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Agency Perspectives on Ngo Governance

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Abstract

The paper is part of a series suggesting areas that can help non-governmental (NGO) managers more effectively work with relevant sets of stakeholders and suggest areas that can help foundations, corporations and organizations equally manage those relationships through the completion of their charges. The paper suggests agency areas that improve NGO partner choices and offer a better and verifiable fit to goals and objectives. It also asserts there are better opportunities found through agency theory to reap the benefits of organizational outcomes. These include public image, environmental protection, customer and stakeholder satisfaction, employee morale, and the completion of work that serves some foundation or organizational goal. Many areas for further exploration are explored and a comprehensive research agenda and model is proffered.

Keywords: Non-Governmental Organization, Agency Theory, Strategy

1. Introduction

This paper explores some leverage points offered by Eisenhardt's agency theory (1988), now in its 1,940,000th articles and stories in some capacity through the JSTOR or Google Scholar engines. Narrowing somewhat, the search of the same engines yields 31,000 NGO matches in some capacity. It is very difficult to attribute the matches of any database to legitimate sources; some further digging is necessary. Of the 361,000 matches (or the 31,000, if you prefer), most agency topics are covered in one way or another. Very typical coverage lies in the areas of agency theory as Eisenhardt (1988) and Williamson (1974) explored: that is the way in which an agent acts accordingly to a principal's desire when money, contracts, trust, or surveillance are used.. Das and Teng's (1999) overview article on financial performance, mostly of boards and executives indicated it would be reasonable to extrapolate the work to the NGO sectors, this isn't sufficient to gather true insight into the complex relationship of the foundation and the NGO and the public good. This article's focus is different than the non-profit hospital, college, or car dealership. *We're examining how boards or foundations gain performance from the organizations they fund and in turn, how those organizations gain performance from the organizations they fund when the unit of analysis is the NGO.*

2. Agency Theory

Agency theory explains, predicts, and sets the limits of relationships between financial parties. Theoretically, desired executive performance is assured in exchange for compensation when the meets the needs of his/her organization as a financial steward. When the executive chooses to manipulate the financial results through managerial activity and that activity maximizes the return to the executive rather than financial return to an organization in the form of return on investment or equity we say there is an agency problem.

Consider especially the case of the non-governmental organization (NGO), defined as a legally constituted, non-governmental organization created by natural or legal persons with no participation or representation of any government. In the cases in which NGOs are funded totally or partially by governments, the NGO maintains its non-governmental status and excludes government representatives from membership in the organization.

This paper explores the characteristics of the NGO organization and applies agency theory as a mechanism for achieving performance on behalf of funding organizations. Literature on NGOs that are related to agency theory is virtually non-existent and is rarely becomes applied to other areas beyond board and executive compensation. The paper asserts that the theoretical base is useful in explaining and predicting decisions and relationships. It also is able to explain other characteristics For example when environment, stakeholder demands, mission and organizational development become complex it becomes a great deal more difficult to meet funding organization objective and demands. A very select literature highlights the nature of NGO writing, none of it relating to the purpose of this paper. For example, Jensen (1983) highlights an accounting treatment where the differing depreciation and capital asset treatment on the balance sheet make the agency relationship more difficult, especially as agency was to be developed at the time into an economic theory of the firm. L.M. Salomon (1995) highlights the government and non-profit relationships in a 1995 John

Hopkins Press article, but not organizational or foundation contributions to NGO operations. J.L. Miller (2002) investigates the board as a monitor of organizational activity and that the applicability to 12 non-profit boards where agency theory seems to offer the same outcomes in an empirical study as regular corporate board relations. One would have to question the board selection. J.M. Bryson (1988) focused agency as more in line with conventional planning theory. In other words agency is more likely to work in public and non-profits that are hierarchically organized and pursuing narrow goals. Harcourt (2006) suggests that organizations look to the politics of funding and develop their organizations to further their political base. G.S. Becker (1974) writes on agency relationships in family firms, where the board relationship would probably resemble the NGO board relationships today, and Ghimire (2006) writes about learned and practiced financial independence for NGOs as an exercise in annuity development. These areas seem to be somewhat independent of agency where the impact these areas capture some but not all of the variance associated with organizational development and external partner choice. While there is very little academic support for these outcomes, it is assumed the literature would probably support these outcomes when explored. When exploring agency theory in NGO relationships it seems to be important to view organizations and markets, social interactions, planning processes, and organizational theory in NGO and industrial organization.

3. A Foundation Angle

Funding organizations would like to ensure that NGOs (also known as agents) vigorously pursue the proposal and funding objectives of the foundation or corporation (also known of the principal). Of course, there are many players who compete for corporate or foundation funding. One survey from the years 2007 to 2009 of the databases in www.execsearches.com and www.bridgestar.org, as well as advertisements in http://www.economist.com found thousands advertisements for fund raising executives, foundation managers, and development directors. Evidently organizations depend upon developmental turnover to shore up their funding base. In other words, when the flow of money into an NGO starts to decline, a change in development directors is necessary.

Less frequently mentioned is the organizational development and human resources training that may not be sufficient for these organizations to maintain critical capacity of managerial knowledge and talent, a funding base and a critical understanding of organizational history that help to move agendas forward. Further, announcements In http://www.iaa.org, or the Aspen Institute, while somewhat sparse clearly raise ideas on how organizations can work closely and effectively to develop an organization that performs both financially and in terms of organizational effectiveness.

According to one foundation director in pharmaceuticals failure of NGO agents to perform required tasks commonly reaches 75% or higher, depending on the difficulty of the assignment, its location, the experience and history of the organization, the experience and competence of its managers, and the accessibility of the service population reached. This failure rate has an impact upon funding and the willingness of past funding organizations to continue their commitment. From the funding and foundation perspective all corporations

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have their stories of ineffective partnerships; they also have stories of effective participation that frequently go into annual reports. Some managers tell stories of NGOs they've turned their backs upon never to partner with them again.

What is needed is a generally useful paradigm to train managers in NGO effectiveness, operational history, transparency and accountability. What this paper suggests, in the research directions section is a system for choosing and developing NGO strategic partners and creating performance management systems with these strategic partnerships. The paper suggests the need for the NGO Institute which provides business training in managerial, goal setting, fund raising skills and implementation skills through using the leverage that agency, transaction cost economics, institutionalization, and resource dependency. In a series of papers published through the Journal of Management Research I'll work toward the theoretical base that would be necessary to develop the "tool chest" that can improve the knowledge base and productivity of these relationships.

Agency dilemmas exist when there is more than one principal conducting business with one agent. The conflict of interest resulting from multiple objectives provided by many principals results in the desire to complete all objectives, but result in the partial accomplishment of some. It appears that companies and foundations who are relatively new to the NGO partnership game report an increasing degree of success among strategic partners due to experience curves but also report great difficulty early in the process.. More established players with more history in working with corporate social responsibility or international corporate social responsibility efforts report good success, but wish they could generate a stronger portfolio of players that provide uniformly excellent results and manageable risk thus managing potential agency dilemmas and diversifying a valuable portfolio of money that can be used efficiently.

Difficulty in the NGO/Foundation relationship is problematic from both sides. Judgment and choice of agents is a difficult process. Ensuring performance among NGO partners is approached as an amalgamated plethora of performance appraisal with principals who compare requests for proposals (RFP) and memorandum of understandings (MOU) with NGO or NGO coalitions. Just like the job selection process, choice is frequently made as a function of project descriptions and the apparent fit to those criteria. Companies corporations and foundations seek to assure themselves of project success through a process of performance reference checking. More progressive foundations ask for audits of the NGO financial and organizational performance using major firms like PricewaterhouseCoopers. This discovery process seems to yield more partnership opportunities, some of which work out, some don't. If this due diligence process represents discovery of NGO capabilities and outcomes it may be asserted this is a development of the agency theory relationship leading to traditional agency tools of contracts and incentives. Judgment and performance within the relationship between NGO partners and funders could be better understood through the derivation, explanation, and enactment of partnership choice which assists managers in effectively creating partnerships that work effectively. Further, judgment of partner capability and choice of effective partnerships help steer business activities in societal interests; help provide managers with development activities; help create positive public and/or

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governmental relations; and help create larger and potentially more sustainable customer, resource, and distribution bases. For corporate and foundational participants, the issue is similarly complex and multidimensional. At the environmental level, NGO funding choices and the performance of that relationship potentially affects public opinion and stakeholder perceptions that can affect the availability of capital, stock price appreciation, and public opinion. Poor choices of NGO partners, and/or poor results, can affect competitive, market, or mutual fund investment positions in favor of players with a better triple bottom line portfolio. Poor choices can also affect international reputation and legitimacy in the eyes of multinational organizations like the European Union, the United Nations or the OECD. At the corporate level boards of directors and senior executives seek to satisfy the agency relationship influenced by powerful stakeholders, like institutional investors, portfolio managers, powerful customers and suppliers, and competitive forces within their industry. Depending upon the needs of these powerful stakeholders' managers will wish to create the image of corporate sustainability and social responsibility and align that with corporate objectives, products, and stakeholder perceptions of stakeholders. At the business level managers seek to pursue corporate social objectives while meeting performance goals and staying within boundaries set by top management. At the implementation level, managers pursue the social responsibility objectives and are frequently reinforced through agency incentives, contracts, bonus systems, ability to travel, perception of work that has meaning, potential for promotion, or for more work like it, which for some provides meaning to the average work day.

Building upon the difficulty of this process on behalf of principals, Yanacopulos (2005) indicates that NGOs are by their nature and existence transient organizations which highlights a different relationship based upon a more tenuous foundation where the potentially fungible organization is inexperienced, distant or perhaps more cross culturally based and organized. Traditional selection, contract and performance criteria may not fit as well. Agency theory may suggest improvements here. In this case, managers are dispatched to investigate and discover capabilities and potentially establish working relationships that have the capabilities of aligning company goals with NGO operations and outcomes. This relationship is reinforced through additional visits and coactions between the principal and agent, but those coactions are expensive and time consuming (Das and Teng, 1998).

There are potential benefits for NGOs. NGO organizations can improve their application outcomes if they understand more about what corporations and foundations are looking for in NGO partnership and performance. This should assist them in choosing partners that will allow them to work most closely to their mission, and not enable a mission creep which is defined as a gradual mission or goal deviation for the sake of meeting funding requirements. There are strong issues at stake for all participants. For NGO organizations the issues are survival: Without funding, these organizations cannot pursue their primary objectives. For the NGO a bad choice of a funding partner can result in a performance obligation that carries the NGO beyond their original operational scope and passion while potentially affecting a prime service constituency. It can also affect their future ability to raise funds, their reputations, their ability to diversify operations through coalitions, and their legitimacy.

4. Gaining Cooperation Through Agency

There are central questions in this paper. First, is "how do corporations or foundations seeking social responsibility/sustainability profiles choose, and gain cooperation from individual NGO organizations?" The literature would suggest this is done in several ways. Agency relationships include traditional contracts and incentives between a principal (a foundation or corporate entity) and an agent (an NGO organization). Agency establishes mutual objectives and agency tools like contracts and incentives. How these are used is dependent upon perception of how well prepared an NGO is in carrying out desired activities. In addition to the typical agency incentives and contracts, there are also relationships of trust and support. According to Meyer, Davis and Schoorman (1995), and Tosi, Katz, and Gomez-Mejia (1997). of interest is agency cost, which is the overall cost of developing, selection, contracting, setting performance objectives, and policing performance. Choosing NGOs that can be influenced by the agency contract and incentive are a way to meet objectives if NGO organizations are chosen and supported carefully. It should seem that agency relationships are easier to use with smaller budget NGO organizations; they are more likely to have a larger portion of their budgets accounted for through an agency relationship that accounts for a large proportion of their budget. Depending on where the NGO is geographically, the agency cost should also be manageable; since a grant accounts for a large proportion of budget, alignment to that contract should be more predictable. This is of course moderated by the home culture of the contractor and the extent to which they value contracts. It is also moderated by the physical distance between principal and agent because that makes contract compliance more difficult and raises agency costs.

It would seem to be more difficult to influence larger and more diversified NGO organizations. Traditional agency tools should have some success according to Woodcock and Geringer (2001), however since grant budgets accounted for by a foundation or corporate grant are a lower percentage of overall budget, attention to one grant may be lowered and agency costs should rise as a foundation lobbies for grant compliance. Once again, there should be moderating factors. For instance, the degree to which a grant receiving organization has experience in generating and completing projects, accounting for money, and providing documentation of success rates and/ or progress reports should be manageable. Reverse any of the conditions mentioned, and agency costs rise.

This brings a question of what would be a manageable way to gain compliance and goal progression in the agent and principal relationship without aggravating agency cost limits. What's Trust and support are frequently mentioned in the literature as reinforcement to or a replacement of agency. Das and Teng (1999) suggest that while the smallest NGOs are large on intent and passion, they are very small in financial capacity and operational sophistication. In this case, managerial support and trust making activities help to ensure an NGO that is capable, compliant, consistent in its activities, capacious in its expertise, and of strong character. These things help the NGO; they also help the corporate or foundation entity meet its objectives for transparency, stakeholder satisfaction, and financial gain.

A second question is as follows: "Why do organizations that would normally go through governments for recommendations of partners, choose to eschew that route and set relationships directly with NGOs? NGOs have widely varying abilities, accountability, transparency, missions, and effectiveness. Theoretically, the NGO offers a better fit with corporate or foundation objectives and will be a better candidate for funding. Perhaps some insight lies within transaction cost economics. Given all the issues that NGOs and corporate or foundational funds face with developing country honesty, transparency, and accountability it would seem that the potential transaction cost of dealing with NGO organizations directly would be lower than dealing with some governments, especially governments in areas where the most need exists, e.g. Africa. Agency theory also has an explanation – the agency costs of Woodcock and Geringer (2001) associated with dealing through a government (corrupt or non-corrupt) intermediary can be prohibitive. This provides an incentive to dealing directly with the NGO. Finally, governments generally have their processes institutionalized. In this case, it becomes very difficult to provide meaningful, useful, and complete support for the mission at hand; it also becomes very difficult to develop the trusting relationships that are needed to continue the funding.

5. An Agency Theory Perspective and Research Agenda

As is the case with all theoretical areas that relate to management in relationship to corporations and NGOs, there is very little written on their specific applications to the interactions between corporations and NGOs. In the case of agency theory, much of this voluminous literature relates to how management, as agent of shareholders, align their interests with those of the company through tools (for instance salaries, options, contracts, and bonus plans) created by boards of directors when there is limited information and a bounding of rationality in the judgment process. In this regard, agency theory can be used to explain some of the behavior between them. The essential emphasis is that agency is characterized by the risk attitudes of principals and agents according to Eisenhardt (1989) where principals are considered risk neutral in their preferences for individual firm actions, since they can diversify their holdings across multiple business opportunities. They use agents, managers, to carry out their plans, using control tools like employment security as an agent, income, bonus, or contract. In the absence of (or to enhance) these tools, the literature also suggests that a trust relationship can be established that can lower agency costs and establish another agency tool that predicts performance. Agents, on the other hand, are assumed to be risk averse (Meyer, et al, 1995). They want to lower risk to their personal wealth, and will work to complete goals in order to not endanger outcomes. This risk differential between agents and principals creates a moral hazard problem between agency in the principal agent relationship where agents are faced with a wide range of goals and incentives that may or may not be in the true interests of the firm, but rather are perceived to be so (or may not be at all, e.g. Enron) by the board. The challenge of corporate governance is to shore up supervisory and alignment mechanisms that alter the risk orientation of agents to align them with the interests of principals.

As indicated before, there is very, very little information in literature on the relationship between corporations, foundations, and individual NGOs and coalitions of NGOs. It doesn't seem to be a stretch however, to link agency theory to this relationship. Principals, in this case corporations and foundations, have a responsibility to steward capital that represents the interests of shareholders in the funding/outcome relationship. Depending upon the sophistication of the company/foundation, they will have very specific goals and good ideas regarding what is to be done with the money and the outcomes that are to be achieved. They will also have varied abilities to choose effective NGO partners, as well as varied abilities to achieve a range of desired results. These potential outcomes, public relations, alignment to customer or shareholder interests, alignment to regulatory bodies' interests, development of markets, sustaining potential markets, and overall corporate image (just to name a few) can be aligned using a careful choice protocol (like the auditing option, financial screening, examples of past work, visits and interviews with corporate representatives) and reinforced using traditional agency tools in combination with trust building processes. Since many funded NGOs operate at a distance from their corporate or foundation benefactors, these tools help assure performance, while providing a human relationship between manager (as inside agent of company) and NGO (as outside agent).

The alliances between NGO/corporate/managerial are aimed at achieving the strategic objectives of each partner. Because these strategic alliances essentially involve coordinating partners to pursue shared objectives, satisfactory cooperation is vital to their success. In the managerial literature, according to Das and Teng, (1999) a frequent citation for failure of alliances is lack of cooperation and the opportunistic behavior. This also doesn't seem to be a stretch to apply this to the corporate/NGO relationship. Since NGOs are known to be opportunistic because of the nature and transience of their income sources, it is possible they would cooperate of a project, but also opportunistically take on other projects that may hinder goal achievement for the original activity. This is the case where the contract, the future contingent funding, the performance goal, the recommendation to other funding organizations, and close personal contact with managers creates the agency tools that supports goal alignment. Since it is often impossible to identify who is likely to act opportunistically, the interesting question is what enables alliance partners to garner enough confidence in partner cooperation so that they are not overwhelmed by the potential opportunities in the environment. A low level of confidence not only discourages the formation of strategic alliances but also leads partners to view each other with suspicion, hurts the potential alliance, and sets up agency costs that are prohibitively high and may cause for different partner selection.

6. Some Research Directions

Given the paucity of literature in the area in the specific area of NGO/NPO relationship building and using agency theory, the opinion of this paper is that there is a great deal of development work that can be done with the NGO partner selection, however each of these offers some information and insight that can make the foundation/NGO relationship more productive. Table 1, below, suggests some areas.

Table 1. Some areas for further research, where there is paucity in the NGO related literature:

Agency Theory	What is the role of the principal and agent in the judgment and choice process? What are the managerial implications when the principal is a corporate executive and the agent is managing the NGO relationship? What are the managerial implications when the principal/agent relationship is corporation/NGO? What are the interpersonal implications between executives, managers, NGO members and the service constituency in an agency relationship? What is the role of business activism or shareholder proposal making on project effectiveness and corporate value?
Trust	What is the role of trust? Is this concept exclusive or better used as a moderator for traditional agency tools? What develops or enhances trust? Is trust better established through travel? Should that travel be both ways? What is the role of executives rather than managers in building trusting relationships?

There is a similar paucity of information on how the MOU, RFP, and agency relationship is governed in the NGO agreement. This paper attempts to highlight a relatively unexplored area of international corporate social responsibility, namely, the choice of social responsibility partner by boards, executives, or managers. In fact, work here seems to raise more questions than it answers. The topic of judgment and choice in NGO partners in the academic and practitioner literature seems rather absent. In the opinion of this paper more work could be done in developing not only managerial choice but also the application of the management discipline in the process and control of content of the social responsibility effort. From this paper, a very large number of research topics can be derived.

It is also reasonable to assume there are interactions between aspects of agency theory. For instance, what are the agency solutions to needing idiosyncratic purchases? Can contracts and trust building mitigate coalition power? Certainly there's a great deal to think about in relation to interactions.

There's a great deal of work to do here, almost an academic lifetime's worth in fact. But with the application of agency, resource dependency, and transaction cost considerations, we can teach companies what to look for, teach managers what to consider, and teach NGOs what funding organizations are considering in making decisions. For the organization that is new in providing funding to NGOs, or for the organization that hasn't had much success or that doesn't have set guidance patterns, this work can help them rise to a new level of sophistication in judgment and choice. For the organization that isn't new to the processes of funding social responsibility or sustainability efforts, this can is a new tool to refine their practices for determining worthiness, and fit with corporate objectives.

Watch for two more articles, one in transaction cost economics on NGO behavior, and another on resource dependency. These offer more facets for the exploration and furthering of our topic.

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