

ACCOUNTING FOR SOMETHING: VOLUNTARY ORGANISATIONS, ACCOUNTABILITY AND THE IMPLICATIONS FOR GOVERNMENT FUNDERS

Jo Cribb¹
School of Government
Victoria University of Wellington

Abstract

The accountability mechanisms of government contracts are considered less than effective by both the government officials that monitor them and the voluntary organisations that deliver on them. This paper reports on doctoral research that explored what accountability relationships voluntary organisations perceive themselves to be involved in and which relationships they prioritise. The implications of these perceptions of accountability for current mechanisms of contracting are considered. Current mechanisms are modelled on agency theory, which assumes that voluntary organisations have different goals to government agencies. Accountability mechanisms aim to control voluntary organisations' activities to ensure they deliver what government requires. The research findings suggest that the assumed misalignment of goals does not exist, and that both government official and voluntary organisations aim to provide high-quality services and outcomes for clients. This provides an opportunity for exploring a new approach to accountability for contracts.

INTRODUCTION

Ministers, officials, voluntary sector managers and board members are generally in agreement that the relationship between the government and the voluntary sector is less effective than it could be. The previous and current administrations have sought to improve this relationship (Maharey 2003). Initiatives have included the establishment in 2000 of the Community and Voluntary Sector Working Party (a group of government and voluntary sector representatives tasked with making recommendations on improving the relationship), the government's *2001 Statement of Intentions for an Improved Community–Government Relationship*² (which outlines how government will approach the relationship), the establishment of the Office for the Community and

1 The author has recently completed her doctoral thesis and is contactable at jo@cribbwaterman.net

2 This is available to read on www.msd.govt.nz/work-areas/communities-hapu-iwi/community-and-government/statementofintent.html.

Voluntary Sector (which has the aim of improving government's performance in interacting with the voluntary sector), and guidelines issued by Treasury for departments contracting with voluntary organisations.

Contracting and funding practices are a focus of the initiatives. These practices are a major source of disquiet from the voluntary sector perspective (Community and Voluntary Sector Working Party 2001). A recent high-profile "contract failure" also highlighted the risks to government of contracting with voluntary organisations (Office of the Auditor General 2003).

Accountability for government contracts and funds is often at the core of disquiet and risk. From a voluntary sector perspective, for example, small organisations find the compliance costs of reporting (such as purchasing a computer for the required word-processed reports) particularly onerous. As a result, newly established voluntary organisations that provide services addressing emerging needs (such as refugee communities) can be excluded from funding and contracting processes (Ashton et al. 2004, Majumdar 2004). Changes in department structures and personnel often result in changes in reporting and information requirements, which, again, can be costly for organisations (Ashton et al. 2004).

From a government perspective, social services and the outcomes to be achieved by them are difficult to specify in a contract and even more difficult to hold an organisation to account for (Klijn and Teisman 2000). Contract outputs risk becoming checklists for delivery and, as such, are not linked to the effectiveness of the service or the outcome desired (Schick 2003) and create opportunities for "creaming" the "easiest" clients and tasks (Klingner et al. 2001, Hill and Lynn 2003). Voluntary organisation employees and volunteers are not state servants. That those delivering the service cannot be controlled by officials through an employment relationship is thought by many commentators to reduce accountability (Behn and Kant 1999). Commentators have also debated how accountable Ministers are to Parliament for vote-funded services that are delivered by organisations that are not part of government. Such debate challenges the notions and boundaries of Ministerial responsibility (Martin 1995, Mulgan 1997).

Arguably, if any revision of current contracting practices is to be sustainable, it will have to be appropriate for both parties. The Public Accountability System requirements of contracting processes are relatively well documented. The System has been modelled by the State Services Commission (2002) and reviewed (Advisory Group on the Review of the Centre 2001), and its reform in the early 1990s was subject to academic scrutiny (Gregory and Hicks 1999). In contrast, voluntary organisations' accountability systems are less well acknowledged. To whom, for what and why the staff and board members of voluntary organisations are accountable has been given

minimal attention, either in New Zealand or internationally, by researchers or policy makers. Indeed, several prominent voluntary sector researchers have identified this omission (Leat 1996, Ospina et al. 2002).

To ensure that any reform of the practices of contract and funding accountability are appropriate for voluntary sector parties, as well as meeting the demands of the Public Accountability System, attention must be given to the pressures and tensions arising from voluntary organisations' accountability relationships.

ACCOUNTABILITY AND VOLUNTARY ORGANISATIONS

Given this context, the author's doctoral research aimed to explore accountability from a voluntary-sector perspective and the implications for government funders.

Four voluntary-organisation case studies were undertaken in late 2003. All organisations provided social services. They had a variety of funding arrangements, but all, to some degree, received government funding. Thirty-four staff, management and board members of the organisations were interviewed about their perceptions of to whom, for what and why they thought they were accountable. The qualitative data gained from the in-depth interviews was triangulated with observations of respondents and analysis of key organisational documents (Flick 1992, Yin 1994).

ACCOUNTABLE TO WHOM, FOR WHAT AND WHY

Clients were the stakeholders to which respondents thought themselves most accountable. Twenty-seven out of 34 respondents considered themselves accountable to their organisations' clients. Staff were the second most important stakeholder to whom accountability was perceived (18 out of 34 respondents), followed by the government (16 respondents), the organisation's governing body (14 respondents), and the organisations' members (seven respondents).

What respondents overwhelmingly thought they were accountable for was the quality of care of their clients (25 out of 34 respondents). They also thought that they were accountable for ensuring clients remained safe while in their care (seven respondents). Attracting enough resources to run the organisation was also mentioned (seven respondents) as was financial prudence (five respondents) and being a good employer (four respondents).

The reasons why respondents thought themselves accountable to the organisation's clients was because clients were the reason the organisation existed. Clients were the purpose for the organisation and for their jobs. Respondents also thought themselves accountable to the organisation's staff, to ensure that they were happy and thus

provided good care for clients. Retaining good staff was the driver behind this accountability relationship. Accountability to government was based on delivering on the outputs specified in their government contracts for service provision and for complying with regulations.

In summary, respondents perceived that they were most accountable to their clients. Providing a high-quality service to clients was the reason for their organisation's existence. Accountability relationships within the organisation were of secondary importance. There was a strong chain of internal command and control, as well as a degree of collegial obligation. These internal relationships were based on ensuring high-quality services were delivered. Accountability to government agencies for funds and compliance was perceived as third most important. Regulatory compliance was seen as a necessary evil and government funding as an input needed to provide services to clients.

These findings were somewhat unexpected. Key theories – resource dependency and stakeholder analyses – predict that respondents would perceive themselves most accountable to their key funder, which in most cases was a government agency. Resource dependency theory predicts that organisations will feel beholden to a key funder. In order to avoid control by a key funder, organisations seek multiple sources (Pfeffer and Salancik 1978). Stakeholder analyses predict that the stakeholders to whom an organisation will feel most obliged are those that are perceived as powerful, with legitimate and urgent demands on the organisation. Key funders fit this description (Mitchell et al. 1997, Agle et al. 1999).

Indeed, previous research in the United States and among non-government organisations had shown the importance placed on the main funder (van der Heijden 1987, Gronbjerg 1993, Hardina 1993). The literature suggests clients were dismissed as an important stakeholder as they officially had no power over the organisation (Bruce 1995) and were difficult to account to anyway because they were perceived unable to judge the quality of services they received (Hoyes et al. 1993, Rochester 1995, Taylor 1996, Robson et al. 1997).

In this research, however, clients and the quality of care provided to them was the top priority for respondents. Accountability to government and other funders was a “means to an end”.

ACCOUNTING TO CLIENTS: IMPLICATIONS FOR GOVERNMENT FUNDERS

That nearly all 34 respondents in all four case studies felt themselves most accountable to their clients raises an important challenge to the current mechanisms of government and voluntary sector contracting.

Current mechanisms are based on the assumptions of agency theory (Anderson and Dovey 2003). A principal (government agency) contracts with an agent (voluntary organisation) to deliver services on their behalf. The agent is assumed to have different interests from the principal and as such will act self-interestedly when the opportunity arises. To ensure the agent does what the principal expects them to do, external monitoring, reporting, sanctions and incentives are put in place (Jenkins and Meckling 1976).

The research findings, however, suggest that at some level voluntary organisations and government agencies have similar interests – achieving positive outcomes for clients – and that voluntary organisations are not predestined to shirk from providing high-quality services. Indeed, most interviewees took personal responsibility for providing high-quality services to their clients. While there may be differences in approaches to service provision, and even differences in defining what constitutes “quality”, the agency theory assumptions of a fundamental conflict between principal and agent are challenged by these research findings.

In terms of reform of the accountability mechanisms of contracting, these results suggest that a “do the same but better” approach may not be fruitful. In light of these findings, implementing higher levels of external monitoring, additional reporting requirements and incentive-based regimes that aim to control the assumed divergent tendencies of the agent are unlikely to be successful for either party. From the government perspective, investing additional resources into attempting to control agents who actually have similar goals is unlikely to increase accountability or their performance. From the voluntary sector perspective, additional monitoring and reporting detracts from their ability to deliver services.

Instead, revised contracting practices could acknowledge the potential for commonality and take as a starting point the assumption that both parties are attempting to achieve the best results for clients. In practice, this would mean that government agencies would take the time to understand what the voluntary organisations are trying to achieve, how they are doing it and where there is congruence of goals. When it is identified that goals are shared, the contracting process

can begin. Thus there would be a large investment of time at the beginning of any relationship. Once a relationship was established, however, voluntary organisations could be accorded a degree of discretion to get on with the job.

Accountability mechanisms, monitoring, reporting and performance measures, could focus on measuring outcomes for clients. Dialogue between parties could focus on delivery problems and likely improvements or innovations. This approach has the potential to improve accountability for taxpayer funds. Informal types of accountability (such as personal commitment and promises) develop when parties have close relationships and can serve to reinforce formal accountability processes, which can also be strengthened through the collaborative approach to developing meaningful indicators of service performance and client outcomes.

The advantages of such an approach are that this degree of discretion can be built into the relationship because officials can be better assured that what they are trying to achieve with the contract is also what the organisation is trying to achieve and accountability mechanisms are based on relevant measures. Time currently invested in monitoring and reporting-type accountability processes could be better used in developing appropriate performance measures and improving service delivery.

The information asymmetries that are problematic in principal-agent relationships would still exist – the staff of voluntary organisations would have more information about service delivery than officials – but such asymmetries would not be seen as a potential source of risk for principals (such as an avenue for inflating contract prices), but rather expertise that should be incorporated into policy processes.

NO SILVER BULLETS OR WHITE KNIGHTS

The suggestion of a “relational” approach to contracting is not new and a number of current initiatives are adopting such approaches. Nor is it without limitations. For example, if, after discussions with a voluntary organisation, it is clear the organisation has different goals to what officials are trying to achieve, officials will seek another provider. In practice, this may mean that organisations currently contracting with government would not be offered future contracts – a potentially difficult and politically volatile stance.

Further, questions must be raised about the depth and sustainability of goal alignment as a basis of a relationship. While the managers of voluntary organisations and officials may agree on high-level outcomes, differences about service delivery may override consensus. Meaningful outcome measures are also notoriously difficult to develop. A relational approach also risks generating a “cosy in-crowd”, to the exclusion of emerging organisations.

A WAY FORWARD

Any debate about how much discretion voluntary organisations should be accorded and what the nature of the relationship should be touches on inherent tensions in the public accountability system – the trade-offs required by the competing demands for specification, standardisation, low risk and control on the one hand, and calls for innovation, performance and devolution on the other. Discretion and centralised control each have costs and risks. Wise scholars since the middle of last century have been debating what seems like an intractable issue. What is considered an appropriate balance between the two poles is contested and contextual.

Perhaps the way forward starts by reviewing the current untenable context: the accountability mechanisms used to contract and fund voluntary organisations are considered by both parties to be less than satisfactory. The current regime assumes voluntary organisations will behave according to the predictions of agency theory. This research has found, however, that this assumption needs to be challenged. Instead, accountability mechanisms could take as a starting point the assumption that both parties are trying to achieve similar goals. This would lead to a more relational approach. While it is acknowledged that such an approach generates political and operational difficulties, assumptions of goal alignment could be built into processes as much as possible. This could help maximise the service outcomes desired by both government officials and the voluntary organisations they help to fund.

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