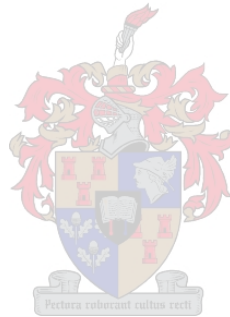


**AN ECONOMIC EXAMINATION OF NON-PROFIT ACCOUNTABILITY TO CLIENT-
COMMUNITIES IN SOUTH AFRICA**

by

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Dissertation presented for the degree of Doctor of Philosophy (Economics) in the Faculty of Economic and Management Sciences at the University of Stellenbosch. This dissertation has also been presented at Vrije Universiteit Brussels in terms of the joint-degree agreement.



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December 2019

Declaration

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Dedication

To my son, **Tsepo Thabo Seabe** for inspiring me to be better, do better, to not give up and for always reminding me that “you must always try mama”. Enkosi Ndlovu, mama loves you very much.

,

Acknowledgements

In my mother tongue, we say ‘*motho ke motho ka batho*’ (a person is a person because of others) and a wise person once said, “*if you want to walk fast then walk alone and if you want to walk far then walk together?*” This dissertation is proof that without the people who joined me on this journey, I would not have come this far. It is therefore correct that I take time to thank them. I want to first give a special thanks to the Seabe family for their support and for being my best cheerleaders.

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Abstract

The target of non-profit organisation (NPO) accountability is efficacy in achieving the mission, the efficiency with resource use, risk-minimising and guarding against corruption (Mook, 2012). However, for a long time, the focus has been on efficient use of money and policing maleficence. The emphasis on functional accountability has created a narrow view off accountability as answering to donors at the expense of being accountable to the people they serve (Gent, Crescenzi, Menning & Reid, 2013; Mook, 2010; Murtaza, 2012). There has however been a shift inspired by normative ideas about the NPOs' responsibility to their clients beyond "a moral responsibility to provide services that reflect their true needs" (Guo, 2007, p. 459). Despite this shift and the arguments for greater accountability to NPO clients, we still know very little about the role of client-communities as principals of NPOs. These principals have even received limited treatment in the theoretical economics literature (Jegers, 2015). This study, therefore, provides an economic investigation of the NPOs' accountability to client-communities using South Africa as a case study. It first applies spatial econometric techniques to test the hypothesis that if NPOs are responsive to the needs of the people, a correlation between NPO density and need should be evident. The study then draws from principal-agent theory and the rights-based approach to formulate a framework and construct propositions that can guide research on NPO accountability to client-communities. This research test three of the propositions: two related to the leadership characteristics correlated with greater accountability to these stakeholders and the other to the implications of greater NPO accountability for community satisfaction with the NPO's operations. The findings showed that NPOs are geographically concentrated due to agglomeration benefits from knowledge and skills, as well as the availability of private philanthropic resources, but have broad geographic reach in terms of meeting the needs of communities. The organisations are also accountable to communities, which translated to favourable evaluations by community members. However, the findings showed that NPOs are more likely to be responsive if altruistic leaders with more education and experience control the organisations. Furthermore, revenue, location and organisational type are significant conditions for community accountability and the mediators of its relationship with community satisfaction. Overall, the findings lead to the conclusion that NPOs in South Africa, especially small community-based organisations are accountable to client-communities. Nonetheless, we identified several limitations which could be addressed by future research.

Abstract (Dutch)

Het uiteindelijke doel van non-profit ‘accountability’ is het realiseren van de doelstellingen van de betrokken organisatie, met een efficiënt gebruik van middelen, beperking van risico, en het vermijden van corruptie (Mook, 2012). In de praktijk heeft de nadruk echter vooral gelegen in een efficiënt gebruik van fondsen en het vermijden van wangedrag, waardoor een beperkte visie is ontstaan op ‘accountability’: de focus lag eerder op de donors dan op de begunstigden van de organisaties (Gent, Crescenzi, Menning & Reid), 2013, Mook, 2010; Murtaza, 2012). Recentelijk is er echter een verschuiving waar te nemen, geïnspireerd door normatieve ideeën over de verantwoordelijkheid van non-profit organisaties ten opzichte van hun begunstigden die verder gaat dan ‘a moral responsibility to provide services that reflect their true needs’ (Guo, 2017; p. 459). Dit neemt niet weg dat nog steeds weinig geweten is over de rol van begunstigden (of begunstigde gemeenschappen) als principalen van non-profit organisaties, ook niet in de theoretische literatuur (Jegers, 2015). Het voorliggend proefschrift beoogt daarom een economische studie van de ‘accountability’ van non-profit organisaties t.o.v. hun begunstigden, uitgevoerd met Zuid-Afrikaanse data. Het werk begint met een econometrische analyse die de volgende hypothese test: non-profit organisaties die sneller inspelen op de behoeften van hun begunstigden zullen zich eerder vestigen daar waar deze behoeften het grootst zijn. Vervolgens wordt, op basis van een principaal-agent benadering gecombineerd met een rechtengebaseerde benadering een theoretisch kader met bijhorende stellingen tot stand gebracht om een beter inzicht te verschaffen in ‘accountability’ t.o.v. begunstigden of begunstigde gemeenschappen. Twee proposities worden empirisch getest: de relatie van leiderschapskenmerken en ‘accountability’ t.o.v. begunstigden, en de relatie tussen ‘accountability’ en tevredenheid van de bereikte gemeenschappen met de activiteiten van de non-profit organisatie. Uit de analyses blijkt dat non-profit organisaties geografisch geconcentreerd zijn ten gevolge van agglomeratievoordelen op het vlak van kennis en vaardigheden, maar ook van de beschikbaarheid van filantropische middelen, weliswaar met een ruim bereik in termen van het vervullen van de behoeften van de gemeenschappen. De organisaties legden ook voldoende verantwoording af t.o.v. de betrokken gemeenschappen, met een hoge tevredenheid tot gevolg. Daartegenover staat dat de organisaties sneller geneigd zijn tot reële ‘accountability’ als hun altruïstische leiders hoger opgeleid zijn en meer ervaring hebben. Daarenboven mediëren inkomen, locatie, en organisatietype de relatie tussen ‘accountability’ en tevredenheid van de begunstigde gemeenschappen. Samengevat kunnen we tot het besluit komen dat non-profit organisaties in Zuid-Afrika, en meer in het bijzonder de kleinere die ingebed zijn in de gemeenschappen, ruimschoots verantwoording afleggen aan hun begunstigden. Dit neemt niet weg dat er nog verschillende beperkingen en moeilijkheden zijn. Deze kunnen het voorwerp uitmaken van verder onderzoek

Table of Contents

Declaration	i
Dedication	i
Acknowledgements	i
Abstract	ii
Abstract (Dutch)	iii
Table of Contents	iv
List of Figures.....	viii
List of Tables.....	ix
CHAPTER 1: INTRODUCTION	1
1.1 Background.....	2
1.2 Problem Statement	3
1.3 South African NPO Sector.....	5
1.4 Dissertation Overview	7
References.....	10
CHAPTER 2: SPATIAL AUTOCORRELATION IN NPO-DENSITY: THE ROLE OF DEMAND AND SUPPLY.....	14
Abstract	14
2.1 Introduction.....	15
2.2 Spatial Model of NPO Density	19
2.2.1 Spatial agglomeration in the NPO sector	19
2.2.2 Causes of NPO agglomeration.....	20
2.3 Model Covariates	25
2.4 Data and Sample	25
2.5 Approach: Spatial Econometrics Analysis	26
2.5.1 Spatial weights	26
2.5.2 Detecting spatial autocorrelation.....	27
2.5.3 Estimation: spatial autoregressive models	27
2.6 Variable Distributions Characteristics	29

2.7 Results	30
2.7.1 Visualisation and detection of spatial-autocorrelation in NPO sectors	30
2.7.2 Spatial autocorrelation in the NPO sector	35
2.8 Conclusion	39
References.....	41
Appendices	48
 CHAPTER 3: COMMUNITIES AS PRINCIPALS: A FRAMEWORK TO UNDERSTAND NON-PROFIT ACCOUNTABILITY TO CLIENT-COMMUNITIES	
Abstract	50
3.1 Introduction.....	51
3.2 The Meaning of Accountability	52
3.2.1 Accountability process	53
3.2.2 Client-community accountability	53
3.2.3 Participation and accountability	54
3.3 Purpose of Client-community Accountability	55
3.3.1 Principal-agent theory relations.....	55
3.3.2 Rights-based approach.....	59
3.3.3 Clients-communities as principals.....	61
3.4 A Model of NPO Accountability to Client-communities.....	63
3.4.1 The gains of client-community accountability	63
3.4.2 Costs of client-community accountability.....	65
3.4.3 Multiple accountabilities to donors and governments.....	67
3.4.4 Organisational factors	69
3.5 Conclusion	69
References.....	73
 CHAPTER 4: SAMPLE AND DATA.....	
4.1 Sample and data.....	79
4.1.1 Cluster sampling	80
4.1.2 Snowball sampling for the NPO survey	80

4.1.3 Sampling for the structured group-interviews.....	82
4.2 Instruments	83
4.3 Descriptive Statistics	84
References.....	86
CHAPTER 5: ALTRUISTIC IDEOLOGUES AND NON-PROFIT RESPONSIVENESS TO CLIENT- COMMUNITIES	87
Abstract	87
5.1 Introduction.....	88
5.2 Definitional matters	90
5.2.1 Leaders	90
5.2.2 Client-community accountability and responsiveness.....	90
5.3 Theorising the Role of Leaders in NPO and Client-community Relations.....	91
5.3.1 NPO leaders as altruistic ideologues	94
5.4 Client Accountability and Leadership Characteristics	95
5.4.1 Altruism	95
5.4.2 Knowledge and skills	96
5.4.3 Embeddedness	97
5.4.4 Organisational factors	98
5.5 Sample and Variables	99
5.5.1 Variables.....	99
5.5.2 Variable distribution characteristics	101
5.6 Estimation Methods	101
5.7 Results	102
5.7.1 Leadership characteristics.....	102
5.7.2 Organisational characteristics	104
5.7.3 The role of leadership in community accountability.....	106
5.8 Discussion.....	109
5.9 Conclusion	110
References.....	112

Appendices	117
CHAPTER 6: CLIENT-COMMUNITY ACCOUNTABILITY FOR NON-PROFIT PERFORMANCE: A SOUTH AFRICAN CASE-STUDY	119
Abstract	119
6.1 Introduction.....	120
6.2 Linking Accountability and Community Welfare	124
6.3 Data and Variables	129
6.3.1 Variables	129
6.4 Bivariate Regressions Analysis	132
6.5 SEM of Accountability and Community Satisfaction	134
6.5.1 Estimation.....	137
6.5.2 Results	137
6.6 Discussion.....	143
6.7 Conclusion	144
References.....	146
Appendix	151
CHAPTER 7: CONCLUSION	152
7.1 Main conclusions.....	152
7.2 Limitations of the Dissertation.....	154
7.3 Contributions and Future Research	154
APPENDICES	156
A1: Survey of Non-Governmental Organizations in South Africa	156
A2: Semi-structured group interview.....	180

List of Figures

FIGURE 2.1: NPO DENSITY BY THE MUNICIPALITY IN SOUTH AFRICA.....	30
FIGURE 2.2: MULTIVARIATE MAPS OF NPO DENSITY AND SELECTED COVARIATES	31
FIGURE 2.3: LOCAL MORAN'S INDICATORS OF SPATIAL AUTOCORRELATION IN NPO DENSITY SCATTERPLOT AND CLUSTER MAP.....	33
FIGURE 4.1: BREAKDOWN OF THE SAMPLE BY NPOS' MAIN ACTIVITIES.....	84
FIGURE 4.2: DISTRIBUTION OF NPOS BY YEARS IN EXISTENCE	85
FIGURE 5.1: THE MEAN OF MANAGER'S YEARS AT NPO BY RESPONSIVENESS AND FOUNDER-MANAGER.....	104
FIGURE 5.2: NPO REVENUE BY NPO RESPONSIVENESS AND MANAGERS EDUCATION....	105
FIGURE 5.3: PREDICTIVE MARGINS: NPO RESPONSIVENESS BY MANAGERS AND PRIOR NPO EXPERIENCE.....	108
FIGURE 5.4: PREDICTIVE MARGINS: NPO RESPONSIVENESS BY FOUNDER MANAGER AND TERTIARY EDUCATION	108
FIGURE 6.1: SEM MODEL OF CLIENT-COMMUNITY ACCOUNTABILITY AND SATISFACTION SOURCE: OWN DATA	135
FIGURE 6.2: SEM MODEL OF CLIENT-COMMUNITY ACCOUNTABILITY AND SATISFACTION WITH CONTROL (SOURCE: OWN DATA)	136
FIGURE 6.3: BASIC STRUCTURAL REGRESSION MODEL	139
FIGURE 6.4: SEM OF CLIENT-COMMUNITY ACCOUNTABILITY AND SATISFACTION WITH CONTROLS	141

List of Tables

TABLE 2.1: COVARIATES OF NPO DENSITY DESCRIPTION (WITH EXPECTED SIGN IN PARENTHESES)	25
TABLE 2.2: DISTRIBUTION CHARACTERISTICS OF DEPENDENT AND INDEPENDENT VARIABLES.....	29
TABLE 2.3: MORAN’S I STATISTICS OF GLOBAL SPATIAL AUTOCORRELATION FOR DEPENDENT AND INDEPENDENT VARIABLES	32
TABLE 2.4: ORDINARY LEAST SQUARES REGRESSIONS AND DIAGNOSTICS TEST FOR SPATIAL DEPENDENCE IN OLS ERRORS AND NPO DENSITY	34
TABLE 2.5: GENERALISED SPATIAL TWO-STAGE LEAST SQUARES (GS2SLS) SPATIAL DURBIN MODEL (DSM) REGRESSIONS OF NPO DENSITY	36
TABLE 4.1: SURVEY AND FOCUS GROUP SAMPLE LIST	82
TABLE 5.1: VARIABLE DISTRIBUTION CHARACTERISTICS	101
TABLE 5.2: BIVARIATE REGRESSIONS OF NPO RESPONSIVENESS AND LEADERSHIP CHARACTERISTICS	103
TABLE 5.3: TABLE 5.4: LEADERSHIP AND CLIENT ACCOUNTABILITY LOGISTIC REGRESSIONS	107
TABLE 6.1: VARIABLES DISTRIBUTIONS CHARACTERISTICS.....	130
TABLE 6.2: BIVARIATE COMMUNITY SATISFACTION REGRESSION RESULTS.....	133
TABLE 6.3: MODEL FIT INDICES	138
TABLE 6.4: SEM MLMV MODEL I: CLIENT-COMMUNITY ACCOUNTABILITY AND COMMUNITY SATISFACTION	140
TABLE 6.5: SEM MLMV MODEL II: CLIENT-COMMUNITY ACCOUNTABILITY AND COMMUNITY SATISFACTION WITH CONTROL VARIABLES	142

CHAPTER 1: INTRODUCTION

“To alienate humans from their decision-making is to change them into objects.” (Paulo Freire, 1968)

In economics, non-profit organisations occupy a position between the market and public sector to provide collective, private and public goods that are left un-catered for due to government and market failures (Hansmann, 1980; Steinberg, 2006). Hence, the field of non-profit economics has examined the economic roles of NPOs and their goals reflected in their behaviour (Brooks, 2005; Steinberg, 1986). In the field the types of individuals who self-select into the sector and their motivations have also been investigated (Badelt, 1997; Rose-Ackerman, 1996). Other topics have covered the governance structures of the NPOs and their impact on organisational performance (Wellens & Jegers, 2014; Van Puyvelde, Caers, Du Bois & Jegers, 2012). Overall, the non-profit economics has given much attention to how the organisations are structured to create social and economic value for society at large and the people dependent on their services.

Despite the operations of NPOs being about the people they serve, the roles of actual and potential end users as NPO principals has received less attention, even in the theoretical economics literature (Jegers, 2015). The neglect is in contrast with the importance and concomitant treatment of ‘consumer sovereignty’ in market equilibrium or the influence of voters in public choice theories. In the field of NPO governance, neglect of client-communities is pronounced. The focus has mostly been on the principal role of the board of directors because they are supposed to act as the fiduciary of all other organisational stakeholders (Du Bois, Caers, Jegers, Schepers, De Gieter & Pepermans, 2004)

Consequently, we have a limited economic understanding of the role of actual or potential clients as principals and the NPOs’ responsibility towards them. Questions remain about how communities influence NPOs’ behaviours and decisions; under what conditions they could have the opportunity to get involved and shape NPO decision-making or whether communities can derive private or social benefits from such participation. This research aims to address some of these questions by conducting an economic examination of the NPOs accountability to client-communities.

1.1 Background

Confidence in the non-profit form and perceptions that they are mission maximisers driven by altruistic motives gave them a competitive advantage in the provision of public goods and trustworthiness (Van Puyvelde *et al.*, 2012). The non-profit organisational form is governed by the non-distribution constraint, which restricts the distribution of residual profits (Hansmann, 1980). The purpose of the constraint was to give NPO principals the reassurance that they will not be exploited when they are ignorant about the organisations' products in cases of information asymmetry and that they can be trusted (Glaeser & Shleifer, 2001; Jegers, 2015; Rose -Ackerman, 1996). The perceptions created included that social-entrepreneurs initiate the organisations as a response to need and mission drives their actions (Hansmann, 1980; Letts, Ryan & Grossman, 1999).

However, because the trustworthiness of the NPOs depends on the credibility of the non-distribution constraint and the integrity of their governance structures (Young, 2000). The weaknesses of both in curbing opportunistic behaviour and the violation of public trust by some organisations resulted in calls for greater oversight and accountability for their actions and impact. On the African continent, the public and government view them with distrust and their effectiveness in facilitating development has been called into question (Nega & Scheider, 2014, p. 497).

Additionally, Since the 80s the size of the sector has dramatically increased together with the influence and resources it commands, in what was termed the 'global associational revolution' (Morton, 2013; Salamon, 1994; Salamon, 2010). Bottom-up growth in social action and the instrumentalisation of the organisations by the government and private sector resulted in an increase in their numbers across the globe (Casey 2016). There are no estimates of the exact figures of NPOs operating globally, but in South Africa, the number of registered organisations has more than doubled to 200 000 from the 85 248 registered in 2012 (Department of Social Development (DSD), 2018). Globally the organisations command about 1 trillion USD in resources (Salamon, 2010). The results of the growth in the size and influence of NPOs, as well as the number of public monies entrusted to them, there has been increased pressure for accountability. This pressure has also thus been driven by the growing awareness that NPOs are also fallible and the need for them to illustrate their efficiency and effectiveness (Ebrahim, 2005)

Proponents of accountability and performance measurement argue that if organisations are accountable and show evidence of their impact and outcomes, they and society can gain efficiency, as well as private and social benefits (Murtaza, 2012). The argument is that accountability enhances incentives for improved performance, the understanding of community priorities, and shared learning (Wenar, 2006). By being accountable, organisations can also provide reassurance to resource providers that they will use funds provided as intended, thereby securing support, and increasing their credibility and ability to be change agents (Murtaza, 2012). Greater accountability can also help NPOs to avoid intrusive oversight mechanisms from external stakeholders and to protect themselves from political interference (Wenar, 2006; Unerman & O'Dwyer, 2006).

1.2 Problem Statement

Until recently, the sector neglected accountability to communities even though they are often directly and indirectly affected by the organisations' actions. Non-profit organisations and society can gain from practising greater accountability, which is why its purpose in the sector has been on the effectiveness of the organisations in achieving their mission, their efficiency with resource use, risk-minimising and guarding against corruption (Mook, 2012). However, the focus has been on financial management creating a narrow view off accountability as reporting to donors about the proper use of resources (Gent, Crescenzi, Menning & Reid, 2013; Mook, 2010; Murtaza, 2012). The result of this is that NPO accountability has often been the weakest towards the people they serve (Murtaza, 2012).

There has however been a gradual shift towards the recognition of the importance of the people being served. In international development accountability frameworks such as the AccountAbility 1000 (AA 1000AP) and the Humanitarian Accountability Partnership (HAP) standards have been introduced to address the deficit in accountability to stakeholders impacted or affected by the organisations' practices (AccountAbility, 2018; HAP, 2010). The AA 1000 framework includes principles such as inclusivity, materiality and responsiveness. Similarly, the HAP framework recognises that the essence of accountability is to respect the people in need and to be answerable to them about the organisations' actions and decisions. The HAP framework also espouses to values such as respecting international law with regards to rights, reaffirming the responsibility of governments to target communities, acknowledging the duty of care shared by development actors

towards them and recognising the role of external constraints in formulated responses (HAP, 2010).

The shift has thus been inspired by the acceptance of normative ideas about the NPOs' responsibility to the people they serve beyond "a moral responsibility to provide services that reflect their true needs" (Guo, 2007, p. 459). Non-profit organisations have an ethical obligation to foster a meaningful relationship with the people from which they claim to derive part of their mandate (Slim, 2002). Agyemang, Awumbila, Unerman and O'Dwyer (2009) thus note that client community accountability is not legally defined in contracts nor enforceable but underpinned by a moral responsibility to stakeholders. The emerging rights-based approach to development with its emphasis on voice and agency is in line with these normative arguments. O'Dwyer and Unerman (2010) state that the approach politicises aspects of development such as community participation to improve accountability to recipients of development work from policymakers and other development agents. The approach also draws attention to the power imbalances, which often characterise development aid.

Additional to moral, performance and efficiency arguments also support the case for greater accountability to client-communities. The relationship between the NPOs and their constituent communities is acknowledged as essential for their effectiveness because it eases trust and co-operation. Accountability can also improve the impact of the organisations because people are more likely to use NPOs' services if they have an active role in them (Mlodovosky, 2014). Good governance needs engagement with communities and their systematic involvement in evaluating organisational performance (Ebrahim, 2003, p. 819).

Despite this shift, accountability to client-communities "as a practise of bottom-up development is rarely questioned" and recognised as important, yet, "little implemented" (Brennan (2010, p. 1). This study tries to provide knowledge that can bridge this gap between the appreciation of accountability to communities and organisational practice. It investigates the accountability relationships between NPOs and their client-communities and the factors that impact on these relationships using South Africa as a case-study. South Africa's socio-economic and historical context, which has justified an important role for the NPOs and shaped the characteristics of the sector make the country an ideal location to study non-profit accountability.

1.3 South African NPO Sector

South Africa is an upper middle-income country, one of the stable democracies and the largest economies in Africa. However, it has faced many challenges that have required the non-profit sector to step in and play a significant role. In 2017 the country's GDP stood at 300 billion USD (World Bank, 2018), while the Gini coefficient estimates showed income inequality at 0.57. Fifty-five and twenty-five percent of the population are income and multidimensionally poor, respectively (David *et al.*, 2018). The country also suffers from challenges in service delivery, which are evidenced by increases in service delivery protests (Gordon, Roberts & Struwig, 2015). The population has also lost confidence in the government, which has resulted in the level of trust in government from 43% in 2011 to 35% in 2015 (Chingwete, 2016).

Due to these challenges NPOs “have taken on expanded roles as the government seeks to provide social and other services in more flexible, and cost-effective ways” and they are central to community engagement and building social capital (Stats SA, 2015, p. vi). Government's proclamation to be a ‘developmental state’ has also helped to define this role. Consequently, the functions of NPOs in the country mirror the development needs of the people and are linked to the government's priorities. Due to the expanded role of NPOs in South Africa, the sector has experienced exponential growth over the years, and the number of registered organisations stood at 200, 000 in 2018 (DSD, 2018).

Though the number of NPOs has increased, the NPO register data shows their uneven distribution across South Africa. Gauteng (32%) and Kwa -Zulu-Natal (20%) house over 50% of the NPO sector, with the rest shared among the remaining seven provinces (DSD, 2018). A brief review of the literature also shows geographical clustering in the sector. For example, in the NPO study conducted in 1999, it was reported that organisations who received more government funding, and who are more formal tended to locate in urban working and middle class than deprived areas (Swilling & Russel). In 2008, the National Development Agency (NDA) audit of NPOs showed that over 80% of the sampled organisations were in the Gauteng, Kwa-Zulu-Natal, and the Western and Eastern Cape provinces. Of the 80%, 31% were in Gauteng and 22% in the Western Cape, provinces with higher incomes and levels of development. A small percentage of NPOs chose poor provinces like Limpopo (3%), Mpumalanga (3%) and Northern Cape (2%) as the place of their headquarters (NDA, 2008).

The uneven geographical distribution of NPOs could be the result of the country's history, which has created the unequal distribution of economic development and deprivation. For example, according to the 1996 and 2011 census data Gauteng, Kwa-Zulu-Natal, and the Western Cape provinces contributed about 65% to the South African economy (Stat SA, 2011). Similarly, metropolitan municipalities within these provinces, namely Johannesburg, eThekweni, and Cape Town contributed about 35% to the South African economy in 2011 (David *et al.*, 2018). The population has also tended to follow these patterns, with the Western Cape and Gauteng provinces making up about 35% of the country's total population (David *et al.*, 2018).

Even though the available studies suggest the unequal spatial distribution of NPOs and development in the country we have limited understanding of the spatial interaction between the geographical spread of NPOs and various development indicators. There is, to our knowledge, no work in the country that has investigated this relationship, except for (Burger, Jegers, Seabe, Owens & Vanroose, 2017), who showed that poorer provinces have a lower NPO density. The study, however, was aggregated at the provincial level and only examined the effects of poverty and revenue. More studies are therefore needed to examine whether the spatial inequalities evident in economic activity and deprivation persist in the NPO sector.

More importantly, understanding the spatial relationship between NPO density, resources and needs is important for accountability. One of the key tenets of accountability is responsiveness, where the organisations act to meet the substantive expectations of the organisations by fulfilling the needs of their client-communities (Koppell, 2005). The NPO's "active response to the poor" will also have positive outcomes for the organisations leverage and legitimacy (Grønbjerg, 1990; p. 209). Responsiveness is unlikely if the distribution of the organisations has little correlation with the needs of the people they aim to serve. South Africa with its unequal spatial distribution of NPO density, needs and resources provides the ideal context to investigate how NPOs manage the trade-off between the practical need for resources and addressing the needs of the stakeholders.

Furthermore, despite the expanded developmental role of NPOs in South Africa there is little scientific research on community-facing accountability. The widespread reliance of government on NPO partnerships to deliver services to communities provides the opportunity to test how NPOs

practice accountability to these stakeholders, the factors that influence their accountability decisions, and in turn, how greater accountability may affect the organisation's performance.

Additionally, NPO register data shows that over 90 % of the organisations in the country are small community-based organisations (CBOs) (DSD, 2015). They help to meet community needs left unattended by the government (Ranchod, 2007). Leaders play a significant role in the daily operations and the strategic directions of these types of organisations. Their large number in the South African NPO sector provides the opportunity to test whether there are any leadership differences, which may affect the adoption and implementation of community-facing NPO responsibility.

1.4 Dissertation Overview

The aim of the dissertation is to understand how NPOs enact accountability and the factors that impact on their responsibility towards client-communities. The literature identifies several factors that may impact on this form of accountability including resource dependence, the attitudes of NPO staff including NPO leaders, and lack of clarity and evidence on the outcomes of community-facing accountability (Dubnick, 2005; Kilby, 2006; Schmitz and Mitchell, 2009). This dissertation investigates some these factors further.

In Chapter 2, the dissertation begins with the examination of the geography of NPOs. It tries to understand what demand and supply factors go into explaining the locations of the organisations. It does this by applying spatial econometric techniques to South African data guided by Krugman's agglomeration theory and Wilson's NPO spatial theory. The chapter tries to show that if NPOs are responsive, they should be found in places with the greatest need as a response to the demand for their services. However, resources may also explain the geographical distribution of NPOs because they require them to function. This chapter thus investigates how the organisations navigate the trade-off between being responsive to their needs for resources and sustainability and the needs of communities who require their services when they make their strategic decisions about locations.

Chapter 3 lays the conceptual and theoretical foundation. Drawing from principal-agent theory and the rights-based framework the chapter discusses the meaning and purpose of NPOs accountability

to client-communities as principals of the organisations and develops a framework which can be used to understand how NPOs' make decisions to be accountable to these constituents.

The chapter concludes with a set of propositions, which can be used to direct further research on the topic in economics. Three of the propositions guide the research in Chapters 5 and 6. In Chapter 4 the South African data and sample used to address the research problems in the subsequent chapters are discussed.

Chapter 5 responds to Wellens and Jegers (2014b, p. 228) call for more research that examines the relationship between characteristics of managers (demographic, education, and organisational funding) and the implementation of client-centred decision-making approaches. The chapter investigates how individual-level differences among leaders may correlate with variations in attitudes and the acceptance of participatory values in NPOs. The research focuses on the leaders' individual-level differences based on the argument that they are the ones who wield the most influence in organisations. They are positioned to be able to guide strategic decisions in NPOs including those about accountability to client-communities. The chapter uses Logit regression analysis applied to the South African NPO survey dataset described in Chapter 4 to answer the research questions.

In the accountability literature arguments have been made that when NPOs show greater responsibility to their client-communities they can improve efficiency and community wellbeing (Ebrahim, 2003; Mlodovosky, 2014; Morrison & Salipante, 2007). However, concerns have been raised that such claims about the benefits of client accountability, especially participation, have been made with limited substantive evidence to back them (Burger, Dasgupta & Owens, 2016; Wellens & Jegers, 2014a). Chapter 6 responds to these concerns, and answers the question of how greater accountability to client-communities relates to community satisfaction as reported by community members? The chapter also draws from the South African data but uses both the survey and focus group responses to estimate structural equation models.

The chapters of this dissertation, therefore, contribute to the understanding of the broader topic of NPO accountability to client-communities. Mainly, are NPOs responsive to the needs of communities when they make their strategic decisions about locations? What it also contributes is a framework that can be applied to understand the different components and factors that shape

NPOs decisions about accountability to community stakeholders. Additionally, the understanding of which leaders are likely to be more responsive to community inputs and of the relationship between greater client-community accountability and community satisfaction. These contributions are discussed in Chapter 7 after we review the main findings. The chapter also includes the limitations of the research and proposals for further research.

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CHAPTER 2: SPATIAL AUTOCORRELATION IN NPO-DENSITY: THE ROLE OF DEMAND AND SUPPLY

Abstract

The belief that NPOs are flexible, resourceful and responsive to the needs of communities has pushed them to the forefront of development implementation. Where these organisations are established is thus important: proximity to the people they serve allows them to assess, adapt and respond to community needs accordingly. However, where NPOs cluster may not necessarily match the places of greatest need. Due to the importance of NPOs' responsiveness for their accountability to communities, this research examines whether NPOs agglomerate in places with the greatest need as a response to the demand for their services, but it also examines how the supply of resources impacts on NPO agglomeration because resources are required to initiate and sustain their initiatives.

Applying spatial econometric techniques to geo-coded South African data, the chapter investigates the demand and supply factors responsible for agglomeration in the South African NPO sector. Additionally, it examines whether there are cross-border effects from the changes in NPO density, and demand and supply indicators of neighbouring regions. Our estimates show that property ownership and education have a statistically significant and robust direct relationship with NPO density. Additionally, NPOs respond to demand in both their direct locations and in neighbouring regions. These results should prompt further investigation into the cross-border interactions between NPO density and its correlates, an area which has received limited attention in the literature thus far.

Keywords: agglomeration, cross-subsidisation, NPO density, spatial autocorrelation

2.1 Introduction

The belief that NPOs are flexible and responsive have pushed them to the forefront of development implementation. Society perceives them as unique private entities that are serving a public purpose, and who are endowed with special characteristics such as agility, closeness to people and an ability to harness private support for a public purpose (Salamon, Sokolowski & List, 2003). Where the organisations locate is thus significant, because proximity allows them to assess, as well as adapt and respond to community needs accordingly. When optimally located in places with the greatest need, which government is unable to reach, NPOs can assist with addressing “the most urgent services to the poor, reduce fiscal stress, and avoid further costs associated with high-poverty concentration” (Joassart-Marcelli & Wolch, 2003, p. 92). Understanding the locations of NPOs is thus important for development policy implementation, the equal distribution of services, and NPOs’ accountability to client communities (Da Costa, 2016; Fruttero & Gauri, 2005).

However, where NPOs locate may not necessarily match the places of greatest need. Places with an already large number of NPOs are likely to attract more of these organisations, which are enticed by the possibility of economies of scale, in other words, the achievement of organisational goals at a lower cost due to resource, technology and information spillovers (Bielefeld & Murdoch, 2004; Koch, 2007; Pinch, Henry, Jenkins, & Tallman, 2003). As a result, instead of ensuring the fair distribution of services, NPOs may entrench the existing geographical disparities in service provision and differences in opportunities for voluntary and civic participation (Clifford, 2012; Mercer, 2003).

Clifford (2011) saw the uneven distribution of NPOs as something to theoretically expect: the demand for public goods is distributed unequally, and the supply of resources and social ‘entrepreneurs’ also varies with geography. Demand and supply theories have therefore tried to provide explanations for the unequal spatial configurations in the NPO sector (Barr & Fafchamps, 2006; Bielefeld, 2000; Dreyer, Mölders & Nunnenkamp, 2007; Grønbjerg & Paarlberg, 2001). Different theories of NPO demand propose that they form to satisfy the preferences of diverse groups, which is why more are found in localities with higher levels of deprivation and greater income, ethnic, and social diversity (Salamon, 1987; Salamon, Sokolowski & Anheier, 2000; Young, 2000). Supply theories, on the other hand, explain that the organisations are more likely to concentrate in areas where they have greater access to economic and social capital, which facilitate

the formation as well as the running of the organisations (Ben-Ner & Van Hoomissen, 1992; Bielefeld & Murdoch, 2004; Corbin, 1999; Fruttero & Gauri, 2005; Lecy, 2010; Saxton & Benson, 2005). These demand and supply explanations are enlightening in terms of explaining where NPOs are more likely to be found. However, they suffer from several limitations. With this research, we contribute to the field of NPO governance and geography by addressing some of these issues.

Firstly, the studies seldom consider the link between NPO locations and accountability. This research links accountability and geography by testing the proposition that if NPOs are responsive to the people they serve, a correlation between NPO density and need should be evident. Accountability to clients does not begin once the organisations are formed and delivering services, but should begin at the inception of an NPO, especially when founded on a mission centred on service to others. One of the *raison d'être* of NPOs is their responsiveness to need, which is one of the cornerstones of non-profit accountability (Balser & McClusky, 2005; Barret, 2001; Koppel, 2005; Ospina, Diaz & O'Sullivan, 2002, p. 297). If NPOs are indeed responsive, they should be found in places of most need.

However, research shows that NPOs sometimes fail to target poor areas (Joassart-Marcelli & Wolch, 2003). For example, ordinary-least-squares regression analyses showed that poverty-stricken areas in California had low NPO density and were served by organisations with fewer resources (Joassart-Marcelli & Wolch, 2003). In international organisations, poverty plays a subordinate role in the organisations' location decision. Koch, Dreher, Nunnenkamp and Thiele (2009) reported that despite poverty playing a role in the location decisions of international NPOs, they are more likely to be found in less challenging environments where other NPOs are present, and in places where they have shared commonalities such as religion. These organisations are also more likely to mimic the funding decisions of institutional donors because of their dependence on donor funding (Fruttero & Gauri, 2005; Koch *et al.*, 2009).

Notwithstanding that NPOs require resources to operate, are they not more likely to be accountable to the people they serve when they prioritise need in their location choices? However, needs may be a prerequisite but not enough for non-profits to concentrate in specific areas. For this reason, the research also accounts for the impact of resources based on the findings of previous research

that NPO density correlates positively to financial contributions and skilled entrepreneurs (Ben-Ner & Van Hoomissen, 1992; Bielefeld & Murdoch, 2004; Corbin, 1999).

Additionally, most studies on this topic focus on developed countries, especially the United States of America. A few have appeared from developing countries in Asia and South America (Da Costa, 2016; Fruttero & Gauri, 2005), while in Africa, Barr and Fafchamps (2006) studied Ugandan NPOs and Brass (2012) studied Kenyan NPOs. Koch and Ruben (2008) also investigated NPOs in the Central African Republic and Tanzania. In South Africa, Moshabela, Gitomer and Schneider., (2013) studied the formation of health and social services NPOs in Bushbuckridge, a municipality in Mpumalanga, using a longitudinal qualitative design.

In these studies, only a few explicitly modelled spatial interdependence, mainly Bielefeld and Murdoch (2004), Yan, Guo and Paarlberg (2014) and Da Costa (2016). Joassart-Marcelli and Wolch (2003) only tested for spatial autocorrelation by mapping the ordinary least-squares (OLS) residuals, and computing Moran's I. They proceeded with OLS because they found no evidence of spatial dependence in their estimated model.

Although these studies reported conflicting results with regards to the impact of geography, they share an appreciation for the need to consider the effects of spatial interdependence (Bielefeld & Murdoch, 2004; Da Costa, 2016; Yan, *et al.*, 2014). Bielefeld and Murdoch (2004) warned that not considering spatial interdependence risks model misspecification through omitted variables, which increases the risk that estimates will be biased and inferences misleading (Anselin & Arribas-Bel, 2013).

Over and above this, spatial models offer a more parsimonious way of accounting for spatial dependence than using regional fixed effects to account for the spatial autocorrelation (Le Sage & Pace, 2004). Models using region fixed effects “assume homogeneity and no interconnection between regions, whereas a spatial model allows the degree of similarity to be estimated” (Ward & Gleditsch, 2008, p. 64). Estimating similarities seems more intuitive in the geographical context, where “everything is related to everything else, but near things more related than distant things” (Tobler, 1970, p. 236).

Furthermore, of the studies that have examined the effect of spatial association, none to our knowledge have considered how the presence of spatial autocorrelation in the chosen covariates may influence NPO density. Poverty, income, inequality and other variables used to explain the locations of NPOs are more likely to exhibit similar quantities in nearby locations. For example, David *et al.* (2018) reported positive and significant spatial dependence in the South African development indicators, poverty and inequality. Additionally, given the country's history, cross-subsidisation of NPO services is likely between wealthier regions with the means to start and operate an NPO and poorer regions with need but without the means.

Regional cross-subsidisation of non-profit services may not only be peculiar in unequal societies like South Africa. More resourced and institutionally dense areas such as cities and metropolitans with the infrastructure to accommodate higher concentrations of NPOs may also cater to the needs of close-by suburban or rural areas (Bielefeld & Murdoch, 2004). The possibility of cross-border spill-overs from changes in explanatory factors provides the rationale for understanding the impact of spatial dependence in the independent variables on NPO density. By estimating spatial econometrics models with the spatially dependent outcome and explanatory variables, the research also contributes the application of spatial econometrics techniques to the study of NPO locations. Applying spatial analysis could assist in understanding agglomeration in the NPO sector (Bielefeld & Murdoch, 2004).

The research also tested for the impact of human capital on the supply of non-profits, which has only been examined by limited studies. Where studies account of the impact of education, it serves as a proxy for socioeconomic status (Joassart-Marcelli & Wolch, 2003). Van Puyvelde and Brown (2016), however, noted the importance of education in the supply of NPOs by demand-side stakeholders.¹

The goals of the research were therefore as follows: To examine the presence of agglomeration economies, measured as NPO density and positive spatial interdependence in the outcome variable. To test whether spillovers from the demand and supply predictors is another source of the spatial interdependence in NPO density. To achieve the aims, propositions informed by an

¹ Ben-Ner and Van Hoomissen (1991, p.521) described demand side stakeholders as "coalitions of individuals who associate to provide themselves and others with goods or services that are not adequately supplied by either for-profit or government organisations".

integrated NPO spatial theory, which incorporated Krugman's (1992) agglomeration and Wilson's (1989) NPOs spatial theory were formulated. The propositions were tested by applying spatial econometric techniques to the South African data.

In the next section, the spatial model of NPO density is presented. The discussion of the model is followed by a description of the data and sample in Section 2.3 and the empirical approach in Section 2.4. A description of the model variables is included in Section 2.5, followed by a discussion of the results in Section 2.6 and the conclusion in Section 2.7.

2.2 Spatial Model of NPO Density

The framework presented draws from Krugman's (1991; 1992; 1999) and Wilson's (1989) theories, which explain why some regions may attract greater NPO activity and help us to identify the factors that may drive this pattern. Agglomeration theory, nested in New Economic Geography theory, elucidates why it is the case that certain regions will be centres of economic activity (Krugman, 1999). The theory predicts the spatial configuration of firm locations driven by the tension between centripetal and centrifugal forces, which cause the agglomeration or dispersion of economic activity (Krugman, 1992). Wilson's (1989) theory also predicts geographical variation in non-profit firm locations and identifies needs, resources and entrepreneurship as the possible forces responsible. The theory, like agglomeration theory, presents demand and supply explanations of NPO density, but differs in that it is specific to the non-profit sector. Consequently, together the theories provide a good foundation from which to understand the spatial configuration of NPO density across regions.

2.2.1 Spatial agglomeration in the NPO sector

NPOs studies have identified geographical concentration in the NPO sector (Bielefeld, Murdoch & Waddel, 1997; Bielefeld & Murdoch, 2004; Da Costa, 2016; Koch *et al.*, 2008). Non-profit organisations tend to agglomerate, resulting in a duplication of services and the enforcement of existing inequalities in service delivery (Bebbington, 2004; Fruterro & Guari, 2005; Fyfe & Milligan, 2003; Koch & Ruben, 2008).

Krugman (1999) predicted economic agglomeration because there are benefits present from the concentration of firms and people due to a circular relationship that exists between the markets

and firms (Glaeser, 2010). Agglomeration can occur as localisation economies, which is when similar firms or firms located within related industries cluster in the same area (Malmberg & Maskell, 2002). Accordingly, studies have used measures defining clusters, which are the geographic concentrations of industries and sectors, such as quantities of firms or production plants in a specific area (Delgado, Porter & Stern, 2015; Glaeser, 2010). For this paper, we, therefore, used NPO density to measure agglomeration.

However, agglomeration can also display as spatial interdependence in NPO density across municipalities (Bielefeld & Murdoch, 2004; Da Costa, 2016). Cross-border spillovers are likely because municipalities are political boundaries that may have no correspondence with the reality on the ground. Neighbouring regions may have similar levels of NPO density, resulting in their clustering over larger geographical areas. Therefore:

Proposition I: The higher the NPO density in neighbouring municipalities, the higher the NPO density in a municipality.

2.2.2 Causes of NPO agglomeration

If NPOs concentrate in specific regions, it is important to ask why they do so. According to agglomeration theory, centripetal forces, which pull economic activity together, drive the concentration of firms. Locations with good access to demand and supply markets will attract greater economic activity, which in turn further improves markets (Krugman, 1992). Firms can locate in areas with established organisations to benefit from labour pooling, knowledge spillovers and the reduction of transport costs related to goods, people and ideas (Baum & Havenman, 1997; Ellison, Glaeser & Kerr, 2010; Gottlieb, 1995). However, NPOs are different from for-profit firms in terms of the factors driving their spatial configuration (Bielefeld & Murdoch, 2004).

Wilson (1989) noted that it is the social, economic and political parameters of each location that will explain the geography of NPOs, given that their nature involves mission and welfare as opposed to profit maximisation. The agglomeration pathways identified in the NPO sector are increased productivity and reduced costs because of proximity to target markets, access to resources, shared infrastructure, large labour markets, knowledge sharing, the presence of networks and supportive institutions (Bielefeld & Murdoch, 2004, p. 224; Delgado, Porter & Stern,

2015; Koch & Ruben, 2008). In this study, we focused on three of these demand and supply factors, which Wilson (1989) grouped under needs, resources and entrepreneurs.

2.2.2.1 Needs as demand for NPOs

Since the role of NPOs is to improve welfare, needs are the conditions that elicit a response from NPOs that will result in a geographically uneven distribution of demand for the organisations because they are variable distributed (Wilson, 1989). They include the economic, cultural and welfare requirements that arise from space-specific factors such as economic development, history, discrimination, lack of access to alternative services and cultural needs (Wilson, 1989).

Before we proceed, it is important to note that the extent that NPOs go to fulfil these needs will depend on the division of the market for the goods and services that they produce, between them and the for-profit and public sectors. NPOs are more likely to address needs for which they have a comparative advantage. Due to a non-distribution constraint, they are more likely to address needs in the instance of public and trust goods characterised by various degrees of non-excludability, non-rivalry and information asymmetry (Van Puyvelde & Brown, 2016). The non-distribution constraint inspires perceptions of NPOs as being more trustworthy (Young, 2000).

That said, the needs for NPO services may arise from the plurality of preferences that are a function of economic and social diversity. NPOs will locate in more heterogenous locales because diverse needs require a diverse set of organisations (Clifford, 2011; Nemenoff, 2008). The most diverse neighbourhoods are therefore more likely to be ‘institutionally-rich’ than racially and economically homogeneous neighbourhoods (Rutherford, 2004). Furthermore, people living in destitution are more likely to require the assistance of others, leading to an increase in the demand for NPO services (Rutherford, 2004; Peck, 2008; Kim, 2015). Therefore:

Proposition II: The greater the needs, the greater the NPO density is in a municipality.

We also expect the needs of the population to have spillover effects, such that NPO density is correlated with need in close-by municipalities. People may cross political boundaries to find organisations that cater to their unmet needs. Additionally, due to South Africa’s history of segregation, which is mirrored in the country’s geography, poor areas exist alongside wealthy areas, which makes it possible that a need in poor region i is met in the wealthy region j , leading

to a situation where deprivation in the poor municipality increases NPO density in adjacent wealthier municipalities. As a result:

Proposition IIb: The greater the level of need in neighbouring municipalities, the higher the NPO density.

2.2.2.2 Supply of financial resources

Both agglomeration and Wilson's (1989) theory predict that the locations with higher NPO density will be those with an enabling environment that includes better access to private and public financial resources (Bielefeld & Murdoch, 2004; Nemenoff, 2008; Yan *et al.*, 2014). Communities with higher levels of philanthropic propensity are therefore more likely to have higher NPO density, as part of the budgets of NPOs are derived from private donations and user fees (Lecy, 2010). Level of wealth is an important indicator of philanthropic propensity and can be measured by the level of income or other indicators, (such as property ownership).

Proposition IIIa: Municipalities showing high levels of philanthropic propensity will also exhibit higher NPO density.

Here we also expect spatial spillover from the philanthropic propensity in neighbouring municipalities. High philanthropic propensity in adjacent municipalities could signal the availability of funds, which attract more organisations, resulting in an increase in NPO density in those regions and a decrease in the municipality.

Proposition IIIb: The higher the philanthropic propensity is in neighbouring municipalities, the lower the NPO density.

Resources also include the level of government expenditure on the provision of public goods and the budget available for government grants to NPOs. Heterogeneity theory sees government expenditure as negatively related to philanthropic participation; when government fails, private citizens will step up to fill the void through NPOs, in other words. "to the extent that the government is providing such collective goods, the need for non-profit provision would decline" (Salamon, *et al.*, 2000, p. 12). Whereas demand heterogeneity theory assumes rivalry between NPOs and government, inter-dependency theory postulates a more collaborative coexistence

between the two sectors, especially with organisations providing welfare service (Kim, 2015; Young 2000) where NPOs contribute the expertise and government the revenue to provide services (Salamon *et al.*, 2000).

There are numerous reasons why governments could choose to work with NPOs, for example when there is resistance to direct state action but a demand for public goods, or where support for NPOs legitimises the role and strengthens the power of the government, such as in the case of Kenyan NPOs (Salamon *et al.*, 2000; Brass, 2012). In line with inter-dependence theory, Wilson (1989) saw at least three reasons why the government would support NPOs. The government sees them as efficient producers of services, a means to avoid controversy, and as a neutral ground for multi-sector activity (Wilson, 1989). The public sector may thus recognise the comparative advantage of NPOs in the provision of public goods and provide financial support to stimulate provision (Matsunaga, Yamauchi & Yokuyama, 2010).

Inter-dependency theory has received more support than government failure theory in the literature (Lecy, 2010). Salamon *et al.* (2000) reported a significant positive relationship between government social spending and the size of the non-profit sector. Kim and Kim (2018), meanwhile, found evidence to support the inter-dependence theory's significance, in that there is a positive relationship between government expenditure for social protection and non-profit growth. A high density of organisations receiving government grants that were involved in economic development was found in poorer communities in the UK (Clifford, 2011). Thus Lecy and Van Slyke (2012) concluded that NPO density is greater and more significant when a government collaborates with them.

Proposition IV: Municipalities with greater public spending and spending on NPO grants will have a larger density of NPOs.

When examining the effects of government expenditure and grants to NPOs, it is important to be conscious of the possibility of endogeneity arising from omitted variable bias or simultaneity. There may be omitted variables, such as an enabling policy environment, correlated with both NPO density and government expenditure whose effect is captured by the government expenditure variable. The inclusion of the lagged outcome variable may correct some of this bias. Besides, the

coefficients are interpreted as correlations rather than causal effects of explanatory variables on the outcome variables.

2.2.2.3 Supply of entrepreneurs

Centripetal forces could also include the level of entrepreneurship in a region. In this study, we used the percentage of the adult population with tertiary education to proxy for entrepreneurship. Education is one of the individual characteristics that explain entrepreneurship, alongside age, gender and immigration. Although we could not find spatial studies of NPO entrepreneurship, in the for-profit sector spatial variation in entrepreneurs is noted as large and persistent over time, driven by factors such as entrepreneurial culture, peer effects (networks and social multipliers) and spatial selection, where latent regional characteristics attract people with entrepreneurial abilities (Anderson & Larsson, 2014). We can expect similar patterns in NPO entrepreneurship because both roles require high levels of skill, innovation and motivation. The spatial variation of entrepreneurs is thus likely to lead to variation in NPO density across municipalities (Wilson, 1989, p. 21). Places with greater availability of NPO entrepreneurs are therefore likely to have higher NPO densities.

Proposition Va: NPOs density will be positively related to the density of NPO entrepreneurs in the municipality.

Spatial spillovers from changes in the levels of entrepreneurship in adjacent municipalities are also expected. NPO density may have an inverse relationship with levels of entrepreneurs in adjacent municipalities if they cannot find the resources required to start an organisation in their municipality. Therefore:

Proposition Vb: The higher entrepreneurship is in neighbouring municipalities, the higher NPO density will be in a municipality.

2.2.2.4 Population

Agglomeration theory also states that improved market access due to reduced search costs for demand and supply markets is one of the main reasons why economic activity may cluster in certain geographical areas, especially urban areas (Krugman, 1999). Although our focus is not on the effects of population, this study controlled for the population because it may indicate the

potential demand and labour markets faced by NPOs, as well as the available resources (Saxton & Benson, 2005; Van Puyvelde & Brown, 2016). The size population could proxy for Marshallian urbanisation economies where firms or sectors benefit from the externalities generated by urbanisation (Henderson, 2003). Therefore:

Proposition VI: The greater the population, the higher the NPO density in a municipality.

2.3 Model Covariates

The covariates of NPO density are presented in Table 2.1 with the expected sign of coefficients and a brief description of the variables. The population variable is included as a proxy for market size and the potential resource pool. We also included the proportions for people living in poverty. Poverty is a measure often used to study the effect of need on NPO density (Lecy & Van Slyke, 2012; Peck, 2008). Property ownership was included as an indicator of private philanthropic propensity, and we expected it to have a positive sign. Municipal government expenditure and municipal grants to NPOs were also included as indicators of potential and actual income to NPOs from the public sector. As a proxy for entrepreneurship, we included the proportion of the population with a tertiary education qualification. Jiménez et al. (2015) reported a positive relationship between tertiary education and formal entrepreneurship; we expected the coefficient on education to have a positive sign.

Table 2.1: Covariates of NPO Density Description (with expected sign in parentheses)

Variable and expected sign	Description
<i>Market size</i>	
Population (+)	Population size per municipality
<i>Needs (demand) variables</i>	
Poor (+)	The proportion of poor people in each municipality
<i>Resources variables</i>	
Property ownership (+)	The proportion of people who own property in a municipality, including paid up and not paid up properties
Municipal expenditure (+/-)	Total municipal expenditure (R 000) per annum
Grants (+)	Municipal grants (dummy=1 if municipalities give grants to NPOs)
<i>Entrepreneurship</i>	
Higher education (+)	The proportion of the population over 21 who have a higher education

2.4 Data and Sample

To test the above propositions, we used a merged data set comprised of the NPO register, as well as demographic and municipal finance data. The NPO register includes data of all the NPOs in

South Africa that were registered with the Department of Social Development's (DSD) NPO Directorate before or in the year 2014. Non-profit organisations in South Africa have the choice to register for NPO status with the NPO registrar at the DSD. Registration is voluntary and free. However, organisations must be registered to benefit from government funding. In 2014, 123 891 organisations were on the NPO database and marked as registered. Our data included these organisations, aggregated at the municipality level, as the unit of analysis for this study. The study sample, therefore, consisted of the 234 municipalities in South Africa.

The information on the independent variables is drawn from data from various departments at Statistics South Africa (Stats SA). For the need (proportion of poor people), some of the resources (proportion of the population who own property), and entrepreneurship (proxied by the proportion of the population with higher education) variables we used the 2011 census data. Information about government expenditure and municipality grants to NPOs was drawn from Statistics South Africa's municipal finance data. Although most government funding to NPOs is distributed by the provincial DSD and through other national and provincial departments by way of service agreements, some municipalities distribute funding to NPOs to help them achieve their development mandate.

2.5 Approach: Spatial Econometrics Analysis

Spatial econometric analysis was used to achieve the goals of this research due to the geographical nature of the model propositions and data. At its core, spatial econometrics entails non-linear model specifications and estimations to account for spatial autocorrelation (Griffith, 2000). Spatial autocorrelations may arise as the result of past and current behaviours of agents, influencing the decisions and transactions of other economic agents (LeSage & Pace, 2004). Not controlling for these effects may lead to estimated results being biased and therefore unreliable, and no longer meeting the least squares criterion (Anselin, 1988; Arbia, 2014; Corrado & Fingleton, 2012; Lecy & Van Slyke, 2012).

2.5.1 Spatial weights

The analysis commenced with the creation of a spatial weight matrix, which is an essential part of the spatial analysis (Arbia, 2014; Lambert, Brown & Florax., 2010). Spatial weights matrices, which are exogenous to the model, provide information about the nature of the relationship

between the units of observation (Anselin, 1988; Arbia, 2014). The connectivity matrix W is a fixed non-stochastic and positive definite $N \times N$ matrix with elements w_{ij} , which equal 1 if units are connected and 0 if not. The elements thus provide information about one observational unit's connectivity to another, for example, between observation i and observation j (Anselin, 2001; Arbia, 2014).

The weights can identify connectivity using adjacency (e.g. contiguity matrix) or distance (e.g. inverse distance matrix) where weights are non-zero when two locations share a common boundary or are within a given distance of each other, respectively (Anselin, 2001). This study uses a queen contiguity W matrix, which is more encompassing than the rook matrix because it includes neighbours sharing a common border or vertex (Drukker, Peng, Raciborski & Prucha, 2013).

2.5.2 Detecting spatial autocorrelation

Exploratory spatial data analysis followed the choice of the weight matrix. The analysis started with the creation of descriptive maps with the spatial weights as a first step in detecting spatial auto-correlation. The mapping involved investigating patterns of spatial dependence in the outcome variable NPO density and then its relationship with some of the independent variables. The study then estimated Moran's I coefficients of global and local spatial association (Anselin, 1995).

Both the dependent and independent variables were tested for global spatial association. The Global Moran's I statistic indicates whether spatial interdependence exists among the chosen variables (Anselin, 1988; Cliff & Ord, 1981; Moran, 1950). The study then decomposed the Global into Local Moran's Is, which estimate the contribution of each observation to the global indicators (Anselin, 1995).

2.5.3 Estimation: spatial autoregressive models

Spatial models describe a process where the dependent variable is specified to depend on spatial interaction between observational units plus a disturbance term. The interaction is modelled as a weighted average of neighbouring observations and is an endogenous variable referred to as the spatial lag (Lambert *et al.*, 2010). The equation for the spatial lagged dependent variable YW is $\sum_{j=1}^n w_{ij} y_j$ (Drukker *et al.*, 2013).

The equation in 1.1 and 1.2 describe the family of linear spatial dependence models used in spatial autoregressive regressions for cross-sectional data (Anselin, 1988; Florax & Folmer, 1992), from which the estimated models for this research were chosen.

$$Y = \rho YW + X\beta + \varepsilon \quad (1.1)$$

$$\varepsilon = \lambda W\varepsilon + \mu \quad \mu \sim N(0, \sigma^2 \varepsilon I_n) \quad (1.2)$$

Y is a $N \times 1$ stochastic variate, ρ is the autoregressive parameter, the coefficient for the spatially lagged dependent variable, and λ is its counterpart in the spatial autoregressive structure for the disturbances (Anselin, 1988). The W s are the $N \times N$ non-stochastic pre-specified weights matrices that stipulate the relationship between the spatial units (LeSage & Pace, 2004). In 1.1, X is the vector of exogenous, non-stochastic covariates including the constant, β is the vector of the parameters associated with X , and μ the vectors of independently distributed error terms (Lambert *et al.*, 2010). When ρ is equal to zero and $\lambda \neq 0$ the spatial lag has no influence resulting in a spatial error model, and when λ is equal to zero and $\rho \neq 0$ it results in a spatial lag model. Other model possibilities are a spatial error and lag model where both ρ and λ are non-zero, spatial models with spatially lagged explanatory variables and models where the dependent, independent and error variables are included with spatial lags (LeSage & Pace, 2004).

In this paper, models belonging to this spatial econometric model family were estimated. All the models used a generalised spatial two stages least squares estimator to deal with the endogeneity bias due to the presence of the spatially lagged dependent variables (LeSage & Pace, 2009). The three models were spatial autoregressive models with spatial autoregressive explanatory covariates selected from the needs (proportion of the poor households), resources (property ownership), and entrepreneurship (education) categories, otherwise known as Spatial Durbin Models (SDM).

We estimated the Durbin models to control for the biases produced by omitting spatially dependent variables, which are possible in the analysis of models with geographical observations (LeSage & Pace, 2009). Additionally, as discussed in Section 2.2, given the arbitrary nature of political boundaries, spatial spillovers from changes in the predictors in one municipality have the potential to affect the outcome in other municipalities. For this reason, the SDM assisted with modelling the

effects of these changes through the introduction of W_x and W_y (Lesage & Pace, 2009). The models are represented in the equations below.

$$NPO_{per1000} = \beta_1 + \rho WNPO_{per1000} + \beta_2 need + \beta_3 resources + \beta_4 entrepreneurship + \partial PoorW + \mu \quad (2)$$

$$NPO_{per1000} = \beta_1 + \rho WNPO_{per1000} + \beta_2 need + \beta_3 resources + \beta_4 entrepreneurship + \partial propertyownershipW + \mu \quad (3)$$

$$NPO_{per1000} = \beta_1 + \rho WNPO_{per1000} + \beta_2 need + \beta_3 resources + \beta_4 entrepreneurship + \partial EducationW + \mu \quad (4)$$

2.6 Variable Distributions Characteristics

To measure NPO prevalence we used the absolute number of NPOs combined with the population size to create an NPO density variable: NPOs per 1000 population. In this regard, our measure is like that of Liu (2017), Van Puyvelde and Brown (2016), Kim (2015) and Grønbjerg and Paarlberg (2009) in previous studies of NPO prevalence.

Table 2.2: Distribution characteristics of dependent and independent variables

Variable	Obs	Mean	Std. Dev.	Min	Max	skewness	kurtosis
Dependent variable							
NPO density per 1000	234	2.04	1.03	0.01	10.16	2.92	19.70
Independent variables							
Population	234	221,241.7	521,289.4	7003	4,434,827	6.02	41.27
Needs							
Poor	234	57.04	10.08	32.31	75.01	-0.55	2.23
Resources							
Property ownership	234	57.01	0.11	0.25	0.87	-0.17	2.95
Municipal Exp (R000)	234	941,013.12	3,593,645	26,724	34,800,000	6.86	53.35
Grants (dummy)	234	0.05	0.95	0	1	4.07	17.55
Municipal grants to NPOs (R000)	12	33,075.253	48,523.02	105	142,307	8.96	86.40
Entrepreneurship							
Higher education	234	4.67	2.55	1	17	1.42	5.59

Note: The are 234 observations, the number of South African municipalities (8 Metropolitan and 226 Local municipalities) based on the 2011 boundary demarcations.

² About \$ 6 689 891, 50

³ About \$ 2 348 578.93

In Table 2.2, the variables' distribution characteristics and measures of normality are presented. The table shows that average NPO density across municipalities is two organisations per 1000 inhabitants. The table also provides evidence of the non-normality of included variables, which motivates for their log-transformation. Pairwise correlation statistics are included in Appendix A2 and illustrate significant and sometimes moderate to high correlations among the independent variables. Due to the high correlations between the explanatory variables, the research does not imply causality but reports the results of the regressions as correlations and not causal paths between the dependent and independent variables.

2.7 Results

2.7.1 Visualisation and detection of spatial-autocorrelation in NPO sectors

Visualisation of the dependent variable in Figure 2.1 shows high and moderately high NPO density municipalities (red and orange shading), suggesting a concentration of NPOs in these areas. The map also shows that there is sorting of South African municipalities based on the density of registered NPOs.

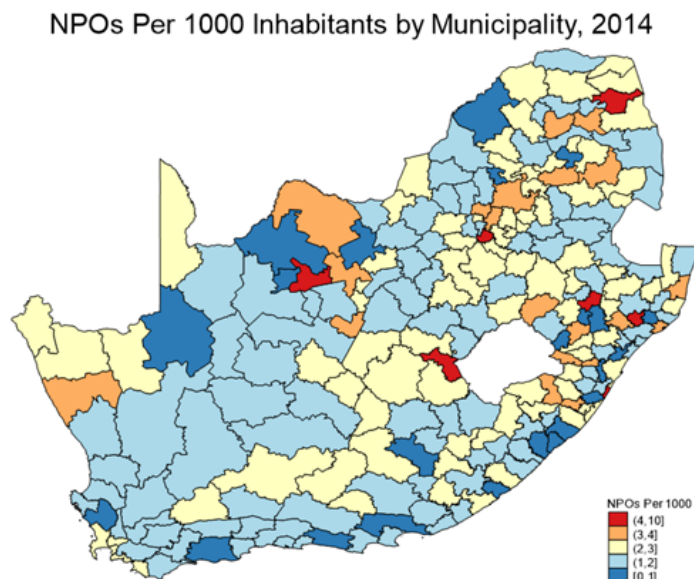


Figure 2.1: NPO Density by the municipality in South Africa

In Figure 2.2, multivariate maps relate NPO density to poverty, property ownership, municipal expenditure and proportion of people with higher education. The maps suggest the presence of

spatial dependence among the independent variables and that they have a heterogeneous relationship with NPO density. For example, the map in the top left-hand corner shows the cluster of municipalities with high poverty and above average NPO density, but at the same time one with low poverty levels and high NPO density. Similarly, in the top right-hand corner of Figure 2, the map shows that municipalities with higher property ownership tend to cluster together and to have an above average NPO density. However, some municipalities with lower proportions of property owners also have above average NPO density. A similar pattern is also evident in the relationship between density and municipal expenditure and higher education.

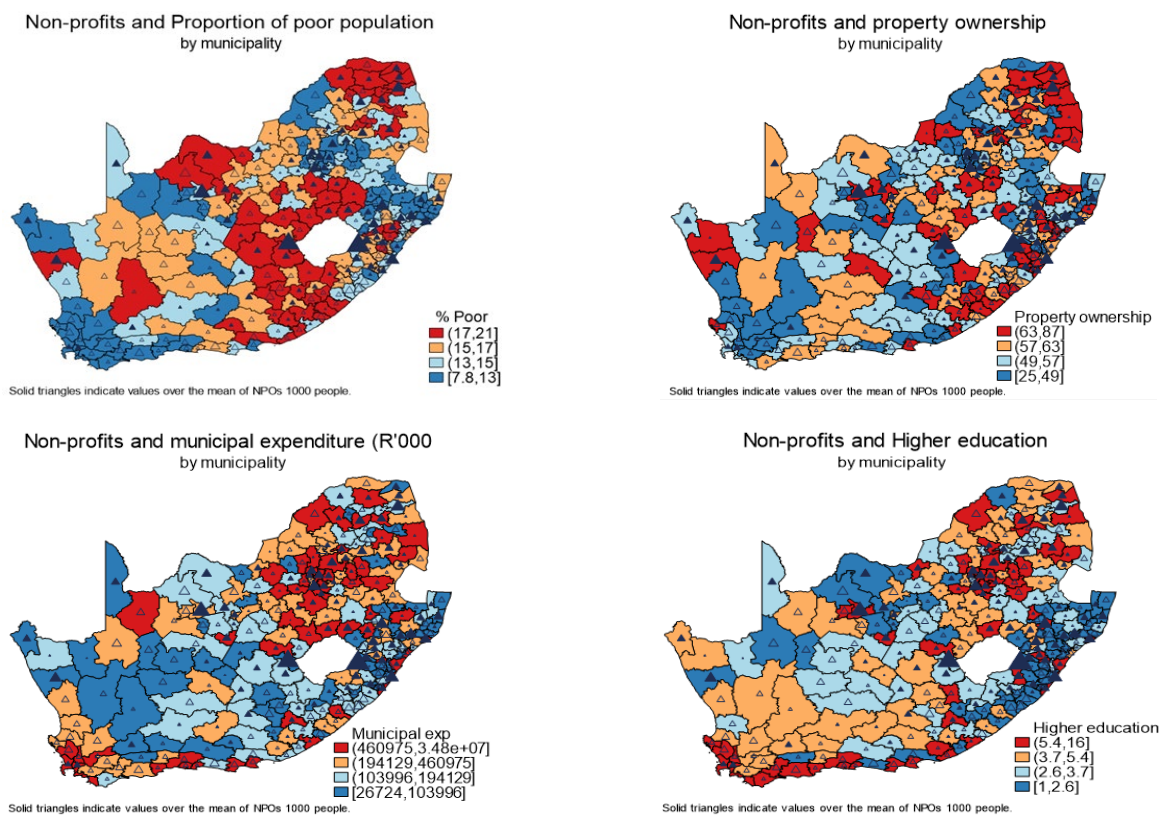


Figure 2.2: Multivariate maps of NPO density and selected covariates

(Note: The navy triangles on the map show the mean NPO density, with clear triangles illustrating NPO density below the mean and solid triangles indicating NPO density above the mean. The larger the triangle is, the greater the divergence from the sample mean.)

Moran's I estimations in Table 2.3 confirm the presence of spatial autocorrelation in both the dependent and independent variables. All the estimated statistics, except for the NPO Grant's

estimate, are significant, providing proof of global spatial autocorrelation in the dependent and independent variables.

Table 2.3: Moran's I statistics of global spatial autocorrelation for dependent and independent variables

Variables	Moran's I	E(I)	sd(I)	z	p-value
NPOs per 1000 population	0.06	-0.00	0.04	1.53	0.06
<i>Needs</i>					
Poor	0.49	-0.00	0.04	12.21	0.00
<i>Resources</i>					
Property ownership	0.14	-0.00	0.04	3.66	0.00
Municipal expenditure	0.20	-0.00	0.04	5.50	0.00
NPO Grants	-0.01	-0.00	0.03	-0.25	0.40
<i>Entrepreneurship</i>					
Higher education	0.29	-0.00	0.04	7.30	0.00

Note: The global Moran's estimates are based on a queen contiguity spatial weights matrix, which also considers areas sharing a border or a vertex.

We also examined the presence of local spatial autocorrelation in the outcome variable. The scatterplot of the estimates is presented in Figure 3; on the x-axis are the values of NPO density while on the y-axis is the spatial lag of the same variable. The bottom left-hand corner shows that low-low municipalities are located mostly in the eastern part of the country, suggesting an under-serving of municipalities and their neighbours by NPOs. Most of the eastern parts of South Africa form part of the former homelands, which suffer from low economic development and deprivation. Consequently, although the need may be there, resources for adequate NPO provision are lacking.

The upper right-hand corner in Figure 2.3 shows high-high municipalities in the northern regions of South Africa. Municipalities with high NPO density bordered by neighbours with high NPO density appear to be those that are strategically placed as metropolitans or local commercial and tourism centres in the regions. On the other hand, high-low values (where "isolated" high-density municipalities are surrounded by low-density municipalities) are most evident for municipalities in the east coast and two municipalities in the north-western parts of the country close to the Botswana border. The high-low and low-high values, therefore, suggest cross-subsidisation between high and low NPO density municipalities.

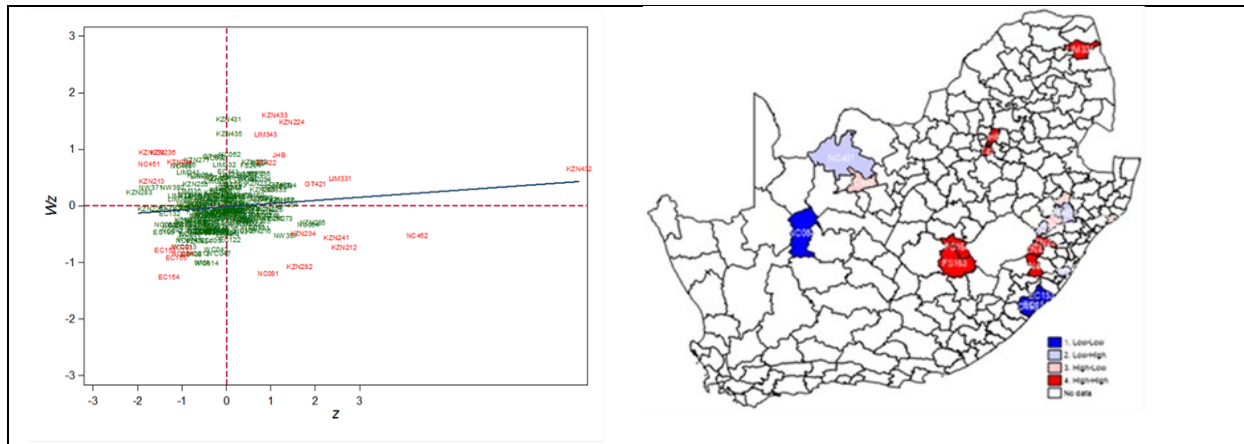


Figure 2.3: Local Moran's indicators of spatial autocorrelation in NPO Density scatterplot and cluster map

(Note: On the x-axis of the Local Moran scatter plot are the values of NPO density(z), while on the y-axis is the spatial lag of NPO density (Wz)).

The accompanying local Moran's I cluster map in Figure 2.3, which shows spatial clusters and outliers, corresponds with the result of the local Moran scatter plot. Overall, the map provides weak evidence of spatial autocorrelation in the supply of NPOs. The hot areas on the map, however, confirm the agglomeration theory's prediction of multiple equilibria, where more than one geographical area emerges as the node of activity.

Similar maps on the independent variables, poor, property ownership and higher education, are included in the appendices. Comparing the distribution of poor clusters with that of NPO density confirms the heterogeneous relationship in the spatial interaction of the two variables. The property ownership map, when compared to the NPO density map, suggest that property rights matter, as evidenced by the property ownership and NPO density hot clusters in Gauteng and Limpopo. The map on higher education is in some sense the mirror image of poverty. In Gauteng there are clusters of municipalities with high levels of tertiary educated individuals, emphasising that this region has a high supply of skills with low needs, but these combine to produce high NPO density. The Western Cape has a similar clustering of education and poverty but does not produce the NPO clustering we observe in Gauteng because there are no regions with high need in proximity.

We, therefore, have some evidence that Gauteng is a springboard for NPO activity that results from supply-side factors that serve regions in need that are "somewhat" nearby. Western Cape is too isolated from regions in need to play the same role, even though it has the right supply side

factors for filling this role. Overall, these results suggest that the spillover could occur over much larger regions, but only if the metro has enough agglomeration and is sufficiently close to an area in need.⁴ However, this pattern is isolated to a small number of localities and is not universal. The evidence from the maps suggests that different combinations of demand and supply factors relate to the spatial dependence of NPO density in municipalities in different regions.

For further detection of spatial autocorrelation, we estimated two ordinary least squares regressions (in OLS population was included to control for urbanisation economies) and applied diagnostic tests for spatial autocorrelation in the dependent variables and errors. The results are presented in Table 2.4 and provide no significant evidence of spatial autocorrelation. The spatial autocorrelation present in the dependent variable is effectively modelled by the independent variables, which exhibit similar patterns of geographic interdependence. The OLS results thus suggest that shocks to one region do not influence adjacent areas. In other words, the entries and exits of NPOs in one region do not influence organisations in neighbouring areas to either complement or provide substitutes to these movements.

Table 2.4: Ordinary least squares regressions and diagnostics test for spatial dependence in OLS errors and NPO density

<i>Dep var: NPO per 1000 population</i>	<u>OLS I</u>		<u>OLS II (population)</u>	
	<u>Coef.</u>	<u>Std. Err.</u>	<u>Coef.</u>	<u>Std. Err.</u>
Population			-0.03	0.06
Poor	0.83**	0.30	0.87**	0.32
Property ownership	0.35*	0.19	0.35*	0.19
Municipal expenditure	-0.04	0.05	-0.02	0.08
NPO Grants	0.10	0.20	0.11	0.20
Higher education	0.74***	0.13	0.73***	0.13
Diagnostic tests for spatial dependence				
<i>Spatial error:</i>				
Moran's I		INS		INS
Lagrange multiplier		INS		INS
Robust Lagrange multiplier		INS		INS
<i>Spatial lag:</i>				
Lagrange multiplier		INS		INS
Robust Lagrange multiplier		INS		INS
N		234.00		234
R-squared		0.19		0.17

*0.05 **0.01 ***0.001 INS: Insignificant

⁴ Considering these observations, we examined the effects of education employing a distance weight with a wider cut-off. The effects of education remained the same, however both the spatial lags of education and NPO density became insignificant.

It is, of course, possible that this spatial interaction does occur within municipalities. This analysis, however, shows that few cross-municipal spillovers exist when the number of NPOs changes. Nonetheless, we proceeded with SDM regressions because of the spatial autocorrelation in the independent variables illustrated in both the global and local indicators of spatial association. We also continued with the SDM models to control for other latent traits that were not accounted for by the observed covariates.

2.7.2 Spatial autocorrelation in the NPO sector

The results of the GS2SLS-SDM models including variants where we controlled for population size are presented in columns I to VI in Table 2.5. The coefficients represent the elasticity of NPO density in relation to the chosen needs, resources, and entrepreneurship variables. The dependent and independent variables with non-zero and continuous values were logged to deal with the non-normality in the model variables.

Table 2.5: Generalised spatial two-stage least squares (GS2SLS) Spatial Durbin Model (DSM) Regressions of NPO density

<i>Dep var: NPO per 1000 population</i>	<u>GS2SLS-DSM (Lagged poor)</u>				<u>GS2SLS-DSM (Lagged property ownership)</u>				<u>GS2SLS-DSM (Higher education)</u>			
	<u>Model I</u>		<u>Model II</u>		<u>Model III</u>		<u>Model IV</u>		<u>Model V</u>		<u>Model VI</u>	
	<u>Coef.</u>	<u>Std.Err.</u>	<u>Coef.</u>	<u>Std.Err.</u>	<u>Coef.</u>	<u>Std.Err.</u>	<u>Coef.</u>	<u>Std.Err.</u>	<u>Coef.</u>	<u>Std.Err.</u>	<u>Coef.</u>	<u>Std.Err.</u>
Population			-0.04	0.07			-0.02	0.06			-0.02	0.06
Poor	-0.07	0.49	0.02	0.48	0.56*	0.34	0.61*	0.35	0.20	0.42	0.29	0.43
Property ownership	0.48**	0.20	0.47**	0.20	0.44**	0.20	0.44**	0.20	0.47**	0.20	0.46**	0.20
Municipal expenditure	-0.09*	0.05	-0.05	0.08	-0.08	0.05	-0.05	0.08	-0.08	0.05	-0.06	0.08
NPO Grants 2013	0.22	0.21	0.22	0.21	0.18	0.21	0.18	0.21	0.23	0.22	0.22	0.21
Higher education	0.58***	0.15	0.57***	0.15	0.69***	0.13	0.68***	0.14	0.66***	0.14	0.66***	0.14
<i>Spatially Lagged Vars</i>												
NPO per 1000	0.85**	0.33	0.81***	0.33	0.49	0.30	0.45	0.29	0.82**	0.37	0.74**	0.36
Poor	0.71**	0.36	0.70**	0.36								
Property ownership					-0.04	0.06	-0.04	0.06				
Higher education									-0.08**	0.05	-0.07	0.04
Direct Impacts												
	<u>dy/dx</u>	<u>Std.Err.</u>	<u>dy/dx</u>	<u>Std.Err.</u>	<u>dy/dx</u>	<u>Std.Err.</u>	<u>dy/dx</u>	<u>Std.Err.</u>	<u>dy/dx</u>	<u>Std.Err.</u>	<u>dy/dx</u>	<u>Std.Err.</u>
Population			-0.05	0.08			-0.02	0.07			-0.02	0.07
Poor	0.11	0.41	0.20	0.42	0.58*	0.34	0.64*	0.35	0.24	0.46	0.33	0.45
Property ownership	0.59	0.36	0.57*	0.32	0.46**	0.21	0.45**	0.21	0.57*	0.34	0.53**	0.28
Municipal expenditure	-0.12	0.09	-0.07	0.10	-0.08	0.06	-0.06	0.08	-0.10	0.08	-0.07	0.10
NPO Grants_2013	0.27	0.30	0.26	0.28	0.19	0.22	0.19	0.22	0.27	0.29	0.25	0.26
Higher education	0.72***	0.24	0.68***	0.20	0.72***	0.14	0.71***	0.14	0.79**	0.26	0.75***	0.19
indirect impacts												
Population			-0.13	0.35			-0.02	0.05			-0.05	0.16
Poor	3.25	6.72	2.89	4.96	0.43	0.46	0.42	0.44	0.68	1.22	0.65	0.90
Property ownership	2.02	5.25	1.55	3.39	0.27	0.36	0.24	0.31	1.59	3.99	1.03	2.00
Municipal expenditure	-0.40	1.08	-0.18	0.49	-0.06	0.09	-0.04	0.07	-0.27	0.71	-0.13	0.32
NPO Grants 2013	0.91	2.59	0.71	1.73	0.14	0.25	0.12	0.22	0.77	2.12	0.49	1.09
Higher education	2.47	5.84	1.86	3.62	0.54	0.60	0.47	0.52	2.23	5.15	1.46	2.55
Total impacts												
Population			-0.17	0.41			-0.04	0.11			-0.07	0.23
Poor	3.36	6.69	3.09	4.92	1.02	0.63	1.05*	0.63	0.92	1.47	0.98	1.13
Property ownership	2.61	5.56	2.12	3.65	0.73	0.53	0.69	0.48	2.16	4.27	1.56	2.21
Municipal expenditure	-0.51	1.15	-0.25	0.57	-0.14	0.14	-0.09	0.15	-0.37	0.77	-0.19	0.40
NPO Grants 2013	1.18	2.83	0.97	1.95	0.33	0.45	0.31	0.41	1.04	2.35	0.74	1.30
Higher education	3.20	6.03	2.55	3.75	1.26**	0.65	1.18**	0.57	3.02	5.36	2.21	2.68
N		234		234		234		234		234		234
Pseudo R2		0.075		0.0848		0.1457		0.1457		0.0811		0.1032

*0.05 *0.01 ***0.001

The results show that the spatial term is both positive and significant, except for when we control for the spatially lagged property ownership variable (in III and IV), which provides partial support for Proposition I and agglomeration theory. A one percentage point increase in NPO density in adjacent municipalities increases NPO density in a municipality by 0.85% points and 0.81% points in Models I and II, and 0.82 and 0.74 percentage points respectively in Models V and VI. The findings are like those reported by Da Costa (2016), who found spatial effects in the NPO sector in Brazil.

In terms of the other covariates, the results varied. Proposition IIa was partially supported; need (logged proportion of people living in poverty) only had a direct and significant impact in the property ownership models III and IV, where a percentage point increase in poverty increases NPO density by 0.58 and 0.64 % points, respectively. The positive sign of the variable in all the models is, however, as expected, and supports the findings of other studies that showed that poverty plays a role in the location decisions of NPOs (Koch *et al.*, 2008; Peck, 2008; Yan *et al.*, 2014). The results partially contradict Peck's (2008) conclusion that needs are the most significant predictor of locations.

On the other hand, the coefficient for the spatially lagged counterpart of poverty is both positive and significant, with moderate effects even when we controlled for population. The results thus support Proposition IIb, that is, an increase in the number of poor people in neighbouring municipalities corresponds with an increase in NPO density. This result can be explained by people demanding NPO services outside of their municipalities. It could also be that NPOs have a wider reach into adjacent municipalities.

Among the resource variables, philanthropic propensity (property ownership) appears to explain NPO density better than government expenditure. Property ownership consistently shows positive and significant direct impacts on NPO density, providing support for Proposition IIIa. A percentage increase in the variable correlates with a 0.44 to 0.48 %-point increase in the NPO density.

Proposition IIIb is, however, not supported. The lagged property ownership variable is positive and remains within a similar range. However, it is insignificant, suggesting no spatial dependence

between property ownership and NPO density. The wealth of adjacent regions, therefore, does not spill over into poor municipalities.

The findings provide no evidence to support Proposition V that municipalities with greater public spending or grants to NPOs have a higher NPO density. The result remains unchanged even when we substitute per capita expenditure in the specifications. Instead, the sign of the municipal government expenditure variable is negative and only significant when we control for population and the spatially lagged poor variable. The negative sign is in line with Lui's (2016) results but differs from Saxton and Benson's (2005) findings. It is, however, important to note that Saxton and Benson's (2005) coefficient was close to zero. The results suggest that government expenditure is crowding out voluntary initiatives, which happens because the municipality is already catering to the needs of its residents. The grants variable is consistently positive, which is in line with Lui's (2016) findings but not significant. The insignificance may be due to the small size of the sub-sample of municipalities making provisions for NPO grants, in other words, only 12 of the 234 municipalities.

The results on the proportion of the population with a tertiary education, which was included as a proxy for entrepreneurship, proved to be a significantly important correlate of NPO density. The findings thus support proposition V: the proportion of the population with higher education has a significant and large effect on NPO density. Nevertheless, the adjacent location effect is negative. This result suggests that agglomeration benefits exist from having a large skilled and knowledgeable population. These benefits reinforce concentration because NPOs are attracted to places with higher skills and knowledge away from those with lower education levels.

Liu (2016) also reported a strong relationship between educational attainment and the size of the NPO sector, which is like our results although we used different measures for education; Liu used the median years of educational attainment, while we used the proportion of post-school educated individuals. These results are supported by Van Puyvelde and Brown's (2016) argument that a higher proportion of people with higher education support a larger NPO sector because better-educated individuals are potential entrepreneurs. The results should, however, be interpreted with caution, as the variable may capture the broader agglomeration benefits of labour and knowledge spillovers rather than pure entrepreneurship.

We found no evidence to support Proposition VI: the greater the population, the higher the NPO density in a municipality. The population variable has a negative, but negligible and insignificant impact on NPO density. We, therefore, do not necessarily find that there are scale effects in NPO locations. However, the insignificant results could also be because the effects of population are captured by the municipality government expenditure variable, which is highly and significantly correlated with population. That said, these results are in line with those of Saxton and Benson (2005) but contradict Brass' (2012) report of a positive correlation between NPO size, population size and density. They are also different to Harrison and Thornton's (2014) report of a positive relationship between population and NPO activity.

2.8 Conclusion

Considering the needs of communities in NPO decision making is important not only for improving their efficiency but more significantly their responsiveness to the needs of the people they serve. This research, therefore, made the argument that if NPOs are indeed responsive to needs, there should be a positive and significant correlation between needs and where they are most likely to be found as they respond to a demand for their services in those areas. However, we conceded that need alone may not be enough and that a combination of needs, resources and entrepreneurship in each location will affect NPO activity. Financial and human resources are required to initiate an NPO and ensure its sustainability.

Consequently, this research aimed to examine which South African municipalities are likely to experience high concentrations of NPOs, and the role played by demand and supply factors, as well as the NPO activity in neighbouring areas in explaining that distribution. To achieve these aims we formulated propositions based on Krugman's (1998) agglomeration and Wilson's (1989) NPO spatial theories and tested them by applying spatial econometric analyses on South African data.

The research provides evidence to support Krugman (1991) and Wilson's (1989) theories, i.e. it confirms that NPOs in the country are accountable in terms of being responsive to needs in making location decisions. As predicted by Krugman (1991) and Wilson's (1989) theories, the results show that some municipalities attract more NPOs, leading to a concentration in those areas. Furthermore,

the positive significant lagged NPO density results suggest that the agglomeration of NPOs is diffused over larger areas.

Additionally, in line with Wilson's (1989) spatial theory, the results provide evidence that needs, resources and entrepreneurship all contribute to the spatial distribution of NPOs. The support of Proposition IIa in both the OLS models and in the GS2SLS-DSM III and IV, where we controlled for the spatial dependence in property ownership, suggest that need has a direct effect on the level of NPO activity within a municipality. Furthermore, support for Proposition IIb, i.e. the greater the level of need in neighbouring municipalities the higher the NPO density, suggests cross-subsidisation. In societies where there is less integration, and rich areas exist alongside poor areas. The needs of the poor may be met by organisations in wealthier regions, leading to a situation of cross-border spillovers in the correlation of need with NPO density. As previously mentioned, this cross-subsidisation is not limited to unequal societies like South Africa. In other places, it could manifest between more urbanised resource-rich and rural resource-poor municipalities.

Thirdly, resources and entrepreneurship are the main centripetal forces driving the agglomeration of NPOs in South Africa. The consistently positive and significant direct effects of property ownership (philanthropic propensity) signals the availability of the crucial financial resources required to start and run NPOs. Additionally, higher proportions of individuals with tertiary education (entrepreneurship) show that more individuals can identify opportunities and take the risk of starting an NPO.

Based on the results, we can conclude that NPOs in South Africa are accountable in terms of responding to places in need when it comes to their location decisions. The diffusion of their services across municipal borders also suggests that they may be accountable to higher values of equality and social justice. The results, however, also show the importance of resources and entrepreneurship, supporting previous arguments that NPOs are both charitable and pragmatic in choosing their locations (Bielefeld & Murdoch, 2004).

This study is not without limitations, which are mainly related to the nature of South African data and the included covariates, in other words, there is a high correlation between needs, resources and entrepreneurship indicators. To avoid this in future research, research can use other proxies to account for these factors. For example, measures of self-employment can be used as proxies for

social entrepreneurship in the absence of NPO entrepreneurship data. Additionally, the aggregated nature of the data did not allow for an adequate examination of the nature of the heterogeneity in the relationship between NPO density and the selected independent variables that were illustrated in the multivariate maps. Future research can thus use point data or data at a more local level to investigate NPO locations and the different demand and supply combinations that explain their distribution in different provinces or regions.

Despite these limitations, the study makes an important contribution to the study of NPO locations by examining the effects of spatial dependence on both the dependent and independent variables. Accounting for spatial autocorrelation in the independent variables, to our knowledge, has not yet been examined in studies investigating NPO density and locations. We are the first to study spillovers in supply-side factors, noting that neighbouring areas can compensate for a lack of resources in one area. Demand spillovers are the reverse of this coin, i.e. demand in one area can be met by NPOs located elsewhere.

As a result, a larger geographic reach of organisations can equalise cross-border inequalities. The result is that NPOs can be highly concentrated in small regions but extend their reach beyond their locations. Furthermore, in line with previous research, the results illustrate that modelling spatial association in the independent variables could shed further light on the spatial factors of NPO density (Bielefeld & Murdoch, 2004).

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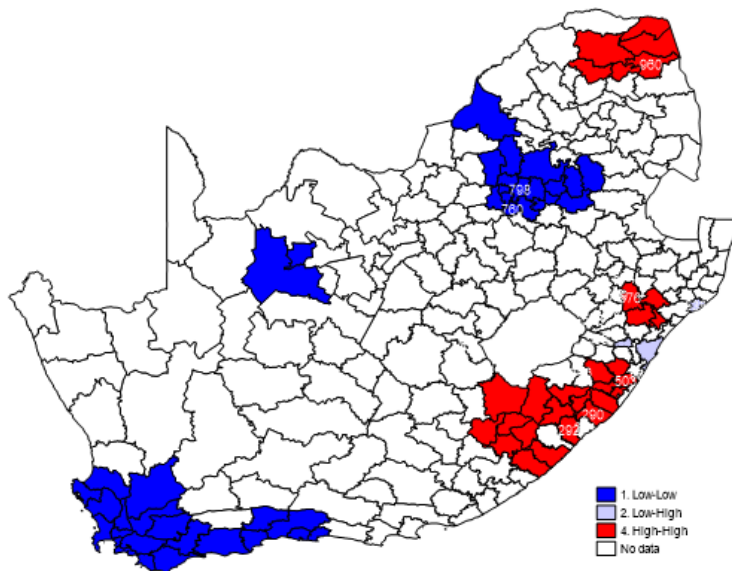
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Appendices

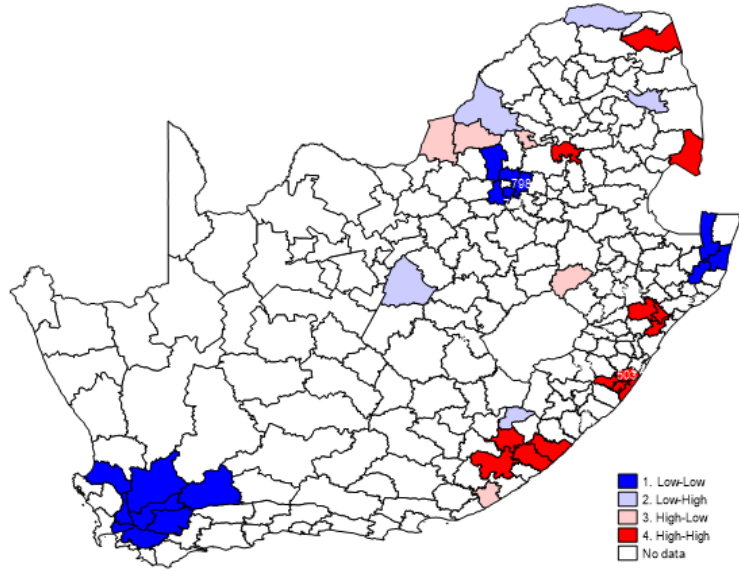
A1: Pairwise correlations of dependent and independent variables

	NPO per 1000	Population	Poor	Property ownership	Municipal expenditure	NPO Grants 2013	Higher education
NPO per 1000	1						
Population	0.14**	1					
Poor	-0.14**	-0.31***	1				
Property ownership	0.10	0.03	0.29***	1			
Municipal Exp 2013	0.14*	0.97***	-0.36***	-0.03	1		
NPO Grants 2013	0.13*	0.70***	-0.30***	0.05	0.71***	1	
Higher education	0.28***	0.51***	-0.78***	-0.15**	0.55***	0.46***	1

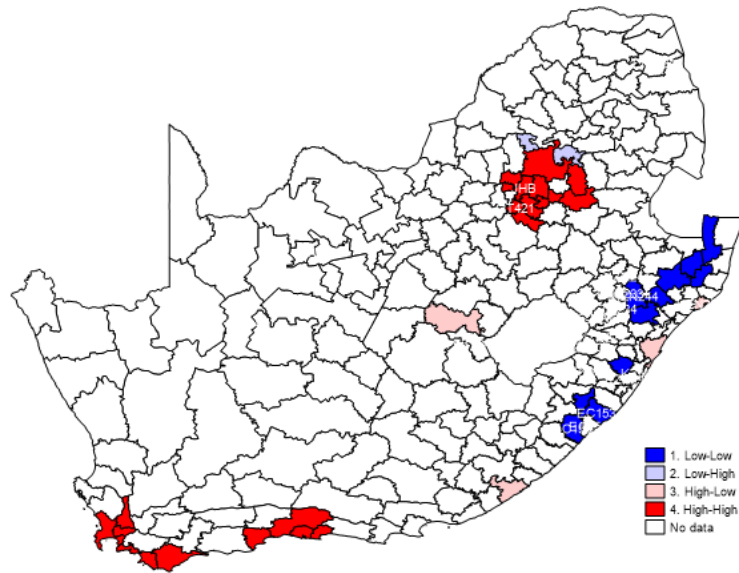
*0.05 *0.01 ***0.001



A2: Local Moran cluster map of poverty across South African municipalities



A3: Local Moran cluster map of property ownership across South African municipalities



A4: Local Moran cluster map of tertiary education across South African municipalities

CHAPTER 3: COMMUNITIES AS PRINCIPALS: A FRAMEWORK TO UNDERSTAND NON-PROFIT ACCOUNTABILITY TO CLIENT-COMMUNITIES

Abstract

The aim of this chapter is to introduce the concepts and theories that form the theoretical building blocks for the subsequent chapters of this dissertation. The aim is to develop a theoretical framework to guide this and future research in the study of the factors that impact on the accountability of non-profits to communities. After a discussion of the meaning of NPO accountability to communities, the chapter discusses the purpose of accountability to these stakeholders based on agency theory and the rights-based development paradigm arguments. The chapter then develops a model and propositions that could guide this and future research on the topic.

Keywords: principal-agent, rights-based approach, client-communities, accountability

3.1 Introduction

Despite the positive rhetoric for greater accountability to constituent communities and the recognition of their importance. The role of community-facing accountability in NPOs is treated as subsidiary to that of donors and governments. One of the obstacles is the absence of a clear theoretical framework that articulates why, how and for what NPOs need to account to communities. There is an absence of academic literature, which focuses on the economics of the principal-agent relationships between client-communities and NPOs, except for the works of Burger (2009); Burger and Owens (2010) Burger, Dasgupta and Owens (2015) as well as Wellens and Jegers (2011 & 2014). These studies have however investigated the participation of client-communities in NPO operations at various levels due to the difficulty of measuring and finding the correct proxies for this form of accountability.

In this chapter, a theoretical framework is formulated using insights from the accountability literature, as well as, principal-agent theory complemented by the ‘rights-based approach’. The framework focuses exclusively on the accountability of NPOs to communities due to the limited focus given to this area of research in economics. The framework explains what is meant by accountability to client-communities and why NPOs should be accountable to this constituent. It also includes a model and propositions that could guide this and future research on the factors that may influence NPOs’ decisions and practices related to accountability to communities. The framework formalises the role of the client-communities as principals of NPOs and as claim-holders with a right to active participation in decisions that affect them. Furthermore, it also provides a basic model, which can be used to understand the trade-offs considered by organisations in their accountability choices.

In the following section, the chapter presents a discussion of the meaning and purpose of NPO accountability to client-communities. The section starts by defining accountability broadly and client-community accountability. It then discusses the role of participation and power imbalances in NPO stakeholder relations and their consequences for effective accountability practices to communities. An overview of principal-agent theory and its application to NPOs as well as the ‘rights-based approach’ to development then follows. The chapter then discusses the role of client-communities as principals, why it is complicated but legitimate, why the communities role is

important for development outcomes and for their empowerment to claim a place in decisions that affect their lives. It then develops a client-community accountability model and concludes with a set of propositions. The model and propositions can inform future economic research in the area. Chapter 5 and 6 address two of the propositions.

3.2 The Meaning of Accountability

Many definitions have been put forward to describe what accountability is, the one by Edwards and Hulme (1996, 8) who describe accountability broadly as “a means through which individuals and organisations are held responsible for their actions”, is the one often used. Accountability is a process through which an NPO openly acknowledges its responsibility for what it believes and its behaviour in a manner that illustrates participatory values and learning (Slim, 2002). Ebrahim (2003a) notes that it is the way “organisations and individuals take internal responsibility for shaping their organisational mission, values, for opening themselves to public scrutiny and for assessing performance in relation to goals” (Ebrahim, 2003a, 815). Accountability can thus be an expression of duty that is inspired by “‘felt responsibility’ reified through individual action and organisational mission” (Ebrahim, 2003a, 814). An external stakeholder can also coerce responsibility through contracts and regulations.

Grant and Keohane (2005, p. 29) argue that “accountability implies that the actors being held accountable have obligations to act in ways that are consistent with accepted standards of behaviour and that they will be sanctioned for failures to do so”. Consequently, the concept assumes a relationship between those with power and the parties owed accountability where there is an agreement with regards to the standards for accountability and the authority of the parties to the relationship. Accountability, therefore, encompasses shared expectations, giving a common currency for justification, putting agreements into context, and providing a sense of obligation or a right to be called to account (Kilby, 2006). Besides, for real accountability to take place rectification or change should be a real possibility. Which is why Kilby (2006, 954), quoting Mulgan (2003), points out that it is the degree of rectification or changes that can be claimed that measures the strength of accountability.

3.2.1 Accountability process

Consequently, accountability refers to a process with several components. They include the formulation of shared expectations and an agreement on commitments in terms of what will be done, for whom and what the measures of success will be. Secondly, it involves the generation and reporting of information on relationships, intent, aims, methods and impact (Slim, 2002). However, reporting need not and should not be one-sided: both the NPO and respective stakeholders can generate and report information. For example, field office visits by donors generate information of importance to relate back to the NPO, which helps it achieve its organisational goals. Similarly, clients generate relevant information through their use of NPO goods and/ or services. The feedback they give is also a form of reporting.

Thirdly, the NPOs should respond to information provided; and rectify or apply reforms where necessary considering the available human and financial resources as well as the implications for their relationship with other stakeholders. Fourthly, credible recourse in the form of rewards or sanctions depending on the actions taken by the NPO should be articulated and lastly, opportunities for mutual learning by all parties in the accountability relationship should be available.

Now that we have presented the broad principles of accountability, it is important to discuss who we refer to by client-community and what it means for organisations to be accountable to these constituents. This is important because NPOs have multiple accountabilities to their different stakeholders who have different ideas of what the NPO should be held responsible for.

3.2.2 Client-community accountability

In the literature, client-community accountability is termed ‘downward’ accountability and is often juxtaposed to ‘upward’ accountability to stakeholders such as trustees, donors, and governments (Edwards & Hulme, 1996, p. 8), because communities occupy the lowest position in the power hierarchies manifest in NPO stakeholder relations (Murtaza, 2012). This research adopts the term ‘client-community’ from Barr and Fafchamps (2005) who used it to refer to the communities served by NPOs. In this study, the term refers broadly to direct clients and the broader community, which includes the people around the location of the organisation. But, for brevity, I will sometimes use ‘client’ and ‘community’ to refer to these stakeholders. That said, client-community

accountability in this research is defined as accountability to the stakeholders who make use of the goods and services delivered by NPOs or who are affected by the externalities generated by their operations.

Bawole and Langnel (2016, p. 922) present this accountability as “the relationship between NPOs and their clients” but go further to note that it is “where NPOs interact and learn mutually with clients”. Najam (1996) and Ebrahim (2003a) identify NPO clients as individuals or groups to whom NPOs provide goods or services. These groups also include those people who are in the “catchment of an NPO’s activities, indirect clients such as the community at large” (Najam, 1996, p. 345).

3.2.3 Participation and accountability

Having the platforms in place to ease interactions, and the mechanisms to gather stakeholder inputs are important for the execution of the responsibilities towards communities: meaningful participation is thus a prerequisite. However, the benefits of participation only can be realised if client-communities truly have the space to influence organisations (Agyemang *et al.*, 2009, p. 28). According to Cronin and O’Regan (2002), participation may influence the achievement of accountability through growing the information base and easing channels of communication. When implemented correctly, participation can also empower communities and improve inequalities and social cohesion. Niyizonkiza and Yamamoto (2013) thus argue that resentment and hostility follow when empowered and active participation is absent in development initiatives.

Participation is empowering if stakeholders are involved in all stages of the project cycle (Helvetas, 2015). When all stakeholders are properly included the organisation is able to accommodate different views and foster ownership, and commitment. Consequently, for participation to have an impact on accountability, it needs to be meaningful. The ideal form of participation would then be when communities identify their problems, make all key decisions on what their needs are, and how to address them with the available resources (Cronin & O’Regan, 2002, p. 14). This interaction between communities and NPOs would involve communities actively taking part in the planning, implementation and evaluation of development projects (Niyizonkiza & Yamamoto, 2013).

Ebrahim (2003a) labels this form of engagement, ‘level four’ participation, where ‘citizens own initiatives’, but in most development initiatives ‘level, three’ is more likely the level of participation. Level three is when citizens can negotiate over decisions and have control over identifying their local needs and the resource allocations required to address them (Ebrahim, 2003a, p. 819). Level two participation, on the other hand, is characterised by involvement in NPO activities and could include in-kind and financial contributions towards the running of NPO projects (Ebrahim, 2003a, p. 819).

Level one participation is when communities are informed and give feedback about the decisions already taken by the organisation. At this level, participation can involve the use of public meetings or hearings, surveys, or a formal dialogue on project options. Ebrahim (2003a, p. 818) notes that at this level participation becomes a ‘sham ritual’ of consultation with community leaders and members, while decision-making power is still with the project planners. For example, in Ghana where clients were included in the decision-making process but had limited influence because the NPO came with pre-packed decisions (Bawole & Langnel, 2016). Najam (1996) raised concerns about this instrumentalisation of participation where communities are brought in to validate already made decisions because they are left with no platform to influence organisational decisions (Najam, 1996, p. 346). The ability of communities to effectively engage with organisations may also be frustrated when the process is not inclusive, empowering, and creating an environment conducive to discussions (Walsh, 2016).

3.3 Purpose of Client-community Accountability

This section uses principal-agent theory and the ‘rights-based approach’ to explain the purpose of NPO accountability to communities.

3.3.1 Principal-agent theory relations

In the field of economics, the principal-agent theory applies best to contractual relations in for-profit firms. The NPO organisational form makes the application of theory more complicated. Just as a for-profit a non-profit firm is a ‘legal fiction’ which serves as a nexus where “conflicting objectives of entities are brought into equilibrium within a framework of contractual relations⁵

⁵ Steinberg (2010), argues that contracts need not be legal and formal.

“(Jensen & Meckling, 1976, p. 311). However, they differ in that no entity is entitled to the organisation’s financial surpluses except for the organisations themselves (Fama and Jensen, 1983). The non-distribution constraint states that NPOs cannot distribute profits to their members or executives (Hansmann, 1980 & 1987). As a result, NPOs have no residual claimants or residual risk bearers, with legal rights to the firm’s profits (Fama & Jensen, 1983).

The absence of legal residual claimants has sparked debate about the impact on organisational performance and the behaviour of agents. However, the assumption is that the NPO form buffers principals from the opportunistic behaviour of agents. Principals see them as the more trustworthy organisational form relative to their for-profit counterparts under the condition of information asymmetry and contract failure and in the delivery of goods which have some public and quasi-public characteristics (Steinberg, 2006). The non-distribution constraint inspires the principals to see NPOs as a solution to the ‘contract failure’ that arises when output and quality of the good or service cannot be easily judged (Steinberg, 2006, p. 119).

Additionally, NPO theory states that altruistic entrepreneurs self-select into the sector because they care less about pecuniary rewards and more about the quality and quantity of the goods provided and mission attainment (Rose-Ackerman, 1996). Evidence has, however, shown the existence of for-profits in disguise who maximise their utility by extracting rents and acting opportunistically (Young, 2000). The presence of opportunisms may be amplified in developing countries characterised by a lack of opportunities, which causes this self-selection mechanism to fail. The non-distribution constraint may also have an insignificant effect in this context where regulating institutions are weak to guard against the erosion of the credibility of the constraint. This thus raises questions about the applicability of these theories in developing country contexts such as South Africa.

That said, though the non-distribution constraint has engendered perceptions of trustworthiness in the sector it has not eliminated opportunistic behaviour by some actors. As a result, principal-agent relations in NPOs are not immune to agency problems, which result from the unobservable behaviour of NPOs as agents⁶. In the absence of performance-based contracts as a viable solution

⁶ Steinberg (2010), however, identifies nine types of agency problems that may arise in principal-NPO relationships.

due to the type II character of most non-profit goods which make them hard to measure (Steinberg, 2010; Van Puyvelde *et al.*, 2012). Type II goods have quality and quantity characteristics that are difficult to observe and as a result, they “cannot be enforceable written into contracts, cannot affect the firm’s reputation, and cannot trigger refunds when money-back guarantees are offered” (Steinberg, 2010, p. 96).

Non-profit accountability acts to reassure principals that the organisation will not take advantage of the information asymmetry between them. It is the process through which the NPO satisfies its respective principals that it is acting in their best interest and is still committed to upholding their agreement. NPO accountability entails the principals’ “right to require an account” from the NPO as well as the right to recourse when the account is given, or the actions accounted for are unacceptable (Leat, 1988). It is when the NPO reports to the principal and is held responsible for his or her actions (Coule, 2015).

Availability of information is therefore key in holding an NPO accountable, and so is the principal’s access to information about the agent’s behaviour. The intuition is, “when the principal has [full] information to verify agent behaviour, the agent is more likely to behave in the interest of the principal” (Eisenhardt, 1989, p. 60). Non-profit principals obtain this information through various monitoring mechanisms including participation, reports, evaluations, and site visits. Monitoring the agent’s actions informs the principal about the actions of the NPO, but when it is meaningful, it helps to manage the principal’s expectations with regards to what the NPO can achieve. Monitoring the NPOs behaviour helps the principal to distinguish whether the outcomes of NPO projects are the result of the organisation’s actions or factors beyond its control (Levinthal, 1988). Burger and Owens (2010, p. 1270) warn against over-reliance on NPOs’ self-reported information as it could be unreliable. Besides, transparency, which, mobilises the power of shame, does not affect the shameless (Fox, 2007). However, Holmström (1979, p. 75) argues that “any additional information, however imperfect, can be used to improve the welfare of both the principal and agent”.

NPO principals can also formulate outcomes-based contracts, which transfer some of the risks to the agent (Eisenhardt, 1989). The treatment of grant payments by some donors is an example of this. Usually, donors pay the first tranche of the funds at the beginning of the project and provide

follow up payments at a point in the future subject to the NPO meeting certain requirements. On other occasions, donors fund the project and provide repeated funding after they are satisfied with the NPOs' actions and outcomes of the project.

3.3.1.1 Critique of application of principal-agent theory

Some studies have critiqued the application of principal-agent models in the NPOs sector (Coule, 2015; Ebrahim, 2003a). The concern is that the theory has the potential to inspire narrow interpretations of accountability, which may have a limited positive impact on the organisations or their accountability (Coule, 2015). Application of the theory has also been accused of encouraging prioritisation of accountability to donors and governments who have the means to enforce contracts; tools to extract information, however imperfect, and the incentives to reward or punish compliance or non-compliance. The models are thus noted to neglect accountability to other stakeholders, especially clients. This neglect may be the result of the use of narrow legal or management definitions, which see principals only as those stakeholders whose relationship is enforced in a legal contract or who exchange financial resources for NPO goods and services.

Though the theory is mainly applied to relationships in for-profit firms in the field of economics, it has wide applicability (Ross, 1973). The focus of the theory is on general principal-agent relationships, like those between NPOs and their stakeholders and deciding the best contract and means to enforce it (Eisenhardt, 1989). The models, therefore, need not bias accountability to one group of stakeholders at the expense of another, as Jegers (2015) and Gailmard (2012) argue. Principal-agent models can be applied to a multitude of relationships including those between client-communities and NPOs.

Ebrahim (2003b) also raised concerns about principal-agent models. He notes that the models ignore the challenges that arise from misaligned interests between the NPOs and their principals, which cannot be corrected by monitoring and incentives. Additionally, principal-agent models fail to adequately address the negative incentives that may arise from the implementation of such measures (Ebrahim, 2003b). Furthermore, the models also neglect that accountability can stem from internal rather than external motivations and they downplay the role of the principals' influence on NPOs' behaviour. The models also do not adequately address the tensions that may arise from NPOs accountability to multiple principals (Ebrahim, 2003b).

Despite the limitations, the theory can still offer much insight in understanding the relationship between NPOs and their stakeholders. Du Bois, Caers, Jegers and De Gieter (2004) note that it can improve our understanding of the behaviour of non-profit firms. Peterson (2010) further notes that the usefulness of the theory rests in its ability to predict decisions and relationships. Agency theory shows the effect of contractual arrangements on performance (Steinberg, 2010). These contracts or internal "rules of the game" specify the rights of each agent in the organisation, performance criteria on which agents are evaluated, and the payoff functions they face." (Fama & Jensen, 1983, p. 302). The theory is thus useful for understanding accountability problems as interaction issues between the NPO and its stakeholders, and to think about accountability as a solution with the end of creating mutual benefit for both the agent and principal.

The short-coming of agency theory is that it "is not, by itself, normative" (Steinberg, 2010, p. 80). This complicates the theory's ability to fully capture the role of client-communities as principals. The complication may stem from the models being mainly used to explain principal-agent relations in for-profit firms where the shareholders have a financial claim on the organisations' profits: the expectations of shareholders are clear, and contracts protect their rights in law. The situation is different when it comes to the case of client-communities, they have no formal contract to govern their relationship with the NPO as in the case of donors and governments.

The study introduces the 'rights-based' approach to deal with the normative dimension absent in agency theory. The approach complements principal-agent theory by formalising the role of client-communities as principals and the responsibility of the organisations towards them. The rights-based paradigm names the responsibilities the NPO as duty bearer has to client-communities as right holders. Though rights, as formulated in the approach, are not legally binding: they a normative value category.

3.3.2 Rights-based approach

The development sector adopted the 'rights-based approach' in the 1990s to improve development outcomes by putting the recipients of development projects at the centre. The approach helps to identify who has rights, what they are and who is responsible for fulfilling them (O'Dwyer & Unerman, 2010, p. 452). It focuses on defining people's rights as laid down in international conventions and then empowers them to claim those rights, which are justified based on normative,

pragmatic and ethical arguments. The focus on rights adds the value dimension and politicises development as it is grounded in human rights legislation, which moves development from the realm of charity to claims (Cornwall & Nyamu-Musembi, 2004).

The approach, therefore, involves a paradigm shift from thinking of development as a need and development work as a gift to rights, entitlements and an emphasis on the accountability of all development actors whose actions impacts on the development process. The approach also focuses on minimising power differentials between the people who implement, and those affected by development programs. Community development approaches that focus on shifting of power back to communities by harnessing their capabilities to address development needs reinforce these ideas (Eisenberg, 1998; Kretzmann & McKnight, 1993; Mathie & Cunningham, 2003; Niyizonkiza, & Yamamoto, 2013). For example, the Asset-based Community Development (ABCD) approach and Community Philanthropy. The ABCD approach responds to the challenges of harnessing opportunities for sustainable development and claiming and retaining the rights and entitlements of state and global citizenship” (Mathie & Cunningham, 2003, p. 475).

The ABCD approach is premised on communities taking the lead in their development process by creating local economic development through identifying and mobilising “social assets, the talents of individuals, as well as the social capital inherent in the relationships that fuel local associations and informal networks” (Mathie & Cunningham, 2003, p. 474). Community philanthropy is also about changing power asymmetries in favour of communities. The idea is that when communities co-invests in the betterment of their own lives, they are motivated to take ownership, to be concerned about the outcomes and to protect their collective interests (Hodgson & Pond, 2018). In turn, the power dynamics between the development implementers and the community change resulting in trust, transparency and better community-faced accountability (Hodgson & Pond, 2018). Consequently, the rights-based accountability agenda emphasises that communities are the rightful and legitimate claimants and not passive recipients of development (Gaventa, 2002).

Within the right-based paradigm accountability to communities involves the NPOs recognition of their rights and taking the required steps to fulfil them. It, therefore, entails “designing accountability mechanisms emphasising participatory partnerships aimed at enabling clients to have a meaningful role in development projects” (O’Dwyer & Unerman, 2010, p. 452). The

responsibilities the organisations have towards their communities involve helping them demand their rights as claim-holders in relations to non-NPO duty bearers. Additionally, accountability implies that NPOs recognise community's rights to "hold organisations accountable for the nature of their activities and acceptance of their duty-bearer role in relations to beneficiaries" (O'Dwyer & Unerman, 2010, p. 454). Consequently, NPOs need to assess how responsive they are to the needs of their clients (O'Dwyer & Unerman, 2010). It also means the use of participatory approaches for evaluating NPO effectiveness, determining their priorities, assessing the outcomes of their activities and mutual learning (O'Dwyer & Unerman, 2010).

The adoption of the rights-based approach may have been at odds with the use of the term 'client-communities'. It is therefore important to clarify that the term is used as an identification of a group of people and not in the needs-based development paradigm sense, where the term 'client' may have a different connotation of passive recipients rather than active co-producers of development projects (Kretzmann and McKnight, 1993). Contrary to the needs-based view of clients, this research presents client-communities as active participants who have the right to be involved in NPO projects and to influence the decisions they make that affect their lives. Hence the adoption of agency theory and the rights-based paradigm to frame the research. Both approaches theorise an active role for client-communities in NPOs working to achieve the community's wellbeing, whether as co-producers or as incentivising cooperation from the organisations.

3.3.3 Clients-communities as principals

As principals and claim-holders, client-communities have an interest in NPOs conduct and business. But, communities are principals in an unorthodox and more abstract way, as they rely on NPOs to deliver services funded by a third party (Burger & Seabe, 2014; Gray, Bebbington & Collison, 2006). Though this may be the case, client-communities' claims on NPOs result from them being potential or final users of NPOs' goods and services and the ones with the most to lose if the organisations do not perform (Williamson, 1983). They also legitimise the NPO's existence and operations. This legitimacy can be transformed into contributions from stakeholders who are concerned with the welfare of clients (Burger *et al.*, 2015). Given these two reasons, their needs

should be at the centre of organisational decision making (Wellens & Jegers, 2014, p. 940). This is, however, not always the case.

Therefore, the community's dilemma is to align the interest of the NPO with their own. Social entrepreneurs found NPOs with the aim of maximising client welfare, which raises the expectation that their goals are the same as that of their potential users, but as previously mentioned, that is not always the case. Because of misaligned interest client-communities also face the agency problems which result from the difficulty or impossibility to observe the character of most NPOs goods (Steinberg, 2010). They also have no way of judging the NPOs' actions when it comes to issues of financial probity and governance, which are hidden from external stakeholders and for which, like other principals, they rely on the information provided by the NPO, which may be different from reality.

The contracts that can mitigate agency problems in the relationship between client-communities and NPOs are behaviour-based contracts, which involve the monitoring of NPO actions. When communities are actively involved as principals, it can reduce the cost of monitoring an NPO and its actions. Client-communities have an 'information role', which imperfectly resolves the principal-agent dilemmas that arise from un-observable behaviour. Their proximity to NPOs puts them in a better position to judge quality, output, and outcomes, albeit imperfectly. They are in an advantageous position relative to other stakeholders, who may find it difficult to assess the results of NPO initiatives and to determine the appropriateness of their actions. Communities are also in a better position to name and communicate their needs of which other stakeholders do not always have a realistic idea (Wellens & Jegers, 2014).

What complicates the role of communities as principals is that there are no clear contracts that govern the relationship, formalising the responsibility that NPOs have towards their them: the "precise responsibilities to clients and procedures to hold organisations accountable [are] obscure" (Cornwall *et al.*, 2000, p. 3). Gray *et al.*, (2006, p. 333) note that in the case of service organisations, where those who control and fund the organisations are likely to be different from the people who receive services, there is "no direct means by which the clients can enforce accountability". Clients do not manage a formal accountability process, and their participation is through the formal processes managed by other stakeholders and at the latter's discretion (Murtaza,

2012). The lack of formal contracts does however not negate that NPOs are required to be accountable to the people they serve. The question is what the reasons are, which explain why some organisations may be reluctant to practice accountability to communities. In the section below the chapter presents an NPO client-community accountability model. The aim is to outline the factors that explain the likelihood of NPOs to be accountable to community stakeholders.

3.4 A Model of NPO Accountability to Client-communities

NPO accountability to client-communities is a key part of their relationship, and for fulfilling their obligations to communities as duty bearers, which includes caring about their wellbeing. The organisations will thus account to these groups to align their interests with those of the organisation and to demonstrate the NPOs commitment to maximising their welfare. As mission maximisers, NPOs care about the welfare of their clients and the quality of the goods which they produce (Bilodeau Slivinski, 1997; Glaeser & Shleifer, 2001). Because they are mission maximisers, they will engage in activities and processes which they see as having a positive benefit for furthering the aims of the organisation and thus their client's welfare. These activities include administration, fundraising, projects, and accountability to external stakeholders (client-communities, donors and governments).

In deciding to be accountable, the NPO will weigh the contribution of client-community accountability to achieving the organisational goals, consider the costs involved and the resources available for implementation, as well as its accountabilities to other stakeholders including donors and governments.

3.4.1 The gains of client-community accountability

In the framework, achieving organisational goals can be impacted in two ways, through the fulfilment of the mission and legitimacy. The NPO will, therefore, consider the impact of accountability on mission attainment and thus the welfare of the community. Accountability can improve the organisation's performance through access to important client-community information, which can facilitate the alignment of NPO activities with the real needs of the community (Brown, Moore & Honan, 2003).

Additionally, when an organisation illustrates responsibility towards communities, it can generate legitimacy, which results in trust, and commitment from external stakeholders because they know who the organisation represents (Lee, 2004). Wellens and Jegers (2014, p. 940) also argue that “a well-balanced stakeholder management policy” can have positive legitimacy and reputation outcomes that result in a competitive advantage relative to other non-profits. Organisations will, therefore, also consider the legitimacy gains. The gain can also be transformed into financial and in-kind support from concerned external stakeholders (communities, donors, governments, volunteers) who also care about the communities welfare.

Increased financial resources could assist the organisation to fulfil its mission, however, they will also affect the NPO’s decision to be accountable to client-communities. Organisations need resources to cover bonding costs. We would, therefore, expect larger well resources organisations to be more accountable to client-communities (Steets, 2010). However, a large, well-resourced, and presumably more bureaucratic organisation could also lack the required flexibility to be responsive. The availability of resources could lead to a situation of more mechanic forms of accountability that include ticking the box instead of a genuine commitment to community stakeholders. That said, legitimacy is important for NPOs because it leads to social recognition and support for the NPO’s role and actions (Jepson, 2005).

The empirical literature has presented inconclusive findings of the organisational and welfare benefits of community accountability. Wellens and Jegers (2017) found some weak positive associations between the use of client accountability mechanisms and impact on NPO policy-making in Southern Africa. In Uganda, Burger *et al.*, (2015) found no evidence to corroborate that involving the communities in organisations improves revenue or beneficiary welfare. Noor (2015), also found no positive association between the use of participation mechanisms and organisational effectiveness among organisations in Malaysia. But on further analysis, she showed that the results differ for distinct categories of NPOs (Noor, 2015). Furthermore, the results showed a positive and significant relationship between organisational effectiveness and overall client accountability. Organisational effectiveness was also positively related to two of the other variables that were used to construct the measure, information disclosures and complaints mechanisms (Noor, 2015).

3.4.2 Costs of client-community accountability

NPOs will also consider the costs generated by the accountability process. Jensen and Meckling (1976) refer to these as bonding costs. For NPOs, bonding costs can be thought of as expenditures on accountability-related activities such as reporting, participation, information generation and dissemination as well as responding to community needs. These activities reveal the behaviour of NPOs to client-communities and help to align its interests with theirs. The assumption here is that these collective action related costs are a function of community characteristics: if the community is such that it makes accountability activities difficult or challenging, the NPO will have to spend more resources on those activities. This is supported by Guy's (1991) observation that collective action costs are a function of the homogeneity of the community, the level of social cohesion, size of the population, transaction costs related to distance, frequency and continuity of transaction, the value of transactions costs for individuals and cultural requirements on the part of communities. It must be noted that deriving the costs would be difficult without prior knowledge of community characteristics such as their socio-economic status (Burger *et al.*, 2015). Deriving the cost would also require apriori knowledge of the variables reflecting levels of social capital.

It is unlikely that NPOs will prioritise accountability to client communities if they are not empowered enough to claim their rights as principals. The reluctance of communities to demand accountability is one of the factors named as barriers to client-community accountability. O'Dwyer and Unerman's (2008, p. 813) showed that members of the advocacy organisation in their qualitative case-study displayed apathy, passiveness and placed blind trust in the organisation's professional staff. Lack of assertiveness when dealing with NPOs is another problem (Burger, 2005; Burger & Seabe, 2014). For example, in Beattie's (2011) study, the community was reluctant to express issues directly because they did not want to cause problems between the community and the NPO.

Communities may fear the negative consequences that result from voicing dissatisfaction, which may include the withdrawal of services (Ebrahim, 2003b; Wellens & Jegers, 2014). Ebrahim (2003b) argues that clients are in an asymmetric power relationship with NPOs, especially those in the services sector because of resource allocations. NPOs have more say in how projects are planned and implemented and can withdraw service if they are unhappy (Ebrahim, 2003b). On the

other hand, clients only have two options when they are dissatisfied, exit, which is unlikely when there is no alternative, and voice, which is also unlikely where there is fear of reprisals. In such relationships, it is doubtful that clients will be empowered enough to demand accountability from NPOs.

Additionally, if client-communities are not sufficiently empowered, community initiatives become fertile ground for ‘elite capture’; which worsens the skewed power relations and impacts on the communities’ abilities to claim their entitlements and right to accountability from NPOs (Platteau & Gaspart, 2003). Elite capture occurs when participatory development is captured by the traditional, social, and political elite to acquire rents and benefits at the expense of marginalised communities (Platteau & Gaspart, 2003). Musgrave and Wong (2016, p. 92) define the phenomenon as the “capture of the distribution of resources, project implementation and decision making, which negatively impacts non-elites or the target population”.

However, elite capture is different from elite control and elite reinforcement (Musgrave & Wong, 2016). Elite control of resources does not have a detrimental impact on the lives of the people but may ease implementation by facilitating community-ownership, providing the needed capacity and reducing the burden of working in some remote and institutionally poor areas (Dusgupta & Beard, 2007; Musgrave & Wong, 2016). On the other hand, elite reinforcement is when the elites gain more than the poor from development initiatives because of their existing position in the community, however, it does not have to be at the expense of the poor (Musgrave & Wong, 2016).

Although not all-powerful elites are corrupt (Dusgupta & Beard, 2007). There is a greater likelihood of accountability to community members when they have more influence in decision making, which may not be likely when elites have greater control.

Implementing accountability activities could also be a challenge in contexts plagued by partisanship, favouritism in the distribution of services, inter and intra-group conflicts and political interference. The presence of social capital- manifested as trust and cooperation, volunteerism, and reciprocity and density of associational life- can, therefore, ease different notions and practices of client-community accountability (Awaio *et al.*, 2011) and reduce the costs involved.

3.4.3 Multiple accountabilities to donors and governments

NPOs have multiple accountabilities to various principals, who have differing interests. These stakeholders all have an idea of what the NPO should do and how it should act, which is a source of tension. Stakeholders will enjoy more importance as principal if they have found a way “to organise, express [their] desires and enforce accountability” (Bogart, 1995 p. 159). Those with the most power and ability to express their interest will, therefore, enjoy more accountability because they have the will and means to enforce it. In this scenario, NPOs are less likely to be accountable to client-communities, whom they are seldom beholden to unless they are direct fee-paying members or collectively the main donors of the organisation.

Non-profits are more likely to be more accountable to patrons. Patrons (donors, governments, and others) can withdraw their support when the organisations fail to fulfil their mandate (Najam, 1996). They “have both the inclination to hold NPOs accountable and the means to ‘punish’ them” (Najam, 1996, p. 344). Martinez and Cooper (2010), therefore, argue that accountability to these patrons often comes at the cost of accountability to client-communities.

The accountability demands of donors can lead to a standardised situation, where “hierarchical accountability is formalised through financial and administrative mechanisms and socialised, informal, and narrative approaches to accountability become less possible” (Martinez & Cooper, 2010, p. 37). O’Dwyer and Unerman (2007, p. 462) support this view: they observed that within the organisations they investigated there was an institutionalised fixation on functional accountability, which hampered moves towards client focused social accountability (O’Dwyer & Unerman, 2007, p. 462).

Resource dependency can add more complexity in this trade-off, especially when an organisation does not have diversified sources of funding. Stuck with one donor and with the responsibility to keep the NPO active there will be greater pressure to prioritise donor demands. Chahim and Prakash (2014) report that in Nicaragua this is the case. Due to resource dependency and the need to survive, organisations have decreased their representational capacity and biased their accountabilities towards donors at the cost of clients and internal accountability (Chahim & Prakash, 2014). Chahim and Prakash (2014) based their conclusions on the findings of 60 in-depth-interviews, observations and document analysis in the Nicaragua NPO sector. In Belgium, board

members and management also prioritise knowing and fulfilling funders' desires due to the NPOs financial dependence on donor funding (Wellens & Jegers, 2014).

The dependence on donor funding does not necessarily need to lead to accountability biased towards donors at the expense of other stakeholders. Some circumstances will mitigate the extent that this is the case. AbbouAssi and Trent (2016), after their investigation of accountability of three organisations funded by the same donor, reported that the accountability dynamics of respective NPOs varied based on the perceptions of the NPO's management and staff about accountability, their donors, and assumptions about donor perceptions of the NPO's role. These varying perceptions resulted in different strategies used to deal with changes in donor funding priorities. Consequently, AbbouAssi and Trent conclude that "perceptions and practices of accountability determine to whom an NPO should be primarily accountable, shape NPO behaviour, and alter dependence on donors" (2016, p. 288).

Pallas and Guidero (2016) take a different view when they propose that the demand and supply of NPO goods and services indirectly affect NPO accountability to their clients. In their theory, NPOs can share some of their power with affected populations if they have it over their activities (Pallas & Guidero). The organisations would have enough power if they have enough autonomy from their donors, which occurs when demand for their activities exceeds supply (Pallas & Guidero, 2016). When there is over-supply of NPOs, they compete for donor attention leading to a situation where donor-driven accountability dominates (Pallas & Guidero, 2016, p. 627).

Pallas & Guidero (2016) raise the point that donors could also use their power to hold NPOs more accountable or delegate their power to affected stakeholders by creating a structural mechanism to facilitate accountability to those stakeholders (Pallas & Guidero, 2016, p. 630). For example, donors can provide financial support for NPOs to involve communities in the organisations' activities and decision making (Burger *et al.*, 2015). But, Burger *et al.* (2015) find limited evidence to support the efficacy of such an approach. Donors could also use grants to harness local resources and promote community philanthropy, to cultivate power-sharing among development actors (donors, NPOs and the people), and follow participatory grant-making, where communities make the decisions about which projects or organisations should be funded (Hodgson & Pond, 2018).

3.4.4 Organisational factors

Brennan (2010) argues that the extent to which client accountability is integrated into organisational decisions relies on the institution within which it is to be embedded, i.e. accountability will be discharged differently in different organisations. For example, Gray *et al.*, (2006) note that when an “NPO is not a membership-based organisation, there is a clear absence of direct groups to whom the body must express its accountability” (Gray et al., 2006, pg. 333). Wellens and Jegers (2017) also report variations in the use of accountability mechanisms both between and within industries. Furthermore, “in those industries where there are long-term or intense relationships with clients (such as health and education), more elaborate and resource-consuming systems of accountability are implemented (Wellens and Jegers, 2017).

Van Zyl, Claeys, and Flambard (2016), also found a difference in the use of accountability mechanisms between local and non-local NPOs in South Africa: local organisations claimed to practice more and better client accountability, and non-local organisations appeared culturally closer to donors and thus were more likely to implement more and ‘better’ ‘upward’ accountability. Chahim and Prakash (2014, p. 502) also observed that “rather than providing a mechanism by which the citizens can articulate their interests, foreign-funded NPOs give the client what their technical experts ‘believe’ is needed”. This paternalism worsened in cases of social differences between NPO staff and its clients (Chahim & Prakash).

According to Beattie (2015), staff attitudes are the most common barrier to implementation of accountability mechanisms. NPO staff in Beattie’s (2015) study interpreted applied accountability mechanisms as a reflection of a lack of trust in them and their abilities. How the leadership views accountability can also play a role in whether the organisations accounts to the communities (Ebrahim, 2003b). In most instances, accountability to clients is at the discretion of the leaders and is thus subject to the incentives they face (Kilby, 2007).

3.5 Conclusion

This chapter discussed the concepts and theories related to NPO accountability to client-communities and developed a framework and propositions to guide future research on the topic. The chapter used the ‘client-communities’ to identify NPO stakeholders who are directly and

indirectly impacted by the organisations' actions and decisions. It then presented the principal-agent theory and the rights-based approach to explaining the purpose of accountability to client-communities.

Based on the argument that client-communities are important principals with a legitimate claim to NPO accountability, the chapter formulated a model to guide future research on the factors that may affect NPOs' decisions about accountability to these stakeholders. Firstly, the model showed that NPOs would consider what they can achieve from accountability to community stakeholders. NPO literature notes the efficiency and effectiveness benefits of accountability, but as we illustrated the empirical evidence on the impact of client-community accountability in inconclusive (Barr & Fafschamps, 2005; Burger *et al.*, 2015; Noor, 2016, Wellens & Jegers, 2017). The field can, therefore, benefit from more studies investigating the benefits of client-community accountability. Here we theorised that the gains of NPO accountability to client-communities include improved NPO performance and client welfare (mission attainment), as well as legitimacy, which can be transformed into rents such as greater funding and labour contributions. Future research can, therefore, investigate the following propositions:

Proposition Ia: NPO accountability to client-communities will be positively related to NPO effectiveness and beneficiary welfare.

Proposition Ib: NPO accountability to client-communities will be positively related to NPO legitimacy, which in turn is positively related to contributions and recognition from donors and governments.

Secondly, NPOs will be accountable to client-communities if certain conditions are satisfied. These are related to the costs of accountability, which are a function of client-community characteristics, multiple accountabilities and organisational factors. Like any other productive activity, engaging in accountability result in costs, bonding costs, as referred to by Jensen and Meckling (1976). We theorised that an NPO would only engage in client-community accountability related activities up to the level where the marginal cost of those activities equals their marginal benefit. We also noted that the costs would be a function of community characteristics such as average socio-economic status, and level of social capital. We, therefore, theorise that:

Proposition IIa: Client-community accountability will be a positive function of client-community socio-economics status.

Proposition IIb: Client-community accountability will be a positive function of the level of social capital in the respective communities.

Non-profit organisations differ in many respects including the activities they are engaged in, whether they are membership organisations, and the characteristics of the staff and the people leading them, not to mention their location. For example, organisations engaged in service delivery are more likely to be accountable to client-communities than advocacy organisations because they can identify who their target community is, making the exercise of accountability easier and thus reducing the costs involved. Similarly, membership organisations are more likely to be accountable to client-communities because there is a “direct group to whom the organisations must express its accountability” (Gray *et al.*, 2006, p. 333).

Human resource characteristics including those of the board, leaders (founders, and managers), staff and volunteers also play a role in the adoption and enactment of accountability to client-communities. If the fulfilment of organisational objectives maximises these internal stakeholders’ utilities, and they have the skills and knowledge on how to be accountable NPOs are probably more likely to be accountable to their client-community principals. Therefore:

Proposition IIIa: An NPO is more likely to be accountable to its client-community if it is a membership organisation.

Proposition IIIb: An NPO is also more likely to be accountable to its client-community if the NPO’s human resources’ utilities are maximised by organisational mission fulfilment and client welfare.

Proposition IIIc: When the human resources in an NPO have the skills and knowledge on how to be accountable to client-communities they will be more likely to be accountable to these stakeholders.

One of the barriers to client-community accountability mentioned in the literature is the accountability expected by more powerful principals including donors and governments (Benson, 2012; Schmitz & Mitchell, 2009). Due to reliance on donor funding, NPOs may neglect their responsibility towards communities to appease the donors (Benson, 2012). Accountability to donors and governments can also crowd out accountability to communities because of the time and other resources the NPO spends to satisfy their demands (Burger & Seabe, 2014). Therefore:

Proposition IV: NPOs who face greater demands for accountability from governments and donors will be less likely to be accountable to client-communities.

To conclude, the chapter set out to develop an economic theory of NPO accountability to client-communities that would assist us to understand the factors that go into NPOs decision about accountability to communities. The contribution it makes is a framework and propositions that focus on the role of communities as principals and claim-holders based on a principal-agent theory and the rights-based paradigm. The framework explicitly and exclusively focuses on the role of communities as principals of NPOs. The addition of the right-based approach ameliorates the value base missing in principal-agent theory by establishing the normative basis for NPO accountability to client-communities. The focus of the approach on the communities' rights to accountability and to self-determination adds the value base missing in principal-agent theory because it is ethical and legally justified.

The framework and propositions could guide future research around community accountability in economics. Three of the propositions are investigated in chapters of this dissertation. In Chapter 5 we test two of the propositions, Proposition IIIb: An NPO is also more likely to be accountable to its client-community if the NPO's human resources' utilities are maximised by organisational mission fulfilment and client welfare and Proposition IIIc: When the human resources in an NPO have the skills and knowledge on how to be accountable to client-communities they will be more likely to be accountable to these stakeholders. In Chapter 6 we examine Proposition Ia: NPO accountability to client-communities will be positively related to NPO effectiveness and beneficiary welfare.

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CHAPTER 4: SAMPLE AND DATA

4.1 Sample and data

The empirical analysis for Chapters 5 and 6 draws from the survey and focus group data collected from communities in the Eastern and Western Cape provinces in South Africa. We were able to sample only two provinces due to resource constraints. The Eastern Cape and Western Cape were selected because they reflect the inequalities in South Africa and together are a good representation of the different communities present in the country. We, thus, opted for the two areas because of their demographic and socio-economic differences. For example, the Eastern Cape (6, 562 million) has a larger population compared to the Western Cape (5,823 million), and the Eastern Cape (23 years) also has on average a younger population compared to the Western Cape (28 years) (Stats SA, 2011). The province also has a more rural community compared to the Western Cape, 53 % of the households live in rural areas, whereas in the Western Cape 93% of families live in urban areas (Stats SA, 2016).

Households in the Eastern Cape (R 64 539.00) also enjoy less income than their counterparts in the Western Cape (R 156 243.00). Additionally, the Eastern Cape (14.3 %) has the highest and the Western Cape (3.6 %) the lowest percentage of the population living in multidimensional poverty in South Africa according to data on Multidimensional Poverty Index (MPI) (Stats SA, 2014). The provinces also differ based on excess to services: in 2011 only 0.9% of the Western Cape population had no access to piped water, a very small share of the 22% who share the same fate in the Eastern Cape and 93% of the population in the Western Cape have electricity, while only 74% in the Eastern Cape (Stats SA, 2011). Though we cannot name them all here, similar disparities in access to services, socio-economic status and infrastructure are present⁷ between the two provinces. The sampling followed a two-stage procedure, which included cluster and snowball sampling; the details of each are provided below.

⁷ See Stats SA's (2016) report titled 'The state of basic service delivery in South Africa: In-depth analysis of the Community Survey 2016 data for more information about these differences.

4.1.1 Cluster sampling

After choosing the provinces, the procedure followed in selecting communities involved a random sample of communities based on a typology derived from cluster analysis of the 2011 Census data. Cluster sampling was based on the socio-economic and access to services variables from Census 2011 data.

The clustering procedure included estimating the correlation of key indicators (population-density, formal-dwelling, informal-dwelling, traditional dwelling, household income, unemployment, electricity, water, no water, no rubbish collection, radio, TV, internet, and number of NPOs). The correlation results showed that if a household has electricity, it is more likely to be a formal dwelling and have access to water, radio, tv, internet; and that unemployment is likely to be correlated with a traditional dwelling and low levels of income. Conversely, higher income was positively correlated with access to services. The inclusion of both smaller and larger sets of variables was investigated and the results showed a high correlation between the clusters.

The final cluster analysis included a smaller set of variables, namely, formal dwelling, unemployment, access to electricity, access to water, no rubbish collection, internet, and traditional dwelling. The variables were therefore used to create clusters based on the community's level of socio-economic status and development. The result was a community topology with six categories (1=poor to 6=wealthy).

Random sampling was then used to select communities from each cluster with oversampling in cluster 1 reflecting the large proportion of poor communities present within the two provinces. This process resulted in the choice of 12 non-overlapping primary sampling units (PSU), six communities in each province (see Table 4.1).

4.1.2 Snowball sampling for the NPO survey

After the sampling of the communities, a target sample of NPOs was derived based on the population size in each community. Before this, snowball sampling was used to gather information on NPOs operating in each selected community. Snowball sampling also referred to as chain referral sampling is a non-probabilistic sampling method used to obtain information about

members of a population that are difficult to find and was therefore very suitable for this study (Birnacki & Waldorf, 1981).

The process included an initial identification of members of the population of interest and after that using these identified members to find other members of the population. The process was repeated until the desired sample size was obtained. In this study, the process entailed extracting a list of registered NPOs from the Department of Social Development NPO register. We then proceeded to verify the existence of the organisations on the list by telephone and via physical visits to their offices. When we contacted the NPOs, we asked them to list other organisations in the community working in the same subsector. Only registered NPOs were added to the list. When the last three visits to NPOs did not generate new leads, we took it as an indication of the saturation of the sample in that area.

The snowballing process also involved identifying locators such as municipal community development officers, Integrated Development Planning (IDP) officers, local and ward councillors, as well as other government representatives (e.g. members of the police and healthcare facilities), who may have information about NPOs operating in each area. We also obtained NPO information from NPO umbrella organisations and other NPO networks, where it was available.

Three criteria were used to select surveyed organisations. The first was that the organisation should be registered with the Department of Social Development, NPO Directorate. Secondly, they should work in the selected communities, not implying that they cannot have offices in another area. Lastly, they should be service delivery organisations whose activities fall under the pre-selected 12 categories⁸. The survey and structured focus group data collection then started in 2015 with the administering of the instruments to NPOs and community members in the Eastern and Western Cape provinces in South Africa.

⁸ The activities included entrepreneurial programmes, adult education and literacy, school learner support, HIV support group, HIV prevention, healthcare, skills development and training, unemployed support group and job placement, gender violence, child welfare services, early childhood and development (ECD) and child day care and services to handicapped and elderly.

Table 4.1: Survey and focus group sample list

Community	Municipality	Cluster	Population	Target sample	Actual sample
<i>Western Cape</i>					
Dysselsdorp	Oudtshroon local	1	12544	15	10
Crossroads	Cape Town	1	36043	25	30
Kwanokuthula	Bituo	1	14016	15	13
Kraaifontein	Kraaifontein local	1	154,615	85	73
Cloetesville	Stellenbosch	1	15390	15	15
Saldanha	Saladanha Local	6	2294	20	14
<i>Eastern Cape</i>					
Cala	Sakhisizwe Local	2	145,20	15	15
Lubhacweni B	Umzimvubu local	3	7640	10	14
Ngcoya	Port St Johns	4	3124	10	0
Tyeni	Umzimvubu local	5	1024	10	0
Ndayingana	Mbizana	2	1664	10	2
Etenteni	Buffalo City	1	2731	10	9
Total				240	195

Table 4.1 shows the list of the sample communities, the cluster category, population, as well as, the target and final NPO sample size for each community. The target sizes were based on the size of the population, driven by the assumption that areas with a higher population are likely to have larger numbers of NPOs. The final sample of surveyed NPOs consisted of 195 organisations.

The sample is less than the target of 240 NPO envisioned at the start of the research. The difference is the result of there being no NPOs in two of the sampled communities, namely Ngcoya and Tyeni in the Eastern Cape. In other communities, the number of identified and sampled NPOs was less than the number estimated at the beginning. These communities included Dysselsdorp, Kwanokuthula, Kraaifontein, and Saldanha in the Western Cape. In the Eastern Cape, the communities with less than envisioned NPOs were Lubhacweni, Etenteni and Ndayingana. To compensate for this, we oversampled in the community where we identified more operating organisations than those in the list derived from the NPO database, for example, Crossroads. Thirty organisations were surveyed in Crossroads instead of the target 25.

4.1.3 Sampling for the structured group-interviews

To sample for the focus groups purposive sampling was used. For larger communities such as Crossroads, Kraaifontein, Cala and Lubacweni sub-place further disaggregated the communities. Focus groups participants were recruited at the sub-place level where the NPO was located. This

strategy was based on the reasoning that because of the small and local nature of most of the NPOs it would prejudice them if focus group participants were located further than the organisations local community. The participants were mobilised using community leaders and community development workers not associated with any of our surveyed NPOs. In each focus group, the aim was for community members to discuss their knowledge of and interaction with five organisations, who had claimed to work in the community. We used a structured focus group questionnaire to guide the sessions and we pre-selected the names of the NPOs that we discussed prior to the focus group sessions. We conducted 47 focus groups: 35 in the Western Cape and 12 in the Eastern Cape.

4.2 Instruments

The fieldwork team used two instruments for data collection, a survey and structured group-interview instruments like those used in the study of NPOs in Uganda. The instruments were adapted for the South African context and updated based on insights from recent NPO literature. They were also translated into two of the local languages (Afrikaans and isiXhosa) and piloted to ensure the appropriateness and relevance of the questions.

The survey instrument administered to NPOs included closed and open-ended questions. The questions in the survey covered basic information pertaining to the founding of the organisation and registration with various regulatory bodies such as when it was founded, by whom, if it was registered with the NPO Directorate and as a public benefit organisation, as well as whether it had a bank account and some movable and immovable assets. The survey also covered questions about the finances, leadership, management practices, compliance with various accountability mechanisms and staff compliment. Other questions covered, membership in networks and compliance with their code of conducts, relationships with the different tiers of government, as well as internal and external accountability and performance measurement practices.

A structured groups-interview instrument was also administered to community members living in the same area as respective NPOs. The structured questionnaire included questions about community members' perceptions and attitudes about NPOs' operation in their areas. The questions covered topics such as the community's knowledge and perceptions about NGO mission and activities, how they view their relationship with NGO staff, the quality and frequency of

participation in NGO activities and decision-making processes and their views and attitudes with regards to the value of the NPOs for their community. Both the survey and structured group-interviews data are used in this dissertation: Chapter 5 uses the NPO survey data and Chapter 6 the survey and structured group-interview data.

4.3 Descriptive Statistics

A preliminary analysis of the data showed that most of the organisations in our sample are small, informal community-based organisations with close ties in the community. As previously noted, 195 surveys were conducted: 40 in the Eastern Cape and 155 in the Western Cape. The skewed sample, thus, confirms the findings of Chapter 3 which showed that NPOs are unequally distributed across South Africa and that the Eastern Cape is one of the provinces underserved by NPOs. Nonetheless, 87% of the organisations were founded by an individual (40%) or a group (47%) of South Africans.

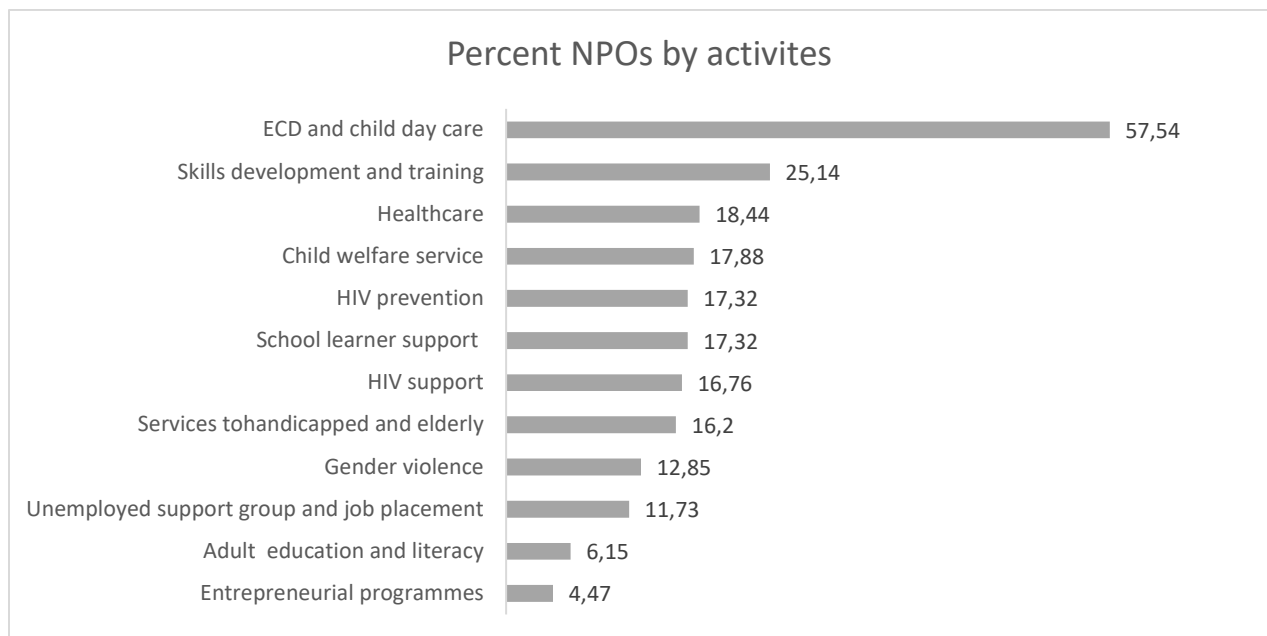


Figure 4.1: Breakdown of the sample by NPOs' main activities

Note: Percentages do not add up to 100, 41% of the sampled NPOs had more than one main activity.

As Figure 4.1 shows most of the organisations are involved in early childhood development (ECD) (57%) followed by skills development (25%), healthcare (18%), child welfare. (17%) and HIV prevention (17%). A large part of the sample were also registered as a non-profit organisations,

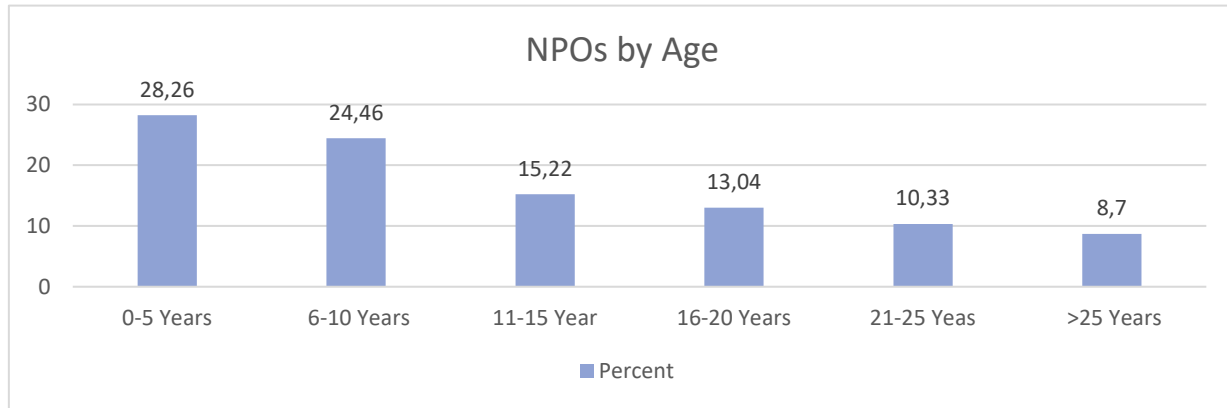


Figure 4.2: Distribution of NPOs by years in existence

but only 43% of organisations confirmed that they had public benefit status and 70 % had external funding. Figure 4.2 also shows that a large segment of the organisations in the sample are relatively young, most have been registered for five or fewer years (28%), this is about 4% more than those registered for between six and 10 (24%) years and 13% more than those for more than 10 but less than 15 years. The rest of the sampled organisations are more mature, they have existed for 16 or more years. The descriptive results show that our sample consists of young organisations in the services sector and a large proportion have not been exposed to the funding market. These facts could have implications on the organisation's accountability practices.

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CHAPTER 5: ALTRUISTIC IDEOLOGUES AND NON-PROFIT RESPONSIVENESS TO CLIENT- COMMUNITIES

Abstract

NPO leaders are essential for shaping and achieving organisational success. They influence decisions made in the NPOs, including those around accountability (Potlaka *et al.*, 2017). However, they are not a homogenous group and differ in terms of their preferences, ability, effort, and viewpoints. They are thus very likely to have different priorities when it comes to the NPOs and their responsibilities towards their various stakeholders. This exploratory research investigates how the characteristics of non-profit leaders relate to NPO accountability to client-communities. Accountability is operationalised as NPO's 'responsiveness': the extent to which community inputs and suggestions are incorporated in a meaningful way into the organisation's decision-making processes.

The research uses a unique community-level data set of 195 NPOs in the Eastern and Western Cape provinces in South Africa to test the proposition that more altruistic and educated NPO leaders with more experience, embedded in the communities in which they work are more likely to reify participatory values and demonstrate sensitivity to their client-communities. The results from the analysis show connections between NPO's responsiveness with the manager being the founder of the organisation and being employed at an NPO for a longer period. Tertiary education and having prior NPO experience also correlate positively with NPO responsiveness.

Keywords: accountability, altruism, client-communities, embeddedness, leadership, responsiveness

5.1 Introduction

If NPOs exist because “some people want to do good things” (Gassler, 1998, p. 174), the question is whether this desire to do good extends to other areas of NPOs’ operations including accountability to their less powerful stakeholders. This research examines the relationship between NPO leaders and client-community accountability. It tries to identify those traits of leaders most associated with the likelihood to show responsibility to clients. The proposition tested in the chapter is that altruistic, knowledgeable, and skilled leaders embedded in the communities in which NPOs work will prioritise responsiveness to communities.

Non-profit performance and success are directly linked to the quality of a leader running the organisation (Ronquillo, Hein & Carpenter, 2012; Wallis & Dollery, 2005). Effective leaders can execute their tasks in a manner that gives the NPO the stability required to fulfil organisational objectives and to meet the needs of the recipients of their services (Ronquillo *et al.*, 2012, p. 9). They can motivate and ease efforts to achieve those aims (Potluka, Kalman, Musialkowska & Idczak, 2017, p. 299). The quality of the leader is acknowledged as necessary for organisational success and performance, and in turn, performance is often defined as meeting the needs of and being responsive to the community.

However, very few studies have examined the role of leaders in the relationship between NPOs and client-communities (Kilby, 2006; Jacob & Wilford, 2007; Geer, Maher & Cole, 2008; O’Dwyer & Unerman, 2008; Wellens & Jegers, 2014a). In these studies, the NPOs’ accountability to these principals is linked to the incentives faced by managers, which impact on their attitudes and motivations (Kilby, 2006; Jacobs & Wilford, 2010; Wellens & Jegers, 2014a), as well as the knowledge and skills they possess (O’Dwyer & Unerman, 2008). The studies provide evidence of the factors that may impact on leader’s decision making and practices. However, they do not help us understand whether there are individual-level differences in leader’s commitment to pursue greater responsiveness to client communities.

The study, therefore, examines how NPO accountability to client-communities varies with the individual-level characteristics of leaders such as altruism, education, experience, and community embeddedness. The research uses a unique community-level data set of 195 NPOs in the Eastern and Western Cape provinces in South Africa to answer the question: are more altruistic and

educated NPO leaders with more experience, who are embedded in the communities in which they work more likely to reify participatory values and practice responsiveness to their client-communities?

South Africa is chosen as the location of the study because a large segment of the NPO sector is formed of small voluntary, grassroots and faith-based organisations (Habib & Kotze, 2003). These small NPOs make up over 90% of registered organisations in the country, and it is argued that they are at the forefront of community development, but are often large on “intent and passion, and very small on financial capacity and operational sophistication” (Peterson, 2010, p. 6). They are praised for meeting the needs of people and for being rooted in the communities which they serve while relying on volunteers and limited funding (Ranchod, 2007). In most instances, small NPOs struggle as they are not eligible for government funding, which is usually earmarked for established organisations (Knutsen & Brower, 2010, p. 589).

Most NPOs in the country are therefore survivalist in character, run on limited resources, are more likely to be run by volunteers and to be embedded in the communities (Habib & Kotze, 2003). The small and survivalist’s nature of the majority of the NPOs in the country offers an opportunity to investigate the preference of NPOs with regards to accountability to clients in organisations where leaders may have a powerful influence on decision making. The South African NPO sector also offers an opportunity to assess the extent to which smaller NPOs are embedded and responsive to their communities.

In the following section, the concepts of leadership, client-community accountability and responsiveness as operationalised in this study are discussed. This is followed by a theorisation of the role of leadership in NPO-client-community principal-agent relations. The propositions formulated based on the principal-agent theory are presented in section 5.4. In section 5.5 the data and sample are shown with the results following in section 5.6. The chapter ends with a discussion and conclusion in sections 5.7 and 5.8.

5.2 Definitional matters

5.2.1 Leaders

In the study, we use the term leader. However, the use of this term may pose challenges as it goes against accepted definitions, which differentiate between leaders and managers. According to Wallis and Dollery (2005) leaders are distinguished from managers because they are future-oriented and care more about the strategy and direction of the organisations as opposed to having an eye on the day-to-day operations, managing the costs, and ensuring the performance of the organisation, which is the responsibility of the manager. Leadership and management are two distinct roles requiring different skills sets. But, in most NPOs, the manager fulfils both functions, especially in small organisations where authority is more centralised and when the board of directors do not execute their responsibilities of driving the NPO vision and mission and providing the necessary oversight.

The term ‘leader’, in this study, therefore refers to those individuals responsible for the daily operations of the organisations and the making of strategic decisions that affect the implementation of the organisational mission and future sustainability. The term ‘leader’ thus captures that these individuals handle more than just the operational efficiency of the organisations but also its strategic direction. The term is used without any normative connotations.

5.2.2 Client-community accountability and responsiveness

Accountability to client-communities is usually termed ‘downward’ accountability and is often juxtaposed to upward accountability to trustees, donors, and governments (Edwards & Hulme, 1996, pg. 8). The concept describes a relational process that involves interactions between clients and NPOs where there is mutual learning (Bawole & Langnel, 2016; Ebrahim, 2003a). In this study, client-community refers to individuals or groups to whom NPOs provide goods or services and those people in the “catchment of an NPO’s activities, indirect clients such and the community at large” (Najam, 1996, pg. 345).

Additionally, client-community accountability is operationalised as the organisation’s responsiveness to community inputs and suggestion. Responsiveness is one of the *raison d’être* for NPOs and goals of accountability (Barret, 2001; Koppel, 2005). It is an essential element in

the process of accountability to clients because it reflects how an NPO is sensitive to client needs and that it is a learning organisation that generates “knowledge by processing information or events and uses that knowledge to cause behavioural change” (Ebrahim, 2003a, pg. 818). NPO responsiveness also signals greater awareness, engagement with communities and contributes to organisational effectiveness in many ways including identifying organisational priorities and building legitimacy with other stakeholders (Balsler & McClusky, 2005; Barret, 2001; Ospina, Diaz & O’Sullivan, 2002, p. 297).

5.3 Theorising the Role of Leaders in NPO and Client-community Relations

Principal-agent relationships involve the principal delegating some decision-making power to the agent (Jensen and Meckling (1976, p. 308). The theory assumes misaligned interests, which could give rise to opportunism on the part of the agent when the agent can hide his decisions and choices. To curb agent opportunism and to minimise informational asymmetries best contracts and investment in formal information systems are proposed to reduce the agency cost that arises from the relationship (Miller, 2002, p. 433).

However, the principal-agent relationship between NPOs and client-communities are more complex than the relations covered by the theory. Client-communities are not principals to NPOs in the traditional sense unless they are members and contribute to the running of the organisations (Burger & Seabe, 2014). Most often they receive NPO services paid for by third parties who are also not principals in the conventional sense because they have no residual claim on the NPO (Fama & Jensen, 1985). In NPO there are “no specific residual claimants with alienable property rights in net cash flows” (Fama & Jensen, 1983a, p. 342). This absence of residual claims has significant implications for governance in NPOs as we will discuss.

Despite the complexity, communities as final users of NPO goods and services and as parties who legitimise NPO operations are also the principals of NPOs. Barret (2001, p. 39) argues that NPO clients are as important as shareholders of for-profit firms and therefore the organisations should be accountable to them as firms are accountable to their shareholders. In reaction to Fama and Jensen’s (1983a) omissions of other principals of NPOs except for donors, Williamson (1983) also states that clients are one of the principals of NPOs: because of their over-reliance on NPO service, they stand the most to lose if the organisations fail. Wellens and Jegers (2014b) also contend that

based on the Jensen and Meckling's definition of principal, multiple principals can be identified in NPO principal-agent relationships, including clients. Client-communities, therefore, face the risk of loss in welfare due to agency problems that arise from unobservable behaviours such as moral hazard and adverse selection, though to a lesser extent. Their interests should, therefore, be protected as they have a stake in the organisation and are affected by what it does or does not do.

Theoretically, an NPO's board of directors should protect the rights of client-communities, which is why the study of agency relations in NPOs has focused on investigating principal-agent relationships between the NPO boards and leaders (Wellens & Jegers, 2014a; Jegers, 2002; Du Bois *et al.*, 2009). Fama and Jensen (1983b) argue that NPOs fit into a specific organisational form where the decision-making process entails the separation of the decision management, initiation, and implementation from decision control, ratification and monitoring, which is the responsibility of the non-profit board aimed at dealing with any agency problems that may arise. The role of the board thus forms part of the decision hierarchies, with the board at the apex, which prevents agents from making decisions that may have detrimental outcomes for principals (Fama & Jensen, 1983b). In non-profits, the board, therefore, plays the role of protector of the NPO's mission and objectives, and its responsibilities also include the hiring, compensating, monitoring and firing of executives (Miller, 2002).

However, the theory of ineffective principals suggests that the NPO board may not effectively execute their duties (Fama & Jensen, 1983b; Miller, 2002). Miller (2002) noticed that in the 40 board meetings he attended during his research board members were never critical or suspicious of executive actions. Furthermore, NPOs boards face limited incentives to perform as they do not answer to shareholders, do not face the threat of a takeover as in the case of for-profit firms or own assets linked to the organisation's success (Glaeser, 2002).

Additionally, board protection of the rights of client-communities would assume that they have homogenous preferences which include the welfare of the organisation's clients. However, there is no reason to believe that this is the case as boards usually form a unique set of people with different perspectives and interests in the organisations. Even if their interest may align, they may be more interested in the preservation of the organisation than pursuing activities providing

maximum welfare benefits to the clients. The presence of the board as an oversight mechanism, therefore, does not guarantee the maximisation of client-community welfare.

The non-distribution constraint also constrains donors from laying financial claims on the revenues of the organisations and ensures that they have no controlling rights over what the organisations do (Glaeser, 2002). They are one of the principals of NPOs, if not the ones considered the most 'legitimate' considering their role as resource providers. They also have the credible 'threat of withdrawal', which they can use to control NPO behaviour. That said, they are ineffective as principals and in protecting the rights of client-communities as far as their focus is on the adherence of NPOs with financial management and reporting standards. A situation that worsens in North-South donor NPO relations where geography and sometimes cultural differences vastly separate the two parties.

The result of ineffective principals is that NPOs provide the environment for greater managerial discretion and less oversight (Caers, Du Bois, Jegers, De Gieter, Schepers & Pepermans, 2006). The consequence of which is the prominence of NPO leadership in driving the agenda and increased leeway in how stakeholder relations are managed (Geer *et al.*, 2008). Hill and Jones (1992) argue that in this regard leaders are unique. They are the link between the organisations' stakeholders: "the only group, who enter into contractual relationships with all other stakeholders and the only ones with direct control of decision-making in an organisation" (Hill & Jones, 1992).

NPO executives, therefore, have a central role in the organisation. They influence decisions made including those around accountability to client-communities (Potlaka *et al.*, 2017). Consequently, it can be expected that they will be at the centre of executing responsibility to communities, especially in public benefit service delivery NPOs where accountability to clients is noted to be at the discretion and grace of the NPO manager (Kilby, 2006; Geer *et al.*, 2008; Gray *et al.*, 2006). The manager could use this discretion and lack of oversight irresponsibly or use it to make decisions that are in the best interest of the community (Caers *et al.*, 2006). The question this raises is what type of NPO leader will prioritise client-community's inputs?

5.3.1 NPO leaders as altruistic ideologues

Caers *et al.* (2006) argue that the manager, who makes decisions on whether to include the welfare of the clients in their utility maximisation function will be more likely to be responsive to their needs. This situation, resembling a stewardship NPO-stakeholder relationship, would minimise goal misalignment and as consequence agency problems (Caers *et al.*, 2006). These kinds of leaders are most likely to be found in NPOs because the non-distribution constraint assures them that their efforts will not be misappropriated. The non-distribution constraint also signals commitment not to act in a manner detrimental to the principal, which is why altruistic individuals who care about the public good will found non-profits (Bilodeau & Slivinski, 1998)

Theories of NPO supply suggest that NPO leaders indeed care firstly about the welfare of clients before anything else and have little care for pecuniary benefits (Rose-Ackerman, 1996 & 1997). NPOs are founded and run by entrepreneurs and people with distinct preferences that may be grounded on professional experience or the values of the community from which the organisations appear (Badelt, 1997; Brown & Caughlin, 2009, p. 102). They care more about the output of the NPO and motivated by a concern for the social benefits and services provided by the organisation, reasons why they are also willing to accept lower pay (Francois, 2001).

NPO leaders are, therefore, committed altruistic ideologues (Rose- Ackerman, 1996). An ideologue “is a person with strong beliefs about the proper way to provide a particular service. The individuals espouse an educational philosophy, hold religious beliefs that prefer certain forms of service delivery, or subscribes to a particular aesthetic or psychological theory” (Rose-Ackerman, 1996, p. 719). Gassler (1998) confirms that NPO founders are altruist driven by Kantian ethics. They decide to take some of their pecuniary rewards as the satisfaction of meeting their philanthropic goals (Gassler, 1998). Altruism can be motivated by the “fundamental concern for the welfare of others or the desire to feel good by helping others” (Noreen, 1998, p. 360). In the latter instance, the leaders could derive a ‘warm-glow’ from providing a service through the organisations they have founded. A utilitarian ethic can also drive them: “voluntary compliance with rules of right behaviour because it is in your best interest to do so” (Noreen, 1998, p.360).

However, the “willingness to sacrifice one’s own time, energy, and resources for the benefit of others by no means make you a perfect agent” (Jensen, 1994, p. 5). Although altruism may be

necessary for founding an NPO, it is not a given that it will translate to accountability to communities. Leaders of NPOs are not a homogenous group (Jegers, 2002). They differ in their preference for altruism, ability and effort, factors which are also necessary for effective management and organisational outcomes (Van Puyvelde & Jegers, 2016). Additionally, the incentives they face are not the same nor is the context in which they work. These differences will impact the performance of the NPO and the severity of agency problems in their relationship with stakeholders. More relevant for this study, how responsive the organisation will be to client-communities. In this chapter, we examine the role of altruism and the heterogeneity in NPO leaders to ascertain which leaders' characteristics are more likely to be associated with the responsiveness of NPOs to client-communities.

5.4 Client Accountability and Leadership Characteristics

In this section hypotheses of the relationship between certain leadership characteristics and NPO responsiveness are presented.

5.4.1 Altruism

As supply theories of NPOs demonstrate, altruism plays an essential role in the founding of NPOs. The question is whether the preference for altruism also affects the decisions made by managers, especially those around sensitivity to clients. Fama and Jensen (1983a) note that the selflessness of NPO staff reduces the costs of managing agency problems and protects clients and donors from exploitation. Glaeser & Shleifer (1998) also argue that public spirit, a keen interest in their causes and altruism rather than profit maximisation motivates NPO entrepreneurs. If that is the case, it is not unreasonable to assume that more altruistic leaders may make decisions in favour of responsiveness to enhance organisational effectiveness. We would also expect them to drive responsiveness in their organisations because it is ethical to consider and act on the inputs of client-communities when making decisions that will affect them.

To test this theorisation, we include three proxies for altruism in our model: whether the manager of the organisations is one of the founders, are female and possess a religious title. Founder-managers are different to non-founder managers; an essential part of their utility depends on the performance of the organisations (Gassler, 1998, Jegers, 2002). Jegers (2002) therefore shows that founder-managers would require a substantial increase in monetary benefits to compensate for the

loss of utility due to a decrease in organisational performance. The manager-founder has a vested interest to see the NPO succeed compared to a manager who is not a founder. The implication is that welfare loss is reduced due to the low probability that the manager-founder will act opportunistically. If indeed they are other-regarding and care about the welfare of the communities they serve, as NPO supply theories suggest, it would be strategically and ethically right for them to be responsive to their inputs. We, can, therefore, expect that:

Proposition I: In NPOs where the manager is also the founder, there is a greater likelihood of NPO responsiveness to the client- community inputs.

Female managers are perceived to embody altruism and to embrace a democratic culture (Burger *et al.*, 2015; Le Roux, 2009). They are also described as more likely to adopt a ‘relational’ approach to leadership by leading with care for others, vision, collaboration, courage and inclusiveness, shared ownership, connectedness and cooperativeness (Regan & Brooks, 1995; Smit, 2013). Because of these attributes, there is a greater likelihood that female managers will be more likely to include communities in NPO activities but also to consider and respond to those inputs.

Proposition II: Female NPO managers will have a higher likelihood of responsiveness to the client community

When a manager has a religious title, it may signify an altruistic ideologue who cares about the people he serves and making an impact on their lives (Burger *et al.*, 2015). They may be inclined to respond because their religious beliefs may exert moral pressure for them to make decisions that are sensitive to client-community inputs.

Proposition III: Where the NPO manager has a religious title, there is a greater likelihood that an NPO will be responsive to client-community inputs.

5.4.2 Knowledge and skills

Leader’s knowledge, skills, and competencies also facilitate network building and stakeholder management (King, 2004). To be able to understand the information provided by communities and incorporate it into the NPOs strategic decisions, while considering the financial and organisational implications, leaders need high levels of skills and knowledge. They should also know of the available options they can implement to coordinate inputs to be responsive to client-communities. Lack of knowledge on the alternatives is mentioned as one of the barriers to client accountability

in NPOs. For example, O’ Dwyer and Unerman (2008) found that even though the NPOs’ leaders recognise a need for accountability to clients, it was not considered in part because of the lack of knowledge about available client accountability mechanisms. Skills and knowledge, including but not exclusively consisting of formal education, are therefore important prerequisites for NPOs’ responsiveness to clients. Characteristics we include as proxies for skills and knowledge are tertiary education and prior NPO experience.

The positive effects of education in the voluntary sector have been noted. More knowledge has been linked to greater participation and engagement both in public and voluntary organisations and civic responsibility (Dee, 2004). One of the pathways through which education is related to awareness and exposure to different realities and world views. Educated managers may, therefore, be more likely to be aware and to understand the philosophy behind client accountability and the mutual benefits involved.

Proposition IV: When the leader has a tertiary education, NPOs will be more likely to be responsiveness to client inputs.

Suarez (2010, p. 697) argues that in the NPO sector “substantive professional backgrounds and non-profit experience give leaders the necessary ‘street credentials’ for leadership”, that is credibility and legitimacy when it comes to the likelihood of leading an NPO. The benefit of experience is career advancement, but experience may also result in the manager understanding which strategies to pursue to achieve organisational outcomes including responsiveness to communities. Furthermore, leaders with prior NPO experience are more likely to be aware of managerial best practices, which they have gained from longer socialisation in the sector (Claeyé & Jackson, 2012),

Proposition V: If the manager has prior NPO sector experience, the organisation is more likely to be responsive to client needs.

5.4.3 Embeddedness

Sociological agency theory highlights the importance of embedding agency relations in ongoing networks (Shapiro, 2005). The idea is that personal familiarity between the agent and principal can lessen adverse selection and moral hazard problems (Shapiro, 2005). Personal familiarity can occur through repeated interactions in trusted and shared social networks (Shapiro, 2005). When

there is already familiarity between the two parties “it is likely that the principal will learn about the agent and so will be able to assess behaviour more readily” (Eisenhardt, 1989, p. 62).

It is also easier to monitor the behaviour of the leader in continued interactions, and social networks have sanctioning power that can motivate the leader to act in an exemplary manner (Shapiro, 2005). Leaders can choose to be accountable and therefore responsive because they fear being shamed, ostracised, or a loss of reputation (Shapiro, 2005). To assess the influence of embeddedness of the leaders we include their tenure at the NPO and whether they are from the community in which the NPO works. Length and intensity of the service relationship may have a bearing on a manager’s attitude towards accountability to clients (Wellens & Jegers, 2014a, p. 947). The tenure duration of the manager could also signal deep and intense relationships with the client- community, which can facilitate responsiveness because of the goodwill already developed.

Proposition VI: The longer the tenure duration of a leader the higher the likelihood that the organisations will be responsive to client-communities.

An NPO manager who is also from the community can be expected to have deeper and broader social networks in the area. They may, therefore, be more likely to be embedded in the community and to feel a sense of obligation and responsibility towards them. The closeness to community members may increase their likelihood to be accountable to them. (Van Zyl *et al.*, 2017).

Proposition VII: When the founder is from the community an NPO is more likely to be responsive to client inputs

5.4.4 Organisational factors

To control for possible endogeneity stemming from unobserved heterogeneity we also include NPO characteristics in our model. The attributes include revenue, location (whether the NPO is based in East Cape or Western Cape province), whether it is an early childhood development centre (ECD) and whether participation is a donor requirement. No propositions are formulated about these factors because they are included only as control variables.

The amount of funding will determine the organisation’s ability to implement accountability mechanisms while complying with the demand of other stakeholders. Furthermore, larger, and more professional NPOs are more likely to provide opportunities for client participation as an institutionalised practice of professional management (Wellens & Jegers, 2014a). At the same

time, smaller organisations may also have more opportunities for client involvement because there are fewer layers of bureaucracy separating managerial staff from clients. These statements suggest that NPO size may correlate with NPO responsiveness, but the direction of the relationship cannot be determined a priori.

Organisations in rural collective communities may display a positive attitude towards accountability to communities because of the stronger networks in the areas. These organisations are also more likely to depend on financial and in-kind donations from the community members for survival because of the distance between them and donor markets (Van Zyl *et al.*, 2017). Therefore, organisations in closed collective rural communities can be expected to be more likely to adopt and practice responsiveness to client-communities.

We also thought to investigate differences in responsiveness between different types of organisations, mainly those that are ECDs and the rest of the sample. The investigation was motivated by the idea that the structure of ECDs resembles that of a membership organisation, as parents of children usually pay for the services provided. Wellens and Jegers (2014a) conclude that participation being a legal requirement may have an educational effect on leaders in organisations where they are applied and Kilby (2006) argues that the more formal the client accountability mechanisms, the higher the likelihood for accountability. We therefore also include a variable that denotes whether participation is one of the requirements of the NPOs' two most important donors.

5.5 Sample and Variables

The paper follows an exploratory research approach in trying to find the attributes of managers most aligned with responsiveness to client communities. The research uses the original community-level data set described in Chapter 4, which is based on information gathered from surveys conducted with NPOs in the Eastern and Western Cape provinces of South Africa.

5.5.1 Variables

To measure the NPOs' responsiveness, to client-communities we use a dummy variable based on a question, which asked the respondents to give an example where the NPO changed its programme or approach because of community or client inputs or feedback, see A1 in appendices at the end

of the dissertation. The enumerators were instructed to select yes when an illustration was given and no when the respondent could not provide one. The variable is coded 1 if the response was yes and 0 if no. Responses to the question could include how the organisations changed their operations, took on new activities or changed their strategic direction because of the feedback provided by communities of clients. For example, in one of the interviews one respondent mentioned:

“Look our approach in the beginning was just to offer workshops, formal workshops and through the feedback from the community we have more informal workshops now, what do they call it, awareness sessions...these are shorter type of workshops and we also try to....like I said before, to utilise more community members as community speakers and facilitators where we always brought people in from outside; we have now realised that we do have expertise in our community itself who can present programmes for us like for example; we had a heart skills bricklaying course and utilised a man who lives in the community who came and taught the youth, yes, the way the organisation works has changed in that it is more directed to the community. It interacts more with the community, in a better way, I would say”

The independent variables included are the leadership characteristics and controls for other organisational factors that may impact on responsiveness. The leadership variables include Tenure, Tertiary, Prior NPO experience, Founder is the manager, From the community, Female and Religious. Tenure of the manager is measured as the number of years at the organisations. The rest of the leadership characteristics are included as dummy variables coded 1 or zero. For example, Tertiary is coded 1 if the leader has a tertiary qualification and zero if not. This coding system is applied to the rest of the leader characteristics variables. The control variables included are a continuous annual revenue variable entered as a proxy for NPO size and dummy variables to indicate whether the NPO is an ECD, it is based in the Eastern Cape and whether it has community participation as a donor requirement.

5.5.2 Variable distribution characteristics

In Table 5.1 we present the information on the distribution of the included variables. Of the sampled organisations 59% gave an example of responsiveness to the communities they serve. Three-quarters of the organisations have female managers, and all managers have on average been with the organisations for ten years. Additionally, 69% of the managers are the founder or one of the founders of the NPO and 70% are from the same location as the domicile of the organisation. It is important to note that a Polychoric correlation test showed a close to zero correlation between the two variables despite both sub-samples individually forming a significant part of the sample. Forty-seven percent of the leaders also have a tertiary qualification and 40% a religious title. In terms of organisational characteristics, Table 5.1 shows that over half of the NPOs are early childhood development organisations and 20% work in the Eastern Cape. Participation is also a donor requirement for 42% of the NPOs.

Table 5.1: Variable distribution characteristics

Variables	Obs.	Mean	Std. Dev.	Min	Max
Responsiveness (Dep Var)	195	0.59	0.49	0	1
<i>Leader characteristics</i>					
Tenure	178	10.25	8.46	0	45
Tertiary	195	0.48	0.50	0	1
Prior NPO experience	176	0.33	0.47	0	1
Founder	182	0.70	0.46	0	1
From the community	192	0.70	0.46	0	1
Female	180	0.71	0.45	0	1
Religious title	164	0.40	0.49	0	1
<i>Control variables</i>					
ECD	195	0.53	0.50	0	1
Revenue 2012	118	1,926,595	6,387,871	0	50,100,000
Eastern Cape	195	0.21	0.40	0	1
Participation donor requirement	195	0.42	0.49	0	1

Note: Samples sizes vary due to missing observations for some of the variables. The sample was much smaller for the revenue variable because only 118 organisations provided their financial information.

5.6 Estimation Methods

Descriptive statistics, logit regressions and margins are the statistical tools used for this analysis. The descriptive analysis methods include non-parametric methods such as a binomial test to verify the proportion of NPOs that are responsive to client- communities and chi-squared test to examine the relationship between NPO responsiveness with categorical variables included in our model.

They also include the Kruskal-Wallis (1952) equality-of-populations rank test to test whether there are differences in mean years worked by managers between responsive and non-responsive NPOs, as well as a t-test to examine the association between NPO responsiveness and revenue.

For a more in-depth analysis, the research employed multivariate logit regressions followed by margins to predict the probability of NPO responsiveness based on the given data. Williams (2012) argues that margins make results more tangible and practical. Two models of NPO responsiveness are estimated. The base Model I included only the leadership characteristics, whereas Model II incorporates the leadership characteristics and control variables (ECD, Eastern Cape, Revenue and Participation donor requirement). The logit results are presented as marginal effects to facilitate interpretation. The marginal effect of the independent variable is “the partial derivative, which is the ratio of the change in y to the change in x, when the change in x is infinitely small” (Long, 1997, p. 5): it is the slope of the logistic curve at a point, all else being equal. We also plot the predictive margins for certain variables of interest; mainly tertiary, manager tenure duration, manager prior NPO experience, founder manager, and revenue.

5.7 Results

Here we present the results of the descriptive and Logit regression analyses. The binomial test confirmed that 59% of respondents could give an example of how they changed a component of the organisation's operations because of inputs provided by community members.

5.7.1 Leadership characteristics

In Table 5.2 the results of the chi-squared test show evidence of an association between NPO sensitivity to client-community inputs and various leadership characteristics. NPO responsiveness is marginally significant and positively correlated to the founder and prior NPO experience variables. The results of the tertiary education variable are insignificant. However, NPOs, where managers had tertiary education (63%), are more likely to be responsive than to those where the managers do not have a tertiary education (55%). The insignificance of the results may be a case where the small sample is impeding significance, despite there being a relatively large gap and thus evidence of a strong association.

These results suggest that some organisations are more likely to be sensitive to community demands if they are founded and run by an altruist with prior NPO sector experience. The founder being from the community, female and having a religious title are insignificant suggesting that the manager's connection to the community and level of altruism as represented by gender and religious title may have a negligible effect on responsiveness.

Table 5.2: Bivariate regressions of NPO responsiveness and leadership characteristics

<i>NPO Responsiveness (Dep Var)</i>	No	Yes	Pearson Chi ²	P-value
<i>Altruism</i>				
Founder manager	49.09	63.78	3.432	0.064
Female	68.29	69.72	0.0287	0.865
Manager is religious	57.14	60.61	0.1949	0.659
<i>Knowledge and skills</i>				
Tertiary	55.88	63.44	1.1532	0.283
Prior NPO experience	55.47	68.97	3.0774	0.079
<i>Embeddedness</i>				
Founder is from the community	63.16	58.52	0.3591	0.549

The bivariate regressions were followed by a descriptive analysis of the relationship between responsiveness and the manager's tenure at an organisation. An examination of the tenure variable showed that it is non-normally distributed, (see A1 in appendices). The variable is skewed to the right showing that for a large part of the sample the managers have been in the organisations ten or fewer years. Because of the non-normal distribution of the variable a Kruskal-Wallis rank test and t-test, which is robust to the assumption of normality was applied to examine the relationship between NPO responsiveness and leader's years at the NPO. The Kruskal-Wallis equality-of-populations rank test shows a significant difference in the mean manager's years at the NPO between responsive and non-responsive organisations, $\chi^2(1) = 5.891$, $p = 0.0152$. The disadvantage of the Kruskal-Wallis test is that it does not provide much information with regards to the nature of the difference.

We therefore also conducted a t-test, and the results show that NPOs that are responsive have leaders who have been with the organisations' a longer time (11.2 years) compared to managers who are in organisations, which are not responsive (8.7 years). The results are significant with a p-value of 0.05 for the rejection of the null proposition and a p-value of 0.02 for the alternative

hypothesis that NPOs who are responsive to community inputs have managers who have been with the organisations for longer durations.

Tenure was also interacted with the responsiveness and the founder variables to examine whether having a founder-manager impacted on the relationship between tenure and responsiveness. The results illustrated in Figure 5.1 show that the relationship holds even when the analysis accounts for founder-manager. However, the graph shows that the difference in manager's years at the NPO between responsive (13.7 years) and non-responsive (9.7) NPOs is greatest in the sub-group where the manager is not the founder.

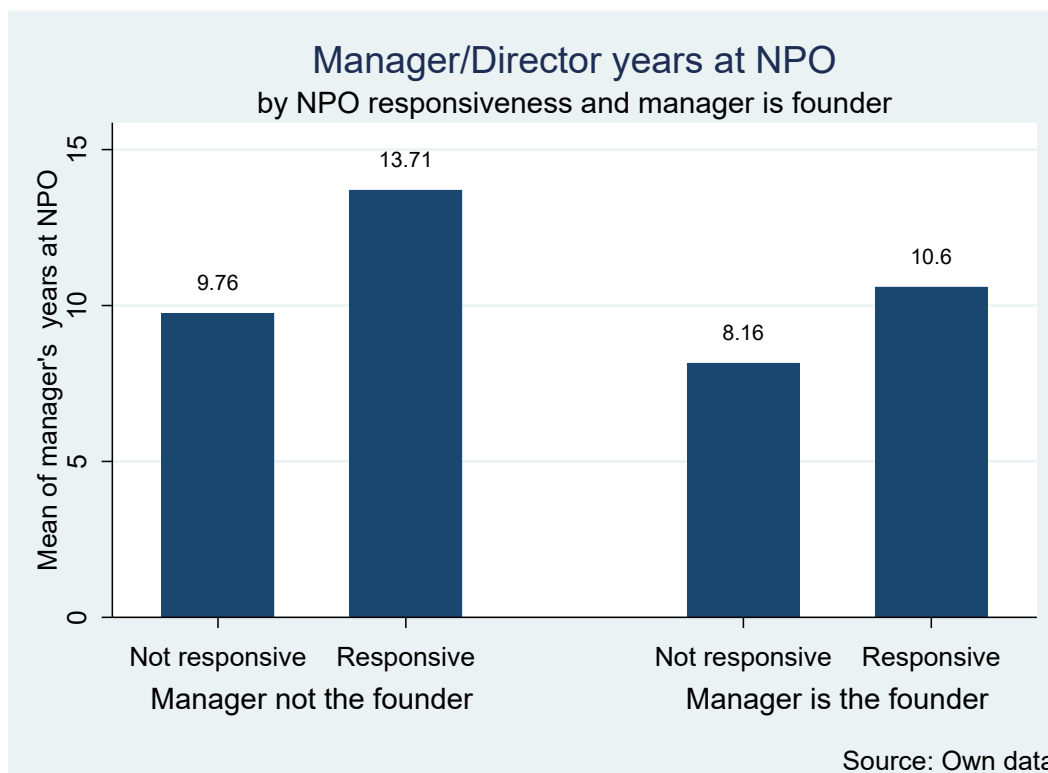


Figure 5.1: The mean of manager's years at NPO by responsiveness and founder-manager

5.7.2 Organisational characteristics

The descriptive results also showed that a greater proportion of organisations are likely to be more responsive to community suggestions if they have more financial resources. This suggests that having the desire to be accountable is not enough. The results also illustrate that most of our sample run on less than R 200 000 a year (14 684.24 \$), see appendix. Because of the non-normal distribution of revenue, the analysis included a t-test to investigate the association between revenue

and responsiveness. The results show a significant ($p= 0.01$) difference in the mean revenue between responsive (R 730 375, 00) and non-responsive NPOs (R 226 810, 06), with organisations enjoying more revenue being more likely to react to community inputs

Revenue and responsiveness further interacted with tertiary education. Figure 5.2 shows that NPO sensitivity to communities is positively correlated with higher revenue. Additionally, Responsive NPOs who are run by managers with a tertiary education also enjoy on average more revenue compared to their counterparts with less educated managers.

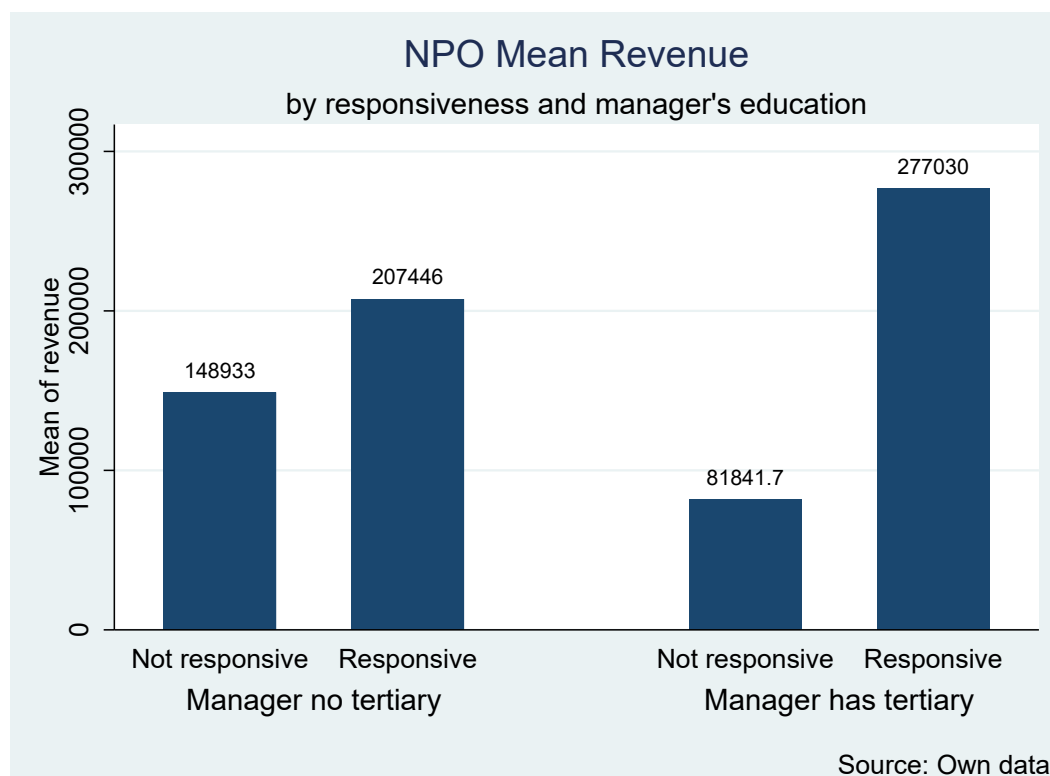


Figure 5.2: NPO revenue by NPO responsiveness and managers education

A chi-square test was also used to examine the relationship between NPO responsiveness and the geographical location of NPOs, denoted by the province in which the organisation is located. The results show that there are no significant differences in responsiveness between organisations located in the Eastern Cape and those located in the Western Cape provinces and between ECDs and the rest of our sample. Similarly, there is no evidence to suggest that donor participation requirements are associated with NPO responsiveness to community members.

5.7.3 The role of leadership in community accountability

Here we present the results of the two estimated models, which show evidence that specific leadership characteristics are correlated with NPO sensitivity to clients. The results below in Table 5.3 suggest that having an altruistic leader has a significant association with NPO sensitivity to communities feedback and inputs. The relationship between the founder-manager and NPO responsiveness is consistently positive and significant. Responsiveness is 26%-points more likely in an NPO with a founder-manager than in one without. The difference in probability increases to 36%-points in Model II. The result may be explained by people who initiate NPO projects care about the wellbeing of the community and are thus more likely to engage in activities and behaviour that reifies that value. Our data showed that when the organisations were founded, in 67% of them the founder/s had a strong vision of what they wanted to do and where they wanted to locate their projects.

The results also suggest that human capital plays an important role in the probability of NPOs changing behaviour and actions in response to client inputs. Both tertiary education and prior NPO experience have a positive relationship with NPO responsiveness. Managers with tertiary education were 19% more likely to be responsive compared to managers that did not have further education and training. This result stays robust after the inclusion of controls in Model II. The result of the tertiary variable was, however, insignificant in the bivariate regression table in Table 5.2. The improved significance could be the result of a suppressor variable/s. The suppressor variable partials out extraneous variation, leading to a clarification of the relations between the dependent and relevant independent variable (Ludlow & Klein, 2014). The suppressor is usually uncorrelated with the dependent but with the independent variable of interest. In the case of tertiary, the founder-manager variable could be acting as the suppressor because it has a significant and negative correlation with tertiary. Similarly, where a manager had worked in another NPO before joining or starting the current organisation, the NPO was more likely to be responsive to community suggestions.

Among the control variables, only revenue has a positive and marginally significant correlation with NPO responsiveness. The positive relation suggests that having the resources to implement changes matters for an NPO to be able to respond to communities.

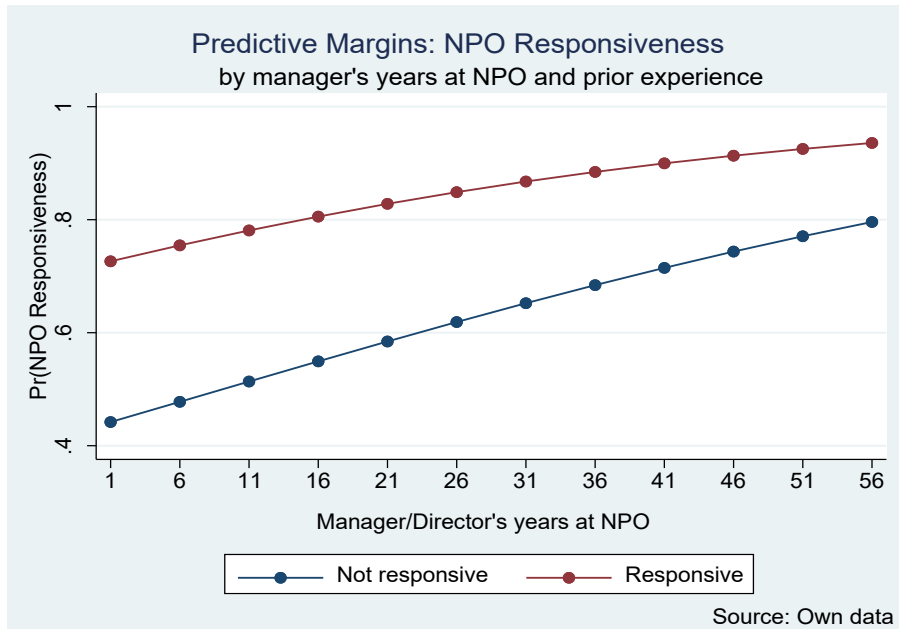
Table 5.3: Table 5.4: Leadership and client accountability logistic regressions

		<u>Model I</u>		<u>Model II</u>	
<i>NPO responsiveness (Dep Var)</i>		<u>Coef.</u>	<u>Se.</u>	<u>Coef.</u>	<u>Se.</u>
<i>Altruism</i>	Founder manager	0.26**	0.09	0.36***	0.1
	Female	0.05	0.097	0.25*	0.11
	Manager religious	0.05	0.08	0.08	0.1
<i>Knowledge and skills</i>	Tertiary education	0.19*	0.08	0.19*	0.1
	Prior NPO experience	0.21**	0.08	0.26**	0.09
<i>Embeddedness</i>	Founder from the community	-0.03	0.06	-0.04	0.1
	Tenure at NPO (years)	0.01*	0.004	0.01	0.01
<i>Control variables</i>	ECD			-0.04	0.1
	Eastern Cape			-0.06	0.13
	Participation a donor requirement			0.07	0.09
	Revenue			3.99*	1.89
N			132		86
R ²			0.11		0.23

*0.05 *0.01 ***0.001 (Source: Own Data)

Note: Sample sizes vary due to missing observations, especially in the revenue variable. Only 118 organisations provided their financial information.

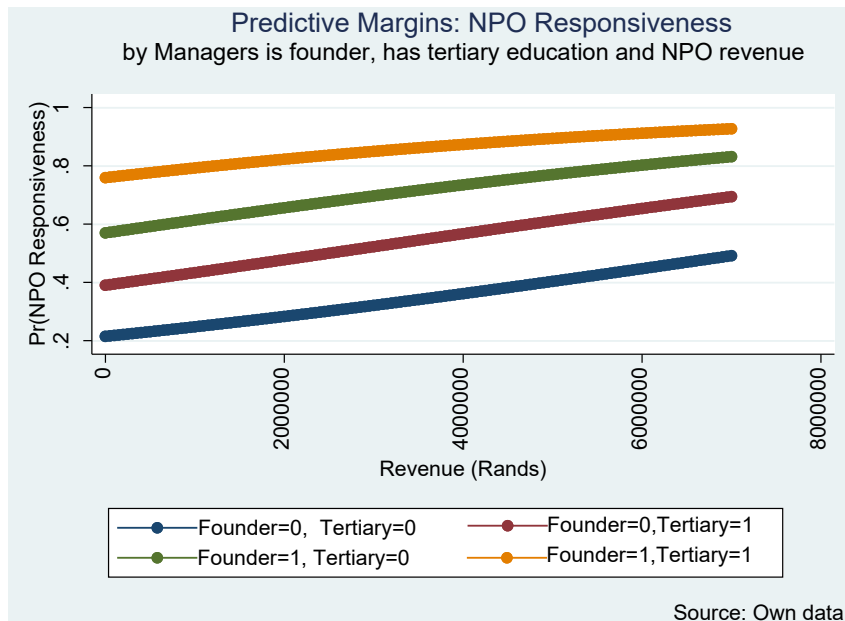
To have a better understanding of the relationship between NPO responsiveness and individual leadership characteristics we further estimated the predicted probabilities for sub-samples of the data and plotted them for better visualisation of the results. Figure 5.3 shows a positive relationship between the probability for an NPO to be responsive and the manager's tenure at the NPO. However, this differs by whether the manager has prior NPO experience. For a manager with prior experience, the predicted probabilities increase from 75%-points to 0.93 %-points. Whereas when the manager has no prior NPO experience, the probability of being a responsive NPO only increases from 0.44%-points to 0.8. Though the probabilities start at a higher level for experienced managers, the change in probabilities over the managers' tenure is higher for leaders with no previous NPO experience.



Source: Own data

Figure 5.3: Predictive margins: NPO responsiveness by managers and prior NPO experience

The probability to be a responsive NPO also changes with revenue, whether the manager has tertiary education and is the founder of the organisation. Figure 5.4 illustrates that the likelihood to be responsive is greater when the founder is the manager, has tertiary education and the NPO has more revenue.



Source: Own data

Figure 5.4: Predictive margins: NPO responsiveness by founder manager and tertiary education

5.8 Discussion

Using principal-agent theory and entrepreneurship theories of NPOs, the research hypothesised on the role of leaders in NPO client-community accountability relations. It identifies altruism as one of the leadership characteristics most likely to be associated with NPO responsiveness to client-community inputs. In previous literature, we also identified knowledge and skills as well as community embeddedness as some of the factors that may correlate with the leader's decisions to act on community's views and inputs to improve organisational service delivery and performance. Based on the theoretical work we formulated propositions about the relationship between leader characteristics and NPO responsiveness to communities. These propositions were empirically tested using a unique community-level data set of NPOs collected in the Eastern and Western Cape provinces in South Africa.

Of the propositions, we tested I, IV, V, are fully supported by the evidence. The results confirm Proposition I, which predicts a positive relationship between NPO responsiveness and the manager being a founder of the organisation. The result may be explained by the altruistic character of the founder-manager (cf. an individual who accepts a job at an NPO) as suggested by NPO entrepreneurship theories. Some people may also be driven by their ethical sensibilities (Noreen, 1988). Burger *et al.*, (2017), theorise that when the NPO founder is still the manager, it may signal an unbureaucratic organisation not yet tied to the aid chain and therefore one which has not adopted donor-focused accountability tendencies.

The relationship could also be explained by the founder run NPOs still espousing the altruistic values held by the leaders. Additionally, it is more likely that founder-managers experience more organisational identification where the manager treats the organisation's successes and failures as their own (Mael & Ashforth, 1992). When this is the case, the leader is more likely to adopt practices that facilitate success. These benefits of organisational identification could be lost once a new leader is employed and the organisation redirects its focus to reflect the values and priorities of the new leader, who could be less community focused.

Similarly, the consistently positive and significant tertiary education variable coefficient confirms Proposition IV. This result suggests that educated leaders are more likely to care and be responsive. Education may increase awareness and sensitivity about community needs and how to address

them. Education, after all, has a positive and significant effect on the supply of NPOs (Puyvelde & Brown, 2016). These results are however different to what Burger *et al.*, (2015) reported, about NPOs in Uganda where having a manager with a degree is negatively related to beneficiary welfare and community participation. A phenomenon that could be explained by the crowding out of community-focused practices by the bureaucratic tendencies that come with donor dependency (Burger *et al.*, 2015).

Experience obtained through earlier NPO employment in the NPO sector is also positive and significantly correlated to NPO responsiveness. This result is like what was reported on NPOs in Uganda where the manager's experience was reported as positively associated to community involvement and welfare (Burger *et al.*, 2015). Geer *et al.*, (2008) also found a positive relationship between accountability and the leader's experience.

Propositions II and VII are partially supported by the findings. When organisational factors were controlled for, the results show that female managers are also more likely to adopt community focused practices. Manager's tenure also began significant but attenuated when the control variables were added in Model II. Hypotheses III and VI are not supported by the findings.

In terms of the control variables, only NPO revenue has a significant and positive relationship with NPO responsiveness. The results are like what was found previously. Geer *et al.*, (2008) report a positive and significant relationship between the budget size of the organisations and accountability. However, the results differ in that Geer *et al.*, (2008) looked at the relationship between the general accountability of NPOs. The results are also in line with the logic professed by Wellens and Jegers (2014a) that larger and more professional NPOs are more likely to provide opportunities for client participation as an institutionalized practice of professional management.

5.9 Conclusion

With this research, we aimed to investigate the leadership characteristics related to NPO responsiveness to client communities. The results firstly show that a large proportion of the NPOs in our sample report openness to community inputs. These organisations could provide an example of how they transformed the information, suggestions and feedback into practical action to improve the organisations and delivery of services. The regression analysis, therefore, offers

evidence that points to the significance of leadership characteristics in the discharge of client accountability in service organizations.

This study has, therefore, provided evidence of the key role played by leadership characteristics in the probability of NPO responsiveness and thus accountability to clients, and the study is a first of its kind dealing with small community-based organizations, some of them located in remote areas. Additionally, it provides justification for why leadership should be considered in conversations about accountability to clients especially among small service organizations; leadership plays too important a role to be ignored in such conversations.

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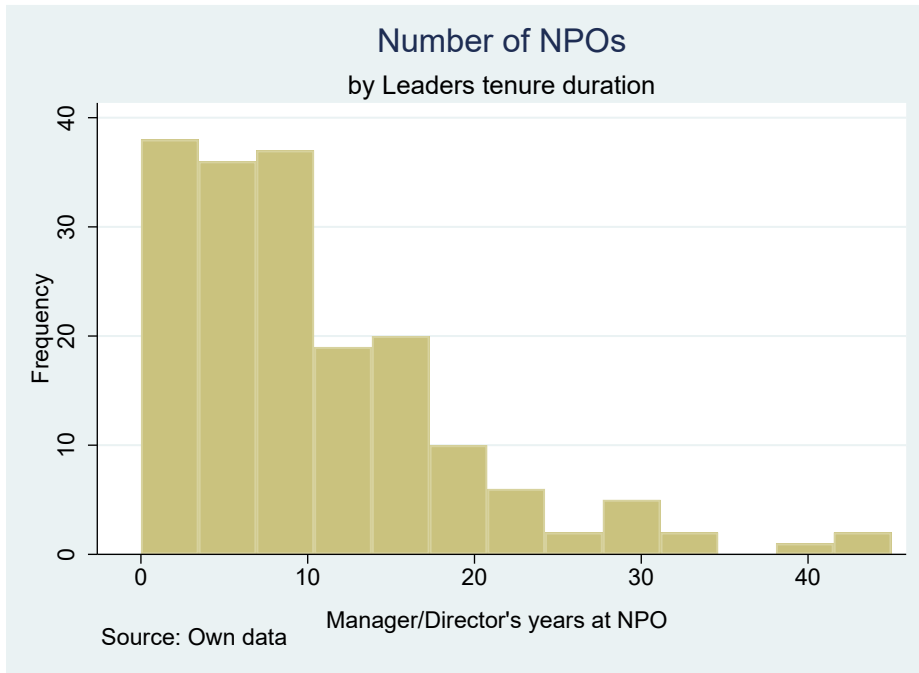
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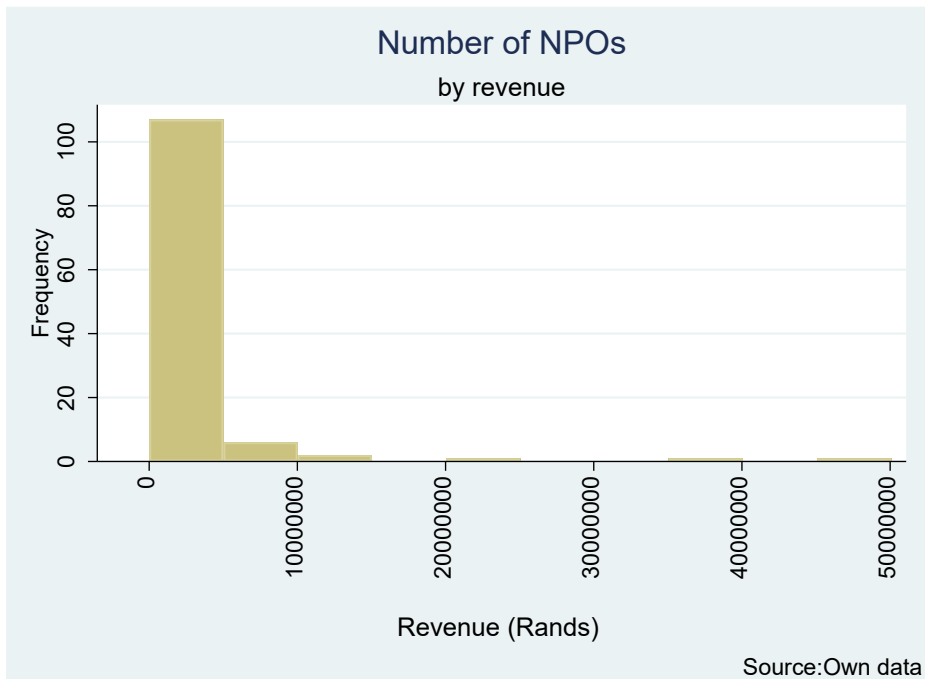
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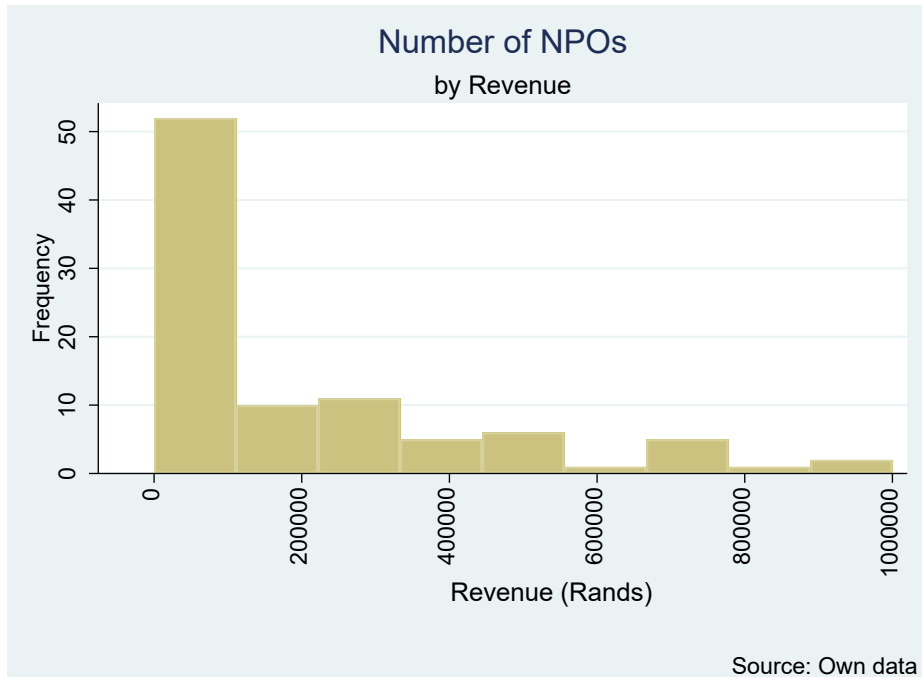
Appendices



A1: Frequency of NPOs by manager's tenure duration



A2: NPO distribution by revenue



A3: NPO distribution by revenue > or equal 1 million

CHAPTER 6: CLIENT-COMMUNITY ACCOUNTABILITY FOR NON-PROFIT PERFORMANCE: A SOUTH AFRICAN CASE-STUDY

Abstract

Efficiency and rights-based arguments support the call for NPOs to show accountability and evidence of their performance (Ebrahim, 2003; Gaventa, 2002; O'Dwyer and Unerman, 2010). However, scholars have raised the concern that these arguments have been made with limited evidence to back them (Burger, Dasgupta & Owens, 2016; Dubnick; Wellens & Jegers, 2014). This study investigated the relationship between NPO accountability and community satisfaction. It tested the hypothesis that NPO accountability to client-communities is positively related to community satisfaction using survey and structured group-interviews data collected in 2015 from NPOs and community members in the Eastern and Western Cape provinces in South Africa. The results of the structural equation analysis showed that accountability to communities has a direct positive effect on community satisfaction. Furthermore, NPO responsiveness, an essential element in accountability is the main driver of community satisfaction with the value created by the organisations in their communities.

Keywords: accountability, principal agent, client-community accountability, participation, responsiveness, satisfaction, SEM

6.1 Introduction

Demands have increased for NPOs to show their responsibility to clients and communities. The arguments have been based on the reasoning that since the existence of NPOs is to improve the inequitable distribution of public goods and services and to provide innovative solutions to social problems. It is only logical that they “should be able to demonstrate results in solving those problems, especially if they are publicly funded” (Ebrahim & Rangan, 2014, p. 123).

The rights-based proponents argue that communities have a right to be active participants in decisions that affect their lives (Gaventa, 2002; O’Dwyer & Unerman, 2010). On the other hand, efficiency-based arguments claim that accountability to these groups will improve NPO efficiency through better access to information that can help them tailor their services to existing demand. The arguments also include that since accountability assumes an active role for clients in the organisations, participation will have a positive effect on the use of NPO services (Mlodovosky, 2014). Client accountability also improves community buy-in, increases support and volunteering and stimulates the exchange of information and ideas about service delivery (Smith, 2010).

However, scholars have raised the concern that these claims about the benefits of client-accountability, especially participation, have been made with limited substantive evidence to back them (Burger, Dasgupta & Owens, 2016; Wellens & Jegers, 2014a). Dubnick (2005) argues that the idea that accountability increases performance has been accepted without scrutiny and warns of the ‘accountability paradox’ where more accountability may reduce NPO performance. This is because accountability mechanisms such as participation have an increasing marginal cost (Burger *et al.*, 2016). The extent to which accountability to client-communities impacts on performance also depends on how the information is used in organisational decision making, which depends on the measures in place to guide the systematic integration of that information (Ebrahim, 2005).

The positive link between community accountability and performance in terms of welfare to clients is not a given, and the question stays as to whether greater accountability to this group bears on the organisation’s ability to impact the welfare of the people for whom the services are intended.

Studies, which have tried to address this question have not been able to provide a definitive answer. Accountability to client-communities is often referred to as ‘downward accountability’ (Andrews, 2014; Ebrahim, 2003a) and defined as when organisations account to the stakeholders directly or indirectly impacted by the organisations’ operations (Najam, 1996). However, more than one definition of accountability exists, and this has caused ambiguousness, which has made the measurement of the concept a challenge (Ebrahim, 2005, p. 60). Consequently, studies have resorted to investigating the use of accountability mechanisms which are easier to identify and measure such as participation, information disclosures, the presence of feedback mechanisms and complaints procedures (Burger *et al.*, 2016; Barr and Fafchamps, 2006; Jacobs & Wilford, 2007; Kilby, 2006; Noor, 2016, Wellens & Jegers, 2014a; Van Zyl, Claeys & Flambard, 2017).

For example, Kilby (2006) proposed the depth and formality schema to categorise the accountability mechanisms used by NPOs and reported that ‘downward’ accountability is a significant factor in the empowerment of poor women in India (Kilby, 2006). Barr and Fafchamps (2006) in their evaluation of NPOs in Uganda also found positive community welfare and satisfaction effects from community involvement and the permanent presence of the organisations in the communities, which they surveyed. Noor’s (2015) research also showed that information disclosures and complaints procedures have a positive effect on external effectiveness and participation mechanisms and complaints procedures a positive effect on internal effectiveness (Noor, 2015).

On the other hand, Hsieh (2010) reported that customer orientation contributes very little to organisational performance. Burger *et al.*, (2016) found no significant relationship between participation and beneficiary welfare. Wellens and Jegers (2014a) also reported that the quality of the mechanisms was not associated with the beneficiary, or representative impact, which suggested that mechanisms were being used symbolically in the organisations (Wellens & Jegers, 2014a). Due to these inconclusive results and the different measures of accountability used the impact of accountability on community welfare is still unclear.

Trying to understand how the contribution of NPOs can or should be measured has also been another challenge (Moxham, 2009). It is sometimes not very clear whether NPOs are “at best, efficient welfare delivery systems...enjoying legitimacy from the community” or “at worst,

inefficient managers of resources trying to implement a diverse set of programs requiring a managerial competence... beyond their existing capacities” (Sen, 1987, p. 161). Sen’s sentiments still hold as the field of NPO performance measurement also suffers from its own limitations. Moxham (2009) notes that performance measurement in NPOs has received limited treatment unlike in the for-profit and public sector, where there is a well-established body of knowledge.

The barriers and complexities to performance measurement include challenges with developing a useful criterion able to capture intangible outcomes, confusing terminology, and trying to capture long-term outcomes in the context of short-term contracts (Moxham, 2009). Walsh and Lenihan (2006, p. 413) add that measurement is especially a problem in development organisations, who “lack any clear metric of success”. Because of their broad and imprecise objectives of meeting some form of development need: “their bottom-line is unclear and performance measurement difficult” (Walsh & Lenihan, 2006, p. 413). The result of these challenges is the lack of clarity and consensus on the meaning and measurement of community accountability and the measurement of NPO performance.

Since the “primary mission of NGOs relates to the desires and needs of their beneficiaries and communities, their performance should be assessed by their effectiveness to assist beneficiaries to achieve their mutual social goals” (Kareithi & Lund, 2012, p. 2012). But, the literature on NPO performance has paid little attention to beneficiary perspectives despite the rhetoric of participatory development (Kareithi & Lund, 2012). Accountability to communities is seldom mentioned in some performance measurement guides even though performance is ultimately about how organisations serve communities and target clients (Benjamin, 2012). Consequently, the performance measurement field suffers from a lack of empirical tests of the available and new measures (Ritchie & Kolodisky, 2003), and even studies examining the link between client-community accountability on their welfare.

This study, therefore, investigates the relationship between NPO accountability and performance operationalised as community satisfaction. It tries to measure NPO accountability to client-communities and how it translates to better evaluations by community members. The research is in line with Gray and Schlesinger’s (2009) call to examine the relationship between NPOs and

client-communities when evaluating social value and impact. It thus shifts the focus back to communities and the NPO's effect on their wellbeing as reported by them. In this respect, the research is like that of Burger and Owens (2013) who also investigated whether the output created by NPOs was valued and appreciated by the communities. Burger and Owen's (2013) moved from the premise that community concerns should be key if development and poverty alleviation are acknowledged to be people-centred endeavours.

The need to understand how NPOs impact on the welfare of communities is also backed by Bryson *et al.*, 's (2001, p. 273) assertion that “non-profit organisations are externally justified - morally, ethically, and legally-by what they do to address social needs” and that their success means satisfying the key interests of those stakeholders “whose satisfaction is crucial to the generation of support, legitimacy, and resources to ensure the organisations viability”. Furthermore, Wellens and Jegers (2016, p. 305) also warn that “a mechanism implemented under the pretext of allowing beneficiaries and/or their representatives to have an impact on policy without making an actual impact does not function well”. It is therefore important to understand whether there is an expectation gap between what we think client-community accountability and related mechanisms can achieve and what they really do achieve.

The hypothesis tested in this chapter was whether NPO accountability to client-communities is positively related to client-community satisfaction. To test the hypothesis, the study applied a structural equation model (SEM) analysis to a mixed-methods data consisting of survey and structured group-interview data. Sowa *et al.*, (2004) encourage the use of SEM because it helps with a more in-depth analysis of organisational effectiveness and its multiple layers and dimensions. Therefore, the aim of using SEM was to test the validity of our multidimensional constructs client-community accountability and community satisfaction and to examine whether the former has a direct impact on the latter. Additionally, the method was chosen because it provided the platform to examine the nature and direction of the relationship between accountability and community satisfaction.

Accountability was operationalised within the principal-agent and right-based frameworks as the use of various accountability mechanisms aimed at community involvement, transparency, obtaining their feedback and being responsive to their inputs. Community satisfaction, on the

other hand, is captured using statements related to the communities' beliefs about the motivations and competence of NPO staff and their self-reported satisfaction with the organisation and its activities. The statements covered the community members' perception about the organisations' responsiveness, professionalism, satisfaction and selfishness. Responsiveness is included as a variable in both the accountability and community satisfaction constructs for triangulating the information provided by NPOs with reports from communities. The variables were also included in both constructs because, as we argued in chapters 3 and 4, it is a different, but an important part of accountability.

In the following section, we introduce our principal-agent framework linking client-community accountability and community wellbeing. The section is then followed by a presentation of the data and variables in Section 6.3 and the results of the bivariate regressions in section 6.4. In Section 6.5 the chapter presents and discusses the SEM models of accountability and satisfaction including the estimations methods and results. The findings are discussed in section 6.6 and the conclusion in section 6.7.

6.2 Linking Accountability and Community Welfare

As mentioned in Chapter 3, in economics the relationship between NPOs and their client-communities falls into what is referred to as agency relationships. Ross (1973, p. 134) defined an agency relationship as when two are more entities (individual, association or cooperation) come into agreement, and the agent "acts on behalf or as a representative" of the principal. These relationships exist because agents sometimes possess different (better or finer) information on a matter of interest than the principal (Ross, 1973, p. 135). In the case of the client-community and NPO agency relationship, the NPO has the expertise and/or capabilities that the community does not have, but which can aid in the fulfilment of their needs (Ross, 1973).

Consequently, the community delegates some decision-making authority motivated by their inability to perform the task themselves (Laffont & Martimort, 2002, p. 28). NPOs have the knowledge and the capacity to mobilise resources from third parties and to provide goods and services, which the communities need. The NPOs role in this relationship is therefore to maximise the welfare / satisfaction of its clients-communities.

However, as the theory assumes misaligned interests, some degree of agency problems is a possibility, which may lead to welfare loss for the principal if left unaddressed. Agency problems may be less of a problem when the agent and principal's utilities are aligned, which should be the case in NPOs given that they are 'mission' focused organisations. Most if not all NPOs' objectives centre around service maximisation and care for the quality and the quantity of the goods provided driven by altruistic concerns (Newhouse, 1970; Feldstein, 1971). The mission is thus important in NPOs, it "services as a long-term objective, the achievement of which is the organisation's *raison d'être*" (Mc Donald, 2007, p. 257). The mission also underpins the ethical and value base of accountability (Brown, Carlton & Yoshioka, 2003; Kilby, 2006) and provides a basis for judging organisational performance and progress (Ebrahim, 2003b). Being mission-focused, however, does not preclude agency problems in the relationship of NPOs with client-communities.

They cannot be completely avoided because even in the most best-intentioned agents a divergence of interest is inevitable (Caers *et al.*, 2006). Shapiro (2005) argues that "conflict of interest in agency theory does not necessarily mean "shirking or opportunism with guile; it is about wrenching choices among the legitimate interests of multiple principals by agents who cannot extricate themselves from acting for so many" (Shapiro, 2005, p. 278). Even if we would expect the utility functions of an NPO and its clients to be almost identical (Caers *et al.*, 2006), they still exist.

Steinberg (2010) notes that the complexity of agency problems encountered in the relationship between communities and NPOs relate to the type of goods and service provided. Most often NPOs provide Type-II goods and services that have public and quasi-public goods characteristics, which make them difficult to observe and to enforce in contracts (Steinberg, 2010; Weisbrod & Schlesinger, 1986). Observability of the quality may be less of a problem for client-communities because they have proximity and experience the goods and services as the final users. As it was argued in Chapter 3, this reduces the transaction costs involved with monitoring the NPO. The issue that may be more a problem in observing whether the quantity and quality align with the resources made available by donors for their provision. There is also a hidden information problem that may arise related to financial conduct because clients have limited access to organisations' finances.

For client-communities, behaviour-based contracts, which involve monitoring the organisation's actions and tracking its performance may be the only viable option (Eisenhardt, 1989). Accountability processes provide the framework through which this is done. They facilitate access to the information required to determine whether the organisation has acted in the client-community's best interest. The organisation gives an account about the responsibility it has towards the community because of their "right to be informed and receive an explanation or justification with regards to the NPOs' actions and decisions taken (Lindberg, 2013). Accountability thus acts to manage information asymmetries between the two parties (Lindberg, 2013) and as a result to reduce agency problems and the accompanying welfare loss.

Lindberg argues that "when decision making power is transferred from a principal to an agent, there must be a mechanism[s] in place to hold the agent accountable for their decisions" (Lindberg, 2013, p. 2). Accountability mechanisms, therefore, provide the means through which client-communities can monitor the NPO's behaviour, if observable and verifiable by a third party. Participatory accountability mechanisms also have a direct effect on the community's utility because of their involvement in the organisation's affairs. Such involvement impacts on allocative efficiency by ensuring a better match between NPO interventions and community needs (Barr & Fafchamps, 2006). These mechanisms can include participation such as in strategic decisions making, on the board and through informal and formal feedback mechanisms such as evaluations and assessments.

Board representation is one element of accountability that helps enhance community welfare. Wellens and Jegers (2014b) reported that the quality of mechanisms among Belgian NPOs had a positive relationship with beneficiaries being full members of the organisation's board (Wellens and Jegers, 2014b). The positive board impact could result from customers gaining control over organisational decisions about how to address their needs. Steinberg (2010), therefore, sees customer control as a guarantor of the satisfaction of consumer demand. Having an elected board could even amplify the benefits of board representation (Weidenbaum, 2009).

Ebrahim (2003a) also argues that formal feedback mechanisms such as performance and impact assessments are some of the tools available to facilitate accountability. These mechanisms can facilitate strategic decision making and help the organisations evaluate their progress in terms of

fulfilling their mission and impact on their clients' welfare (Ebrahim, 2003a; LeRoux & Wright, 2010). They also provide a link between accountability and learning, if they feed back into organisational decision making, and, involve multiple constituencies. (Ebrahim, 2005).

However, the use of accountability mechanisms is not an end. They only act to facilitate accountability, which also depends on how the organisation responds to information collected and feedback provided (Barret, 2001). NPO responsiveness within the principal-agent framework means responding to need and reflects how the organisation 'bonds' with client-communities. The aim of bonding is to ensure that the NPO will not act in a manner that prejudices the principal's welfare (Hill & Jones, 1992). Connecting to client-communities is also an interest alignment mechanism. NPOs cannot provide a warranty for their services. The alternative is to engage in actions that demonstrate that the interest of the client-communities will be met as they have specified: they will be provided what they need not what the NPOs thinks they need (Hill & Jones, 1992, p. 138). Furthermore, when client-communities are integrated into organisational decisions and planning, their needs are better served and will thus be more likely to give a positive review of the organisations (Hill & Jones, 1992).

Meaningfully practised this process of accountability can lead to an increase in the communities' satisfaction. Through accountability and the use of participatory mechanisms, the organisation can adjust its supply of goods and service by using the feedback given to respond to the preferences and demands of communities. Other paths through which accountability can impact community satisfaction include through ensuring that stakeholder needs are met and carefully considered in the organisation's policies and practices (Blagescu, De las Casas & Lloyd, 2005). The organisation could also manage expectations through its integration and involvement of communities in the organisation and its strategic decision making. Accountability also can act to increase trust, goodwill, credibility, social legitimacy, and be a relationship builder (Bagescu *et al.*, 2005).

We, therefore, expect accountability to be positively related to community satisfaction because client-community "involvement in decision-making processes may lead to greater satisfaction and greater trust over time, which in turn enhances stakeholder assessments and support of the organisations (Willems *et al.*, 2016, p. 470)

Hypothesis: Increase in accountability practices will be correlated with an increase in principal's (community) satisfaction with the NPOs performance.

In Chapter 3 we also made the argument that accountability also depends on internal and external factors, which may also correlate with the organisation's impact on community satisfaction. The factors include whether the organisation has members, the presence of donor conditions and where the organisation is located, which may account for socio-economic variation, as well as differences in NPO provision across geographical locations. For example, Ebrahim (2003) argues that clients who are not members have a different right to accountability than clients who are members. We would expect that membership or membership like organisations will have greater accountability and control over organisations, and better welfare outcomes for communities (Uphoff, 1996; Ebrahim 2003b).

Non-profit organisations agency relations are special. Because of the non-distribution constraint, they have no residual claimants, everyone with a claim is a principal. One of those principals is the donor, who plays an important role in NPOs as their resource providers. However, when it comes to accountability, concerns have been raised that the prominence of donors' demands crowds out accountability to other NPO principals. Schmitz and Mitchell (2009) report that NPOs have the desire to practice downward accountability, but because of resource dependency, the incentives they face favour 'upward' accountability to donors. Furthermore, the relationship between NPOs and donors could lead to distortions. For example, a strong association was found between increased international aid and the material aspirations of NPO leaders and lower organisational performance in Pakistan (Bano, 2008). It is also noted that donor practices of mandating reporting for compliance may result in superficial compliance involving ceremonial and symbolic practices (Mitchell, 2014; Prichett, 2015).

However, through their conditions and requirements, donors could also facilitate greater accountability and performance. Through conditional payments, for example, donors could incentivise organisations to improve their performance towards their beneficiaries. In this respect NPO facing incentives to prioritize client-communities are more likely to show accountability and performance. Because the impact of donors could be negative or positive, we formulate no prior hypothesis with regards to its relationship on accountability and client-community satisfaction.

6.3 Data and Variables

The analysis also uses the survey and structured group-interview data collected in 2015 from NPOs and community members at the Eastern and Western Cape provinces in South Africa, described in Chapter 4. For this research, we merged the survey (195 NPOs) and group-interview data and were able to merge 156 observations. In the sample, 21 of the observations were represented more than once because they were discussed in more than one focus group. These duplicates were dropped at random, and we remained with the 117 observations. Due to missing data, for some of the variables the sample is less than 117 observations, especially those from the structured group-interview data.

6.3.1 Variables

The variables included are listed in Table 6.1 with their distribution's characteristics. Community satisfaction' is defined as the maximisation of the community's utility as a function of NPO services and actions. It is measured using Likert scale variables based on the responses to questions related to the community's subjective perceptions about the organisation, its staff, and the value it brings into the community. Group-interview participants had to decide among themselves whether they strongly agree (1), agree (2), neither agree nor disagree (3), disagree (4) or strongly disagree (5) with the given statements.

The variables and accompanying statements are: Responsiveness (The NPO is always quick to respond when inhabitants of this community or the community as a whole ask for help); Satisfaction (The people who live in this community are satisfied with the performance of the NPO); Professional (NPO representatives are good at what they do); and Selfishness (The NPO exists to serve the purposes of its own staff rather than to help us). The responses were reverse coded (1=strongly disagree to 5=strongly agree), and 3 (neither agree nor disagree) was recoded to missing because it relayed no information about the community's perception about the organisation. Some of the measures are the same as those used by Barr and Fafchamps (2006), Burger and Owens (2013) and Burger *et al.*, (2015) in their studies of NPOs in Uganda, where community views of NPOs' services were also solicited. The recoding resulted in 4 Likert scale variables measuring the perceptions of community about the organisations on a scale between 1=strongly disagree and 4=strongly agree.

For the descriptive analysis an independent variable, community satisfaction constructed using Polychoric principal component analysis. One factor was retained with an eigenvalue of 1.84 and which could explain 96% of the variation in the data. The Cronbach's alpha statistic of .72 confirms the reliability of the construct, see appendix for details.

Table 6.1: Variables Distributions characteristics

Variables	Source	Obs	Mean	Std. Dev.	Min	Max
<i>Community satisfaction</i>						
Responsiveness (community)	Focus group	64	3.75	1.6	1	5
Satisfaction	Focus group	67	4.14	1.22	1	5
Professional	Focus group	64	4.56	0.79	1	5
Selfish	Focus group	75	1.97	1.34	1	5
<i>NPO Accountability</i>						
Strategic decision	Survey	108	0.33	0.45	0	0.99
Community representative	Survey	117	0.57	0.49	0	1
Formal feedback	Survey	117	0.68	0.46	0	1
Informal feedback	Survey	117	0.32	0.47	0	1
Reports	Survey	76	0.38	0.44	0	0.97
Responsiveness (NPO)	Survey	100	0.70	0.46	0	1
<i>Control</i>						
Funders will withdraw funding	Survey	79	40.51			
Funders are patient	Survey	79	37.97			
Funders will not withdraw funding	Survey	79	21.52			
ECD Early childhood development	Survey	117	0.51	0.50	0	1
Eastern Cape	Survey	113	0.31	0.46	0	1

Source: Own data

Note: Sample sizes vary due to missing observations in the data

From the survey, we extracted variables to measure NPOs' reports about their accountability practices, as well as other internal and external organisational factors that may be predictors of both NPO accountability and community satisfaction. The measure of accountability includes indicators of NPOs' use of participation mechanisms (involvement in strategic decisions, board representation, use of input and feedback mechanisms, access to financial and annual reports) and responsiveness to community inputs and feedback.

Polychoric principal component analysis was also used to construct some of the accountability indicators. Components with eigenvalues greater than 1⁹, which made theoretical sense and explained a larger proportion of the variance were retained, see appendix for information on

⁹ This is in line with the eigenvalue greater than 1.0 rule (Thompson, 2004).

retained components (variables). For example, involvement in NPO strategic decisions is a composite measure based on the dummy variables where NPOs indicated whether they required authorization from communities to expand activities, or to a new area or buy a new building. The variables were based on responses to the question, does [NPO] need to obtain the authorization of an outside body before [NPO] can undertake the following, 1. expand into new activities; expand into another area and 3. purchase a building? The outside bodies included 1. board, 2. community, 3. The Department of Social Development, 4. funder and 5. Other. Polychoric component analysis was applied to the community responses and a component with an eigenvalue of 2,6, which could explain 75% of the variance was retained as the variable strategic decisions.

The variable board representation is also a compound indicator measuring whether the community is represented on the non-profit board by a representative elected by the community. Formal and informal feedback mechanisms are also composite indicators measuring the use of participation mechanism such as surveys, needs assessments, evaluations, general meetings and other informal means, for example, ad hoc personal conversation to gain feedback from client-communities. The formal and informal feedback variables were created from the dummy variables based on the question: In which of the following ways do you receive feedback from community members about the needs of the community? Respondents could make multiple choices from the list of mechanisms provided. See question 57 in the survey in the appendix A1. The list included 1. comments and feedback box ;2. programme evaluation, 3. survey; 4. community meetings; 5. annual general meeting; 6. invited discussions with community leaders; 7. Invited discussions with; community members; 8. Social media and 9. Other.

To create formal feedback the responses to 1. comments and feedback box ;2 programme evaluation, 3. survey and 5. annual general meeting were summed to create a single variable with a range between 0 and 5 indicating the number of mechanisms used by an organisation. Due to the small nature of the sample the variables were recoded 0 if no mechanism was chosen and 1 if an organisation indicated it used one or more of the feedback mechanisms. A similar procedure was followed to create the informal feedback categorical variable, however, the responses to 4. community meetings; 6. invited discussions with community leaders; 7. invited discussions with; community members and 8. social media were used to create the variable.

The variable reports, on the other hand, indicates whether organisations provided communities with access to audited financial statements and the annual progress reports. The variables were created from responses to the questions, was this annual report shown/given to any of the following and were these accounts shown/given to any of the following? The variables were coded 1 if community was chosen and 0 if it was not chosen. The reports variable was created by also applying Polychoric component analysis to the responses to those two variables. A component with an eigen score of 1.71 that could explain 85% of the variance was retained.

On the other hand, NPO responsiveness is based on the response to a question about the NPOs use of the information provided by communities. Non-profit representatives were asked the question, can you give an example of how your NPO has changed its programme or approach because of community or beneficiary inputs or feedback? When the representative was able to provide an example, the enumerators were instructed to tick yes(coded=1), and no(code=0) in the case of the opposite. The responses included examples such as, changing or expanding activities, changing the location of the organisation, improving fundraising among others. An example of the responses provided is included in the previous chapter.

We also controlled for other predictors such as whether an organisation is an early childhood development centre (ECD) as a proxy for membership organisations, based in the Eastern as opposed to the Western Cape, and funder requirements, which conditioned repeated funding. Funder requirements is a dummy variable transformed from a categorical variable with three categories, funders will withdraw funding if performance is not measured (1), funders are patient (2), and funders will not withdraw funding (3). The responses were re-coded to funders will withdraw funding (1), and funder will not withdraw funding (0), the latter was derived from the responses 3 and 2.

6.4 Bivariate Regressions Analysis

As part of the exploration of the data, bivariate regressions were estimated to understand if any empirical relationship existed between community satisfaction, and the use of accountability mechanisms. As well as, whether any of the donor, organisational and community-related factors could predict community satisfaction with NPOs and its services.

The results for the 9 separate bivariate regressions are presented in Table 6.2. They show that community satisfaction has a positive large and significant relationship with the involvement of communities in strategic decisions and NPO responsiveness among the accountability variables. Donor conditions also have a positive and significant effect on community satisfaction. Organisations who noted that repeated funding was conditioned on performance measurement were 94 % points more likely to have communities satisfied with their work compared to those who noted the opposite. On the other hand, community satisfaction also had a large significant association with Eastern Cape, they are 70% points more likely to have satisfied community members than their counter parts in the Western Cape.

Table 6.2: Bivariate community satisfaction regression results

<i>Community satisfaction (Dep Var)</i>	<u>Coef.</u>	<u>Std. Err.</u>	<u>N</u>	<u>R-squared</u>
<i>Accountability</i>				
Strategic decision	0.73*	0.46	75	0.03
Community representative	0.19	0.45	69	0.06
Formal feedback	0.09	0.17	63	0.01
Informal feedback	0.12	0.15	63	0.00
Reports	0.16	0.34	63	0.02
responsiveness_npo	1.54***	0.37	59	0.23
<i>Donor conditions</i>				
Funders will withdraw funding(ref)			52	0.06
Funders are patient	-0.24	0.46		
Funders will not withdraw funding (clarify results)	-0.94*	0.50		
<i>Organisational factors</i>				
Early childhood development	0.34	0.32	69	0.02
Eastern cape	0.70**	0.33	69	0.06

Source: Own data

Note: Sample sizes vary due to missing observations in the data

The bivariate analysis illustrates the effects of different mechanisms on community satisfaction. The issue with the analysis is that it does not consider that together the mechanisms could be indicators of an underlying trait, accountability. The analysis proceeds with structural equation analysis because of the multidimensional nature of the concepts of accountability and satisfaction. The advantage of using SEM is that it allows for the evaluation of the entire model, which takes precedence over individual effects (Kline, 2005, p. 15). A full SEM model also allows for the unique variance of each indicator to be estimated and thus estimates the

relationships among latent variables without the bias of the errors in the indicators (McCallum & Austin, 2000).

6.5 SEM of Accountability and Community Satisfaction

Here we present the structural equation models used to test the hypothesis and validity of the constructs. Structural equation is a methodology encompassing a range of statistical tools that can be used to “evaluate the validity of substantive theories with empirical data” (Lei & Wu, 2007, p.33), and it “allows researchers to test propositions regarding how constructs are theoretically linked and the directionality of that relationship” (Schreiber, Stage, King, Nora, Barlow, 2006, p. 326). The method is different to other general linear methods such as analysis of variance and multiple regression in that it allows latent traits that may be indicated by observed data to be examined (Lei & Wu 2007). It can be used for data reduction through using the covariation of observed variables to indicate a variable (Schreiber *et al.*, 2006, p. 323). The method is thus ideal for evaluating the relationship between the constructs, non-profit client - community accountability, and community satisfaction.

In the models, the analysis first examines whether the indicators strategic decisions, community representative, formal feedback, informal feedback, reports and responsiveness (NPO) together measure a common construct, client-community accountability. Similarly, it investigates whether responsiveness(community), professional, satisfaction, and selfishness also measure the common latent construct community satisfaction. The models also test whether the latent client-community accountability has a direct effect on community satisfaction construct.

Two full structural equation models (SR model), which display the relationship among latent constructs and observables are estimated. Structural equation models synthesise the structural and measurement models and allow for the testing of the model hypothesis as well as the direct and indirect effects (Kline, 2015). The first SR model is presented in Figure 6.1. In the structural component, the relationship between the latent/unobservable constructs accountability and community satisfaction, are represented by the oval shapes. Because accountability is hypothesised as having a positive direct effect¹⁰ on community satisfaction it is represented by

¹⁰ SEM is a theory confirmatory tool, but it does not imply causality (Kline, 2015).

a straight path and arrow from the latent exogenous construct accountability to the latent endogenous community satisfaction construct (Schreiber *et al.*, 2006) Community satisfaction is endogenous and thus accompanied by an error term.

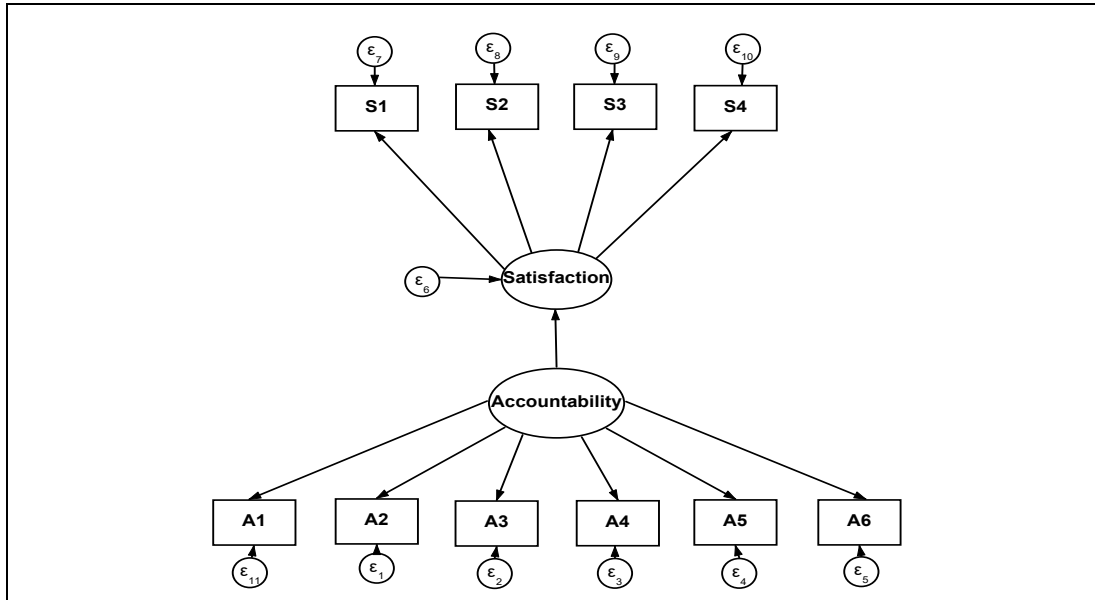


Figure 6.1: SEM model of client-community accountability and satisfaction Source: Own data
 Note: Satisfaction= responsiveness (community) (S1), professional (S2), satisfaction(S3), and selfishness (S4).
 Accountability = Reports (A1), strategic decisions (A2), community representative (A3), formal community feedback (A4), informal community feedback (A5) and responsiveness (NPO) (A6).

Our model has two measurement components where the two hypothetical and unobservable constructs are linked to their respective indicators/observable variables. The observed variables, represented by rectangle boxes in Figure 6.1, are related to the hypothesised latent constructs and examined for how well they measure that construct using confirmatory factor analysis (CFA) (Kline, 2005). They are theorised as being the result of the latent variable hence the direct arrow from the latent variables (MacCallum & Austin, 2000).

In the model the construct ‘*accountability*’ is represented by reports (A1), strategic decisions (A2), community representative (A3), formal community feedback (A4), informal community feedback (A5) and responsiveness (NPO) (A6). We expect all these factors to load positively on the accountability construct. The construct *satisfaction* is represented by the indicators responsiveness (community) (S1), professional (S2), satisfaction(S3), and selfishness (S4). We expect responsiveness(community), professional and satisfaction to load positively on community satisfaction but selfishness to have a negative effect. The indicators are accompanied

by their respective measurement errors depicted as circles in the diagram. The model estimation involves separating common variance from the measurement error, which helps with controlling for any unreliability in the coefficients (Lei & Wu, 2007 p. 34).

In Model II, illustrated in Figure 6.2 included exogenous predictors Eastern Cape (C1), ECD (C2) and Funder conditions (C3). Due to the sample size limitations, only three controls were included. We opted for these covariates because they account for significant differences in NPOs that may affect their behaviour towards communities. We included Eastern Cape to account for socioeconomic differences in the communities and the level of NPO resources. The organisations in that province are more likely to run on smaller budgets and to rely on community contributions given their proximity to the people. As discussed in Chapter 3, organisations that have a membership like characteristics, such as ECDs, are more likely to differ on client-community accountability and satisfaction than those with no members (Steinberg, 2010). Exposure to funder conditions may also incentivise the organisations, serving to crowd out or encourage participatory behaviour.

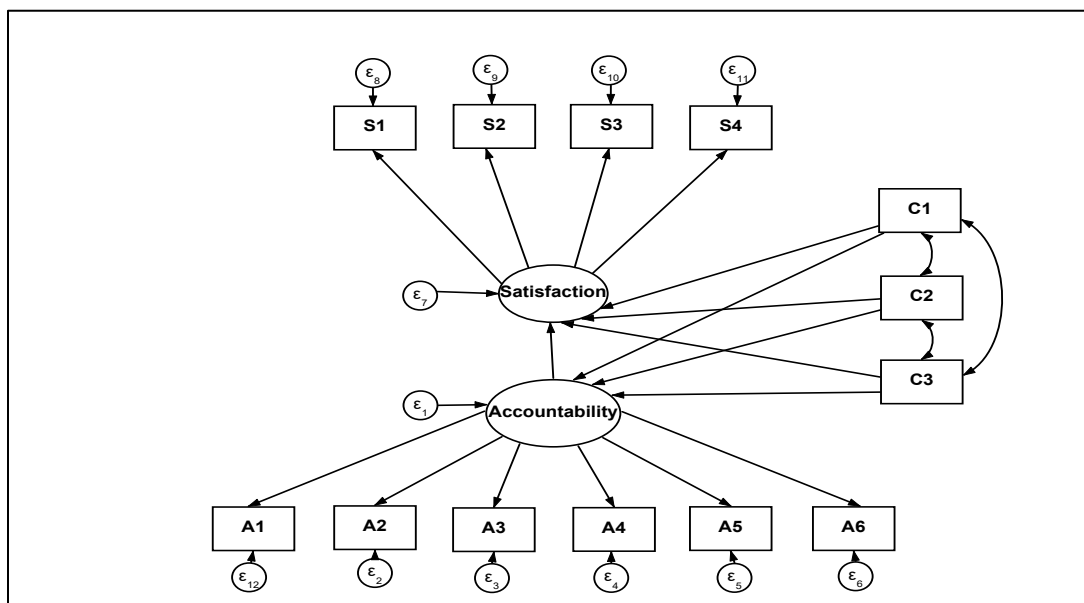


Figure 6.2: SEM model of client-community accountability and satisfaction with control (Source: Own data)

Note : Satisfaction= responsiveness (community) (S1), professional (S2), satisfaction(S3), and selfishness (S4). Accountability = Reports (A1), strategic decisions (A2), community representative (A3), formal community feedback (A4), informal community feedback (A5) and responsiveness (NPO) (A6). Eastern Cape (C1), ECD (C2) and Funder conditions (C3).

6.5.1 Estimation

To estimate our models, we use the maximum likelihood estimator for missing values (MLMV) or Full information maximum likelihood. The estimator uses all the available information in the estimation and is thus not a listwise or pairwise deleter like the default SEM in Stata. It adjusts the likelihood function so that each case contributes information on the variables that are observed and as a result does not create or impute any missing values in the data (Cham, Reshetnyak, Rosenfeld & Breitbart, 2017). In full information maximum likelihood estimation, the population parameters are estimated that would most likely produce the estimates from the sample data that is analysed (Enders & Bandalos, 2001). We opted for this estimator due to the missing observations in our data. Two simple models were estimated for this research because of the smallness of the sample, which restricts the estimation of complex models (Kline, 2005).

6.5.2 Results

6.5.2.1 Model identification

One of the critical issues in SEM is model identification, whether there is enough variance and covariance information from the observed variables available to uniquely estimate the unknown coefficients (Mueller, 1999, p. 357). That means that there is a numerical solution for each of the parameters in the model. There are two requirements for model identification. The first is that the degrees of freedom are equal or greater than zero, $df_m \geq 0$, meaning that the number of observations should equal or be greater than the number of free parameters (Kline, 2005). The number of free parameters equals the total number of variances and covariances of exogenous variables and direct effects on endogenous factors (Kline, 2005).

The second requirement is that each latent variable must have an assigned unit of measurement (Mueller, 1999). Our models meet both requirements. The df_m for Model I and II are 34 and 78, respectively and each latent construct's path to one of its indicators was fixed to 1 to ensure that they had a measurement scale. In both models, the path between accountability and strategic decisions as well as satisfaction and responsiveness (community) is constrained to 1 to fulfil the second requirement for model identification.

6.5.2.2 Model fit

Table 6.3: Model fit indices

Model fit indices	Model I	Model II
Model Chi2(34) $p > \chi^2$	0.23	0.06
Comparative fit index (CFI) (≥ 0.95)	0.95	0.85
Root mean squared error of approximation (RMSEA) (≤ 0.06)	0.03	0.05
SRMR is not reported because of missing data	NA	NA
Coefficient of determination	0.60	0.39

Model fit indices are used to assess how well the model fits the data and include the overall, incremental and absolute goodness of fit measures (Lei & Wu, 2007). Incremental indices measure the relative improvement of the model over the base model with zero covariances, and the absolute indices measure the proportion of the covariance in the sample data matrix explained by the model (Kline, 2015; Hu & Bentler, 1999). It is advised to estimate at least three of the fit measures (Hu & Bentler, 1999). We assessed the overall goodness of fit using the Chi-squared measure, among the incremental measures we assessed the TLI CFI, as well as the RMSEA among the absolute fit indices.

The results in Table 6.3 show that Model I fit the data well and better than the Model II with exogenous factors. All the indices are within acceptable limits. For Model II the root mean squared error approximation (RMSEA) at 0.05 is just below the recommended level at the 0.06 cut-off level. The other indices for Model II do not provide enough evidence to support a good fit between the model and the data. Lei and Wu (2007) advice that the interpretation of individual parameters and evaluation of their significance can start if the model fits the data well and the solution considered is adequate. This would mean that we retain only Model I, but Kline warns against the use of the indices as ‘golden rules’ and advises that researchers apply their judgement while considering the theoretical foundations of the model and other tests of significance. Since the formulation of Model II is based on theoretical and empirical evidence, we retain both models and provide the interpretation of the results in the section below.

6.5.2.3 Estimate results

The results for Model I are presented in Figure 6.3 as standardised coefficients as well as in Table 6.4, which includes the variables’ significance level and standardised standard errors.

Standardised coefficients are correlation coefficients with a range between 0 and 1. They are usually reported in SEM analysis because they ease interpretation relative to the un-standardised coefficients involving different measurement scales (Kline, 2015). The results of the structural component show that client-community accountability has a significant direct and positive effect on community satisfaction. The standardised coefficient value of 0.46 suggests that as client-community accountability increases by one standard deviation from its mean community satisfaction increase by 0.46 standard deviation. This means that an increase in accountability is correlated with a higher likelihood that a community will have a positive view of an organisation.

The measurement results in Figure 6.3 also show that accountability has a positive association with most its indicators. Informal feedback and reports are both insignificant and the size of the informal feedback loading not very different to zero. The other loadings- strategic decisions (0.35), community representative (0.32), formal community feedback (0.35), and responsiveness (NPO) (.068) - on the latent construct accountability are positive and significant. On the other hand, all the loadings of the indicators responsiveness (community) (0.68), professional (0.87), satisfaction (0.72), and selfishness (-0.80) on the satisfaction construct are significant.

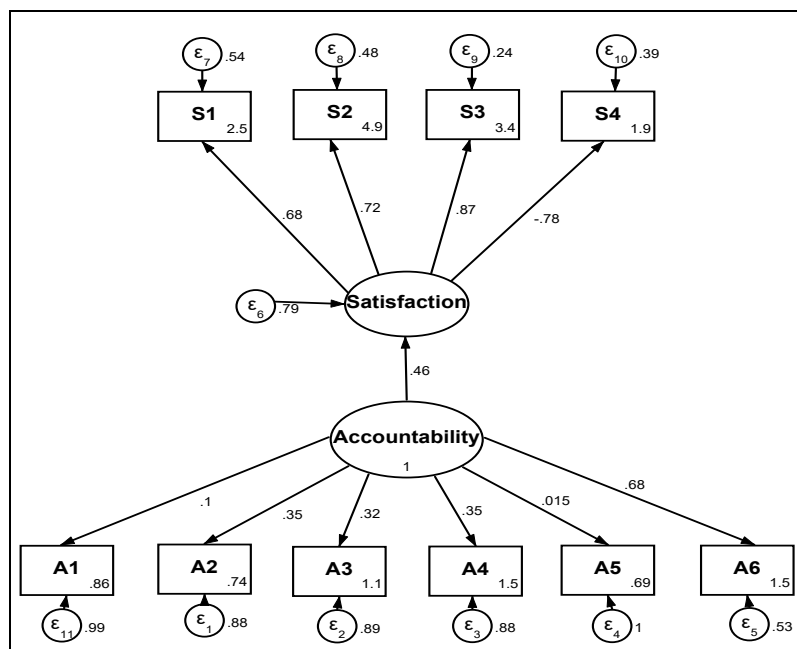


Figure 6.3: Basic Structural regression model

Source: Own Data

Note: Satisfaction= responsiveness (community) (S1), professional (S2), satisfaction(S3), and selfishness (S4). Accountability = Reports (A1), strategic decisions (A2), community representative (A3), formal community feedback (A4), informal community feedback (A5) and responsiveness (NPO) (A6).

We also decomposed the results into direct, indirect, and total effects. Table 6.4 shows that accountability has an indirect relationship with the satisfaction variables. The results show that the accountability construct has a non-negligible significant effect on responsiveness(community) (0.31), community satisfaction (0.33), professional (0.40) and selfish (-0.36) mediated by satisfaction.

Table 6.4: SEM MLMV Model I: Client-community accountability and community satisfaction

	SEM MLMV MODEL I	
	Std. Coef.	Std. Err.
Structural		
Satisfaction(endogenous)		
Accountability	0.46***	0.16
Measurement		
<i>Accountability -></i>		
Strategic decision	0.35***	0.16
Community representative	0.32**	0.12
Formal feedback	0.35**	0.14
Informal feedback	0.01	0.13
Responsiveness (NPO)	0.68***	0.16
Reports	0.10	0.15
<i>Indirect effects</i>		
Responsiveness (community)	0.31*	
Satisfaction	0.33*	
Professional	0.40*	
Selfish	-0.36*	
<i>Satisfaction-></i>		
Responsiveness (community)	0.68***	0.09
Satisfaction	0.72***	0.10
Professional	0.87***	0.06
Selfish	-0.8***	0.07

Source: Own data. Significance level *10% *5% ***1%

The results of Model II are illustrated in Figure 6.4 and Table 6.5 below. When we included the exogenous predictors in the structural part, the effect of accountability on community satisfaction becomes insignificant, but the standardised coefficient remains high at 0.45 standard deviations. Additionally, none of the predictors has a significant effect on community satisfaction. In terms of the coefficient sizes and signs, ECD (-0.06) has a small negative and Eastern Cape (0.10) a positive association with community satisfaction. The organisational and community factors, however, have a significant association with accountability a standard deviation increase in ECD is correlated with 0.27 standard deviation increase in accountability and a 0.25 increase in the case of the Eastern Cape. The effect of donor conditions is however negative suggesting that

organisations who have donor conditions that require performance measurement are -0.52 standard deviations less likely to be accountable to communities.

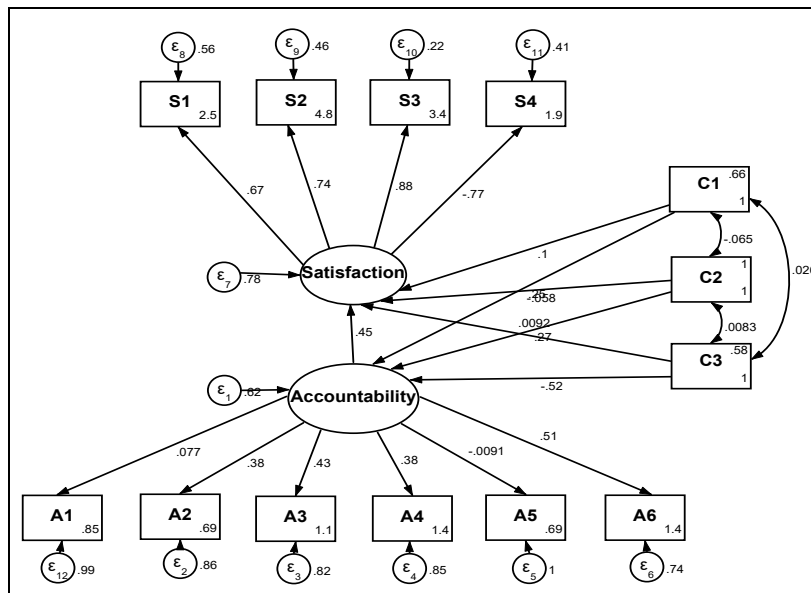


Figure 6.4: SEM of client-community accountability and satisfaction with controls

Source: Own data

Note: Satisfaction= responsiveness (community) (S1), professional (S2), satisfaction(S3), and selfishness (S4). Accountability = Reports (A1), strategic decisions (A2), community representative (A3), formal community feedback (A4), informal community feedback (A5) and responsiveness (NPO) (A6). Eastern Cape (C1), ECD (C2) and Funder conditions (C3).

When we decomposed the results of Model II, the significance of the indirect effects of accountability on community satisfaction disappeared. In terms of the other mediated effects, ECD has positive and significant indirect effects on community representative and responsiveness (NPO). This could be because the community have more opportunities to be involved and to influence decisions when the organisation is membership like. On the other hand, funder conditions have an indirect negative effect on strategic decisions, community representative, formal feedback, responsiveness (NPO), responsiveness(community) and a positive significant indirect effect on NPO selfishness.

Conversely, Eastern Cape has a positive significant indirect effect on both the responsiveness variables, satisfaction, professional and a significant negative effect on NPO selfishness. In terms of the measurement component, the indicators that had significant loadings on accountability in the first model remained significant, whereas only responsiveness(community) and professional remained significant among the community satisfaction indicators.

Table 6.5: SEM MLMV Model II: Client-community accountability and community satisfaction with control variables

	<u>SEM MLMV MODEL II</u>	
	<u>Std. Coef.</u>	<u>Std. Err.</u>
Structural		
<u>Accountability (Endogenous)</u>		
ECD	0.27*	0.13
Funders conditions	-0.52***	0.16
Eastern cape	0.25*	0.015
<u>Satisfaction (Endogenous)</u>		
Accountability	0.45	0.28
ECD	-0.06	0.15
Funder conditions	0.01	0.22
Eastern cape	0.10	0.15
<i>Indirect effects</i>		
<u>Accountability→</u>		
Responsiveness (community)	.30	
professional	.33	
satisfaction	.39	
selfish	.34	
Measurement		
<u>Accountability →</u>		
Strategic decision	0.38***	0.11
Community representative	0.43***	0.12
Formal feedback	0.38***	0.13
Informal feedback	-0.01	0.12
Responsiveness (NPO)	0.51***	0.14
Reports	0.08	0.16
<u>Satisfaction→</u>		
Responsiveness(community)	0.67***	0.09
satisfaction	0.74***	0.09
Professional	0.88	0.05
Selfish	-0.77	0.07
<i>Indirect effects</i>		
<u>ECD -→</u>		
Community representative	.11*	
Responsiveness (NPO)	.14*	
<u>Funders conditions-→</u>		
Strategic decisions	-.21**	
Community representative	-.20*	
Formal feedback	-.22**	
Responsiveness (NPO)	-.28*	
Responsiveness(community)	-.41*	
selfish	.40*	
<u>Eastern Cape-→</u>		
Responsiveness_(NPO)	.12*	
Responsiveness(community)	.36*	
professional	.24*	
satisfaction	.38*	
Selfish	-.35*	

Source: Own data. Significance level*10% *5% ***1%

6.6 Discussion

In this chapter, a hypothesis based on a principal-agent framework linking client-community accountability to community satisfaction was formulated and tested using structural equation modelling. The hypothesis that greater accountability to client-communities has a positive association with community satisfaction is supported by the results in the structural part of Model I. The estimated coefficients in the measurement component also provide support for the hypothesis. All the accountability indicators except the reports and informal feedback loaded positively on the construct.

The sizes of the standardised coefficients are below the 0.7 level advised for achieving 'construct validity', specifically convergent validity which concerns whether the chosen indicators' intercorrelations are at least moderate in size (Kline, 2011). The results ranged from 0.32 to 0.68, with responsiveness (NPO) having the highest loading on accountability. However, the small size of the coefficients could have less to do with the indicators' ability to measure the construct, than with the small nature of the sample. Additionally, the measures also have different scales, which may have added to the low intercorrelations. That said, the large responsiveness (NPO) coefficient suggest that NPO responsiveness to communities could be driving the effect of accountability on community satisfaction. The result also suggests that more formal involvement of communities in the organisations are driving accountability rather than transparency in the form of access to reports and informal feedback mechanisms.

All the loadings on community satisfaction except selfishness are positive and significant and range from moderate to high providing evidence of convergent validity. The results are like those Barr and Fafchamps (2006) found among Ugandan NPOs. The only difference is that they did not include community satisfaction as reported by the community members.

Though for Model II only the RMSEA absolute fit index is within the acceptable levels for adequate model fit we retained the model because there is enough theoretical justification for the included exogenous variables. Furthermore, as we previously noted, fit indices are 'rules of thumb' and not 'golden rules'. It is noteworthy that the significance of the effect of accountability on client-community satisfaction disappeared when we included these ECD, donors and Eastern Cape in Model II. The results showed that the variables are important in explaining

accountability, specifically that ECDs and Eastern Cape have a positive direct effect on accountability and funder conditions a negative effect. The positive ECD result is as expected given their organisational form. Early childhood development centres could provide more opportunities for the direct involvement of parents. The Eastern Cape results suggest that positive social capital effects may be responsible as communities in the Eastern Cape are more collectivistic and the organisations more integrated into the community than in the Western Cape. As we argued in Chapter 3, greater social capital will increase accountability because it reduces the bonding cost needed to enact accountability relative to in communities with less social capital.

Further, the exogenous covariates had indirect effects on some of the accountability and all the satisfaction indicators. The indirect impact on the satisfaction indicators suggests that community satisfaction has more to do with where the organisations are located and the organisational form. Communities in the Eastern Cape may be satisfied due to the scarcity of services which makes them happy with any level of service provision. Barr and Fafchamps (2006) however argue that if NPOs aim to redress welfare imbalances among communities, they will allocate their efforts such that less endowed districts receive more, and consequently, these communities would be more satisfied with the NPOs relative to neighbourhoods who have less need for the organisations. Indeed, areas in the Eastern Cape have fewer resource endowments than their counterparts in the Western Cape.

The adverse indirect effect of funder conditions suggests that Mitchell's (2004) observation that donor mandates for reporting and performance management for compliance may have the negative consequence of ceremonial and symbolic use of accountability mechanisms on the part of the organisations (Mitchell, 2014).

6.7 Conclusion

In the literature, there have been increased calls to investigate the relationship between accountability to NPOs constituents and their performance. The calls are motivated by the essential to understand whether there is an expectation gap between what we think accountability can achieve and what it does achieve. Consequently, in this chapter, structural equation modelling was applied to South African data to examine whether accountability to client-

communities had a direct effect on client-communities' satisfaction with NPOs and how they conducted their activities in their areas.

Our findings suggest a relationship between accountability and how communities value the work of NPOs in their areas. Client-community accountability had a direct positive effect on community satisfaction. Furthermore, responsiveness, an essential element in accountability, is an important driver in the overall satisfaction of communities. These results confirm that it is not enough for organisations to employ accountability mechanisms but how they respond and learn from the use of such mechanisms is important for how community members judge them.

That said, the field could benefit from more research using innovative measures of accountability and satisfaction. Future studies could also examine how the NPOs' multiple accountabilities to their numerous principals mediate the relationship between accountability and community satisfaction. The study also tried to go beyond the measurement of participation practices by including the responsiveness of NPOs in the measure of accountability. Responsiveness, though a good indicator may not fully capture the depth of what accountability is over and above the use of mechanisms and how the NPO responds to needs and what it has learned from community involvement. Future studies could include the presence or absence of sanctions, or other incentives that aim to enlist compliance from NPOs on behalf of client-communities. Part of accountability is whether there are consequences for the failure of the agents to act or give sufficient justification for decisions taken (Lindberg, 2013). This study suggests that funding conditions that mandate client-community favouring mechanisms may have negative consequences for the organisations and community satisfaction. However, future studies may explicitly model the extent to which this is the case using various measures for consequences such as loss of funding from donors.

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Appendix

A1: Polychoric principal component analysis results for explanatory variables

Variable	Indicators	Eigenvalue	Proportion	Alpha reliability
Community satisfaction	<ul style="list-style-type: none"> • NPO quick to respond; • NPOs are good at what they do, • Community satisfied with NPO, and • NPO exists to serve its own purpose 	1.84	0.96	0.72
Community authorisation is required	<ul style="list-style-type: none"> NPO requires authorisation to: <ul style="list-style-type: none"> • Start new activities • Geographical expansion; and • Buy a new building 	2.26	0.75	0.68
Board representation	<ul style="list-style-type: none"> • Community represented on board; and • Community representative is elected by the community 	1.71	0.85	0.63

CHAPTER 7: CONCLUSION

This dissertation examined the NPO client-community accountability dynamics by applying various economic theories and statistical methods. The main aim of the research was to understand the role played by client-communities as principals and claim-holders in NPOs and its effect on their evaluations of the organisations. The dissertation tried to answer the following questions. Firstly, to what extent do NPOs take into consideration the needs of communities in their location choices? The aim of the research was to understand how NPOs navigate the trade-off between being pragmatic and being mission focused in decisions about location. Additionally, the aim was to understand the impact of spatial development inequality on the distribution of NPOs.

Secondly, under what leadership conditions are NPOs more accountable or likely to espouse and practice participatory values? Here the focus was to find the characteristics of leaders most associated with the likelihood to act on community inputs and feedback gathered through various participatory mechanisms. The study focused on leaders because they drive the agenda in how stakeholder relations are managed (Geer et al., 2008). Additionally, they are the link between the organisations' stakeholders: "the only group, who enter into contractual relationships with all other stakeholders and the only ones with direct control over decision-making in an organisation" (Hill & Jones, 1992).

Lastly, what effect does greater accountability to client-communities have on communities' satisfaction and their evaluations of the organisations? The aim of this question was to examine whether there is an expectation gap between what we think accountability to communities can achieve and what it does. Additionally, to test whether NPO self-perceptions about their accountability practices were aligned to what the communities reported about their operations and services and staff.

7.1 Main conclusions

A few conclusions can be drawn about NPO accountability to community constituents based on this research and the answers to the questions stated above. Firstly, NPO accountability to client-communities is important for the efficiency and efficacy of the organisations, and mostly for the empowerment and the fulfilment of the rights of communities as claim-holders to be active in their

own advancement. This was why we set about with the aim of assessing how NPOs were accountable to client-communities, with South Africa as a case study.

Secondly, NPOs have main accountabilities that relate to their service and responsibility to client-communities. These accountabilities include maximisation of the client-communities' welfare, as well as, involving in them in the organisations' decision making. They also include assisting communities in demanding their rights as claim-holders in relation to non-NPO duty bearers as well as recognising the community's rights to hold organisations accountable for the nature of their activities.

Thirdly, small CBOs in South African are accountable to their client-community constituents to the extent that they can act upon community needs and information gathered through participatory processors. For example, Chapter 2 showed that NPOs do consider the needs of communities when making location decisions. The spatial examination of NPO density showed that NPOs agglomerate in specific regions with poverty, education and private philanthropy acting as the centripetal forces. However, cross-subsidisation of NPO services between richer and poorer municipalities in South Africa was also evident. This leads us to conclude that NPOs are responsive; they have widespread reach meeting the needs present in their own municipalities and among their neighbours.

The results also suggested that leadership plays an important role in understanding the extent to which organisations will be accountable to community and client constituents. Factors such as the leader's education, preference for altruism and tenure affect whether an organisation adopts and practises participatory values.

The SEM findings of Chapter 6 showed a positive and direct link between community satisfaction and client community accountability measured as participation and responsiveness. The results also showed that involvement of communities in the NPOs strategic decisions, having an elected board representative, formal feedback mechanisms and openness to community member inputs contributed more to the accountability construct than access to reports and informal feedback mechanisms. On the other hand, all the indicators of satisfaction loaded significantly on the construct and carried the expected sign.

However, external factors such as revenue, type of organisation, geographical location and community characteristics also impact accountability practices and mediate in the relationship between accountability and community satisfaction. Non-profit organisations with greater financial resources are more likely to respond to communities. Additionally, communities in the Eastern Cape were more likely to have NPOs who reported to be more responsive, and in turn, the communities reported positively about the individual components of NPOs' behaviours except for selfishness. What the results also showed is that having funder requirements that conditioned payments on performance measurement had a negative direct and indirect effects on accountability and on the satisfaction except for selfishness

7.2 Limitations of the Dissertation

The research also identified several limitations. They included inadequate treatment of accountability to client-communities in economics. As a result, literature covering NPOs related to agency theory is very limited (Peterson, 2010), which meant a weak theoretical base on which to situate and strengthen the research. The research also focused on one principal with the limited treatment of the role of donors. A multiple-principal framework would be more beneficial in understanding the accountability dynamics in community and NPO relationships. Such a framework will assist in dealing with the competing objectives of NPO's multiple principals (Herman and Renz, 2004). As noted in the chapters, the research also suffered from many data limitation related to the smallness of the original data and missing data.

7.3 Contributions and Future Research

Despite the limitations the dissertation makes some contributions to the study of non-profit accountability, however, the field could benefit from more research in the area. The main contributions include a framework, which can be used to guide the investigation of the accountability decisions made by non-profits. Even so, the framework could be further formalised through the formulation of a theoretical economic model. Additionally, although we incorporated factors, we deemed important covariates of NPO accountability to the client- communities. These are not exhaustive. Further research could assist in expanding this list of factors. The other contribution made by this research is the examination of the impact of spatial autocorrelation in the explanatory variables on NPO density using spatial econometric techniques. The research

examined this using aggregated data and did not account for the fact that these interactions could operate differently in different regions, in the case of this research, provinces. For example, other studies could investigate this spatial relationship at a more disaggregated level and focus on one province or control for differences between provinces. Furthermore, spatial dependence in other covariates can also be further investigated.

APPENDICES

A1: Survey of Non-Governmental Organizations in South Africa

NAME OF NPO:	ACTIVITY:
PROVINCE:	CODE:
TOWN:	Address:
INTERVIEWER:	CODE:
SUPERVISOR:	CODE:
DATE OF VISIT:	START TIME on recorder:
	END TIME on recorder:

	Completed?
Section A: Identification	
Section B: Leadership	
Section C: Mission and activities	
Section D: Funding and finance	
Section E: Funding sources and banking	
Section F: Networks	
Section G: Performance and effectiveness	
Section H: Reporting	
Section I: Internal accountability	
Section J: Government relations	
Section K: Employees	
Annual report collected	
Financial statement collected	
Signed institutional consent form	

Signed individual consent form	
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INTRODUCTION

Good (morning, afternoon, evening), I am, conducting a survey on behalf of Stellenbosch and Vrije University Brussels. The purpose of this survey is to collect knowledge about the functioning of the NPO sector in South Africa. NPOs play an important role in the country's development. However, there is a lack of knowledge and a lot of confusion regarding the NPO sector in South Africa. The information collected will therefore help us to understand how an enabling environment can be created for them to fulfil their role.

Today, we would like to ask you a few questions about how your organisation operates. This should not take much longer than an hour and a half to complete.

We value your opinion and there is no right or wrong answer. We therefore request that you answer these questions to the best of your ability and as honestly as possible. You or your organisation's name or address will never be named in any of the reports we plan to write. Please be therefore assured that the information collected will be treated as confidential and will be used anonymously for summary statistics compiled for our research reports.

The people of South Africa appreciate the work that NPOs do and the services they provide to the people of South Africa. To be successful we need your help. The ultimate objective of this study is to provide guidance on how better to assist NPOs operating in the country.

INSTRUCTIONS FOR ENUMERATORS

Statements in square brackets are instructions for enumerators.

Replace everywhere [NPO] by the name of surveyed NPO.

Replace [respondent] by the name of the respondent.

As far as possible we will attempt to interview the **manager/director of the organization**. The manager/director may however refer us to other staff members for different subsections of the survey.

PLEASE REMEMBER TO ENSURE THAT THE CONSENT FORMS HAVE BEEN SIGNED BEFORE BEGINNING WITH THE INTERVIEW

SIGNATURE OF RESEARCH SUBJECT

The information above was described to the participant by The participant was also given the opportunity to ask questions and these questions were answered to their satisfaction.

I hereby consent voluntarily to participate in this study. I have been given a copy of this form.

1. Name of Participant

2. Signature of Participant

Date

I hereby consent voluntarily to be recorded during the completion of the survey.

3. Name of Participant

4. Signature of Participant

Date

5. SIGNATURE OF INVESTIGATOR

I declare that I have explained the information given in this document to They were encouraged and given ample time to ask questions.

Signature of Investigator

Date

A) IDENTIFICATION

[Separate sheet for respondents to fill out themselves: give first 3 pages]

1. Name of NPO: _____
2. NPO Number: _____
3. Physical Address [road and directions]: _____

4. Telephone _____
5. Web address Yes/No. If yes _____
6. Name of respondent _____
7. Email address of respondent (if doesn't have, then NPO) _____
8. Job description/title _____
9. When did you join the NPO? _____
10. Gender of respondent: 1. Male 2. Female
11. Age of the respondent? _____ years
12. Total years of overall professional experience (including time with NPO)? _____
13. In which year was the [NPO] founded? _____
14. Is the [NPO] a [circle that which applies]
 1. South African NPO 2. An international NPO or branch of an international NPO
15. If branch of an international NPO, what is name of parent NPO? _____
16. Is this office the head office of the [NPO]? 1. Yes 2. No
17. If not the head office, how much control does this branch have on scale of 1-5 [circle that which applies]:

a) Start new activities	(none)	0	1	2	3	4	5 (full control)
b) Start working in another district	(none)	0	1	2	3	4	5 (full control)
c) Buy a building	(none)	0	1	2	3	4	5 (full control)
d) Hire new staff	(none)	0	1	2	3	4	5 (full control)
18. Does [NPO] have a religious affiliation? 1. Yes 2. No
19. Was [NPO] founded by: [tick one]

1. single South African individual	
2. a group of South African individuals	
3. foreign individuals	
4. South African and foreign individuals	
5. an international NPO	
6. an existing South African NPO (i.e., is it a local branch?)	
7. a church/religious organisation	
8. a foreign government	
9. other:	

20. Is the current manager/director one of the founders? 1. Yes 2. No 3. Do not know

21. Is [NPO] registered with NPO Board/Department of Social Development? (circle)

1. Yes [skip to (C)]	2. No [go to (A)]	3. Deregistered [go to (B)]
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22. (A) If not, why are you not registered? _____

23. (B) If deregistered, why was the organisation deregistered? _____

24. (C) In what year was the organisation first registered? _____ year

25. When did [NPO] last renew its registration? _____ year

26. If you registered, have you submitted certified financial statements and reports to the DSD? 1. Yes 2. No

27. On a scale of 1-10 how easy was the registration process [1 very hard; 10 easy] (circle)

1	2	3	4	5	6	7	8	9	10
---	---	---	---	---	---	---	---	---	----

28. On a scale of 1-10 how easy is it for your NPO to comply with DSD requirements regarding yearly audits [1 very hard; 10 easy] (circle)

1	2	3	4	5	6	7	8	9	10
---	---	---	---	---	---	---	---	---	----

29. Does your organisation have a Public Benefit Organisation status (tax exempt)? 1.Yes 2.No 3.Do not know

30. Have you registered a trust to manage your investment/savings? 1. Yes 2.No 3.Do not know

B) LEADERSHIP

31. What is the name of the director/head/manager of [NPO]: _____

[Hereafter we want to know about the manager/director; if respondent is manager/director, ask about respondent]

32. Are you the manager/director? 1. Yes (if yes, no need to repeat from introduction, skip 33, 34, 35) 2. No

33. Gender 1. Male 2. Female

34. (Approximately) how old is manager/director? _____

35. How long has manager/director been with NPO? _____ years

36. Is manager/director a South African national? 1. Yes 2. No

37. What is the manager/director's race? _____

38. What was the highest level of education achieved by the [manager/director]? *[Tick which applies]*

0: No formal education	1: Primary	2: Secondary	3: Tertiary/university	4. Do not know

39. How many years did he/she complete at that level? _____ years A1. Do not know

40. Does the manager/director hold a religious title? 1. Yes (if yes, circle) 2.No 3. Do not know

1. Lay person	2. Priest/minister/mollah	3. Nun/monk/sister/brother	4. Other _____
---------------	---------------------------	----------------------------	----------------

41. If married, what does the spouse do? _____ 2. Do not know

42. Did manager/director travel outside South Africa? 1. Yes 2. No 3. Do not know

43. Did manager/director work in another NPO prior to joining [NPO]? 1. Yes 2. No 3. Do not know

44. For how many years? _____ 99. Do not know

45. Did [manager/dir] work in government/private for-profit sector prior to joining [NPO]? 1. Yes 2. No 3. Don't know

46. What is/was the job of the father of [manager/director]? _____ 2. Do not know

47. What is/was the job of the mother of [manager/director]? _____ 2. Do not know

48. Is the [manager/director] involved in any other NPOs apart from [NPO]? 1. Yes 2. No 3. Do not know

49. Does [manager/director] have a job other than managing [NPO]? 1. Yes 2. No 3. Do not know

49.a What are the main activities of the [NPO]?

Activity	Tick if do this activity	Raising awareness	Advocacy	Service delivery	Are similar services provided in the community where you work? Yes/No, if no skip next column			If other organisations are providing the same services, do you a)Work with them b)Work separately			Did the NPO do this activity from the beginning? Yes/No	Do beneficiaries pay for this service? Yes/No, if no skip next 2 columns	How much do they pay?	Per what unit? (e.g per use, per month)
					Government	NPOs		Government	NPOs					
1. Entrepreneurial programmes														
2. Adult education and literacy														
3. School learner support														
4. HIV support group														
5. HIV prevention														
6. Healthcare														
7. Skills development and training														
8. Unemployed support group and job placement														
9. Gender violence														
10. Child welfare services														
11. ECD and child day care														
12. Services to handicapped and elderly														
13. Other														
14. Other														

C) MISSION AND ACTIVITIES

1. Note the time on recording device: _____

50. Why was [the NPO] started?

[Please circle statements that reflect NPO's discussion from list below. We need you to circle at least one statement per probe. If the respondent does not provide enough information to circle one of the statements, please ask about it using the question indicated under the probe/prompt heading.]

PROBE 1. What were the reasons behind starting the NPO [or this branch if the NPO is a subsidiary]? (*Do not read options aloud. Can circle more than one*)

1. The NPO was founded to serve a community that needed help
2. The NPO was founded around a vision of the founder
3. The NPO was founded around a specific funding opportunity

PROBE 2. Was there a need for such services or activities? (*Can circle more than one*)

4. There is no mention of knowledge of a need for such services
5. There is mention of general need for such services and activities but location at this site was due to proximity/convenience
6. Need did exist and founding members learnt about the needs because they are part of community
7. Need did exist and founding members learnt about the needs of community through word of mouth
8. Need did exist and founding members learnt about the needs through the news
9. Need did exist and founding members learnt about the needs through peers
10. General knowledge

PROBE 3. [when launching the NPO]? (*Can circle more than one*)

11. No money was available
12. Yes money was given via international contacts
13. Responded to a funding opportunity, funding application
14. Money was raised locally to start NPO

PROBE 4. What was the role of founder [or founding group of individuals] own ideas or vision [in launching the NPO]? (*circle if individual or set of individuals*)

15. Not mentioned
16. Founder(s) had strong vision of what he/she[they] wanted to do and where
17. Founder(s) had strong vision of whom he/she[they] wanted to serve and then did needs assessment
18. Founder(s) had strong vision of what he/she[they] wanted to do and then found community with these needs

PROBE 5. Is the NPO still committed to these ideas?

19. Ideas and focus have not changed much
20. Ideas and focus have changed somewhat
21. Ideas and focus have changed considerably

PROBE 6. If these ideas have changed, why did they change?

22. Changing circumstances on the ground
23. Learning through experience
24. Donor pressure
25. Government pressure
26. Pressure from the community

51. Which area do you serve? (*mention geographical boundaries*) _____

2. Note time on recording device: _____

52. Who are the targeted beneficiaries that the [NPO] hopes to serve with its activities?

Note to field workers: community refers to the area that the NPO operates within; targeted beneficiaries are the individuals the NPO aims to serve; beneficiaries are individuals who receive NPO services .Do not communicate these definitions to the respondent unless you need them for the probe question. These definitions could be “leading” and may distort response.

PROBE 1. Who is seen as the NPOs targeted beneficiaries?

1. No community is mentioned/denial or explanation of why there is no beneficiary community
2. Mentions at least one target group
3. Summary of target groups (e.g. old/young, race, geography, gender, need, education, widows, orphans, HIV?)

PROBE 2. Have the targeted beneficiaries served changed since foundation/launch/start?

4. NPO has always served its current beneficiaries
5. NPO has shifted focus away from initial beneficiaries
6. NPO is still serving initial beneficiaries, but has expanded to new beneficiaries

3. Note time on recording device: _____

Now we are going to discuss the community that NPO works with. Get the NPO to discuss what they mean by community. Who are the community? (*make summary note*)

53. What role do community members play within the [NPO]?

Field worker to explain that community refers to the area that the NPO operates within; targeted beneficiaries are the individuals the NPO aims to serve; beneficiaries are individuals who receive NPO services (visual aids)

PROBE 1. How do you involve the community in the activities of the NPO?

1. No interest in involving community in activities/ see no need or purpose for it
2. No attempts to mobilise due to funding
3. Speak to and invite community leaders
4. Campaign to mobilise all members of community
5. Mobilize donations including in kind

PROBE 2. How do you communicate with the community?

6. Through elites/community leaders
7. Attempts to consult more broadly (more representative in terms of education)
8. Formal (meetings)
9. Informal (as it happens)
10. Regular and frequent workshops and meetings ad hoc
11. Through the press
12. Social media (e.g. facebook, what’s app, twitter)

PROBE 3. What do you do with the information you get from the community?

- | | | |
|--------------------------------------|--------------------------------|------------------------------|
| 13. Meeting notes typed up and filed | Meeting notes but not typed up | No meeting notes |
| 14. Can we have a copy? | 1. Yes | 2. No (if no, why not _____) |

54. If you have board meetings, do members of the community attend these meetings?

1. Yes 2. No. 3. Do not know [if 2 or 3, skip to next question]

If yes: a) How are the community representatives chosen?

1. Self-appointed
2. Identified and appointed by NPO decision makers (e.g. Mother NPO, funders)
3. Nominated and elected by community
4. Nominated and elected by board
5. Other _____

b) What attributes do you look for in community representatives on the board? (circle all that apply, do not options read aloud)

1. Educated
2. Networks
3. Direct beneficiaries of NPO services (users)
4. Indirect beneficiaries of NPO services

c) How many times per year are there board meetings? _____

d) How many board meetings do the beneficiaries attend per year? All or Number: _____

e) Why do they attend? (circle which applies) :

1. formal procedures and requirements of NPO (internal protocols and policies)
2. beneficiaries are interested in NPO activities
3. to represent the beneficiaries
4. international funders/donors requirements
5. it is open to everyone
6. other _____
7. No idea/do not know

55. Tell me about the interaction of staff with community members:

1. How many times a year does the NPO interact with the community? (not including service delivery)	
2. Level of interaction (not including service delivery) (circle)	1 none 2 3 4 5 lot
3. Meet at scheduled meetings (tick)	
4. Meet with to discuss individual issues/complaints as required (tick)	
5. Freely share sensitive information (e.g. problems in the project) (tick)	
6. Frequent misunderstandings and disagreements (tick)	

56. In which of the following ways do you get input from community members about the needs of the community?

[Tick any relevant box] (Do not read aloud)

1. Needs assessment: structured	
2. Suggestion box	
3. Survey	

4. Community meetings	
5. Annual general meeting	
6. Invited discussions with community leaders	
7. Informal individual conversations with community members	
8. Community comes to NPO	
9. Other:	

57. In which of the following ways do you receive feedback about your activities? [Tick any relevant box] (Do not read aloud)

1. Comments and feedback box	
2. Programme evaluation	
3. Survey	
4. Community meetings	
5. Annual general meeting	
6. Invited discussions with community leaders	
7. Invited discussions with community members	
8. Social media	
9. Other:	

4. Note time on recording device: _____

58. What are the benefits of community participation for your NPO?

1. Cannot mention any
2. Mention few after much through
3. Immediately mentions many with enthusiasm

PROBE 1. Does having the community participate in the NPO include any benefits? (let discussion flow)

[Categories: 1. mentioned without probe, 2. mentioned with probe, 3. after probe not indicated as important]	1	2	3
1. An understanding of community members lives			
2. A stronger relationship with community members (trust)			
3. Community members support decisions			
4. Community members report more satisfaction			
5. Awareness/marketing			

6. Other:			
-----------	--	--	--

59. Do you think that participation benefits community members?

PROBE 1. In which way could participating in decisions be good for community members?

<i>[Categories: 1. mentioned without probe, 2. mentioned with probe, 3. after probe not indicated as important]</i>	1	2	3
1. Self-esteem by NPO showing interest in their opinion			
2. Help shape expectations and understanding of NPO services			
3. Promote social capital/community cohesiveness			
4. Other:			

PROBE 2. Can you give an example of how your NPO has changed its programme or approach because of community or beneficiary inputs or feedback?

1. Yes – example provided
2. No – example not provided

60. What are the frustrations of dealing with community members?

<i>[Categories: 1. mentioned without probe, 2. mentioned with probe, 3. after probe not indicated as important]</i>	1	2	3
1. They do not see the bigger picture – do not understand complexities of NPO world			
2. They are not available when needed			
3. They do not attend if invited to the board meetings			
4. Voices of a few community members dominate			
5. Low level of participation and talking by community members			
6. They do not have educational background or exposure needed to make useful contributions			
7. Low volunteering			
8. Other:			

D) FUNDING AND FINANCES

61. When the [NPO] started did you receive a donation?

1. Yes 2. No 3. Founder used own resources 4. Do not know

62. *If yes, is this donor still funding the NPO?* 1. Yes 2. No 3. Do not know

63. Does [NPO] have a bank account with a chequebook? 1. Yes 2. No 3. Do not know

64. Does [NPO] have a savings account? 1. Yes 2. No 3. Do not know

65. Does [NPO] have an overdraft facility? 1. Yes 2. No 3. Do not know

66. Does [NPO] have an investment fund/trust? 1. Yes 2. No 3. Do not know

67. Has the organisation ever applied for a grant? 1. Yes 2. No 3. Do not know

68. If no, why not? [choose one]

1. No need for money	
2. Grant application process too complicated/time-consuming	
3. Would be turned down anyway	
4. Other reason:	

69. When was the last grant application filed? _____ year

99. Do not know

70. To whom was this application made? _____

99. Do not know

71. Regarding this application (circle appropriate answer)

1. Donor approached you
2. Responded to an advertised funding opportunity
3. Municipality made them aware of opportunity
4. Approaching a donor/funder with recommendation by someone you know (unsolicited)
5. Approaching a donor/funder (without recommendation by someone you know) (unsolicited)
6. Other: _____

72. For how much was this last grant application? _____ SA rands

99. Do not know

73. To whom did [NPO] apply for this grant? [tick one] (Do not read out loud)

1. Black economic empowerment	
2. Mother NPO	
3. International NPO (e.g., Action Aid, World Vision, Oxfam, etc.)	
4. South African NPO	
5. National Government	
6. Local Government	
7. United Nations agency (e.g., UNICEF, UNDP, World Bank)	
8. Bilateral donor (e.g., DfID, DANIDA, USAID, Noraid)	
9. Church/religious organization	
10. National Development Agency	
11. Lottery fund	
12. Other: _____	

74. Was the grant application accepted, turned down or are you still waiting to hear? [tick one]

1. Accepted	
2. It was turned down	
3. Still waiting to hear	
4. Never heard back	

75. If applied for a grant and was turned down, why was [NPO]'s application turned down? [*tick one*]

1. project deemed insufficiently promising by grant agency	
2. [NPO] has insufficient experience	
3. work plan opposed by local government authorities	
4. budget too high/project too expensive	
5. no reason given	
6. other:	

76. Who are [NPOs] most important funders/donors currently? [Largest 2]

	Name of funder/Donors (add donor type if donor not well known)	Purpose of grant	Grant amount	Requires community participation	Number of months from submitting proposal to receiving funds	Reports (project outcomes)			Financial reports			Frequency of funder's annual interactions with NPO			Frequency of funder's annual interactions with community			Funder's permission needed to change focus/geography?	Rank funders/donors in order of influence /power over your NPO.
						Nr per year	Days taken to prepare each report ?	Do you receive feedback on report?	Nr per year	Days taken to prepare each report?	Do you receive feedback on report?	Written	Phone	Visit	Written	Phone	Visit		
1																			
2																			

E. FUNDING SOURCES

[If the respondent is unable to completely fill this section during the interview, fill in the name and code of [NPO] on it, leave this page with the respondent, and continue with the interview. Make sure to collect the page the next day and staple it to the rest of the NPO's questionnaire.] If not available/don't have revenue make a note of why: _____

77. Please indicate what amount of the NPO's revenue that each of the funding sources represented last financial year and this financial year?

All amounts in SA rands	Name of funder	2013 or last completed fiscal year (if not 2013, specify which year?) _____	2012 or preceding fiscal year (if not 2012 specify, which year?) _____
1. Black economic empowerment			
2. Mother NPO			
3. International NPO (e.g., Action Aid, World Vision, Oxfam)			
4. South African NPO			
5. National Government			
6. Local Government			
7. United Nations agency (e.g., UNICEF, UNDP, World Bank)			
8. Bilateral donor (e.g., DfID, DANIDA, USAID, Noraid)			
9. Church/religious organization			
10. National Development Agency			
11. Lottery fund			
12. Other:			
13. Membership fees			
14. User fees paid by recipients of services rendered by [NPO]			
15. Income from sub-contracting			
16. Income from selling goods and services (shop, canteen, etc)			
17. Private donations by individuals			
18. TOTAL: in SA rands			

E) NETWORKS

78. Is NPO a member of a NPO Network/Forum? 1. Yes 2. No 3. Do not know [if 2 or 3, skip to section G]
79. Is [NPO] member of a South African NPO network or umbrella organization? 1. Yes 2. No 3. Do not know
If yes, which? _____
80. Is [NPO] member of an international or regional NPO network? 1. Yes 2. No 3. Do not know
If yes, which? _____
81. Do you receive any form of support from these networks/forums? 1. Yes 2. No 3. Do not know
If yes, what kind of support?
1. Training
 2. Financial
 3. Administrative
 4. Other _____
82. Do the networks have a code of conduct? 1. Yes 2. No 3. Do not know

5. Note time on recording device: _____

83. What role does the code of conduct play in the organisation?

PROBE 1. What does the code of conduct say?

1. Respondent can summarise content without hesitation
2. Respondent attempts summary but not convincing
3. Respondent does not know at all

PROBE 2. Do you abide by this code of conduct? 1. Yes 2. No

1.If no, why not? _____

PROBE 3. Can you provide the code of conduct? 1. Yes 2. No

1.If no, why not? _____

F) PERFORMANCE AND EFFECTIVENESS

6. Note time on recording device: _____

84. How do you know whether or not your organisation is performing well?

PROBE 1. How do you measure how well you are doing?

1. Making a difference in the lives of beneficiaries mentioned early and prominently
2. Do not mention making a difference in the lives of beneficiaries
3. Clear and well thought through answer, coherent and convincing
4. Appears confused by question, incoherent, hesitant
5. They measure impact
6. They do not measure impact, but want to
7. They do not mention impact assessment at all

PROBE 2. How? Does your organization set numerical targets or goals for any of your programs?

(i.e. "train 100 teachers in 2011")? 1. Yes 2. No, if no why not: _____

PROBE 3. Do the funders/donors insist on measuring performance?

1. My funders/donors will withdraw money if they know that we have made no impact
2. My funders/donors are patient and understanding and allow for learning
3. They will not take my money away if we cannot show impact

PROBE 4. Do you think the NPO is run the way it was intended? (*circle all that applies*)

1. Indications of growth plan and future strategy
2. Without any vision of future or long-term plan
3. Self-critical, admit and learn from mistakes
4. Self-congratulatory – no change is needed – denial

85. If you measure performance of your organisation how do you do it? [*do not read options aloud*]

1. Attendance logs (to capture numbers flowing through NPO)	
2. Questionnaires or focus groups with beneficiaries/participants by NPO	
3. Questionnaires or focus groups with beneficiaries/participants by third party (e.g. not the NPO, a hired consultant)	
4. Anonymous questionnaires	
5. Other:	

86. If you do not measure performance, why not? [*do not read options aloud*]

1. Not familiar with term/Don't know what it means	
2. Not applicable to organization	
3. Not possible to measure progress or impact of work	
4. Financial constraints, not enough resources	
5. Nobody has requested this	
6. Inexperience, lack of technical capacity	
7. Other:	

87. Does your organization face any challenges with measuring performance?

[*Do not read aloud, just circle what applies according to answer given by respondent*]

1. Not enough trained staff	
2. Not enough resources	
3. Not enough time given demands for other activities	
4. Unclear reporting requirements from donors/funders/donors	
5. Contradictory reporting requirements of donors/funders/donors	
6. Performance is difficult to measure	
7. Other:	

Now, pertaining to a specific activity or programme (see front page for specific activity selected for this NPO):

88. What is the name of this programme (*If NPO has only one activity answers questions up to ***** for whole NPO and skip rest of section, otherwise answer all question in relation to the programme*):

89. What are the aims of the programme? _____

90. Who are your targeted beneficiaries with this programme? _____

91. How did you identify targeted beneficiaries and offer you services to them? (e.g. unemployed with need for skills development)

- a) They find us (offices)
- b) We advertise (e.g. radio, newspaper)
- c) Other community members told them about the NPO (word of mouth)
- d) Direct relationships with community and conversations
- e) Told by NPO partners, government offices, churches (referrals)
- f) Going from house to house
- g) Other: _____

92. How many individuals are served by this programme? _____

93. Are you satisfied with the proportion of needy from this community that you reach with this project?

- a) Satisfied with coverage
- b) Dissatisfied with coverage
- c) Have never thought about coverage
- d) Difficult to estimate need

94. What are the expected outcomes of the programme? _____

95. How satisfied are you with meeting expected outcomes? (on a scale from: 1 not satisfied to 10 very satisfied)

1	2	3	4	5	6	7	8	9	10
---	---	---	---	---	---	---	---	---	----

96. What were the reasons behind launching this activity or programme? (*Can circle more than one*)

- a) The project was founded to serve the community that needed help
- b) The project was founded around a vision of the founder
- c) The project was founded around a specific funding opportunity
- d) NPO already operated in community and saw a need for this service

97. Was there a need for such services or activities? (*Can circle more than one*)

- a) There is no mention of knowledge of a need for such services
- b) There is mention of general need for such services and activities but location at this site was due to proximity/convenience
- c) Need did exist
- d) Other: _____

98. Was money available from the start [when launching the project]? 1. Yes 2. No 3. Do not know

99. How is this activity/programme funded now? _____

100. Since this project started is the NPO still committed to the same ideas around the focus and the purpose of the programme/activity?

- a) Ideas and focus have not changed much
- b) Ideas and focus have changed somewhat
- c) Ideas and focus have changed considerably

101. If these ideas around the focus and the purpose of the programme/activity have changed, why did they change?

- a) Changing circumstances on the ground
- b) Learning through experience
- c) Donor pressure

102. How do you measure performance? _____

103. Does your organization set numerical targets or goals for this programme? (i.e. "train 100 teachers in 2011")?
 1. Yes 2. No 3. Do not know

G) REPORTING

104. Does [NPO] produce an annual report (a report not written for a specific funder)?
 1. Yes 2. No 3. Do not know **(if 2 or 3, go to 108)**

105. When was the last annual report produced? _____ month _____ year 2. Do not know

106. Was this annual report shown/given to any of the following: *[tick all that apply]*

1. Community	
2. Beneficiaries	
3. Funder	
4. NPO board/Department of Social Development	
5. Municipality	
6. Other:	

107. Is [NPO]'s annual report available to the public if they ask for it? 1. Yes 2. No 3. Do not know
If Yes, ask the respondent for a copy

If not then provided write explanation as to why: _____

108. Does [NPO] prepare a balance sheet and income statement? 1. Yes 2. No 3. Do not know **[2 or 3 go to 114]**

109. When were the last balance sheet and income statement prepared? _____ month _____ year

110. Were these accounts externally audited? 1. Yes 2. No 3. Do not know

111. *If yes, by who are the balance and income statement audited? _____*

112. Were these accounts shown/given to any of the following: *[Circle all that apply]*

1. Community	
2. Beneficiaries	
3. Funder	
4. NPO board/Department of Social Development	
5. Municipality	
6. SARS	
7. Other:	

113. Are [NPO]'s annual accounts available to the public if they ask for it? 1. Yes 2. No 3. Do not know
If Yes, ask the respondent for a copy (circle): Provided Not provided

If then not provided write explanation as to why: _____

114. Do you pay tax on your income (tax exempt)? 1. Yes 2. No 3. Do not know

115. Do you pay tax on what you buy? 1. Yes 2. No 3. Do not know

116. Do you claim back your tax? 1. Yes 2. No 3. Do not know

H) INTERNAL ACCOUNTABILITY

117. Do you have a constitution for the NPO? 1. Yes 2. No 3. Do not know
118. Does organisation hold an annual general meeting? 1. Yes 2. No 3. Do not know **(If 2 or 3, skip to 121)**
119. When was the last annual general meeting held? _____ month _____ year
120. How many people came to the last general meeting? _____
121. Does the organisation have a board of directors? 1. Yes 2. No 3. Do not know **(If 2 or 3, skip to 128)**
122. How many people currently serve on the board? _____ 2. Do not know
123. Are board members paid? 1. Yes 2. No 3. Do not know
124. *If yes, how much per year? (write amount, or if cannot answer ask which category best estimate - circle)*
 Amount: _____ or: _____
 Rand: 0; less than 5,000; 5,000 – 20,000; 20,000 – 100,000; more than 100,000
125. How often does the board meet? _____ per _____ 99. Do not know
126. How were they appointed? *(tick all that apply)*
1. Self-appointed or founding member
 2. Identified and appointed by NPO decision makers (e.g. Mother NPO, funders)
 3. Nominated and elected by community
 4. Nominated and elected by board
 5. Applied for a vacancy
 6. Other _____
 7. Don't know
127. If elected, do the board members have a fixed term, where after they have to be re-elected? 1.Yes 2.No
128. How was the manager/director appointed? *(tick one that applies)*
1. Self-appointed or founding member
 2. Identified and appointed by NPO decision makers (e.g. Mother NPO, funders)
 3. Responded to an advert, applied and interviewed
 4. Nominated and elected by community
 5. Nominated and elected by board
 6. Other _____
 7. Don't know
129. Please indicate the degree of influence of each of the mentioned stakeholders:

1) Stakeholders	2) No influence	3) Negligible influence	4) Some influence	5) Important influence	6) Not applicable
1. Board					
2. Manager/director					
3. Employees					
4. Non-executive volunteers					
5. Beneficiaries themselves					
6. DSD/NPO directorate					
7. Funders/donors					
8. Other stakeholders					

130. Does [NPO] need to obtain the authorization of an outside body before [NPO] can undertake the following:
[tick all cases that require such a meeting]

	1. Board	2. Community	3. DSD	4. Funders	5. Other: _____:
--	----------	--------------	--------	------------	------------------

Expand into new activities					
Expand into another area					
Purchase a building					

131. Is performance measurement a part of the boards duty? 1. Yes 2. No 3. Do not know

132. If yes, how does it know if objectives have been met? _____

I) GOVERNMENT RELATIONS

133. Since its creation, has organisation ever been visited by 1. Yes 2.No 3. Do not know [*tick one*]

1. NPO directorate/Department of Social Development	
2. Municipality	
3. Other public body:	

134. In general, do you find the staff with whom you interact in the national government help you with what you do or do they cause problems? (*this does NOT refer to help with funding*)

	1. Help	2. Problem	3. Both	4. Neither	Why?
1. National DSD					
2. Provincial DSD					
3. Municipality					
4. Other					

135. What kind of support does government departments and agencies give to your NPO?

[*this does NOT refer to help with funding, tick that which applies for each*]

	1. Training	2. Help with accounts	3. Help with preparing reports	4. Other	5. None
1. National DSD					
2. Provincial DSD					
3. Municipality					

136. What other type of government support would you find helpful? _____

J) EMPLOYEES AND VOLUNTEERS

137. How many staff (salaried and volunteers) do you have? _____

138. How many staff members do you have in the following categories?

[*If more than 100 employees, ask respondent to estimate proportions*]

	Full-time salaried	Part-time salaried	Full-time volunteers	Part-time volunteers	Total	Foreign
Support staff (e.g clerks/administrative staff/HR)						
Financial staff						
Frontline staff (e.g. project managers)						
Manager/directors						

139. Over the last 12 months how many paid staff have left, joined the NPO, how many vacancies:

	Left the NPO	Joined the NPO	Vacancies
Total			
Support staff (e.g clerks/administrative staff/HR)			
Financial staff			
Frontline staff (e.g. project managers)			
Manager/directors			

140. Do you have contracts with staff? 1. Yes 2. No 3. Do not know

141. Do you have job descriptions for staff? 1. Yes 2. No 3. Do not know

142. Do you have written rules and procedures for firing employees? 1. Yes 2. No 3. Do not know

143. Do you have a policy or plan for assessing and rewarding performance of staff?
1. Yes 2. No 3. Do not know

144. Does your organisation have sufficient skills in these areas?

	Yes	No	<i>if no, why?</i> L=due to lack of finance to recruit S=skill scarcity	Not necessary
1. Fund-raising				
2. Writing proposals				
3. Writing reports to funders/donors				
4. Compiling financial statements				
5. Project management				

145. How much time do your staff devote to the following tasks (ask to approximate if they don't know):

	List staff type involved in each task (e.g. support staff, finances, frontline staff or management; can list more than 1)	How many people of each type	Time spent on task as % of working hours in year
1. Fund-raising			
2. Writing proposals			
3. Writing reports to funders/donors			
4. Compiling financial statements			
5. Running projects			

146. If you get an additional R4,000 per year of funds what would you do with it? _____

THANK YOU

Enumerator comments: Allow respondent to ask you questions, allow respondent to talk freely, make notes on discussion (with or without recorder depending on the respondent, circle which)

Did you see (circle): computers; piped water; electricity; vehicles;

A2: Semi-structured group interview

Preparation: Fill in this table prior to SSGI; Add NPO names to sheets before starting; Need: 50 beans (section I & VII); ~5 slips of paper per NPO(section VI).

<i>Name of NPO to be assessed</i>	<i>Main focus</i>
1	
2	
3	
4	
5	

Categories: 1. Health; 2. Education; 3. Labour; 4. Community development

1. Community name	2. Local Municipality:	3. District:	4. Province
5. Arranged date of meeting:			
6. Arranged time of meeting:	7. Time meeting started:	8. Time meeting ended:	
9. Name of convenor:			
10. Enumerator (capturing answers):			
11. Facilitator:			

1. I. ABOUT THE COMMUNITY

Work with 50 beans throughout the semi-structured group interview (SSGI). This will make it easier to quickly estimate the percentages that you are required to write below.

1. We would like to know a bit about your community. Imagine that this pile of beans represents all the households in this community. Working together, please would you divide the pile up in such a way that it reflects the division of households into those that have for instance shack dwellings and those in brick houses. So, if one half has shacks and the rest do not, you would divide the beans like this {divide the beans into two even piles} and then you would tell me which pile represents those who live in shacks.

Ownership	Percentage
1. Percentage of households who live in shacks	
2. Percentage of households with televisions	
3. Percentage of households with access to car	
4. Percentage of households with members in paid employment	
5. Percentage of households with no access to a cellphone	

2. Over the past 5 years has this community become

- Richer?
- Poorer?
- Stayed the same

II. Community needs

With the participants, work through the table below using the following notes:

Question 1

Ask the question and circle the needs that they mention in column 1. If an activity is mentioned that does not come under the 12 headings specify in category other.

Question 2

Then, ask question 2 for each activity noted. Ask if the service addresses the needs of the community on a scale of 0 (does not meet needs) to 10 (meets needs). Place an asterisk if there is in fact no need.

Question 3

Here either tick or place a number of each service provider for each activity listed.

Question 4

Finally ask the participants to name all the **NPOs** in the area providing the services listed. Do not prompt them to list those we are assessing.

Activity: are any of these services provided in the community (<i>circle all that are provided</i>)	Between government, private business, church and NPOs are these community needs being addressed	Who provides (<i>tick or try to get participants to provide a number of programmes operating by each category</i>)			List NPO providers: write names of all NPOs in community that provide service						
		Govt.	Private business	NPOs	1	2	3	4	5	6	
1. Entrepreneurial programmes											
2. Adult education and literacy											
3. School learner support											
4. HIV support group											
5. HIV prevention											
6. Healthcare											
7. Skills development and training											
8. Unemployed support group and job placement											
9. Gender violence											
10. Child welfare services											
11. ECD and child day care											
12. Services to handicapped and elderly											
13. Other											

14. If you had to nominate three NPOs for a prize that would be announced in a local newspaper which three would you choose:		
15. First:	Second:	Third:

In preparation for the SSGI, the name of the NPO to which this SSGI is linked in the study should be written in the first row of the table. Ask participants how well they know the NPO, ask if they can name the manger/director and NPO address. If unknown, write unknown. Ask how often they interact with NPO. Finally ask participants to list the NPO's activities in the numbered rows. This is to ascertain level of knowledge by participants of the NPO.

At this point the session leader should ask if there are any employees or board members of the NPO present in the room. If they are, kindly ask them if they would be willing to leave the room for the remainder of the session.

III. Knowledge of NPO:

<i>Name of NPO (add prior to SSGI)</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
How well do you know the following NPOs on a scale of 0-5 (0 do not know; 5 know very well)?	0 1 2 3 4 5	0 1 2 3 4 5	0 1 2 3 4 5	0 1 2 3 4 5	0 1 2 3 4 5
Do you know name of manager/director (<i>write name</i>):					
Do you know address of NPO (<i>write address</i>):					
How often are you in contact with one of the organization's staff? (0 never – 5 often)	0 1 2 3 4 5	0 1 2 3 4 5	0 1 2 3 4 5	0 1 2 3 4 5	0 1 2 3 4 5
List of activities of the NPO as known by participants (<i>do not prompt</i>)					
1					
2					
3					
4					
5					
6					

Are you regularly informed about changes in the activities of the organization? (0 never – 5 often)	0 1 2 3 4 5	0 1 2 3 4 5	0 1 2 3 4 5	0 1 2 3 4 5	0 1 2 3 4 5
---	-------------	----------------	----------------	-------------	----------------

III. Relationship with NPO

<i>Name of NPO (add prior to SSGI)</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
1. For how long has the NPO worked in this community? (years)					
2. How often is office/clinic open and a representative of [NPO] present? Note number of days per period: 2: week; 3: month; 4: year; 5: never; 6: don't know	..... days per .....	..... days per .....	..... days per .....	..... days per .....	..... days per
3. How often does a representative of [NPO] visit this community? Note number of days per period: 2: week; 3: month; 4: year; 5: never; 6: don't know	..... days per .....	..... days per .....	..... days per .....	..... days per .....	..... days per
4. Do members of this community travel to [NPO] in order to benefit from the services it offers?	1. Yes 2. No	1. Yes 2. No	1. Yes 2. No	1. Yes 2. No	1. Yes 2. No
5. Do you feel the NGO listens to the community? (0 never – 5 often)	0 1 2 3 4 5	0 1 2 3 4 5	0 1 2 3 4 5	0 1 2 3 4 5	0 1 2 3 4 5

IV. Feedback

<i>Name of NPO (add prior to SSGI)</i>	1	2	3	4	5
1. Has NPO ever asked your community what activities it should undertake?	1.Yes 2.No	1.Yes 2.No	1.Yes 2.No	1.Yes 2.No	1.Yes 2.No
1.1 If yes, how did it go about asking? a. Needs assessment b. Suggestion box c. Survey d. Community meetings e. Annual general meeting f. Invited discussions with community leaders g. Informal individual conversations with community members h. Other, specify					
2. Has NPO ever given your community an opportunity to provide feedback?	1.Yes 2.No	1.Yes 2.No	1.Yes 2.No	1.Yes 2.No	1.Yes 2.No
2.1 How did it go about this? a. Comments and feedback box b. Programme evaluation c. Survey d. Community meetings e. Annual general meeting f. Invited discussions with community leaders g. Invited discussions with community members h. Other, specify					
3. Has anyone else ever asked members of your community for feedback?	1.Yes 2.No	1.Yes 2.No	1.Yes 2.No	1.Yes 2.No	1.Yes 2.No
3.1 Who asked? (Include as many as applicable) a. NPO directorate/DSD b. Municipality c. Other public body (specify): d. Outside funders (specify): e. Other (specify):					
4. Is the community represented on the Board of the NGO?	1.Yes 2.No	1.Yes 2.No	1.Yes 2.No	1.Yes 2.No	1.Yes 2.No

4.1 If yes, how is the community representative elected/appointed?					
4.2 Is community invited to AGM?	1.Yes 2.No	1.Yes 2.No	1.Yes 2.No	1.Yes 2.No	1.Yes 2.No

V. Statements

I am now going to read you several statements. For each statement, you as a group then decide whether you 1= strongly agree with the statement 2= agree with the statement somewhat 3= neither agree nor disagree with the statement 4= disagree with the statement somewhat 5= strongly disagree with the statement	1	2	3	4	5
1. [NPO] is always quick to respond when inhabitants of this community or the community as a whole ask for help					
2. [NPO] representatives are hardly ever available when they say they are going to be					
3. [NPO] representatives are good at what they do					
4. The people who live in this community are satisfied with the performance of [NPO]					
5. [NPO] is an important part of our lives					
6. If [NPO] disappeared we would hardly notice					
7. [NPO] exists to serve the purposes of its own staff rather than to help us					

VI. Relative Performance of Specific NGO

Now turn your attention to the table on the following page.

Preparation

Write the name and main focus of each NPO written during preparation for SSGI in column 2, first row. In first column write the main focus of NGO from: 1 Health; 2 Education; 3 Labour; 4 Community Development (avoid community development if possible).

Do this for each of the NPOs in turn.

In the SSGI

In the SSGI focus on the main area of activity in first table. In column 2 put the names of each of the agents who also engage in that activity in the community. You can put the agent type codes in the column marked 'cd' after the SSGI is over but remember to check any that you are not sure about.

*Now you are ready to work across the table. Work on one NPO at a time. Start with the first NPO. **Take the required number of slips of paper and write the name of one of the actors listed in column 1 on each.** Remember to write the name of [NPO] on one. Give the slips to the FG and ask them to arrange them in the rank order that they prefer for each of the questions. Record the rankings in the relevant columns.*

Do the same for the second, third, fourth, etc. NPOs listed in first table.

Other agents:

1. Government
2. Private Business
3. Other NPO

Activity	1 In addition to [NGO], do any other organizations do this activity in your parish?		2 Which of these organizations do you have to pay to get them to do this activity?	3 Please rank these organizations in terms of how much they charge for this activity	4 Please rank these organizations in terms of how accessible or near they are to your parish	5 Please rank these organizations in terms of value for money, i.e., in terms of how good they are at doing this activity which taking account of how much they charge.	6 Now imagine that all these organizations do this activity for free, then how would you rank them	7 Now imagine that all these organizations do this activity for free and are all located in your village, then how would you rank them?
	Name	cd	<i>tick</i>	<i>1=most expensive</i>	<i>1=nearest</i>	<i>1=best value for money</i>	<i>1=best</i>	<i>1=best</i>
[NGO]								
[NGO]								
[NGO]								

Activity	1 In addition to [NGO], do any other organizations do this activity in your parish?		2 Which of these organizations do you have to pay to get them to do this activity?	3 Please rank these organizations in terms of how much they charge for this activity	4 Please rank these organizations in terms of how accessible or near they are to your parish	5 Please rank these organizations in terms of value for money, i.e., in terms of how good they are at doing this activity which taking account of how much they charge.	6 Now imagine that all these organizations do this activity for free, then how would you rank them	7 Now imagine that all these organizations do this activity for free and are all located in your village, then how would you rank them?
	Name	cd	<i>tick</i>	<i>1=most expensive</i>	<i>1=nearest</i>	<i>1=best value for money</i>	<i>1=best</i>	<i>1=best</i>
[NGO]								
[NGO]								
[NGO]								

VII.Evaluation of each NPO

Imagine that you find out that [NPO] is going to stop doing its work in South Africa. Imagine that a large sum of money is needed to make it possible for [NPO] to carry on doing its work and that your community is asked to help find this money. Now, imagine that the government gives your community a grant. You are the committee who has to decide what to do with the grant. The government tells you that you can share all, some, or none of the grant equally among the households in the community and you can contribute all, some, or none of the grant to the [NPO] to help keep it working. This pile of beans represents the grant. Please separate it into two piles, one representing the money that you would wish to be shared among the households and one representing the money that you would wish to help keep the [NGO] working (NB: one pile could be empty).

***If the FG is very large and it is proving difficult for them to decide how to split the beans, give them one bean each and let them vote. This is not ideal and should only be used as an approach if the other preferred method fails. Indicate which method was used by ticking the appropriate box below.*

VII.i Individual Bean Counts

Name of NPO	Beans allocated to NPO	Beans allocated to households	<i>**The group split the pile of beans</i>	<i>**Each member of the group took a bean and they voted</i>
1				
2				
3				
4				
5				

Now we want you to do a similar exercise but this time divide the beans amongst the NPOs discussed and households:

VIII. Comparative Bean Counts

Name of NPO	Beans allocated to each NPO
1	
2	
3	
4	
5	
Beans allocated to households	

FINALLY

If there is no NPO addressing the needs of the community, how does the community address the needs raised? Probe: why would you do it this way?

Comments from the community:

Enumerator's comments:

Note: *When have collected consent forms please indicate with an asterisk any group members who were vocal and tended to dominate the conversation. Conversely, please indicate with a hash those who were particularly quiet.*

