, in cash and in kind, to all staff, directors, consultants, etc., by staff category, and (c) to have a written policy on staff development, and report annually on policy compliance. Particular provisions might not be appropriate to particular cases; there would be no expectation of universal compliance, but an implied expectation that NGOs would wish to explain their non-compliance.

This is no place to lay out a blueprint about the substantive content of these norms, for at least two reasons. First, norms should be evolved 'in country' if they are to be appropriate to local circumstances and take on moral force. Second, norms have to be country-specific because they are additional to existing national legislation under which NGOs are generally registered, and to which they are certainly subject. Each national legal framework is different. The only element we would wish to see blueprinted is diversity: the existence of a range of sets of norms applicable to different categories of NGOs. To explain why and how this should be so, it is useful to take the analogy of business or company legislation. And the analogy is far less stretched than it might first appear to those who believe NGOs to be very distinct types of organisation, a world apart from commerce or government. The private sector, too, is very diverse: from the one-person street-trader to the large and highly bureaucratised transnational corporation with an annual turnover that is a multiple of the GNPs of many individual countries. This vast diversity and flexibility exists under the law because the law allows for many categories of enterprise, each with different reporting and taxation obligations, and with different public responsibilities. In the typical Anglophone model, economic enterprises can be treated as: individual self-employment; partnerships; private companies; public companies; or public companies quoted on the stockmarket. Their obligations in relation to employment law (e.g. in relation to redundancy payments or

the requirement that they employ disabled persons) will typically vary according to the number of employees or some other indicator of size. National codes of practice for the corporate governance of NGOs should embody the same principle: a range of statutes, with corresponding obligations, determined by the size of the organisation, its age, or other factors that appeared relevant. Similarly, the issues covered by self-regulation norms would vary according to status. The typical list is likely to include several of the following issues:

- timeliness of issuing of annual reports;
- issues to be included in the annual report (or elsewhere publicly available), such as degree of disclosure of assets and liabilities, of salaries and all other benefits paid to staff, directors, board members, and consultants;
- employment, recruitment, and staff development policies and practices;
- sources of finance;
- arrangements for internal or external scrutiny of financial transactions, employment practices, organisational policies, etc.;
- arrangements for the evaluation of organisational performance.

One would expect that, for larger and more established NGOs, self-regulation norms would tend to mandate a relatively clear division of power and responsibility between the internal management and a supervisory board representing a mixture of internal and external stakeholders — along the lines of a large public company. Indeed, encouraging movement toward such arrangements within larger NGOs is one of the most important single reasons for introducing self-regulation. Not only should these bring greater transparency, but they should also provide the opportunity to introduce greater accountability, by reserving places on boards for, for example, (a) elected members, in the case of those NGOs that are also membership organisations, (b) (elected) representatives of client groups, and (c) other members of the ‘NGO community’ — chosen perhaps from a list of eligible board members maintained by the ‘professional’ NGO association. Such ‘professional’ board members would play the same role as the reputed independent businesspeople who sit as directors on the boards of large companies: voices representing broad shareholder or public interests.

Independent supervisory boards — and the institutionalised tension between board and management that they imply — may not be appropriate for small NGOs leading a precarious or unstable life. In this

context, other, lighter methods of regulation are appropriate. If the professional NGO association does its job and only gives and renews membership to those NGOs that observe the self-regulation norms appropriate to them, the regulation function becomes quasi-automatic. Membership of the Ruritanian NGO Association itself becomes a certificate of professional quality.

What are the advantages of such a self-regulation system? They parallel the four generic problems of NGOs set out above:

- 1 By providing clear standards and practices of accountability and transparency, they take much of the sting out of the charge of non-accountability, and much of the force out of the argument that government must step in to regulate NGOs because one else is doing the job.
- 2 They ease the problem of introducing 'institutionalised suspicion' mechanisms into NGOs that have out-grown their founders' management and leadership capacities. There is now an objective argument for doing the right thing: 'unless we do it, we shall lose our membership of and recognition by the NGO Association.'
- 3 They provide donors with some kind of quality rating that can be traded off against more expensive, detailed, intrusive individual inspections or output evaluations. If donors know that membership of the Ruritanian NGO Association is really 'earned' and not a rubber stamp, they will be that much more willing to fund members without attaching tight strings. If membership of reputable NGO Associations becomes the norm, then the reputation (and financial health) of the NGO sector as a whole can only improve.
- 4 They require the creation of collective organisations for self-regulation that will have an incentive to provide the collective services that their members cannot efficiently provide for themselves. NGO Associations need to fund themselves, and will tend to want to expand their activities. Provided they are not funded by donors — which would be a great mistake — they will do what business associations do: supplement membership fees by finding services they can sell to their members. Business and professional associations sell their members information and research, insurance, arbitration, specialised technical advice, meeting facilities, and dozens of other services. NGO Associations could provide: staff training, shared management consultancy services, insurance, or information on potential funding

sources. The best NGO Associations should be able to give their members reliable advice on the demands, quirks, needs, pitfalls, and opportunities they face with particular funders.

The beauty of self-policing through voluntary association is that it needs no central initiative or control, but can be done in decentralised fashion. Let six NGOs working on AIDS issues establish the Ruritanian Association of AIDS NGOs and initiate a self-policing system. If it seems to be effective, donors will like it and have a bias in favour of directing their funds to Association members. More NGOs are likely to want to join. Alternatively — and especially if they feel that the founder members of the Association want to preserve founders' privileges — other NGOs may elect to establish a rival association. Fine. That is also what private business does. There may be a little competition, a little uncertainty, and a little experimentation. But that is fully within the spirit of NGO-ism. The associations that are doing a good job and are not acting to exclude new members will tend to win out in the end. But the possibility of competition from other actual or potential associations will help to keep those that are in business honest and decent. Large parts of the private business sector regulate themselves in these ways, to the long term advantage of their members and society at large. It is a little anomalous that private enterprise, viewed by many people as the cockpit of competition, should co-operate so widely while NGOs, characteristically the advocates of a more co-operative pattern of social organisation, should often appear to compete so much among themselves and to co-operate so little. The reason is not that NGO staff are psychological hawks masquerading as doves. It is that the NGO sector has grown so fast in developing countries that the appropriate sector-wide institutions have yet to emerge, and their funders have yet to provide encouragement.

The sector is, however, changing. There are signs in some countries that donors are coming together formally to share information about the NGOs they are funding. This is a rational thing for them to do, especially in large countries where they face serious problems in obtaining information about local NGOs. National NGOs need not complain: insofar as it helps to improve transparency and honesty in the NGO sector as a whole, we should all be in favour of such processes. Just as the existence of centralised national trade unions movements have historically stimulated the formation of national employers' associations, and *vice versa*, the collective organisation of NGO donors is likely to stimulate the national

organisation of local NGOs. The NGOs have a great deal to gain from this, including more information on their donors and more bargaining capacity. Their gains are likely to be larger if they get organised first.

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Notes

1 'The Gift Relationship', *The Economist*, 18–24 March 1994; Farrington J. and D. Lewis, *Non-government Organisations and the State in South Asia: rethinking roles in sustainable agricultural development*, London, Routledge, 1994; and Fowler, A. 'Distant Obligations: speculations on NGO funding and the global market', *Review of African Political Economy*, 55, 119.

2 This was not part of the research design: the organisations were chosen because they were urban-based and involved in advocacy, not because their budgets had grown so fast.

3 Oxfam has a rule of thumb that an annual budget increase of more than 25

per cent in real terms is 'likely to lead to severe organisational difficulties' (Deborah Eade, private communication, 3 July 1997, citing Deborah Eade and Suzanne Williams, *The Oxfam Handbook of Development and Relief*, Oxford: Oxfam, p. 439).

References

Farrington, J. and D. Lewis (1994), *Non-government Organisations and the State in South Asia; rethinking roles in sustainable agricultural development*, London: Routledge.

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