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Social capital

The role of management control systems in NGOs

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Key findings:

- Non-governmental organisations (NGOs) are being confronted with the competitive nature of acquiring funds and need to demonstrate that they have particular competencies to funders, while at the same time continuing to adhere to their traditional welfare or development values.
- The evidence shows that developing formal management controls can help NGOs to develop networks with government departments, funding agencies, other service providers and clients. However, formal management controls also have the potential to damage the internal bonding between employees.
- Developing belief systems to incorporate financial concerns, along with traditional welfare goals, would seem a useful starting point in the move towards managing in a more competitive NGO sector.

Overview and objectives

In recent years non-governmental organisations (NGOs) have become increasingly important in addressing humanitarian issues relating to welfare and developmental aid. NGOs face increasing pressure to demonstrate service delivery in cost efficient ways. This creates tension over delivering welfare services while operating within the constraints of cost management. The application of management control systems has the potential to help in the effective and efficient delivery of services, but such an approach is relatively new and is sometimes at odds with the customary informal controls that have been applied in NGOs. For NGOs to be successful, it is also important to develop close connections with other agencies and individuals involved in NGO activities, and that agencies and individuals are committed to aims that relate to welfare and development.

This report summarises research undertaken within an NGO that delivers welfare services to the disadvantaged. We use the notion of social capital to describe how NGOs can be effective in developing social connections that ensure the delivery of services. Broadly speaking, social capital concerns the goodwill that is created through social relations. This goodwill is derived from developing two forms of social capital: bonding and bridging. Bonding involves developing close interpersonal relationships based on shared aims, and bridging is building networks between the NGOs and other parties. These dimensions act in combination, with bonding involving close interpersonal relationships based on common beliefs, and that action based on these values is carried out collectively through networks that connect different agencies and individuals.

There are several benefits to NGOs from developing the bridging and bonding attributes of social capital:

- Greater access to detailed, confidential and fine-grained information from more extensive networks.
- Development of solidarity based on social welfare values, both within the NGO, and between it and other individuals and agencies across the NGO network.
- Acquisition of influence, power and control by the NGO as a consequence of deciding who should join their networks.

In this way, social capital is a critical resource in enabling NGOs to deliver services in ways that involve commitment to their fundamental social values. Social capital is particularly important in NGOs as they typically have more limited access to financial resources than profit-seeking organisations.

Traditionally, the management of NGOs has relied on informal processes based on the shared norms and values of delivering humanitarian services, rather than on coercive or formalised procedures. The commitment of workers, volunteers and other organisational members has tended to be facilitated through strong reliance on a shared belief in the purpose of the organisation, and not primarily through financial control and remuneration based on profit making. While NGOs have customarily relied on informal management processes to help develop and sustain their social capital, there has increasingly been pressure from donors, government and other official agencies for NGOs to show accountability and managerial competence, thereby enhancing effectiveness and efficiency. This has necessitated the adoption of more formal financial controls and business-like management practices. Management accounting has great potential to assist in:

- Planning and control when formulating proposals for funding, often involving networks of partner agencies.
- Clarifying within the NGO the importance of including economic efficiency as an organisational value alongside traditional welfare values.
- Linking non-financial operational performance to financial concerns.

For many NGOs it is difficult to make the transition from values-based, informal management practices to an approach that emphasizes the financial implications of decisions. NGOs have traditionally been reluctant to import practices from the business sector. An additional challenge concerns the potential impact of more formal management controls on the ability of NGOs to develop social capital. Little is known about how formal controls affect the way NGOs develop and employ social capital, and how this influences their ability to deliver welfare services with increased pressure to be more financially efficient. **This study examines how formal controls can have both beneficial and damaging effects on building and preserving social capital in an NGO delivering welfare services.**

Our research site is a welfare NGO located in Melbourne, Australia, that comprises three divisions employing 120 full-time employees. The division that is the focus for this study, which we refer to as Tennant, comprises a manager, an administrative staff of four, five programme co-ordinators and 32 case workers. There is also a small part-time volunteer staff; however these individuals do not engage in operational activities of Tennant. The NGO advocates for social change and promotes the health and wellbeing of disadvantaged young people, families and communities.

Tennant’s service delivery model involves connecting clients with other agencies that provide housing, employment, medical and social services. Managing these connections is critical as no one agency can adequately meet all the needs identified for programme participants. Tennant often works with other agencies to submit to government joint proposals for programme funding.

The organisation is interesting because it is not as financially well endowed as larger agencies, like Oxfam or Action Aid. As such, it must carefully target its work to areas where it can demonstrate that:

- It is well connected to relevant service providers.
- It has superior capabilities and commitment in effectively delivering its services in cost effective ways.
- It is able to play a leadership role in gaining collaborative projects that involve government contracts, often involving several alliance partners.

Social capital provides a resource that can help the NGO to build these capabilities. However, there is concern that in using formal controls to become more efficient, NGOs may damage their social capital. Figure 1 illustrates the overall framework within which our study was positioned.

Findings

At Tennant, we observed the extensive use of formally articulated belief systems, such as a mission statement, promotional leaflets, statues, photographs and paintings of Tennant’s patron, the use of social welfare values to select employees during recruitment, and periods of reflection on social welfare values during fortnightly senior management team meetings. Other important formal controls were financial budgets and program management practices used in conventional ways to monitor outcomes and correct deviations from preset targets. We also observed attempts to develop a concern with efficiency and cost consciousness by using financial budgets in participative forums involving face-to-face interaction between the chief manager, program directors and coordinators. Tennant also had a rich tradition of informal controls, such as open-door policies, impromptu meetings, ‘corridor talk’, sharing of information, and a tolerance for mistakes.

- We found that belief systems clearly articulated the social welfare ideals of the organisation and were used, as is common practice, to signal the values of the organisation to employees, other NGOs and government departments. This process can assist in bonding as values are clarified and confirmed. However, their role extended beyond these more symbolic purposes and the systems were actively used in day-to-day management. For example, sometimes case workers must work to rehabilitate a person with prior behaviours that are perceived as socially aberrant.

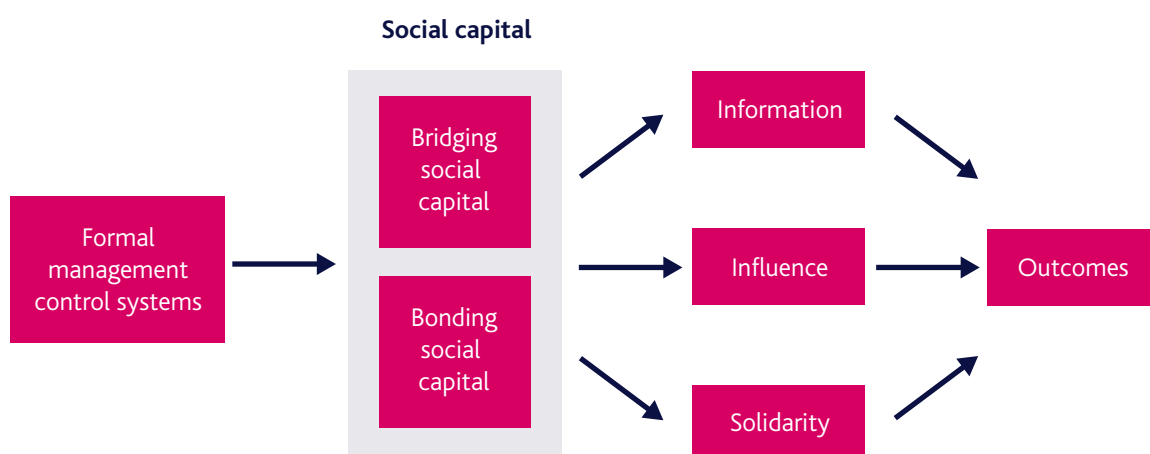


Figure 1: Framework relating formal management controls to social capital and its outcomes

Consequently, case workers may experience stress and be distracted from the values of the organisation, which preserves the dignity of all individuals, no matter what their backgrounds. This disjunction between the individual and the organisation's values can inhibit or destroy bonding. Belief systems provided a valuable way of revisiting and reaffirming values in ways that were supportive of all parties. This helped to reaffirm bonding social capital and to enhance solidarity amongst employees.

- Second, we found that well developed formal controls, including financial controls, helped to demonstrate Tennant's capabilities in service provision to other service providers and government departments. While many of these mechanisms had limited use as operational controls, they helped to reinforce the reputation of Tennant as a legitimate and capable service provider. Importantly, given the closeness of connections across the welfare sector, Tennant was seen to have a strong reputation for high quality service delivery. The use of formal controls was a way of confirming, articulating, and in a sense, advertising these capabilities in a setting of increasing competition amongst NGOs for welfare funding. We saw close links between these processes and the development of bridging social capital, with outcomes of increased power and authority for the NGO within its network.
- Our third finding was that the use of formal controls in more participative, interactive ways can be problematic in settings where the customary mode of control is more informal and open. Formalising discussion of financial matters and their operational implications was seen to prioritise these issues ahead of a primary concern with delivering welfare services. While many organisations face difficulties in ensuring that financial matters receive due attention from managers, the jarring effects in NGOs appears to present an impasse for many employees who do not see how financial issues can help them to deliver services to clients. These tensions were manifested in damaging effects on internal bonding and a breakdown of solidarity, particularly between managers and case workers.
- Finally, we see that Tennant is at a crossroads in terms of how they are managed and the role of management control systems in this management. From informal discussions with other NGOs this appears to be a common concern. The increasing pressure to corporatise the structure and management of NGOs can be at odds with customary modes of operation, which have helped

NGOs to generate bonding and bridging forms of social capital. We see an important role for belief systems to incorporate values surrounding financial efficiency and viability, as well as traditional welfare values. Formal controls have an important legitimising role, enabling an NGO to develop networks to suit their way of delivering services. A significant challenge facing NGOs with strongly held welfare values is how to use formal controls in conjunction with the more informal, customary modes of control.

Implications for management control systems

Our study has several implications for the management of NGOs and how management controls can be used to preserve and develop social capital. NGOs foster bridging social capital to develop contacts and networks to ensure that welfare is delivered to those most in need. To assist in ensuring those within networks interact around common welfare ideals, NGOs attempt to make sure that participating individuals and agencies are bonded by sharing core NGO values.

Bridging social capital is about developing connections with other organisations while bonding involves developing close interpersonal relationships based on shared values. It is important for managers to understand this distinction. Employing management controls can be effective in helping managers to develop connections to suit their purposes as formal management controls provide information to demonstrate why the focal NGO is more capable than others to provide services to a client group, or to be the senior partner in an alliance. Here controls can include belief systems, performance reports to demonstrate a sound track record and competent management, and project proposals that can be used to persuade and convince external parties of the NGO's credentials.

Conversely, the application of management controls to support bonding activities presents more challenges. At Tennant, bonding was best served by the pervasive use of belief systems that aligned closely to the values of the organisation. The belief systems were used actively to clarify values during recruitment, on-going operations and in times of change when external factors exerted pressure to divert Tennant from its primary aims. Our case indicates that NGO managers can enhance bonding by the active use of belief systems. This should be a dynamic process where belief systems are revisited from time to time. This can engage employees in the process of addressing the importance of the NGO to its field of operations, including contemplating

the relevance of core values. In this way, bonding is encouraged as the organisation engages in a process of affirming its shared values. It should be noted that while bonding can encourage commitment to core values and solidarity, there is a danger that the organisation can become inward in its focus. This may inhibit disagreement and discussion which can challenge existing ideas and processes and potentially generate new ways of achieving effective and efficient operations.

Our case illustrates a dilemma facing NGOs. On the one hand, NGOs can promote bonding between employees by encouraging commitment to its welfare values. This occurs as the aims of the NGO are consistent with the ideals of NGO employees. On the other hand, the survival of NGOs is becoming dependent on them being able to compete for scarce welfare funds. This will require careful analysis of the benefits and costs of different programmes and discussions of possible cut-backs. Inevitably, this will result in a reduction of some services and an inability to service deserving groups or individuals. To make these decisions, formal accounting is required to determine and manage the benefits and costs of different programmes.

Managers of NGOs are faced with two problems. Firstly, how can they encourage employees to accept the inevitability of a more economically rational approach to their operations? Secondly, how can formal controls be used to introduce a concern with economic matters without damaging strongly held welfare values? At Tennant, attempts to do this were unsuccessful, with damaging effects on bonding.

From our observations at Tennant, it was clear that the customary informal controls had developed symbiotically with bonding. The informal controls encouraged open discussions and the development of trustworthy relationships which nurtured bonding. Bonding provided employees with confidence to contribute opinions and manage operational issues in ways consistent with shared aims. For managers of NGOs, more generally, this symbiotic relationship is a valuable resource that needs to be cultivated and preserved. There are real dangers to the very identity and potential survival of NGOs if this balance between the mode of control and bonding around values is lost.

There remains the issue of how to encourage a concern with financial matters without damaging the internal bonding aspect of an NGO's social capital. Our investigation suggests that the use of financial controls would appear to require, as a precursor, a change in attitudes and values concerning financial responsibility and efficiency. It seems that financial responsibility could be encouraged by developing an efficiency focus before employing financial controls, and then using these controls in a participative way to manage

financial matters. While this may seem to be common sense, it does highlight a potentially critical, but overlooked, role for belief systems in shaping values and attitudes towards other elements of formal controls. Given that belief systems could flag the importance of financial efficiency as a way to deliver more and/or better welfare services, financial controls could then be employed within an approach where much of the resistance to financial controls had been addressed.

A final observation is that a difficulty that Tennant had with employing formal financial controls was a lack of disclosure on the connections between financial information and operational matters. This inhibited attempts to develop more interactive and participative budgetary processes that were more in line with the customary open and informal controls that suited Tennant's culture. That is, while budgetary processes involved face to face interactions, the budgets did not have sufficient transparency to highlight ways that budget constraints could be managed, in terms of their effects on operations. The local implications of budget cuts on programmes or of the role of organisation wide overheads were not disclosed. In addition, discussion of budgetary matters was restricted to formal, scheduled meetings. These formal approaches were inconsistent with the more informal 'open-door' management style, where emerging issues were addressed in impromptu meetings where the opinions of employees were actively sought. It is possible that more information to enable informed debate on the connections between financial and operational matters would ensure that budgets became a more active and accepted part of management. Notwithstanding the provision of more relevant information, a challenge remains in combining the inevitability of a more formal approach to financial controls with a culture of open communications and participative decision making.

Conclusions

NGOs are being confronted with a need to become more sensitive to the competitive nature of acquiring funds and, as a consequence, the need to demonstrate that they have particular competencies to deliver services to targeted groups in need of welfare or development aid. In responding to this need, NGOs inevitably are drawn to incorporate business-like management practices and controls. In positioning our research around the generation and preservation of social capital, we have been able to show both the positive and negative effects from efforts to employ more formal approaches to management control. Our evidence shows that developing formal management controls can help NGOs to develop networks with government departments, funding agencies, other service providers and clients. By demonstrating superior capabilities,

an NGO can act as a broker between these groups, gaining power and authority to implement projects in ways that they see as desirable.

Our study also draws attention to the potential damaging effects of formal financial controls on the bonding aspect of social capital. The challenge facing NGOs is how to preserve the critical resource of a closely bonded organisation, while introducing financial controls that are typically seen by employees as being at odds with the NGO's welfare values. Accepting that concern with financial matters is critical to the survival of NGOs; managers should aim to avoid a clash in control cultures that can arise from the premature imposition of formal financial management within the

customary informal controls that have operated in most NGOs. Developing belief systems to incorporate financial concerns, along with traditional welfare goals, would seem an essential starting point in the move towards managing in a more competitive NGO sector. Given this approach, NGOs can then engage in training and experimentation to show how employees can use financial controls to help them identify emerging concerns involving the costs and benefits of their welfare programmes. Importantly, the information content of financial controls should be adequate to enable employees to contribute to decisions on how to achieve the most effective service delivery within the financial constraints of the NGO.

Additional information

We gathered data over a 12 month period through 16 interviews with key employees within the NGO, as well as a selection of agencies that had been involved with Tennant and a variety of government departments in the areas of justice and health. We also inspected the documents used within the formal management controls, such as budgets, costing reports, programme management, and performance indicators. Over the period of the study considerable amounts of data were collected. Due to confidentiality concerns, this report is based mainly on interview data with records and documents used to verify information from interviewees. At the end of the project, we were involved, to a limited extent, in discussions as to how formal controls could be used in the organisation in ways that did not damage internal morale and would enable the organisation to develop its social capital. Our study is based on a single case study and while it is representative of welfare NGOs, care should be taken in generalising the findings to the whole sector. Also, while we were engaged with the organisation for a period of 12 months and observed business over this time, it is likely that the findings may change in the future as the NGO adapts to its circumstances and gains experience with management control systems. Notwithstanding these cautions we present findings that are likely to be pertinent to many NGOs.

Further reading

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