ACCOUNTABILITY AND PERFORMANCE

Jenny Onyx[1]

ACCOUNTABILITY

Accountability is the state of being called to account, to provide an explanation or justification for one's conduct or duties, especially, but not only, for the appropriate and lawful use of finance. Few would argue that all persons and organisations should be accountable. For third-sector organisations—that is, that is for NGOs and CBOs alike, whose mission is to provide a service for the greater good—the imperative of accountability is especially strong. However, behind the 'motherhood' acceptance of the importance of accountability, much remains opaque. In particular, several important questions are left begging:

- To whom is the organisation accountable, and for what? (Leat, 1988)
- How is this accountability to be demonstrated, and what compliance mechanisms are available and necessary to ensure that the organisation remains within its accepted zone of conduct?
- Put another way, who has (or should have) the power to enforce compliance, and, if this is the state, does such power potentially curtail the capacity of the organisation to operate autonomously?

Within the literature there are quite different uses of the concept of accountability. Narrow definitions specify an accountability relationship involving the right of an external authority to demand information and the right to impose sanctions (Cutt &

[1] Detailed statistical work by Susan Hocking and Ian Nivison-Smith

Murray 2000). On the other hand, broader meanings of accountability include the interests of a wider set of stakeholders, who may or may not have the means to impose sanctions (Barrett 2001; Cutt & Murray 2000; Ebrahim, 2003).

Even within the simple corporate-governance structure of many organisations, the question ‘to whom?’ is difficult to answer. The prevailing corporate model of governance provides clear lines of authority and, therefore, accountability up through the structured hierarchy of paid and voluntary staff to the CEO, and through him or her, to the board. This is a form of internal accountability involving Board oversight of organisational processes. It requires the Board to act independently of the management in order to be able to hold it to account (Ebrahim, 2003). But that leaves open the question: ‘to whom is the board accountable?’ There are several potentially conflicting answers to this question:

- The funding source, as surrogate shareholders. In the case of Asian TSOs this may be a government body, but is more likely to be a Northern NGO
- The wider membership of the organisation. This can be taken as a form of downward accountability.
- The founder or owners of the organisation.
- The constituency or client base that the organisation seeks to serve; a broader public (another form of downward accountabibly).
- The legal framework provided by the state.

It is, of course, possible on examination that the board is self-appointed in perpetuity and is, in fact, accountable to no-one.

The answer of ‘to whom?’ is even less obvious when we consider the other, multiple stakeholders who are connected to the organisation: apart from donors, members, volunteers or clients they may include constituencies of those most marginalised in society and the wider public. This raises the issue of whether lines of accountability should vary among these multiple stakeholders (Fowler, 1996). Ebrahim for example distinguishes quite different accountabilities within service organisations, member organisations and networked organisations (Ebrahim, 2003).

Performance

The other issue concerns exactly ‘what’ is being accounted. Typically, the principal concern of funders, and perhaps of the general public, is the appropriate use of financial resources. However, increasingly, there is also a demand for performance, and, therefore, for identification of measurable outcomes. However this raises the further question as to what kind of performance is to be measured. Financial growth of the organisation may be one sign of performance, but hardly gives information about whether or not the organisation is meeting its mission. Oster has observed that the performance delivered by the non-profit sector goes well beyond its financial performance and is usually based on the achievement of its social purposes (generally set down in a non-profit’s mission statement) and the satisfaction of donors’ desires to contribute to the cause that the organisation embodies (Oster 1995: 139–143). The measurement of performance outcomes relating to the organisation’s mission is difficult, long-term, and usually qualitative rather than quantitative in nature. This is especially the case with advocacy organisations; what, for instance, would comprise an acceptable measure of success for an organisation advocating a change in government policy? What would those measures look like? Is it not enough that the organisation diligently represents and promotes the views of its constituency? How is that to be measured?

But the value created by non-profit organisations often goes beyond its social mission and the satisfaction of its donors. For advocacy organisations, performance measures could also include those that gauge how effectively they give voice to their constituents, perhaps based on the extent to which certain policies reflect the preferences of this constituency. To this we can also add the contributions emphasised in the literature on social capital, where non-profit organisations' value also lies in their capacity to create and strengthen the networks of reciprocity and trust that make life enjoyable and facilitate the millions of transactions that make society function as a whole (Putnam 1993; Onyx 2000). In the context of the developing world in particular, we add the importance of organisations as empowering agents, and as schools of democracy (Edwards and Hulme,1996).

Furthermore, there may well be a contradiction between different forms of performance. Edwards and Hulme distinguish between economic and political performance (Edwards and Hulme, 1996). While most of the focus on performance accountability rests with economic performance (maximizing service at minimum cost), political performance is more problematic:

> Effective performance as an agent of democratisation rests on organizational independence, closeness to the poor, representative structures, and a willingness to spend large amounts of time in consciousness-raising and dialogue…It is

difficult to combine these characteristics within the same organisation…(Edwards and Hulme, 1996, P6)

Three Accountability Models

Accountability is always vested in a relationship between two parties. Brown et al. (2003) identify three quite different forms of accountability relationships within third-sector organisations. The principal/agent relationship subordinates the interest of the agent to that of the principal, who has the legal, economic and, perhaps, the moral right to demand an account from the agent. This is the typical form of external accountability normally imposed by government (or other) funding bodies on third-sector organisations. Under this form of accountability, the agent (third-sector organisation) must comply with demands from the principal, but need not necessarily report to its own constituency. The terms of the accountability invariably include a financial account for the expenditure of funds provided by the principal. However, accountability demands may extend beyond this to a specification of target outputs as defined by the principal, and the agent may be required to include the use of resources not provided by the principal. Under such an arrangement, the capacity of the organisation as agent to operate independently may be severely compromised. In the case of most political regimes across Asia, this form of accountability can and is used as a mechanism of political control of third sector organisations by the state.

However, there are other forms of accountability. A second form of accountability relationship entails a contractual relationship, which, at least theoretically, assumes a mutual and equal relationship based on a specific, and usually narrow, set of agreed outputs. This is the ideal commercial arrangement, and one that is sometimes recommended for specific contracted services. It does not fit easily within the third sector context, although it may be used by Northern NGOs as a form of contract for services (Fowler, 1996).

The third form of accountability relationship, according to Brown et al. (2003), entails a mutual relationship of equal trust, respect and influence, and involves a broad general commitment, usually based on the informal, moral suasion of peer networks. It involves a collective, negotiated accountability based on a commitment to mission, shared values, flexible operations and extensive stocks of social capital (Ebrahim, 2003; Onyx 2000). The structure may approximate a co-operative or collective structure that requires the broad involvement of many stakeholders in the organisation's operation, and in these circumstances, lines of accountability will be broad, lateral and general. In this case, transparency is particularly important.

We now examine the survey data from the 492 organisations, in an attempt to identify the extent of organisational practices that signal what kind of performance measures occur, and what kinds of accountability are evident within Asian third sector organisations. As before, the data has been reduced to form coherent scales following a factor analysis, using principle component analysis and varimax rotation and examined for their relationship to the key independent variables of incorporation or registration with government, the presence of a membership base, presence of paid staff, the receipt of government, domestic or foreign funding. This is done for each scale using multiple linear regression equations.

Evaluating Third Sector Performance within Asian organisations

Performance was an area of interest within the organizational survey. The extent to which organizations measure performance is indicated in table one. The performance measures indicated in table 7.1 are those basic measures expected for internal accountability within a corporate governance system.

[table 7.1 abut here]

Across the region, 79% of organisations do have some sort of system for measuring performance, ranging from a low of 62% in China, to a high of 91% in India. There are various ways in which performance can be measured, and these vary from one country to another. For instance, 65% of the total sample of organisations has a procedures manual, ranging from a low of 43% in India to a high of 87% in Philippines. Seventy-one percent have written job descriptions for staff, ranging from 56% in China to 96% in Philippines. Fifty-eight percent have regular performance appraisals of senior staff, ranging from 44% in Vietnam (47% in China and Indonesia) to 81% in Philippines. Sixty-four percent claim to use key performance indicators, ranging from 37% in China to 92% in Philippines. Overall, 75% claim to carry out evaluations of the efficiency an effectiveness of its activities, ranging from 59% in China to 89% in India. China is least likely to make use of such formal performance measures, while India and Philippines are most likely to do so.

These items relating to formal performance levels together form a performance scale, (Performance A). Whether or not organisations are incorporated or registered with government makes no difference to whether or not they have these performance mechanisms. Nor does membership make a difference. However, those with paid staff, and those organisations that receive foreign funding are significantly more likely to have performance measures in place ($R2=10.4\%$)

[table 7.2 about here]

Other performance items relate to the involvement of other stakeholders, apart from paid staff in the process of evaluation, as indicated in table 7.2. These represent a form of internal accountability for performance. The items also form a scale, (Performance B). Thus, 60% of organisations make use of client interviews in the quality assurance process, ranging from 31% in China, to 84% in India. Fifty-six percent of organisations involve the Board in approving the appointment of the CEO, though with huge national differences ranging from only 32% in Vietnam and 34% in Indonesia to 82% in Philippines and 86% in India. Overall the Board is involved in reviewing the performance of the CEO in 52% of cases, again with large national differences ranging from 37% in China and 39% in Indonesia to 70% in Philippines. The Board is involved in the review of key performance indicators in 57% of organisations, ranging from 37% in China and 39% in Indonesia to 81% in Philippines. The Board is involved in reviewing Quality Assurance procedures in 50% of cases, again with big differences by country. The Board is involved in evaluating the efficiency and effectiveness of the organisation in 64% of organisations overall, ranging from 42 in Indonesia and 43% in China to 82% in India. There appear to be consistent national differences over this scale; in general Boards do not have this performance monitoring role in China or in Indonesia, while the Board appears to be very actively involved in formal review processes in India and Philippines.

[table 7.3 about here]

The multiple regression results of Table 7.3 shows that the Board is more likely to be involved in formal performance review if the organisation is incorporated with government. Membership status makes little difference. Boards are much more likely to be involved in formal evaluation and performance review if there are paid staff and if the organisation receives foreign funding.

Accountability for financial management

As indicated in the previous chapter, financial management decisions may involve action of the Board. The extent to which this is the case is also indicative of internal organizational accountability. The extent to which the Board is involved is tapped by 5 questionnaire items which form the Financial Management B scale, as indicated in table 7.4.

[table 7.4 about here]

The committee/ board is involved in the preparation of the annual budget in 52% of organizations, ranging from 41% in Indonesia and 42% in China to 63% in Thailand. The board reviews and approves the annual financial statements in 71% of organizations overall, ranging from 48% in Indonesia to 93% in India. The board reviews the organizations performance against the budget at regular intervals in 58% of organizations overall, ranging from 40% in Vietnam and 44% in China to 71% in India and 75% in Philippines. The board is specifically required to approve major expenditure items (such as purchase of major equipment) in 59% of organizations overall, ranging from 0% in Vietnam, 53% in Indonesia, to 92% in India. The Board has a finance/ audit subcommittee to conduct detailed reviews of financial matters in only 34% of organizations overall, ranging from 0% in Vietnam and 12% in China, to 66% in Philippines. Thus, while the majority of Boards are involved in some sort of broad scrutiny, particularly the review and approval of annual financial statements, relatively few are involved in a detailed and ongoing scrutiny of the organizations financial performance. This involvement varies tremendously across the region, with generally low Board involvement in Vietnam, China and Indonesia, and relatively high involvement in India and Philippines.

The extent to which the Board is involved in financial management is also influenced by external factors, as indicated in table 7.5. Overall, those organisations with high scores on the Financial Management B scale, are significantly more likely to be incorporated, to have paid staff, and to receive foreign and/or domestic funding. Having members has an inverse affect, which is that those without members are more likely to have closer Board involvement in financial management. These results suggest that the internal accountability measures adopted by the Board may be directly related to the requirement for external accountability reporting.

[table 7.5 about here]

Across the region, financial statements are audited by a qualified auditor in 74% of organizations, less so for Indonesia and Vietnam, more so in India. Financial statements are made available to members in 72% of organizations overall, less in China, more in Philippines. Financial statements are made available to the general public in only 50% of organizations overall, ranging from 24% in China and 33% in Indonesia, to 87% in Philippines. This suggests that transparency of financial accountability to members and the wider public is limited, particularly in China and Indonesia.

Reporting Mechanisms

Finally, other clues relating to accountability regimes can be found in the extent to which the organization engages with external stakeholders. The relevant questionnaire items form two scales, External Relations A concerning the preparation of reports and External Relations C, the presence of newsletter or website. These scales provide further evidence of the degree of transparency within these organizations. The overall responses are provided in Table 7.6.

[table 7.6 about here]

Overall, 88% of organizations report its activities outside the organization. This ranges from a low of 74% in Indonesia to a high of 100% in Philippines. In most cases (81% of the total) there is a formal mechanism for reporting activities outside the organization. There is less likely to be a formal mechanism for reporting in China (74%), Indonesia (65%) and Vietnam (65%).

There are a number of forms in which such reporting may occur. Most commonly, 80% of organizations produce an annual report, which is almost all of those who have any formal mechanism for reporting. Coordination with other third sector □rganizations providing similar services occurs in 78% of cases overall, with a low of 46% reported in Vietnam, up to 95% reported in the Philippines. Overall, 64% of □rganizations claim to make representations to government on matters other than funding, with a low of 38% for

Vietnam, 48% in Indonesia, to a high of 90% in Philippines. In this case, it could be argued that the organization is moving beyond the principle/ agent form of accounting, to advocate on behalf of its constituents, and thus to demand a form of reverse accountability from government. Note that this is highly variable between countries, being lowest in those countries without a democratic tradition.

Table 7.7 provides evidence of the significant effect on these forms of external engagement (External Relations A) from having paid staff, and any kind of external funding. The direction of causality is the reverse of that assumed, i.e. those organizations with active external engagement policies are more likely to receive significant external funding.

[table 7.7 about here]

In addition 48% of organizations produce a regular newsletter, ranging from 26% in Vietnam to a high of 62% in China. Across the region, 44% of organisations have a website, ranging from 12% in Vietnam, to 61% in China. These two items form an independent scale, External Relations C, which seems to focus on a wider form of communication to a public. The extent to which these activities take place is related to a number of variables as indicated in table eight, notably the presence of paid staff and external funding. It is interesting to note that China, which had low scores in terms of broad financial accountability, has the highest score on this external communication dimension.

[table 7.8 about here]

In summary, those organisations with significant external funding, and particularly those with significant foreign funding, had higher management procedure scores for financial management oversight by the Board, higher performance evaluation scores and were more likely to make use of external relations functions. These organisations are particularly likely to have internal accountability mechanisms with Board oversight of financial management, and to have extensive external reporting, involving Board oversight. The presence of a membership base made little difference to these relationships. We may conclude then, that these organizations with high scale scores do indeed approximate the western corporate governance model with strong internal accountability mechanisms, at least on paper, and with significant external accounting particularly in the case of external and foreign funding. This external accountability conforms to the principle-agent form of accountability identified by Brown and others (Brown et al, 2003).

Accountability in small and informal organizations

We know from the analyses presented above, that those organizations that are not incorporated, are far less likely to have formal accounting mechanisms, and far less likely to have internal accountability mechanisms involving Board scrutiny.

However that should not be taken as necessarily indicating a lesser form of performance evaluation or accountability. As indicated in the previous chapter, the case study material indicates that if anything, small informal grass roots organizations have a more rigorous form of reporting and accountability involving public disclosure, often in oral form and involving both members and wider public. The following report concerning Indian case studies of small and informal organizations illustrates the point:

> *Jan Sunwai (*public hearing) is the most popular mode of accounting and reporting followed in 18 [of the 19] cases under study. The traditional mechanism of public accounting and auditing operates as a very effective controlling mechanism in these organizations…..The example of the silk weaver's organization will substantiate the point. The small silk weavers in West Bengal have been the victims of unfair trade practices…..The members to support themselves pooled their resources and began to organize other small weavers by way of performing street plays. ….[which] could be used to give account to the public of their activity…..they were questioned and appreciated on many occasions by the community and visitors of the fair. This also gave wider publicity to their cause and increased public trust in the group and hence strengthened the support base. Each case that they have fought and achieved and lost, programmes taken up, the mode of operation, funds raised and spent, are all reported here. The surplus or the losses if any and the pains and the joys of the whole action are turned into

skits and plays that they enact in the village gatherings, festivals and other occasions. (Dongre et al, 2006).

Similarly in Indonesia, the small *Arisan* or micro-credit groups operate without formal accounting, but with total public disclosure to all members of each financial transaction. That is, accountability is provided through the mechanism of collective decision making and public actions, including the exchange of money. Total transparency to members ensures a very rigorous accountability, and evidenced review of performance. These conform to the third, or collective, negotiated form of accountability with broad transparency (Brown at al, 2003; Ebrahim, 2003).

Discussion

These are just a few of the findings that our statistical analysis and qualitative case studies reveals for the internal organizational governance practices for these organisations, particularly relating to performance evaluation and financial accountability. From the evidence provided by the data we may conclude that the bulk of those incorporated and funded third sector organizations across the six Asian countries surveyed already follow a standard (Western) corporate governance model in relation to decision making, quality assurance processes and financial accountability. What is particularly striking is that these corporate governance processes are most likely to occur among those organizations named as "high performing" by the key informants. Corporate governance processes are significantly more likely to occur when the organisation is legally incorporated and/ or registered with government, and they are significantly more likely to occur when the organization receives significant foreign funding. It would appear that these events are driving a major cultural shift within the third sector in these Asian countries, away from traditional modes of local governance and towards more formalized governance mechanisms applied within western corporate governance rules. It is clear that these organisations are focusing particularly on economic performance (Edwards and Hulme, 1996). It may well be the case that the role of government in monitoring the performance of some NGOs, is specifically designed to prevent organizational capacity for empowerment and democratization, the "political" performance function. This was noted in several country reports (China, Thailand, Indonesia).

On the other hand, small informal organisations appear to be more likely to adopt a political performance perspective, and Brown's third form of accountability, that is, one of shared, or communal accountability. These organisations appear to maximize achievement of secondary goals, those of social capital, democratization, mutual support. But they are less likely to maximize financial growth or economic performance. There is some indirect evidence that organisations may be responding to multiple stakeholders with negotiated different forms of accountability, as Fowler suggests (Fowler, 1996). However, the evidence is far from clear on this point.

If it is correct that many third sector Asian organisations, especially those with foreign funding, are adopting the corporate governance model, then there are several major implications. On the positive side, organisations appear to be well protected from nepotism and misuse of resources, with clear and formal accountability/ quality assurance mechanisms. However, this may be more apparent than real. The presence of a strong patron/ client culture and values that emphasize respect for elders, and smooth interpersonal relations, makes it unlikely that the Board will adopt an independent scrutiny role over the staff and CEO. This was particularly emphasized in country reports from India, Thailand, and Philippines. On the negative side, many Asian organisations appear to be losing their distinctive cultural stamp, or at least presenting an appearance of doing so to please their (foreign) masters. The latter case is particularly serious if the formal accounting mechanisms actually prevent the Asian organizations from independently advocating on behalf of their constituents, and instead are diverted from meeting an identified need to meeting the objectives required of the funding body (Edwards and Hulme, 1996). A great deal more evidence is required, especially relating to performance and accountability among small, informal grass roots organisations. We need to know more about the prevalence and importance of small, grassroots organizations, particularly in a village context, the kind of decision making and accountability mechanisms that do occur in this context, the role of the traditional patron(s) in this context, and whether these organizations do indeed provide a greater level of advocacy and democracy than that obtained in the large, high performing, foreign funded organizations that make up the bulk of this sample.

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Performance Evaluation A: Table 7.1

Organisation measures performance	79%
Org has procedures manual	65%
Written job descriptions	71%
Regular performance appraisals of senior staff	58%
Org uses key performance indicators	64%
Evaluations of efficiency and effectiveness	75%

Table 7.2: Performance Accountability B

Use client interviews in QA process	60%
Board approves appointment of CEO	56%
Board reviews performance of CEO	52%
Board reviews key performance indicators	57%
Board reviews QA procedures	50%
Board evaluates efficiency and effectiveness of org.	64%

Table 7.3

Independent variables significantly associated with Performance B score

Variable	Coefficient	P-value
Constant	2.7	-
Incorporated	1.4	0.003
Paid staff	1.7	0.000
Receives foreign funding	1.1	0.002

R^2 = 11.4%

Table7.4: Financial Management B

Board involved in annual budget	52%
Board reviews and approves annual financial statement	71%
Board reviews performance against budget regularly	58%
Board approves major financial expenditures	59%
Finance subcommittee for detailed review	34%

Table 7.5

Independent variables significantly associated with Financial Management B score

Variable	Coefficient	P-value
Constant	1.8	-
Incorporated	1.7	0.000
Paid staff	1.3	0.001
Receives foreign funding	1.4	0.000
Receives domestic funding	1.0	0.001

$R^2 = 19.5\%$

External Relations A: table 7.6

Organisation reports outside organization	88%
Formal reporting mechanism	81%
Produces annual report	80%
Co-ordinates with other TS orgs	78%
Makes representations to government (not funding)	64%

Table 7.7

Independent variables significantly associated with External Relations A score

Variable	Coefficient	P-value
Constant	5.1	-
Paid staff	1.4	0.000
Receives foreign funding	1.2	0.000
Receives govt funding	0.7	0.009
Receives domestic funding	1.2	0.000

R^2 = 20.4%

Table 7.8

Independent variables significantly associated with External Relations C score

Variable	Coefficient	P-value
Constant	0.9	-
Registered	1.3	0.001
Paid staff	1.3	0.001
Receives foreign funding	1.9	0.000
Receives domestic funding	1.3	0.000

R^2 = 18.0%