

Restricted Funding: Restricting Development?

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Abstract This paper examines, from a management accounting perspective, the efficacy of the dominant ‘restricted’ funding structure in the international development NGO sector in terms of overall sector effectiveness, and whether it is the most appropriate means of funding NGOs. The objective is to encourage theoretical debate around the tensions highlighted between external accountability for funding and overall value-for-money delivered by individual development NGOs and the wider international development sector. From unique access to three internationally recognised major NGOs, our case studies reveal management accounting as broadly homogenous, with some nuanced distinctions both within and between the cases; but the scope of management accounting emerges as relatively limited. This is despite the NGOs utilising complex accounting software, employing qualified accounting staff, and having a large annual income. Using the broad principles of systems theory to frame our approach, this paper suggests that due to the ‘restricted’ nature of funding awarded to NGOs by institutional donors, accounting is dominated by external accountability reporting to the detriment of management accounting. These relatively novel data on management accounting practices at international development NGOs help illustrate how, potentially, NGOs are missing opportunities to utilise, or even improve, value-for-money in terms of how various program themes, geographic areas or time periods are delivering better or worse discernible impact for the money spent.

Keywords Non-governmental organisation · International development · Charity · Accounting · Accountability · Funding · Systems theory

Introduction

In the extant literature, opinions on what is good accounting practice in the NGO sector have grown more complex and ambiguous, which in part may be due to a changing operational landscape (Lewis and Opoku-Mensa 2006). For example, Claeys and Jackson (2012) suggest research should address how NGOs respond to ‘managerialism’ and Harsh et al. (2010) observe how NGO literature could be enriched by studies of accounting practices, resource flows, and social ties. Similarly, Gray et al. (2006) note how the international development sector can learn from accounting research. In setting out an agenda for NGO research, Lewis and Opoku-Mensa (2006, p. 674) emphasise ‘the importance of the structural context in which NGOs operate—and in particular that created by donor policies and practices—in relation to NGO organisational performance’. International development NGO performance assessment cannot be approached in isolation from an ever-changing aid environment, including donor policies and practices; however, this highlights the relevance of systems theory as a theoretical anchor-point for this discussion, which will be illustrated later in “Systems Theory” section.

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This paper brings such aspects together as a result of unique access granted at three internationally recognised major NGOs (obtained from many years working and researching internationally in the sector) by linking management accounting¹ with the dominant restricted funding² structure of the sector, and considering what this means in terms of the impact that both an individual NGO—and the sector as a whole—have. Management accounting mainly refers to internal financial information, which can be backward-looking reporting, forward-looking forecasting, ad hoc analysis to aid decisions, and can also incorporate or be combined with non-financial information (e.g. monitoring and evaluation reports), as well as narrative explanation. Thus, our objective is to encourage theoretical debate around the tensions highlighted in the paper between external accountability for funding and overall value-for-money delivered by individual NGOs and the wider international development sector.

In terms of the structure of this paper, we initially present a review focusing on accounting-related literature on NGOs. We firstly outline the ongoing debate on external accountability and then concentrate on management accounting. This is followed by a description of the research methods employed for the three case studies. Subsequently, the findings of the case studies are outlined. The main outcome of this paper is highlighting how accounting at international development NGOs illustrates a heavy emphasis on financial accountability—which in turn means that individual NGOs (and the sector as a whole) are underestimating the importance of value-for-money in operations, areas, and over time. The outcome of this paper could potentially have wider relevance for theoretical discussions and public policy in related sectors such as charities, other not-for-profits, and public sector bodies.

NGO Accountability and Management Accounting

There is an ongoing inconclusive debate about the effectiveness of existing and proposed external accountability measures in the NGO sector. The perceived importance and complexity of NGO accountability has also led to a sizable body of literature. Such literature examines, for example,

¹ Horngren et al.'s (2007, p. 5) definition of management accounting is used here, whereby management accounting 'measures and reports financial as well as other types of information that are primarily intended to assist managers in fulfilling the goals of the organisation'.

² NGOs receive funding either from 'restricted' or 'unrestricted' sources (Financial Reporting Council 2014). Restricted is where a donor specifies how money is spent, usually for specific locations and/or programs. Unrestricted is where management has sufficient discretion to use funds in the manner they deem most appropriate (Financial Reporting Council 2014).

the emergence and impact of NGO accountability mechanisms, and theorises the extent to which (and to whom) NGOs should be held accountable (Dhanani and Connolly 2015; O'Dwyer and Boomsma 2015).

NGO Accountability

Accountability gives visibility to the previously invisible, providing stakeholders with information needed to react to others' actions (Gray 1992). Essentially, it is 'the means by which individuals and organisations report to a recognised authority or authorities and are held responsible for their actions' (Edwards and Hulme 1996, p. 967). NGO accountability is classified into three dimensions (Connolly et al. 2012). First is financial management which monitors sourcing funds, using funds appropriately to optimise value-for-money, and remaining a going concern financially. Second is operational accountability which measures a NGO's impact in relation to its charitable objectives. Third is the fiduciary responsibility of good governance and safeguarding a NGO (Connolly et al. 2012). Dhanani and Connolly (2012) add a fourth, procedural accountability, which is for internal organisational operations concerned with how results have been achieved and also with the reliability of the evidence upon which results-related performance is asserted.

NGOs are demonstrating increasing accountability (Dhanani and Connolly 2015) due to a growing involvement with donors (Edwards and Hulme 1995), a shift in development discourse that favours long-term sustainable change (Sen 2013), a general emphasis for NGOs to explicitly demonstrate value, and the 'managerialisation' of NGOs (Harris et al. 2009). A high level of accountability and transparency by NGOs is critical for maintaining public and donor support (Connolly et al. 2012, 2013). Access to relevant and timely information is vital to ensure internal and external stakeholders are able to hold NGOs to account (Kovach et al. 2003). After all, the essence of accountability lies in the relationships between a NGO and its stakeholders (Gray et al. 2006). The diversity of stakeholders for NGOs means they have multiple accountabilities, including 'downwards' to beneficiaries and 'upwards' to donors (Awio et al. 2011; Dhanani and Connolly 2015). Donors, unlike beneficiaries, enjoy a direct means of imposing accountability (Gray et al. 2006). Hence, NGOs focus primarily on meeting requirements imposed by donors, such as how grants are spent (Awio et al. 2011). Likewise, most research on NGO accountability concentrates on formal upward reporting mechanisms, such as financial reporting to donors (Awio et al. 2011). In support of greater accountability, Callen et al. (2003) note a statistical association between major donors sitting on the board of a NGO and the proportion spent on

administration. Major donors monitor not-for-profits in a fashion parallel to the monitoring of commercial organisations by large shareholders (Fama and Jensen 1983).

Despite the importance of holding NGOs accountable—especially in light of charity controversies in the UK and Ireland for example³—the efficacy of imposing top-down accountability is questionable (Awio et al. 2011). The dominance of upward hierarchical accountability to donors creates concerns that NGOs' accountability priorities are distorted, and has led to perceived negative impacts on aid effectiveness (Agyemang et al. 2017; O'Dwyer and Unerman 2007). Indeed, donor accountability requirements can undermine a NGO's own notions of goals and accountability (Everett and Friesen 2010), and Gray et al. (2006, p. 335) argue 'it is often difficult to state with clarity what uniquely measurable performance should dominate an NGO's accountability'. Furthermore, Tassie et al. (1998) highlight subjectivity from donors. In their study, three donor organisations came to different conclusions about the same two NGOs as a result of how donors framed their evaluations. This was because donors placed different emphasis on financial performance and non-financial performance (Tassie et al. 1998).

Donors often prefer projects that are administratively convenient and easily monitored—physical infrastructure projects are arguably more amenable to verifiability due to relative tangibility, while projects seeking complex social change are least so (Fowler 1997). Donor accountability encourages NGOs to focus on proven product-based approaches to development. It discourages innovative but riskier process-based approaches, such as broader social improvements (Agyemang et al. 2017; Riddle 1999). Thus, information flows are dominated by NGOs reporting on the physical and financial aspects of their activities. Qualitative impact studies are largely symbolic (Ebrahim 2002) and Edwards and Hulme (1995) stress NGOs should distinguish between short-term 'functional accountability' (accounting for resources and their use) and 'strategic accountability' (accounting for the impacts of actions on others and the wider environment). Therefore, if NGOs are to develop systems attentive to the social impacts of their work, then donors need to relax the physical and financial components of reporting. Instead, donors should support simpler, qualitative systems (Ebrahim 2002).

Similarly, Rahaman et al. (2010) highlight how accounting practices sometimes conflict in unintended ways with mission-driven activities. Accounting practices at times divert scarce resources away from operations,

influence the type of services offered and their sequencing, and disrupt overall continuity of operations at NGOs. Accordingly, tensions can exist between financial and operational priorities. The political and social dimension associated with accounting means accounting can be used in both enabling and coercive ways (Rahaman et al. 2010). The ever-present tension between global control and local flexibility, the associated costs of control, and balancing both enabling and coercive approaches, needs managing in NGOs (Agyemang et al. 2017; Rahaman et al. 2010). Accounting practices should support activities consistent with the over-arching vision, and permit local initiative to deal with unique contextual factors. Accounting can be particularly useful in these situations; however, the challenge is to creatively maintain the tension between social purpose and accounting practice so that neither comes to dominate the other (Rahaman et al. 2010).

For example, a NGO could reject an appropriate project if managers are too concerned with meeting targets (Ebrahim 2005). The risk is that important NGO activities which do not fit donor agendas lose out (Edwards and Hulme 1996). Equally, inappropriate activities that attract donor funding but are detrimental to NGOs' overall missions become tempting (Ebrahim 2005). Ebrahim (2005) challenges whether more accountability is necessarily better as it often becomes characterised as separate sets of two-way relationships instead of viewing relationships as an interconnected web. It also encourages short-term rule-following behaviour instead of focusing on the means to longer-term social change (Ebrahim 2005). If NGOs are to survive and adapt they must have legitimacy, have sufficient operational capacity, and provide socially valuable results (Brown and Moore 2001). Overall, the extant literature suggests that there is unlikely to be universally applicable best practice accounting or accountability mechanisms suited to all NGOs, as success depends on many factors related to the character of each NGO (Herman and Renz 2008). Accordingly, O'Dwyer and Unerman (2006) suggest that flexible and informal accountability measures are most suited to situations of close relationships between NGOs and stakeholders.

Management Accounting Within International Development NGOs

The widespread adoption of results-based management, alongside logical frameworks, means donors rely on such tools for measuring 'success' across a spectrum of work, even though projects differ enormously in nature, scope, and time frame (United Nations Development Group 2011). The logical framework has been particularly influential in the NGO sector since the 1970s, for example in assisting NGOs with drawing project funding and tracking

³ In the UK there have been recent high-profile controversies surrounding Age UK, Kid's Company, and Oxfam amongst others; while in Ireland, recent high-profile controversies include the Central Remedial Clinic, Console, GOAL, and Rehab.

subsequent progress. It introduced a vocabulary and mode of visualising a project as a series of components and relations: activities, outputs, indicators, a hierarchy of objectives, performance budgets, and activity schedules. Both donors and NGO managers find it helpful, as it imposes a uniform way of thinking with a formal way of recording work, along with a common presentation that can be widely read and understood (Bakewell and Garbutt 2005; Gasper 2000; NORAD 1990). Its major strength is that it forces development actors to think through their Theory of Change and the relationship between impact, inputs, activities, and steps on the way. However, its flaws include the focus on achievement of intended effects by intended routes making it a very limiting tool in evaluation; an assumption of consensual project objectives that can become problematic; and automatic choice of an audit form of accountability as the priority in evaluations being at the expense of evaluation as learning. Though useful in encouraging thinking about purposes, assumptions, and data, it is less helpful beyond planning, such as for monitoring and evaluation (Bakewell and Garbutt 2005; Gasper 2000; NORAD 1990). An integrative approach that recognises the instrumental utility and goal-setting of results-based management and logical frameworks, but which simultaneously places emphasis on context, adaptability and learning would be beneficial (McEvoy et al. 2016). Such an approach resonates strongly with the emerging literature on adaptive programming, otherwise termed ‘Doing Development Differently’ (Valters et al. 2016).

The logical framework can be considered an accounting tool because it focuses on planning, measuring, and reporting performance using financial and non-financial indicators (Martinez and Cooper 2012). It is an example of the transformative and colonising power of accounting tools as it can alter how international development is practised (Saravanamuthu and Tinker 2003). Through proposals for funding initially, it often becomes part of the ‘rules’ that inform subsequent activities. Together with budgets, strategic plans, and activity timetables, the logical framework is a common tool for many NGO’s management and accounting practices (Martinez and Cooper 2012). Similarly, by capturing non-financial measures, the ‘balanced scorecard’ is another accounting tool that can be useful for NGOs (Speckbacher 2003). The components of the ‘balanced scorecard’ most relevant for NGOs are: (1) legitimising support (which measures success in meeting objectives); (2) costs incurred (a measure of operational efficiency); and (3) value created (a measure of the benefit to people) (Kaplan and Norton 2001).

Notwithstanding the above discussion, Hopper and Bui (2016, p. 15) suggest that international development NGOs have been neglected in management accounting literature,

whose absence is both ‘disappointing and surprising’. As a result of such neglect, the role of management accounting research in informing debates about NGO performance is limited (Tucker 2010). Literature indicates that accounting plays a minimal role in internal decision-making in NGOs, and is not something of additional use (e.g. Goddard and Assad 2006; Goddard et al. 2016). Even though measuring efficiency is considered important by NGO stakeholders (Torres and Pina 2003), it is under-researched by academics (Hyndman and McConville 2016). This is despite common methods for measuring efficiency at NGOs failing to provide a comprehensive picture. NGO managers and the accounting profession could both benefit by identifying clearer measures of output, quality, and value (Tinkelman and Donabedian 2007).

In the international development NGO arena, the term Theory of Change has been used to describe a process of ongoing learning and change. Change is also a feature of broader management accounting literature. For example, on management accounting change Burns and Scapens (2000) note a process of encoding, enacting, and reproducing rules (how things should be done) and routines (how things are done) under which management accounting may evolve, change, stabilise, and re-evolve over time. This process is well accepted (Quinn 2014) and could be applicable to the NGO sector—for example, the logical framework could be classed as a rule. The picture painted by Burns and Scapens (2000) is of slow, evolutionary change, as rules and routines interact in a continuous process over an extended time-period. Sources of change can be both internal and external to an organisation (Burns and Scapens 2000; Quinn 2014). However, most extant literature on management accounting change and stability is on commercial organisations, which highlights again a dearth of management accounting studies at international development NGOs. The sparseness of relevant studies (e.g. the role management accounting plays, the techniques used, its outcomes, and the role of the management accountant) creates an opening for empirical research. The empirical research of this paper is described later (in “Research Methods” section); first, a description of how systems theory underpins this paper is given.

Systems Theory

The applicability of systems theory was noted earlier and is explained in more depth here. Systems theory can be traced back to Kast and Rosenzweig (1972) proposing ‘synergism’, whereby a whole can only be satisfactorily explained as a totality and not just a sum of its parts. Later, Katz and Kahn (1978) drew attention to the application of ‘open’ systems theory to organisation theory, in describing its emphasis on relationships, structure, and inter-

dependence (Schneider and Somers 2006). Organisations are best understood as open systems comprising many inter-linking and inter-dependent elements:

Systems thinking is a discipline for seeing wholes. It is a framework for seeing inter-relationships, not things, for seeing patterns of change rather than snapshots. It is a set of general principles spanning fields as diverse as the physical and social sciences, engineering and management (Senge 1993, p. 8).

Senge (1993) challenged the ontological view of reality as being composed of separate, unrelated forces. Instead, he proposed an understanding of the ‘learning organisation’, wherein people continually expand their capacity to create the results they truly desire, where new and expansive patterns of thinking are nurtured, and where collective aspiration is set free. What he terms ‘metanoia’ is needed to see inter-relationships rather than cause-and-effect chains, and to see processes of change rather than snapshots. Senge (1993) stresses that systems thinking need not be a dismal science. Rather, small, well-focused actions can sometimes produce significant and enduring improvements. Through such leverage, actions and changes in structures can lead to significant and enduring improvements.

Systems theory has been a source of interest among the international development community. At its core lies a recognition of an enhanced understanding of context within development program management in both donor organisations and NGOs (ECDPM 2009). At the same time, heightened public scrutiny of aid budgets and international development policy, as well as rising calls by development agencies themselves for greater accountability and transparency, has created a concerted focus from the donor community since the late 1990s for evidence-based results and empirically verifiable impact of development interventions (Woolcock 2013). In the international development arena, many differing conclusions about aid performance have been advanced, but historically most have tended to rely on linear cause-and-effect relationships (McEvoy 2018). These influences and dynamics configure the wider system framework against which international development NGOs have increasingly sought to discern and adopt best practice accounting and accountability mechanisms.

More specifically for this research, systems theory has also been used in prior management accounting studies to locate management accounting within a wider context (Hopper and Bui 2016). An organisation is a system (Ferreira 2014), and accounting can be considered a sub-system within the organisation (Hopwood 1987). However, through using systems theory, it has become evident in management accounting studies that the definition of

boundaries, the delineation of levels of systems and sub-systems, and defining and measuring organisational effectiveness, are all subjective constructions (Hopper and Bui 2016). “Management Accounting Within International Development NGOs” section noted that existing literature indicates that accounting plays a minimal role in internal decision-making in NGOs and is not of additional use. If this situation is common among NGOs (see “Case Study Findings” section later), the reason could lie outside the organisation, in the wider NGO sector and society. The NGO sector is constituted at both an organisational level and of as a unity with the different systems in its environment (Ferreira 2014). Systems theory offers a perspective on this relation between organisations and society which overcomes distinctions between micro-, meso-, and macro-levels, to explain different types of systems and relations between different types of systems (Ferreira 2014), and is returned to in “Case Study Findings” and “The Link Between Management Accounting and External Accountability at NGOs” sections. This gives a systems theory approach an advantage in researching NGOs over other methods of studying change.

Research Methods

This paper is based on a larger case study research project of three large international development NGOs, all of whom have their head offices in the EU and operate throughout the developing world. To disguise their identities, they are called WorldAid, GlobalAid and PlanetAid in this paper. Their respective annual incomes are in the €50 m to €250 m range every year this decade; each primarily sourced from multiple institutional donors.

Case Study Organisations

WorldAid was founded in the 1960s, and directly employees over 3000 staff. It has responded to major emergencies and supports long-term development programmes in over 50 countries. Their main areas of focus are health and nutrition, education, HIV/AIDS, livelihoods, and advocacy. WorldAid’s relationships with developing world civil society partners are based primarily on mutual respect. GlobalAid is an international humanitarian agency dedicated to alleviating suffering due to poverty, by ensuring access to food, water, shelter, medical attention, and education. Since the 1970s, it has responded to every major humanitarian disaster. GlobalAid focuses on emergencies, health, livelihoods, education, water and sanitation, HIV/AIDS, and advocacy across Africa, Asia, Central America, and the Caribbean. PlanetAid has been supporting long-term development projects and providing relief

during emergencies since the 1970s. It builds long-term partnerships with local organisations in Africa, Asia, and Latin America. Their strategy focuses on six main areas: sustainable livelihoods, governance and human rights, emergencies, HIV/AIDS, gender equality, and environmental justice.

Data Collection

The purpose of qualitative research is to develop a theoretical understanding capable of explaining both social systems and the practices of human actors (Ryan et al. 2003). The empirical research comprised semi-structured interviews conducted over a three-year period. Interviews were conducted with key informants in Europe and Uganda. The target interviewees were the CEOs and CFOs in Europe, and the Country Directors and Financial Controllers (FC) in Uganda. Unfortunately, one CEO was unavailable. Questions primarily originated from the literature review. The research questions covered background to the interviewees and their respective NGOs (e.g. how would you describe your current role in the organisation?), management accounting practices (e.g. what accounting information do you use for internal decision-making?), broader accounting issues at the NGOs (e.g. how do particular factors, conditions or circumstances influence how you use accounting information for internal decision-making?), and wider contextual issues for the NGO sector (e.g. is there anything else in relation to accounting/finance in the NGO sector that you would like to tell me about or elaborate on?). Pilot interviews were initially conducted with experienced managers from the NGO sector but who were outside the case studies, to mitigate the possibility of asking leading questions. All interviewees were asked the same questions in the same order, thus increasing the comparability of responses and ensuring that data is complete for each person (Patton 1990).

In line with their semi-structured nature, aspects such as questions relating to further uses of management accounting were not rigidly defined; interviewees could include new uses for existing information, as well as their thoughts on generating new information, for example. During each interview, new issues emerging were probed. Views raised by participants informed, but did not prejudice, interviews with later participants. This also prompted new lines of investigating literature and theory. Supporting artefacts⁴ were also examined when interviewees granted access to internal documents and reports. Furthermore, publicly

⁴ Artefacts included internal management accounts and reports, internal finance manuals, as well as publicly-available documents such as annual reports and monitoring & evaluation reports, for example.

available literature was gathered, as such additional forms of evidence help corroborate empirical data (Patton 1990).

The collection of evidence, while designed within the framework of prior theory, should allow for new issues and theoretical ideas to emerge as the research progresses (Humphrey and Scapens 1996; Scapens 2004). Additional interviews were subsequently conducted through a theoretical lens with CFOs and COOs based in Europe, Financial Controllers in Uganda, and Program Managers in Uganda. These people were selected primarily to compare the views of those in a finance role with those in an operational role. The main purpose was to assess the merits of the theoretical lens with an open mind to further refine ideas. All interviewees were again asked the same questions in the same order, in a semi-structured manner. Examples of questions posed include:

- What management accounting do you use?
- When the organisation is awarded funding for a project/program, how much emphasis do you as an individual in your own role place on (1) delivering for the beneficiaries in the most appropriate way, and (2) maintaining a relationship with a donor?
- How do the dynamics of achieving the mission of your NGO in the most appropriate manner and the modern deadlines/reporting/efficiency pressures in the NGO sector play out in terms of your own role?
- Would you say that operational priorities and financial priorities generally align with each other or compete with each other in your NGO and explain why?.

Data Analysis

The empirical research was analysed in several stages, and in essence a manual analysis and coding procedure was adopted. At the time of each interview and during the transcription stage, thoughts or noteworthy observations were jotted down. Each transcript was then read in full without any preconceived lens or categories. Emerging themes and notable remarks were recorded. Interviews were subsequently read through the prism of a theoretical lens, and later re-read again for themes emerging. Elements of responses matching these themes were transferred to a separate document which was then probed and re-arranged gradually so that connections could permeate over time.

Data analysis occurred in five ways: (1) each organisation individually, (2) by head office across all organisations, (3) by developing country offices across all organisations, (4) by general/operational manager across all organisations, and (5) by finance manager across all organisations. This approach provides both a finance manager and a general/operational manager perspective, and interviews can be cross-assessed against their

counterparts in other organisations, as well as cross-assessed against their colleagues within their own organisation. Eventually, themes coalesce to form a holistic perspective (Scapens 2004).

Cross-case analysis was used to draw out both the points of convergence and the differences inherent in the three organisations (Yin 2003). One of the primary reasons for studying multiple organisations is the difference in each NGO's model of delivering international development. Such differences directly affect their modes of operation, and so a comparison of all three provides an opportunity to explore distinct operational approaches that should result in a wider variety of management information needs. PlanetAid works exclusively through locally based partner organisations; WorldAid also works with partner organisations but in addition directly implements, while GlobalAid almost exclusively uses direct implementation (as described in their recent annual reports). Direct implementation can result in greater organisational control over operational activity, timing, spending, operational outputs, and available information. For example, it can lead to higher procurement activity and staffing levels at a NGO compared to when 'on-granting' a block of donor funds to a partner organisation. Accordingly, management accounting at each NGO may be different under each model of delivery. Another key distinction is the different proportions of restricted funding at each NGO, ranging from 48 to 97%—see Table 1.

Management has greater discretion in using unrestricted income, and therefore management accounting could be different in organisations with higher unrestricted income—for example, variations in the nature of the management accounting function and also the degree of priority it is accorded. Other important distinctions include technological systems employed, organisational structures, staffing expertise available and the use of expatriate managers, as well as their respective histories and cultures.

Uganda as a Case Study Setting

As noted above, Uganda is the developing world setting for the case study; a land-locked country of over 40 million people in East Africa. Uganda is arguably a prime example of how international aid and the NGO sector can make a beneficial impact (Stiglitz 2002). Uganda's economic success from the 1980s onwards had significant influence

on development thinking and on international aid architecture (Kuteesa et al. 2010; Stiglitz 2002). However, despite recent progress, in 2018 Uganda was only ranked 162 out of 189 countries on the UN's human development index.

WorldAid, GlobalAid, and PlanetAid all have long-standing activities in Uganda (as per their recent annual reports). WorldAid commenced operations in Uganda in the 1990s. Their primary focus of work is livelihoods, HIV/AIDS, strengthening local civil society, rehabilitating roads and schools, refugee camps in northern districts, as well as working with marginal farmers by providing practical support like better access to markets, training, and ensuring their rights are upheld. GlobalAid began working in Uganda in the 1970s, chiefly in emergency activities. In the 1990s, it opened a long-term office from where their current programs developed, which include crisis recovery and development, education, HIV/AIDS, healthcare, water, sanitation and hygiene, and housing for orphans and vulnerable populations. PlanetAid concentrates on issues of gender equality and domestic violence in Uganda. Human rights, governance, building the capacity of local civil society organisations, and re-housing families from refugee camps are their other key priorities.

Case Study Findings

Overall, while our case study organisations are programmed, there is simultaneously a consensus that 'compliance' (i.e. external accountability to donors for funding received)—and consequently the finance function—is becoming more emphasised. Adequate compliance by NGOs is vital to remain a going concern in order to continue receiving money from donors. The post-2008 austerity climate in which funding was becoming harder to obtain by NGOs with attendant intensification of public scrutiny, is cited as a primary reason for the increased emphasis on ensuring effective compliance. However, compliance is only one aspect of the finance department of a NGO. Another aspect is management accounting, which this research focuses on. The discussion therefore initially concentrates on management accounting, before gradually revealing a broader context for management accounting. Revealing a broader context is consistent with a systems theory approach, the core of which lies in a recognition of

Table 1 Restricted funding as a percentage of total funding

	2017	2016	2015	2014	2013	2012	2011	2010	2009
WorldAid	85	84	84	77	76	78	79	78	66
GlobalAid	97	97	97	95	95	94	90	90	90
PlanetAid	69	67	61	62	63	68	69	66	48

enhanced understanding of context within development program management at NGOs (ECDPM 2009).

Management Accounting Practices

In this section we firstly describe the typical management accounting reports of each NGO. WorldAid was the most interesting case as monthly reports seem to have limited use there. At present, monthly accounts monitor variances against a program budget. However, both the CFO and COO of WorldAid described the monthly accounts as ‘not fit for purpose’. This is because program managers wish to monitor spending variances against donor budgets instead of against program budgets. The COO of WorldAid remarked that many program managers maintain their own Excel spread sheets to monitor spending on each donor grant and to drill into spending variances as the accounts received from the finance department are not very useful to them.⁵ The preoccupation with the donor budgets illustrates a loosely coupled arrangement as operations in WorldAid are designed on a program basis (e.g. health in Uganda), rather than on a donor basis. Several donors can fund a program and thus monthly management accounts are of minimal use programmatically at WorldAid. Such reports are only useful for tracking donor grants. Accordingly, the desired use of management accounts and the overall design of operations are misaligned.

GlobalAid’s accounting centres on a monthly ‘donor status report’, which monitors spending against donor budgets as opposed to program budgets. GlobalAid has a strong focus on controls and ‘spend-out’, possibly due to their comparatively high reliance on restricted funding. A focus on spend-out could potentially discourage efficiencies by trying to spend an entire grant. Once spent, the organisation can often draw down additional funding. Interestingly, monitoring and evaluation—which measures operational outputs and outcomes—is also important at GlobalAid, again possibly being related to their high reliance on restricted funding. Monitoring and evaluation of impact could contribute to more sophisticated management accounting. In spite of this potential to link operational data with financial data, the CFO of GlobalAid noted ‘we don’t work out yields or various connotations or have processes. It would literally be reporting and reflecting spending in the field’.

⁵ Informal devices being used by participants in the empirical research were regarded as management accounting. These were captured in our study by the research methods outlined in “Research Methods” section. Informal devices uncovered were consistent with our findings that management accounting mainly consists of budgeting and subsequent monitoring of spending variances against a budget.

In PlanetAid, the FC described their internal accounting as follows:

We have two types of budget; but in these two types of budget, which is program and administration, we also have the program split into grants partners, and also the program-monitoring costs, which are ancillaries [...] *Interviewer: And are there any techniques you use other than budgets and variances?* Yeah, not really. I don’t think we really use other things other than the budget and actual.

These measures broadly link with the three conversion ratios⁶ such as administration spending to total spending. The CFO of PlanetAid further explained accounting as follows:

The field office will do the reports, and they’re checked and things like that. So the pressure is actually on our field offices. Finance in HQ only really have a systems role [...] it can be more on [funding] applications really where you have time being taken up on donor proposals [...] so working reasonably well, but there are pressures.

This quote draws out several issues. Management accounting may be more effective at field level where the reports are actually composed, rather than at head office. However, CFO PlanetAid’s priority is developing the capacity of ‘national’ (as distinct from expatriate) finance staff at field level. Therefore, staff capacity for management accounting is questionable. The CFO at PlanetAid also noted workload pressures which limit the scope for additional management accounting. Furthermore, a proliferation of ‘key performance indicators’ at PlanetAid noted by the CFO, could be over-compensating for the lack of tangible measurements of organisational performance. An over-proliferation of performance indicators and a lack of coupling to goals is often a response to providing information to diverse stakeholders (Modell 2003). PlanetAid’s relatively higher focus on broader social change also means tangible measurements are more difficult to achieve (Fowler 1997). In general, PlanetAid’s key performance indicators broadly feed into the three NGO conversion ratios. Their key performance indicators fail to marry impact with spending by directly linking both in terms of efficiency.

⁶ Three overhead cost ratios are the most common measure of NGO efficiency (Callen et al. 2003). These ratios are administration expenses to total expenses, fundraising expenses to total expenses, and program expenses to total expenses. The three categories derive from the Statement of Recommended Practice (SORP) for statutory reporting by charities in the UK and Ireland. They are proxy measures of efficiency known as ‘conversion’ ratios (Connolly et al. 2013; Hyndman and McConville 2016). These measures are widely used by academic researchers, NGO boards, rating agencies, and media (Callen et al. 2003; Connolly et al. 2013).

Notably, the CFO at PlanetAid espouses moving beyond spending variances to a ‘balanced scorecard’ approach.

Efficiency

Based on the description of the three cases, we can see that overall, management accounting comprises mainly budgeting and consequential spending variances. Efficiency is centred on the three conversion ratios. However, these ratios are incomplete measures of efficiency. An emphasis on efficiency and a results-based culture is becoming more pervasive, against a backdrop of decreasing funding and greater donor influence on NGOs (O’Dwyer and Boomsma 2015). However, efficiency in the form of value-for-money primarily centres on effective procurement procedures, such as obtaining multiple quotes. A procurement focus matches the continued prominence of spending variances and the three conversion ratios. The ‘spend-out’ phenomenon (where funding must be spent in full within a pre-specified time frame) in the NGO sector could even create a disincentive for efficiency. This is because if an organisation is too efficient, then it jeopardises the size of subsequent funding. The efficiency of spending on programs therefore becomes side-lined. For example, the CFO at WorldAid noted:

The ‘leakage’ in money is where program managers could spend better. They follow correct procedures such as sign-offs etc. But, they could get better value-for-money on the 90% of resources spent on overall programming. But, finance [department] doesn’t have much impact at that level in WorldAid. Finance doesn’t have the same level of input in organisations in the NGO sector as it does in the commercial sector, where the focus is on money-making.

A recurring trend with interviewees was a strong focus on following procedures and controls, such as for procurement. This results from regulative forces (i.e. the coercive enforcing of rules) in the wider NGO sector. However, the CFO of WorldAid suggests a genuine engagement with efficiency is consequently neglected—this echoes Connolly et al. (2013, p. 789) who stated, ‘there is no necessary connection between the amount of resources spent on direct charitable activities and the quality and quantity of the services rendered by the charity’.

Participants described using recognised accounting software systems and having qualified accountants at both head office and field level. However, as already noted, management accounting was described mainly as monitoring spending variances on donor grants. There was virtually no comparison of efficiencies across various activities or regions, comparing performance to prior periods, or analysing how activities could be more efficient

in future, for example (with reasons for this in “[The Link Between Management Accounting and External Accountability at NGOs](#)” section later). When NGO managers refer to efficiency in terms of value-for-money, it is referring to following procurement procedures rather than insightful financial analysis. There was broad recognition among interviewees of possible benefits to incorporating more management accounting, such as improving efficiency. However, finance functions were focused on compliance. External evaluations by donors focus on organisational systems, and therefore regulative forces magnify a focus on procedures and controls. The CFO of PlanetAid and the FC of GlobalAid also noted that funding applications are time-consuming. The relatively limited management accounting is also a reflection of such limited time-capacity.

Notably, participants in GlobalAid emphasised the importance of monitoring and evaluation to assess their impact. GlobalAid’s high dependence on restricted funding creates a greater need to demonstrably show ‘results’. Alternatively, it could be due to the fact that GlobalAid is least focused on more intangible activities such as advocacy. The relative absence or ambiguity of NGO impact measures (Cordery and Sinclair 2013; Lacey et al. 2012) could also contribute to explaining the relatively limited nature of management accounting. From an ethical approach to stakeholders where normative influences (i.e. morally governed and socially obligated) are stronger, a NGO is primarily concerned with activities with the most ‘need’ for beneficiaries. A key finding of this paper is that only limited demand exists in NGOs (or from external stakeholders based on the empirical evidence at the NGOs) to rate efficient activities, compared to other program themes, geographical areas, or across time periods.

Neither does the empirical data reveal a strong demand to further develop or enhance management accounting. Only some participants (e.g. FC WorldAid, FC GlobalAid, Country Director GlobalAid, CEO PlanetAid, and CFO PlanetAid) indicated a preference to enhance management accounting. For example, the FC of WorldAid suggested that it would be ‘more meaningful’ to combine operational information with accounting information, and therefore begin to look at metrics on value-for-money, on cost-benefit, on value-added, on benchmarking performance and projects, and on cost per beneficiary. The FC at GlobalAid concurred:

I would like more of what I call ‘management intelligence’ where we cost what we’re doing more cleverly [...] and where we’re getting better bang for our buck [...] it’s not something that any NGO really has, but I think there is a real need for it [...] we’re just so busy all the time that it would be very hard to get anyone tasked to do that.

This assertion leads to considering the overall accounting orientations of the case study organisations.

Accounting Orientation

A recurring issue was pressure on organisations and their staff from compliance obligations. Hyndman and McDonnell (2009) warn against the extrinsic crowding-out of the intrinsic motivations of NGO staff by overuse of accountability mechanisms. The focus of the finance function at the case study organisations is accountability. Both finance managers and program managers are quite preoccupied with policies, procedures, and controls to ensure satisfactory accountability. Overall, each NGO is broadly similar in respect of being operationally focused with the finance function in a support role. However, there are nuanced distinctions, both within, and between, the case study organisations. In particular, program managers predominantly demonstrate an ethical approach to stakeholders, while finance managers predominantly emphasise priorities consistent with a positive approach to stakeholders.⁷ Whereas program managers stressed securing funding that was a ‘fit’ with their NGO, finance managers assume funding already fits once it is received and accordingly stress compliance.

Furthermore, head office participants place greater prominence on securing funding for programs than Ugandan-based participants. Being relatively more cognisant of a positive approach to stakeholders, head office participants also noted their proportionately greater responsibility for maintaining stakeholder relationships than that of Ugandan-based participants, such as ensuring that proposal and reporting deadlines are met. As a result, COOs in head office also displayed a greater appreciation for the perspectives of finance managers than the program managers in Uganda displayed. It is noteworthy in WorldAid and PlanetAid that the finance function does not have a representative in the senior management team, nor do their organisations’ respective strategic plan or Uganda plan include finance sections. By comparison, the finance function does have representation in the senior management team of GlobalAid. Participants across the board in GlobalAid also display higher emphasis on compliance as a priority because of their high reliance on restricted funding, whereas in WorldAid for example, finance managers have a perception that compliance obligations could be more central in planning by program managers. In contrast to finance managers, the language of program managers to

⁷ An ethical approach is where NGO managers try to be fair to all stakeholders through genuine stakeholder participation (Dhanani and Connolly 2012), while a positive approach is where NGO managers put effort into ‘managing’ a key stakeholder in the best interests of the NGO (Hyndman and McMahon 2010).

describe the objectives of their own role closely mirrors how they describe the objectives of their organisation. Instead, finance managers indicate their role only contributes indirectly, in asserting that compliance for donors is ultimately helping beneficiary needs in the longer-term. All interviewees did however incorporate aspects of both ethical and positive stakeholder approaches, and noted how their NGO must show both impact and compliance to receive further funding.

Another outcome illustrates the relatively strong influence of regulative forces at all three case study organisations—there is consensus on the importance of accountability. However, regulative forces are becoming more powerful compared to normative forces, which started particularly post-2008 after funding became scarcer. Increasing external compliance demands are creating tensions at the case study organisations, as the emphasis on compliance can affect program operations [such as influencing the type of services offered and their sequencing (Rahaman et al. 2010)]. As noted by Brown and Moore (2001), for a NGO to survive it must provide socially valuable results and also have sufficient operational capacity. Put another way, operational capacity at NGOs directly stems from sourcing funding (Goddard et al. 2016; Lecy et al. 2012; Tucker and Parker 2013). Such a funding cycle is depicted in Fig. 1, and aligns with a systems theory approach. In essence, it shows how once a NGO receives funding, it must subsequently demonstrate both its impact on beneficiaries and the proper use of money in order to receive more funding, and hence continue the cycle.

WorldAid displayed the greatest level of tensions, with finance managers in particular suggesting their perspective can get ignored, and program managers somewhat corroborating that. In comparison, PlanetAid with its ‘partner model’ of development and professed antagonism to follow-the-money displayed the least tensions. GlobalAid, which is most dependent on restricted funding and consequently where program managers are relatively more cognisant of compliance obligations, was in the middle. Tensions manifest themselves in finance managers emphasising the increasing stress from compliance

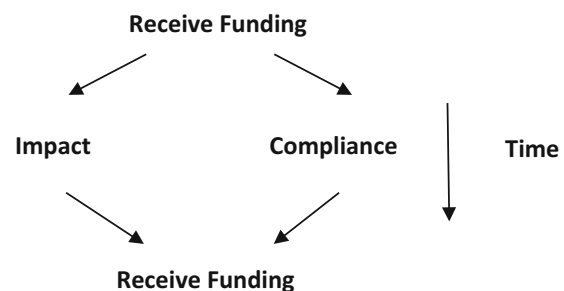


Fig. 1 NGO funding cycle

workloads and from ensuring that compliance stipulations are adhered to by program managers. By contrast, the COOs in head office suggested compliance was curtailing operational innovation and ‘solidarity’ with beneficiaries. At field level, program managers in Uganda indicated that compliance diverts time and resources away from their ‘real’ work.

Context for Accounting Orientation

As noted in “[Systems Theory](#)” section, management accounting studies have previously used a systems theory approach to help locate management accounting within a wider context (Hopper and Bui 2016). In this respect, the case study organisations demonstrate tensions existing between internally driven mission concerns and externally driven compliance concerns. The predominant opinion among participants was that tensions are exacerbated by growing regulatory demands. The tensions brought to the fore in this paper suggest that regulatory forces are becoming dominant in the wider NGO system, and examining it helps understand the context for accounting. For example, the FC of PlanetAid suggested the NGO funding model affects the activities NGOs undertake:

I feel overall the development sector is really struggling in the area of making a sustainable impact. It has been a bit hard to find the level of freedom I am going to give you for my money and the amount of control I will need to exert on this money [...] These relationships cause some sort of dependency syndrome, and also make the partner beneficiaries not really fully ‘own’ the whole activity.

This quote corresponds with Awio et al. (2011) and Najam (2002) who propose that funding models for NGOs should be re-examined. The current funding model stifles innovation, according to the COO of GlobalAid:

We cannot really justify to our stakeholders who are investing say €200,000 in a pilot project around technology in development, and then decide later that it wasn’t a good idea. Whereas if you work for a technology company, they are investing billions a year in different methodologies, some of which work and some of which don’t. And I think that’s what the [NGO] sector is missing in terms of that innovation and creativity. We don’t really have access to funds for developing ideas, or to invest in trying to do things differently or more innovatively.

This view is echoed by the COOs of WorldAid and PlanetAid about the NGO funding model influencing NGO activities, especially in aspects such as curtailing innovation. It also illustrates the prominence of the wider NGO

system for individual NGOs more generally. NGO accountability practices often passively react to donor demands for results based on narrow accounting measures, which can undermine their desire to engage in more complex beneficiary-focused forms of accountability (O’Dwyer and Boomsma 2015). In contrast to imposed accountability regimes, adaptive regimes which balance ‘imposed’ and ‘felt’ accountabilities encourage creativity and experimentation. The extent to which a focus persists on mission and adaptation will vary, depending on how ‘imposed’ and ‘felt’ accountability tensions are resolved (Ebrahim 2009). The focus on compliance is driven by regulative forces in the wider NGO sector which ultimately emanate from donors awarding ‘restricted’ funding. The focus on compliance manifests itself in external accountability pre-occupations. The management accounting perspective presented here links with the more prominent scholarly conversation on external accountability, by highlighting how restricted funding and corresponding external accountability are impacting the scope of management accounting at NGOs.

The Link Between Management Accounting and External Accountability at NGOs

A systems theory approach considers organisations to be open systems comprising many inter-linking and inter-dependent elements (Senge 1993), and so by drawing on our case data, we now turn to suggestions on how a management accounting perspective can provide input to the more prominent debate on external accountability at international development NGOs. As an illustration, Connolly et al. (2013, p. 802) linked stakeholders advocating for greater accountability from NGOs to the debate on conversion ratios for indicating efficiency, as ‘many within the sector would suggest that donors should be encouraged to focus on charities’ wider reporting of efficiency and effectiveness rather than on narrow conversion ratios’. However, the case study findings indicate that minimal efficiency information is used at NGOs outside of conversion ratios, and additionally there is weak demand at NGOs for further uses of management accounting such as enhancing efficiency information. More balanced efficiency information could support both internal decision-making and external accountability (Connolly et al. 2013). Thus, parallels of NGO accountability with an ethical approach to stakeholders/normative forces and a positive approach to stakeholders/regulative forces are discussed here.

O’Dwyer and Boomsma (2015, p. 60) highlight the ‘complicated and continual balancing act that NGOs must engage in between accountabilities that are externally

imposed and those that are internally generated'. Internally generated and externally imposed accountability at NGOs perpetuates the existing NGO system. Regulative forces create a particular accounting focus at the case study organisations that forcefully encourages the following of externally and internally set rules. Such regulative forces appear to crowd-out management accounting at the case study organisations, and are embedded in the existing NGO system. The existing NGO sector system is dominated by the external accountability requirements of restricted funding. As such, restricted funding could (somewhat paradoxically) be a reason why mainly proxy measures of efficiency are cited at the case study organisations, by crowding-out management accounting. Instead, the focus at the case study organisations is on following procedures for compliance with restricted funding stipulations. This can occasionally be detrimental to operations. For example, the COO at WorldAid noted 'we're much more linked to donors now [...] it limits our ability to be innovative'. Similarly, the Program Manager at WorldAid remarked:

The program people would feel that the finance and procurement people don't have a full understanding of the realities on the ground, and that they just want the rules and regulations followed. I would have heard that quite frequently.

The predominant NGO funding and accountability structure is designed to minimise risk (e.g. Financial Reporting Council 2014), and in turn this could potentially be reducing the focus on impact, innovation, and value-for-money. Stakeholders and researchers could re-examine the efficacy of restricted funding and corresponding external accountability requirements. This is because one possible consequence of the present funding structure is limiting the scope of management accounting at NGOs. The inference is that, in some cases, funding could potentially generate greater impact through insightful management accounting, and thus, further uses of management accounting in the context of NGO funding structures are discussed next.

Further Uses of Management Accounting

Systems theory is useful for observing systems' 'failures and irritations', as well as how systems are affected by competing irritations or are more irritable to specific observations compared to others (Ferreira 2014, p. 1691). Our findings show that while NGOs function with the management accounting outlined in "Case Study Findings" section, there is simultaneously an acknowledgement of potential benefits from enhancing management accounting and little desire to implement techniques beyond the status quo. As such, we could assert that management accounting is an 'irritation' of the system

(Ferreira 2014, p. 1691), in that present management accounting at NGOs is adequate even though its further potential is acknowledged.

This weak motivation to further develop and enhance management accounting at the case studies is interpreted here in the context of NGO funding structures. The funding architecture around international development, including that of NGOs, can be considered another part of the broader system for our case studies (Woolcock 2013). Notably, Goddard and Assad (2006, p. 395) in their case study remarked:

Some 'understanding' donors even came to see the detrimental effect of stringent multiple donor accounting demands to institutional capacity development, and were now at the forefront of the wave of changes in support of basket funding and enhancing organisations' overall accounting capacities.

The idea of 'basket funding' that Goddard and Assad (2006) allude to has not, to date, materially affected the existing NGO system, where the primacy of restricted funding continues. However, their observation highlights potential alternatives available to the current funding structure. The focus on compliance tries to ensure that all money is used appropriately. However, a possible consequence is that a focus on efficiency becomes side-lined, as illustrated by the relatively rudimentary management accounting at the case study organisations. The emphasis is always on using money exactly as stipulated in the original funding submission. For example, the FC at WorldAid remarked:

We agreed with the donor this is what we are going to do, so we just have to do it [...] I would really insist on meeting the donor requirements because that's what we did say to them.

Additionally, there is little if any analysis comparing value-for-money, as projects are all viewed separately due to the restricted nature of funding each one. The Country Director at GlobalAid commented:

It's more immediate funding, it's shorter-term funding. So you tend to be very busy implementing, and then 'oh, it's over!'

An ongoing challenge is ensuring that tensions between the social purposes and accounting practices of NGOs are creatively maintained, so that neither comes to dominate the other (Rahaman et al. 2010). The case studies illustrate such tensions in practice, by noting how the COOs at WorldAid and GlobalAid believe operational innovation is stifled by the existing NGO system. The COO at GlobalAid remarked 'any industry where it becomes overly regulated it restricts creativity and innovation'. The COOs at

WorldAid and GlobalAid assert that stakeholder requirements to deliver impact and compliance restrict any capacity to engage in operational innovations in the field. The risk of failure to deliver impact is too high, as it could end a NGO's cycle of funding. The reluctance to invest in innovation or in organisational development can also be linked to the CFO at WorldAid and FC at GlobalAid stating their respective organisations would not prioritise investing in management accounting systems. The CFO at WorldAid stated, 'I think our accounting information isn't really the problem to me. The problem is there is so much uncertainty'. Thus, investing in management accounting systems is difficult for the case study organisations to justify in terms of the three conversion ratios. Undue emphasis on conversion ratios induces dysfunctional behaviour in NGOs, including under-investment in the necessary organisational capacity to function effectively (Arya and Mittendorf 2015; Letts et al. 1998). The existing NGO sector system therefore affects both the operational function and the accounting function at NGOs, including further developing or enhancing management accounting at the case study organisations.

For such reasons, Awio et al. (2011) assert that alternative funding and accountability mechanisms are crucial for the NGO sector. However, Ebrahim (2002, p. 110) emphasises:

Revising the current structure of NGO-funder relations is likely to be a long-term and incremental process that, at its root, will require a rethinking of valuations of success and failure.

The irony that this paper highlights is that the focus on impact by NGOs is of a short-to-medium time frame because of the need to secure further funding. For example, the FC at PlanetAid remarked:

The partners [local NGOs] and the beneficiaries appear to be looking at all these interventions as an outcome or an impact, but not in a sustainable perspective [...] in this way, you'll find that there have been some cases where an international NGO withdraws funding it leads to the end of the local partners.

Similarly, Dolnicar et al. (2008) also observed the incompatibility of donor funding requirements with the longer-term social goals of NGOs. Many of these donor requirements relate to the accounting function. Accounting, as part of the technology of control within organisations, shapes the activities and relationships which it then reports upon (Roberts 1990). Restricted funding therefore encourages a short-term 'project' mind-set (Ebrahim 2002; Edwards and Hulme 1995; Najam 2002). Thus, international development NGOs are wedded to measuring activities (more quantifiable and short-term) instead of impact (less

quantifiable and long-term) (Development Cooperation Ireland 2005). In line with a systems theory perspective, the crucial point is that as long as NGO funding structures are dominated by restricted funding, further uses of management accounting are potentially limited—for example limited to the present uses of management accounting at NGOs or at a program level where results-frameworks can sometimes include performance indicators that utilise certain management accounting techniques.

As a possible alternative, a concept like basket funding could be considered (although other accounting challenges arise from conflation of different funding streams). Goddard et al. (2016) note that one strategy in bargaining for change by NGOs is selling the basket funding idea. Alternative funding structures could possibly lead to the evolution of the wider NGO sector, one where management accounting simultaneously evolves in response to evaluation feedback and organisational learning. This links back to the COO at both WorldAid and GlobalAid remarking about NGOs needing an avenue for operational innovation. Operational innovation could encourage a renewed focus on what Crowley and Ryan (2013) describe as the real prize of discovering new breakthroughs in helping the disadvantaged. Engrained concepts of performance have restrained the imagination, intuition, and flexibility which were the success of NGOs (Agyemang et al. 2017; ICHRP 2003). Notably, Kaplan and Norton (2001) consider it unusual for a non-profit organisation to focus on a strategy that can be thought of as 'product leadership'. However, just as businesses do in the commercial sector, non-profit organisations can be strategic and build competitive advantage in other ways than pure operational excellence (Kaplan and Norton 2001).

An alternative funding structure could potentially reorientate the relative weightings between regulative and normative forces at the case study organisations. The crowding-out of management accounting could consequently change, and further uses of management accounting could emerge. However, this paper is not advocating that the predominant funding structure evolves from restricted to basket or unrestricted. Rather, this research is merely highlighting how restricted funding shapes management accounting at international development NGOs. The debate about appropriate accountability and NGO funding structures thus encroaches upon a study of management accounting, and vice versa. Accountability frameworks based on particular funding structures help define the wider NGO system, which in turn can influence the scope of management accounting, as well as determine further uses of management accounting. However, environmental forces which shape management accounting are susceptible to evolution (e.g. Goddard and Assad 2006; Hiebl 2018). Changes in the broader system framework of

international development away from restricted forms of funding for NGOs could possibly lead to an evolution of management accounting. For example, from a normative perspective, could more management accounting contribute to influencing what a NGO as an organisation should be doing from a strategic viewpoint? Could management accounting influence which of the various program themes an international development NGO should concentrate on or cease, or which countries/geographic areas it should concentrate on or alternatively withdraw from? Or help identify and explain trends over time for why it is performing better or worse? Taking this a step further, would the cost of extra resources on administration needed for management accounting be outweighed by the benefits (either for internal organisational efficiencies or in beneficiary impact terms) derived from additional management accounting? Such questions lead us to consider future research in our concluding thoughts.

Final Remarks

Any research comes with inevitable limitations, and the first limitation of this paper is that it is based on a study of only three NGOs and only one developing country. Therefore, beyond the three case study organisations, it is not possible to conclusively determine the extent to which our findings would be replicated elsewhere, such as in other NGOs, charities, not-for-profits of various types and sizes, or in other countries. Another limitation stems from the interpretive nature of qualitative case study research. A third limitation is that an alternative research design could have added to the richness of findings by incorporating the perspectives of donors, beneficiaries, and other external stakeholders. Therefore, future research implications are now outlined.

The specific focus of this paper was to examine the effect of the dominant restricted funding structure in the international development NGO sector on management accounting. It should be noted that this paper is not disappointed in, or criticising, the current level of management accounting at the case studies. Rather, it is highlighting a phenomenon the research uncovered, and provides an explanation for that phenomenon, to stimulate further debate and add to the existing body of knowledge. This paper has utilised a systems theory approach as part of that explanation by locating management accounting within a wider context, and as such can be added to other international development literature where systems theory helps explain phenomena. This paper does not contribute to systems theory as a theory, however. Furthermore, this paper does not make any normative claims, and we are not recommending that either the current situation or any

alternative to it as being the most appropriate for the NGO sector. Thus, our final remarks highlight the main observations and implications of the study.

In terms of implications for practice and practitioners, this research highlights how budgets and monitoring spending variances are the most commonly used management accounting techniques, together with conversion ratios. The three case study organisations are relatively large with annual income between €50 m and €250 m. From a ‘visitor’ perspective, these techniques (complemented by little else) appear quite rudimentary for international organisations of such size and complexity. For example, the literature review and empirical evidence noted a lack of non-proxy measures of efficiency. Participants noted how this could be affecting issues like innovation and value-for-money at their respective NGOs. Accordingly, this paper highlights scope for additional management accounting that could potentially be useful. In this way, potential improvements in value-for-money, as well as greater insight on the merits of potentially innovative programs, could emerge. In tandem with such issues, there is a need for future research to measure the impact that funding structures, accounting practices, and behaviour have on innovation, efficiency, and sustainability in both individual NGOs and across the wider international development sector. In terms of overall aid effectiveness, the research presented here questions how the international development sector, as well as NGOs as individual organisations, are funded and managed.

Leading on from the above, at a higher policy-level (e.g. the periodic review of charity accounting standards, such as the charity SORP), the outcomes of this research may feed into the thinking of accounting standard-setters on the balance between a focus on accountability and a focus on efficiency. For example, management accounting is limited by the wider NGO system as a result of the restricted funding structure, which is based on/mirrored by the charity SORP in the UK and Ireland. Similarly, this research may also feed into considerations of how efficiency is measured or gauged, particularly in relation to the present emphasis on conversion ratios, which are again based on/mirrored by the charity SORP in the UK and Ireland. While it is a separate normative issue whether enhancing management accounting leads to better outcomes such as value-for-money and innovation, this research nevertheless provides a perspective to be considered by policy-makers.

In addition, it is also an issue for donors such as the UK’s Department for International Development to consider if any variants of (or alternatives to) restricted funding could be worthwhile experimenting with, such as basket funding, unrestricted funding, or social enterprise. As the main institutional donors of international

development NGOs are usually government bodies, the funding cycle (see Fig. 1) is primarily a matter of government policy, as is the manner in which it chooses to fund NGOs and hold them to account. Accordingly, this paper provides an additional policy consideration for donors in terms of the balance between NGOs focusing on accountability and efficiency, which this research highlights.

The most appropriate means of discharging accountability is an issue that researchers have suggested needs further examination (e.g. Connolly et al. 2012). From a management accounting perspective, this paper throws a spotlight on the efficacy of the restricted funding structure of the NGO sector, as well as on related accountability processes. Future research could use findings from this paper as a basis to explore similar situations and issues in other sectors such as charities, not-for-profit organisations, and public sector bodies. Other future research could embrace the perspectives of external stakeholders such as donors, beneficiaries, and regulatory bodies. Such insights could further enlighten issues raised here such as NGO effectiveness, efficiency, value-for-money, and the practice of ‘spend-out’. For example, are donors satisfied that their own processes for identifying funding needs, assessing grant applications, and verifying expenditure, already ensures value-for-money at NGOs, from their perspective? As such, would donors consider enhancing management accounting within NGOs to be of little consequence, superfluous, and only adding to administration? Alternatively, donors could perceive that enhancing management accounting at NGOs would facilitate an evolution of funding structures and accountability processes. Questions regarding decision-making, effectiveness and impact, value-for-money, management control, and other traditional and ‘modern’ management accounting functions and techniques—as well as the systems, people/roles, and structures supporting such functions—could usefully be directed at donors as the entity being researched. Such research could provide interesting insights into the information being used, as well as the distribution and location of key management accounting functions. Equally in terms of future research, O’Leary (2017) notes that downward accountability to beneficiaries could potentially become more participatory at NGOs, including the budgeting processes. The inclusion of the experiences and perspectives of non-managerial NGO field staff, combined with those of existing and potential beneficiaries, could enrich the outcomes of such future studies.

Overall, our paper finds that there was virtually no comparison of efficiencies across various activities or regions, comparing performance to prior periods, or analysing how activities could be more efficient in future at the three case study organisations. Furthermore, only limited

demand exists at the NGOs (or from external stakeholders based on the empirical evidence) to rate efficient activities, compared to other program themes, geographical areas, or across time periods. A recurring issue was pressure on organisations and their staff from compliance obligations. Finance managers indicate their role only contributes indirectly to the aims of their NGO, in asserting that compliance for donors is ultimately helping beneficiary needs in the longer-term. Our research also indicates that management accounting may be more effective at field level where reports are actually composed, rather than at head office. The jury is still out if restricted funding is restricting development—it is an important question for academics, government policy-makers and practitioners alike in terms of overall sector effectiveness and whether it is the most appropriate means of funding NGOs.

Compliance with Ethical Standards

Conflict of interest The authors declare that they have no conflict of interest.

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