Autobiographical Note

Stakeholder Salience and Accounting Practices in Tanzanian NGOs

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Structured Abstract

Stakeholder Salience and Accounting Practices in Tanzanian NGOs

Purpose;

The paper investigates the influence of stakeholders on accountability relationships and the development of accounting practices and processes within two Tanzanian NGOs.

Methodology/Approach;

Stakeholder analysis is employed to evaluate the positions of stakeholder groups in terms of Mitchell et al's (1997) attributes of power, legitimacy and urgency. Data analysis was undertaken using a grounded theory approach

Findings;

The research found that overseas donors were the stakeholders with the highest salience as a result of which they significantly influenced accountability relationships and accounting processes and practices within NGOs. Despite the often proclaimed NGOs' objective of improving welfare of beneficiary groups there appeared to be little accountability by NGOs to beneficiaries. Differences in the accounting functions in the NGOs were explained by the influence of dominant stakeholders, the credibility of the organisation and its managers and the varied ways through which the organisations negotiated and accounted for funding. Moreover, accounting was virtually unemployed in internal decision making processes indicating that it was largely a tool for satisfying claims of the highly salient stakeholders.

Originality/value of paper.

This paper makes a contribution to the literatures of both stakeholder theory and NGO accounting. From the grounded theory analysis it is suggested that the stakeholder framework of Mitchell *et al* (1997) could be usefully extended in the three areas of power asymmetries of definitive stakeholders, stakeholder salience asymmetries across organisational phenomena and asymmetries across time.

The paper contributes to the empirical accounting literature by seeking a deeper understanding of how and why accounting and accountability relationships develop within NGOs. It sheds light on a type of organisation that has not been extensively studied in the public sector management literature.

Paper category:

Case Study

Key words: NGO, stakeholder salience, accounting practices.

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Introduction

This paper uses stakeholder theory to explore the nature and behaviour of different stakeholders in NGOs. The paper also explores the use of a stakeholder analysis to understand accounting practices within these organisations. Empirical literature on non-governmental organisations is sparse within accounting and management disciplines. The paper presents an analysis of the interactions between organisational actors and stakeholders in two case studies. It gives an account of events and analyses the implications of stakeholder salience on accounting practices and processes in the organisations. A substantial literature exists which addresses the question 'who are stakeholders?' and a number of typologies have been suggested. However, the empirical descriptive component of stakeholder theory, that is the description and explanation of 'to what' and 'how' managers pay attention in stakeholder interactions (Jones, 1995; Donaldson and Preston, 1995; Mitchell *et al*., 1997; Frooman, 1999) has not received much attention. This paper is a contribution to that research.

Mitchell et al. (1997) suggest the attributes of power, legitimacy and urgency for ascertaining each stakeholder's salience. Employing these attributes one is able to classify stakeholders and observe changes in stakeholder salience over time. This paper uses Mitchell et al's typology to profile stakeholders with which the organisations interacted. These comprise the Government, donors, Boards of Trustees, the Accounting Board, members (constitutional 'owners' of the NGO and similar to the stock holders of a private sector company) and beneficiary communities. Stakeholder analysis shows that the

Government, donors and Boards of Trustees possessed the three definitive stakeholder attributes of power, legitimate claims, and urgency. However, the salience of the Board of Trustees was found to be transient and least stable. Members and beneficiary communities had legitimate claims that were urgent but they did not have the requisite power to effect their claims. These are identified as dependent stakeholders. The Accounting Board was a dominant stakeholder with statutory power and a legitimate claim but without urgency. Implications of stakeholder salience are evident in organisational actors' perceptions of the role of accounting and accountants.

The paper begins with a brief review of the literature of accountability and accounting in NGOs and of stakeholder theory, followed by a description of the research methods and data sources. Next, an outline of the case settings provides a description of the background to the organisations studied and of the key events in the lives of the organisations. There follows the empirical results from the case studies and the mapping of the salience of stakeholders into definitive, dominant and dependent stakeholders. The next section provides accounts and narratives of how these positions are acknowledged and a discussion of how stakeholder salience defines and affects accounting practices and processes within the organisations, as well as how organisational actors respond to stakeholder demands. The paper concludes with a discussion of the results of the case studies, reconciling key results with other research and suggesting ways in which the stakeholder framework of Mitchell *et al* (1997) could be usefully extended.

Overview of prior literature

There is a developing literature on accountability in NGOs. Edwards and Hulme (1995) have emphasised the importance of accountability and the need to take it 'much more seriously' but also note that, 'little is known about the changing nature of GRO and NGO

accountability'. Smillie (1995) refers to accountability being the 'Achilles heel' of the NGO movement. Lewis (2001) goes even further and suggests that 'concerns about NGO accountability and performance remain...an ability to confront these issues may be the key to the survival of the NGO movement'. Many authors draw attention to various aspects of NGO accountability such as the multiplicity of stakeholders (Edwards and Hulme 1995, Najam 1996); the importance of Board structures (Tandon 1995) and the importance of ensuring functional and strategic aspects (Avina 1993).

There is very little prior research into accounting in NGOs and much of this is normative rather than empirical or theoretical. In recent years a good deal of attention has been made to the applicability of business practices to NGOs. Some researchers such as Bradley et al (2003) advocate the adoption of such practices to improve efficiency. However, others such as Simsa (2003) and Myers and Sacks (2003) recognise the complexity of NGOs in terms of their different strategies, internal ideologies and management styles. These complexities are likely to confound a simple transference of business practices. Westerdahl (2001) undertook one of the few empirical interpretive studies in NGO accounting. He concluded that accounting is intimately bound with organisational identity. Moreover accounting in NGOs is a central force in establishing legitimacy within and beyond the organisation. Edwards and Hulme (1995) noted that the need to account transparently was an essential NGO practice in relation to enhancing legitimacy. They also noted the possibility of donor requirements distorting accountability and a tendency for 'accountancy' rather than 'accountability'. Other research has noted the strengthening of accountability resulting from donor demands, without considering the dysfunctional effects of such demands (Bebbington and Riddle 1995).

There is clearly a need for more empirical research in this area to enhance understanding and ultimately to improve practices. Since accountability is closely related to stakeholder

perspectives (Gray et al., 1997), a tool that enables one to assess salience of stakeholders is essential in understanding the actions of organisational actors and stakeholders as they relate to accountability and accounting practices and processes. The absence of share holding in the non-governmental organisations presents a promising platform for use of stakeholder theory to understand and explain relationships between and within organisations with respect to accounting.

A number of typologies exist that suggest classes of stakeholders: primary versus secondary (Clarkson, 1995); direct versus indirect (Freeman, 1984); and generic versus specific (Carroll, 1989). These typologies attempt to answer the question 'who are stakeholders?' and to identify them. More important however are narratives of interactions between management and stakeholders of different salience. This is referred to as descriptive stakeholder theory (Jones, 1995; Donaldson and Preston, 1995; Mitchell et al., 1997; Jones and Wicks, 1999). The following analysis makes use of the stakeholder framework of Mitchell et al. (1997). In addition to defining who stakeholders are they offer the generic definitional attributes of power, legitimacy and urgency to ascertain each stakeholder's salience. Employing these attributes one is able to classify stakeholders and observe changes in stakeholder salience over time.

> 'First, each attribute is variable, not a steady state, and can change for any particular entity or stakeholder-manager relationship. Second, the existence (or degree present) of each attribute is a matter of multiple perceptions and is a constructed reality rather than an objective one. Third, an individual or entity may not be 'conscious' of possessing the attribute or, if conscious of possession, may not choose to enact any implied behaviours.'
>
> (Mitchell et al., 1997, p. 868).

Mitchell et al. (1997) suggest that stakeholders include all who have economic or non-economic interest in an organisation. To these two aspects of power, Mitchell et al. (1997) add legitimacy and urgency as a bridging concept and present the three as the main stakeholder defining attributes. Other theorists have suggested further categorisations of power and legitimacy which may be relevant to this research. Etzioni (1964) categorised power into coercive power, based on resources of force and restraint; utilitarian power based on material or financial resources and normative power based on symbolic resources. Phillips (2003) identifies two conceptions of legitimacy; normative legitimacy based on moral obligation and definitive legitimacy based on power. 'These two conceptions reflect the intuition in stakeholder theorising that some stakeholders merit greater moral consideration in managerial decision making than others, but that theory would be incomplete if it failed to account for other stakeholders who might have a significant effect upon the organisation and the achievement of its goals', (Phillips 2003, pp 123-124). These subcategorisations are discussed further in the concluding section of this paper.

Mitchell et al's. (1997) framework defines stakeholders who possess one attribute as latent stakeholders comprising dormant, discretionary and demanding types. Dormant stakeholders have power but do not have a legitimate nor urgent claim. Discretionary stakeholders possess legitimacy but have no power or urgent claim. Demanding stakeholders have an urgent claim but have neither the power nor legitimacy to push it through.

Latent stakeholders become expectant stakeholders when they acquire a second attribute. They are categorised as dominant, dependent or dangerous stakeholders. A dangerous stakeholder has power and an urgent claim but the claim is not legitimate in accordance

with the norms, values and beliefs of a social system. A dominant stakeholder has power and legitimacy but does not have an urgent claim. These are dominant because they could adopt a weak stakeholder's claim and form a coalition. Dependent stakeholders have both legitimacy and an urgent claim but possess no power and must depend on others for, 'the power necessary to carry out their will' (Mitchell et al.,1997, p877).

Definitive stakeholders have and exhibit the highest salience, as they possess all the three attributes; power, legitimacy and an urgent claim. Organisational actors are expected to pay particular attention to their claims. Any expectant stakeholder becomes definitive by acquiring a third attribute individually or through forming an alliance.

What distinguishes the model proposed by Mitchell et al. (1997) is the dynamic rendition of the three stakeholder attributes of power, legitimacy of claims and urgency. Possession of the three attributes influences the saliency of a stakeholder and more attention is paid by organisational actors to the highly salient stakeholders. The mapping of stakeholder salience provides the initial step in understanding the relationship between stakeholders and accounting practices.

Research methods

The methodology used to undertake the research was grounded theory. Grounded theory is capable of capturing complex social phenomena (Strauss, 1987). This is arguably an important consideration when conducting research in an area such as accountability involving complex human interactions in organisational settings. Furthermore, the methodology allows the actors' own perceptions and meanings to emerge.

The extent to which prior theories and preconceived concepts should be used in a grounded theory study is contentious. However, most researchers agree that one cannot go into the 'field' without having any prior structure at all. Consequently this study uses

stakeholder theory to explore the nature and behaviour of different stakeholders in NGOs. The paper also explores the use of a stakeholder analysis to understand accounting practices within these organisations.

Fieldwork for the study was undertaken by way of two visits of four months and two and half months spread over a period of sixteen months in two organisations in Tanzania known as Aika and Aichi. Multiple case studies allow the comparative multiple-case logic of replication that improves theoretical insight (Eisenhardt, 1991) while preserving holistic data from specific sites (Marshall and Rossman, 1995).

Selection of the target organisations was not made *a priori*. In keeping with advice (Hammersley and Atkinson, 1995; Morse, 1998; Schatzman and Strauss, 1973) potential sites were identified and visited with a view to assessing their suitability. Large and established organisations that executed sizeable programs were sought, as these were expected to have formal structures. Large programs inferred substantial donor funding, aspects that attract government and regulatory authority interest. In these kinds of organisations, a basic and functioning accounting system was anticipated. There was also potential for significant interactions that have a bearing on accounting and accounting functions, both within the organisations and outside the organisations.

Data sources

In depth interviews, observation and documentary analysis were the three methods of data collection for the study. A total of 27 tape-recorded interviews were conducted, 20 during the first fieldwork and 7 subsequently. Table 1 summarises the number of interviews, interviewee position and organisation. The shortest interview was about thirty minutes [the last of three with ’s bookkeeper] and the longest was about one-and-a-half hours [the first

of three with AICHI's Manager]. The remainder of interviews were of about one-hour duration.

Table 1 : Interview details

Position	*Interviews*		*Organisation*
	Phase I	*Phase II*	
NGOs:			
Director	2	1	Aika
Bookkeeper	2	1	Aika
Trustee	1	-	Aika
Manager	2	1	Aichi
Accountant	2	1	Aichi
Treasurer/Trustee	1	-	Aichi
Regulatory bodies:			
Director NGO Division	2	-	Vice President's Office
State Attorney	2	-	Registrar of Societies
Director	1	1	Accounting Board
Donors:			
First Officer	1	-	Narish Embassy
Programme Officer	1	-	Royal Swinish Embassy
Accountant – AID	1	-	Anian Embassy/ Anian AID
Projects Officer – NGO and Trusts	-	1	Zrosh Development Corporation
Others:			

Position	*Interviews*		*Organisation*
	Phase I	*Phase II*	
Chairperson	-	1	Umbrella NGO organisation
Co-ordinator	2	-	NGO Training Project
Total	**20**	**7**	

Since this research dealt with accounting, a phenomenon embedded in administrative bureaucracy, documentary data offered a major contribution to our understanding of issues. Collection, thorough reading and preliminary analysis of documentary material dominated the initial data collection effort. These not only provided background material but also they informed on the generation of concepts from the early stages of the research. The principal printed documentary data types contributing to the research are listed in Table 2.

Table 2 : Documentary sources

Annual reports and audited accounts

Semi-annual reports

Accounting and Internal Control Manual

OD Files

External Evaluation Reports

Donor Inspection Report

Organisational Assessment Mission Reports

OD Consultants Final Report

Funding proposals

Evaluation and Planning Retreat Report

Reports of the Controller and Auditor General

Draft National Policy on NGOs

Summary of stakeholders views on 4th draft of National NGOs Policy

Proceedings of Zonal workshops on NGOs Policy

Proceedings of the Consultative Workshop on NGO Policy

Newspaper archives: *Daily News, The Guardian, The Daily Mail, The Express* and *Nipashe*

Societies Ordinance Cap 337

Companies Ordinance Cap 212

Trustees Incorporation Ordinance Cap 375

Budget speeches

Tanzania Financial Accounting Standards

Donor Direct Funding Guidelines to NGOs

Management and Financial Information Systems for NGOs – A Final Report

Training Manual on 'Management and Financial Information Systems for NGOs'

Data Analysis

Constant comparison and contrasting of empirical indicators is the basic task of grounded theory and provides the platform on which all its other operations are undertaken. Empirical indicators are actions and events captured in the different forms of data (words in interviews, figures and texts in documents, memorised objects and events). The classification of empirical indicators into associated categories directs the conceptual

coding processes. Coding commences with a provisional production of concepts that 'opens up' the data. It commences with an attempt to fracture the data and allow one to identify some categories, their properties and dimensions (Strauss and Corbin, 1990), and to get the researcher less immersed in the literal dimension of data, but more immersed in concepts and their relationships (Strauss, 1987). Coding involves scrutinising very closely (word by word, line by line) generated data so as to find concepts that surface which can be associated with others and provide leads to subsequent scrutiny. Initial codes are therefore necessarily tentative because subsequent steps may result in their adoption, modification or abandonment. The next stage of coding is to build and consolidate initial coding by intense analysis of larger relationships. This is an iterative process and involved going back and forth to data sources. The product was a rich mesh of main categories sufficiently linked to enable some aggregation and patterning. One cluster of categories to emerge from the data collected in this research were those that involved stakeholders and form the basis of the analysis contained in this paper. The full grounded theory is not presented in this paper, due to the limitations of space. However, the analysed data used to generate the theory was used to undertake the stakeholder analysis presented below.

Case settings

This section presents background information and profiles the two organisations; Aika and Aichi that were the main focus of the research. Rather than present each case individually they are presented along themes that link them: the early formative years; the years of growth and maturity; management; finances and accounting practices.

The early formative years

Aika was established in 1992, five years after Aichi [established in 1987]. Its main objective was to advance the general welfare of women and to serve as a catalyst for improving their living conditions. Its operations are in development work and advocacy. Aichi's primary concern is similarly in women's welfare but it is more entrenched in violence against women, directly running shelters and undertaking public education and advocacy work.

Both are membership organisations in which founder members play an influential role in the running of the organisations. At Aika for example, the Director and two-thirds of members of the Board of Directors are founder members, a situation also observed at Aichi where the current Manager and all members of the Executive Board are founder members.

The years of growth and maturity

The organisations went through a period of growth and transformation. Aika expanded rapidly within five years of its establishment such that organisational arrangements that worked well during the formative years became inadequate, accounting being central among these. An inspection report had observed the following:

> 'With Aika's rapid growth in recent years not enough attention has been devoted to subjects such as internal organisation, internal control guarantees and matters relating to management and accounting' (Donor Inspection Report: Aika).

Management wholly agreed with this observation, insisting that:

'you must realise that we started as activists and we still have a militant spirit. We have built up everything more or less by ourselves, and we fully appreciate that the time has now come to take a good look at these matters'

(Interview notes - manager Aika).

Things however, were not the same at Aichi. Although Aichi also recorded significant growth in its first six years, this growth brought with it a major and long running crisis. Finances played a central role in the crisis as explained by the Chief Executive in the following quote.

> 'The money started coming in and I think resentment started building. Resentment in the sense that there were those who got paid, consultancies, [and] there were those who were not being paid, volunteers; so it did not matter to some but it mattered to a lot of people. Then the former Chairperson had built a very strong base here, a system of patronage [in terms of money and foreign travel]. You know it was like scratch my back I scratch yours. So I suppose the main reason was because we did not have systems and we did not have policies, the constitution was weak and I suppose members were not cohesive sufficiently, we did not have team spirit and did not know how to confront the problem, to deal with it.'
>
> (Interview notes - manager: Aichi).

At the peak of the crisis there were only fifteen members, of which only nine were active. The two subsequent years saw incomes of Aichi stagnating as a result of the credibility deficiency brought about by the crisis. This organisation was collapsing.

Two issues were critical in the organisational crisis experienced at Aichi; the handling of organisation's finances that led to loss of internal and external credibility and the leadership style that was factional and had severed reporting relationships among the different organs within the organisation. In contrast, Aika did not experience at any financial or managerial crises.

Management

The Annual General Meeting is the highest decision making organ in both organisations. The organisation structures are generally flat which indicates small distances between top management and operational personnel as well as relative ease of interaction among staff. However, what was markedly different in the structures of these organisations was the various ways the accounting function was incorporated in the hierarchies. While Aika had only a Bookkeeper in the bottom level (level four), Aichi had three positions; Financial Consultant, Accountant and Accounts Clerk at higher levels (level 2 and 3) in the hierarchy.

Accounting and Finances

Both organisations attracted substantial donor funding and there was consequently, substantial public and government interest in them. These organisations had grown substantially in the past ten years. Both organisations generated little income from their own sources, being sustained largely by grants from donor agencies. This is common among NGOs especially in developing countries.

Accounting played only a minor role during the formative years of these organisations. Four years after formation, there was, for example, not even a bookkeeper in position at Aika. Routine accounting activities were limited to cheque payments after grants had been received and these were managed by a volunteering engineer working as head of

administration. At Aichi, similarly, accounting was insignificant as a function during the formative years and a relative of the then chief executive served as a part time bookkeeper working from home.

Aika, the larger of the two organisations in resource endowment had a basic manual system that was not properly documented. The accounting process, as reflected by the nature of records kept and accounting report output, could be designated as simple. This basic book keeping emphasised keeping track of cash and production of periodic, donor reports. Attempts had been made to develop an accounting manual and there were some policy guidelines for financial decision making in its constitution. However, as stated by the programme manager and confirmed by the bookkeeper, policy guidelines had not been religiously abided by. The programme manager stated: 'Note that we had some financial guidelines stipulated in the constitution, but these were just there [with no practical implication]'. In the circumstances, it was normal for example, for payment authorisation limits stated in the policy guidelines to be overlooked. The principal output of Aika's accounting processes were program expenditure reports by source of grants and year-end financial statements which were finalised with the assistance of auditors.

Aichi, in contrast, did develop a fairly robust accounting system after the organisation's crisis. An accounting manual was developed and was in use together with a set of internal control procedures. Four individuals were involved at different levels of the organisation in accounting processes; a Treasurer, an Accountant, a Financial Consultant and an Accounts Clerk. The Treasurer was by constitution the head of finance and functions as a direct link to the Board on financial matters. The Treasurer however, was not an 'accounting person' which is common in organisations of this nature. As it was with Aika donor reports by program expense categories were also the principle output of Aichi's accounting processes but it also prepared a complete set of end of year financial statements.

Evident in this narration is the contrast between the two organisations in their accounting processes and positions of accounting personnel in the organisational hierarchies. The more resource-endowed organisations did not necessarily institute more robust accounting processes or employ better qualified accounting personnel at higher positions in the hierarchy.

Analysis of stakeholder salience

Six principal stakeholders were identified; the government, donors, the Board of Trustees, the Regulatory Accounting Board, members and beneficiary communities. An evaluation of each of the key stakeholders associated with the two NGOs is now presented, in terms of Mitchell et al's attributes of power, legitimacy and urgency.

The Government

> 'It is the Government that gives an NGO the mandate to operate. If the NGO does not deliver the expected services, then the Government has the right to demand an explanation'.
>
> (Interview Notes – NGO Coordinator Vice President's Office)

NGOs have become an important organisational player, active in the social services sector, and government officials at all levels take an interest in operations of NGOs. Accountability of NGOs has been a major, consistent demand of the Government. The legitimacy of the government's demands for 'accountability' in NGOs is founded on two premises. First, the government interprets its status as the grantor of permission to and freedom for, all formal organisations to exist and operate within prescribed laws. Second, the government takes upon itself the responsibility for looking after interests of beneficiary communities and the general public. Beneficiaries and the general public are often

unorganised. Beneficiaries remain service recipients who often do not have influential voice on service delivery itself. Since beneficiaries are weak stakeholders, lacking power to enforce their claims, the government seeks to safeguard their interests. There is general public expectation that the government will curb abuses within NGOs who are entrusted with resources that do not reach intended beneficiaries.

Actors within the NGO community express scepticism over the government's interest in operations of NGOs. Whilst accepting the government's legitimacy with respect to a financial reporting relationship, NGO actors perceived its involvement as being undertaken in an uncooperative spirit and more of a domineering and 'policing' nature. Consistent accounting failure within the government itself, leading to theft and abuse, is cited as a weak moral ground on which the government could call for enhancement of accountability in other organisations. Annual reports of the Controller and Auditor General have consistently raised concerns over public accounts not being submitted in time, advances and imprests not retired or recovered, and many instances of unvouched and improperly vouched expenditure. As one NGO actor stated:

> 'the contentious point there is, how does the government come into NGOs, they have failed to be accountable themselves. So they are pointing fingers, they want other people to make their house clean while their house is in shambles. So that raises a bit of suspicion [that the government's interest in NGOs is political rather than purely administrative]. They don't make life easy for us to do the job well. They make it difficult, a lot difficult.'
>
> [Interview notes – manager: AIKA].

Some donors even suggested that a financial reporting requirement on NGOs to the Government is susceptible to misuse. A donor official for example, narrated the following potential abuse of financial reporting to government authorities:

> 'It is not a very good situation, of course. If you look at the new NGO Policy there is a clause in it that [states] NGOs shall submit annual financial reports to the government, which I think is not fair. Take the example of the Maasai NGO which has been fighting for Mkomazi Game Reserve, it is not fair if the government knows how much they have on their account in the bank.'
>
> [Interview notes – manager: Swinish Embassy.'

In terms of the three stakeholder attributes the government fits the definition of a definitive stakeholder. It has power that emanates from its broad governing mandate with which it can allow registration or de-registration of an NGO and confer tax exemption status. It also has legitimate claims on NGO operations and these claims embody a sense of urgency. Questions on legitimacy of government's claims can be seen as not an issue of contesting the legitimacy of government's claim per se, but questioning the sincerity with which the government pursues its claims. The fact that the government is perceived to have high salience by the organisational actors within NGOs is further evidence of the definitive nature of its stakeholder status.

Donors

As observed earlier, operations of NGOs are heavily dependent on donors' financial contributions. Organisations in the study derive 98 percent of all incomes from donor grants. Donors therefore possess substantial power associated with their conferring of

resources to NGOs. This power was principally exercised in the relationship between single donors and NGOs. However, most donors were based in the US and Europe and shared common concerns and requirements for accountability and accounting with respect to their grants. Moreover, being 'in the good books' of a donor of high standing conferred to an NGO a form of organisational credibility among other stakeholders and other NGOs. Donors' claims for NGOs to 'account' to them are therefore legitimate because donors provide financial resources to these organisations. Inherent in this is the willingness to share and support an organisation's cause. NGOs have come to refer to donors as partners. AICHI acknowledged for example that

> 'a good relationship with the main funders is an important attribute towards the achievements of the organisation. The funders are really partners, understanding our situation as well as that of the country in which we operate'
>
> [Annual Report: Aichi, p. 6].

Donors' legitimacy is often contractual, as memoranda and contracts are signed to demonstrate expectations of respective parties before making funds available to an organisation. Such contractual arrangements often stipulate the nature and timing of accounting reporting relationships. Failure to submit reports on time has damaging consequences for the organisation.

In terms of Mitchell et al's model (Mitchell et al., 1997) donors are also definitive stakeholders since they possess all three attributes of interest (power, legitimacy and urgency). However, as with the government's stakeholder status, donor's definitive stakeholder status is not uncontested. Organisational actors view the requirements for meeting donors' accounting information demands and their effect on other internal

organisational resource priorities, as onerous. Consequently, the burden of donor reporting was carried with a large degree of displeasure even in the organisations that were reputed to be credible. Organisations, individually or in consort with other parties, worked with varying levels of success to obtain relief from the donor financial reporting burden.

Boards of Trustees

Boards of Trustees in NGOs and the not-for-profit voluntary sector generally have been reported to be weak and ineffective, with trustees chosen on the basis of prestige (Sahley, 1995). The Board of Trustees as an organ overseeing an organisation's management ought to have power, legitimacy and urgency to demand and receive from management the attention it is warranted. Calls for self-regulation and less oversight by government emanating from NGOs rest on the assumption of a strong oversight function being performed by the Boards of Trustees. One donor to both Aika and Aichi stated for example that:

> 'We question what role the Ministry responsible for NGOs can realistically have in reducing malpractice, enhancing accountability and increase efficiency of the NGO sector. The personal liability incurred by members of boards should be sufficient to keep them clean. NGOs also represent and are accountable to, their members and their boards whose job it is to ensure that the NGO is a viable organisation.'
>
> [Comments on draft NGO Policy: UCAID, 1999].

Unfortunately evidence indicates that this may appear not to be the case.

Organisations in the study had sound Boards who were are elected on merit rather than prestige or social status. Nevertheless, board members have been known to suffer from the 'founders' syndrome' where they became too tolerant and uncritical towards fellow co-founders in day-to-day management. Aichi for example, had a Chief Executive who was seen to run the organisation against the spirit of participation, upon which the organisation was founded. The Chief Executive was also the Board Chairperson and was even able to employ a close relative to handle all financial accounting and reporting functions. Board members were also in charge of individual operational units, which meant the Board both formulated policies and implemented them. Consequently, the board failed to provide effective oversight. Nevertheless, it took eight years and the near collapse of the organisation for a change to be instituted. This change, the removal of an inept and self-serving leadership, was effected by members only after the direct encouragement and financing of interim arrangements by a Donor.

The power of the board is therefore observed to be transient, depending not only on individual board member strengths but also the depth of personal relationships with management and degree of tolerance of managerial inefficiencies. External pressure from the news media, donors and members was in the case of Aichi significant in remedying a destructive period in the organisation.

In terms of the stakeholders' definitive attributes, the Board of Trustees meets the criteria for a definitive stakeholder. However, the Board of Trustees can be inept and fail to exercise its oversight functions. Of the three definitive stakeholders, the Board of Trustees appeared to be the least stable.

The Regulatory Accounting Board

The National Board of Accountants and Auditors (NBAA) is vested with statutory powers to oversee accounting practice and regulate the accounting profession in Tanzania (Accountants and Auditors [Registration] Act No. 33, 1972). All organisations with annual revenues exceeding TAS 120 million [about £60,000 in 2005] must employ a Certified Public Accountant and produce financial reports in accordance with Tanzania Financial Accounting Standards. Both organisations in the study far exceeded the annual income threshold set by NBAA but none has a Certified Public Accountant employed.

NBAA appears to portray the technical-rationale perspective of accounting as reflected in the belief that there is a 'need to have strong regulations, promulgate accounting standards/guideline(s) to harmonise NGO reporting, reinforcing supervision' (ESAMI, 1998, p. 2). The emphasis is evidently on regulation, standardisation and uniformity because in that context it is posited: 'a uniform and standardised management and financial system could be used by NGOs so that their operations and resources could be better managed and make their operations more transparent' (ESAMI, 1998, p. 3). This ideal is often unfounded in organisational realities because a uniform and standardised management and financial accounting system does not necessarily improve accountability and transparency. Aichi, for example produced annual financial statements that were audited and solicited audit opinions for eight consecutive years. Yet during this period the organisation's management was reputed to have misused funds to the extent of nearly crippling the organisation.

In terms of the stakeholder analysis model (Mitchell et al., 1997) the Accounting Board has power emanating from its statutory position as the regulator of accounting practices and professionals in all kinds of organisations; private and public; governmental and non-governmental. It also has legitimate claims with regard to accounting in non-governmental

organisations. However, the Accounting Board has not elected to exert its authority on employment of qualified accounting personnel in organisations with incomes exceeding the TAS 120 million threshold. The Accounting Board therefore, has power and legitimate claims but it has not indicated any urgency to pursue these claims. It therefore fits the profile of a dominant but not a definitive stakeholder.

Members

Members compose ultimately the highest decision making body in membership NGOs. Therefore members ought to have power, legitimacy and urgency in relation to all activities of the organisation. However, many Tanzanian NGOs are of limited membership, while some are non-membership organisations. Aika is a limited membership organisation while Aichi is a membership organisation.

Members' commitment to their organisations may not be steady and substantial numbers may not be paying subscription fees although they would still consider themselves retaining some affiliation with the organisation. In the case of Aichi for example, the organisation was not run to the satisfaction of its members, yet members could not initiate remedial action and only showed their displeasure by neglecting organisational activities. There were hardly any active members in the organisation other than its executive committee. It is, therefore, not abnormal to observe in membership NGOs that members are in a weak power position relative to management and may not be able to effect their legitimate claims. These weaknesses are acknowledged by other definitive stakeholders as reflected in the following quote:

> 'Because if you look at NGOs in Tanzania they are often quite different from (another country's) NGOs, the (other country's) NGOs are more mass organisations made up of

large numbers of active members. But here it is just a handful of people, or to be correct retired or retrenched from the government side and has to find a new way [of making a living]. So I think you can say that some NGOs are made up of one or two leading individuals [and they run everything] But for us to learn and accept it is a bit difficult.'

(Interview notes - manager: (another country's) Embassy).

Using the stakeholder analysis model (Mitchell *et al.*, 1997) members as a stakeholder group appear to lack the power to push their interests and to ensure they receive sufficient attention. Therefore, although members have legitimate claims that may be urgent, they are categorised only as dependent stakeholders. Their needs are met neither at management's discretion nor by being adopted by dominant or definitive stakeholders such as the Government or Donors.

Beneficiary communities

The service orientation of the two NGOs in the study is that of 'public benefit', implying that they stand for improvements of living conditions of target members of a community; in these specific cases women and children. Although the organisations are structured around some form of membership base these members are only activists committed to the cause and are not direct beneficiaries. The organisations have a fiduciary responsibility to account for funds availed to them for use in support of beneficiary communities.

The usual mode of operation in NGOs emphasises participatory methods and involvement of beneficiaries and local communities in planning, execution and evaluation of organisational activities. Nevertheless, despite the stated values and rhetoric of participation, beneficiary communities do not in reality have sufficient power to push for

their legitimate claims even when they are urgent. Beneficiary communities are thus identified as dependent stakeholders. For their claims to be effected they must be adopted by a stakeholder in a dominant position, such as Donors, the Regulatory Accounting Board or the Government.

Participation of beneficiary communities had at times been symbolic, to portray an image of their involvement while, in reality, such participation was of no consequence. For example, the lack of Swahili translation during a workshop that had included representatives from beneficiary communities who did not understand English,:

> 'The grassroots level people will always remain watchers of things happening as they are not in control, and that they will equally remain receivers of instructions on what they should do since their input even when invited in workshops is immaterial and is never taken into account. Three quarters of the session was conducted in English implying that during this time, the village representatives who had been invited to the meeting and other people were not able to follow proceedings. To involve such people and treat them as such is to underrate them and openly ignore their contribution. Organisers of the workshop were quite capable of providing bilingual translators if at all they were intent on treating the rural folks as equal partners.'
>
> (Newspaper extract, Sunday Observer, 1st August, 1999)

A Synthesis of Stakeholder Salience

Fig. 1 summarises the stakeholder analysis of the two NGO's, using Mitchell et al's framework and illustrates the relative salience of each of the six stakeholders.

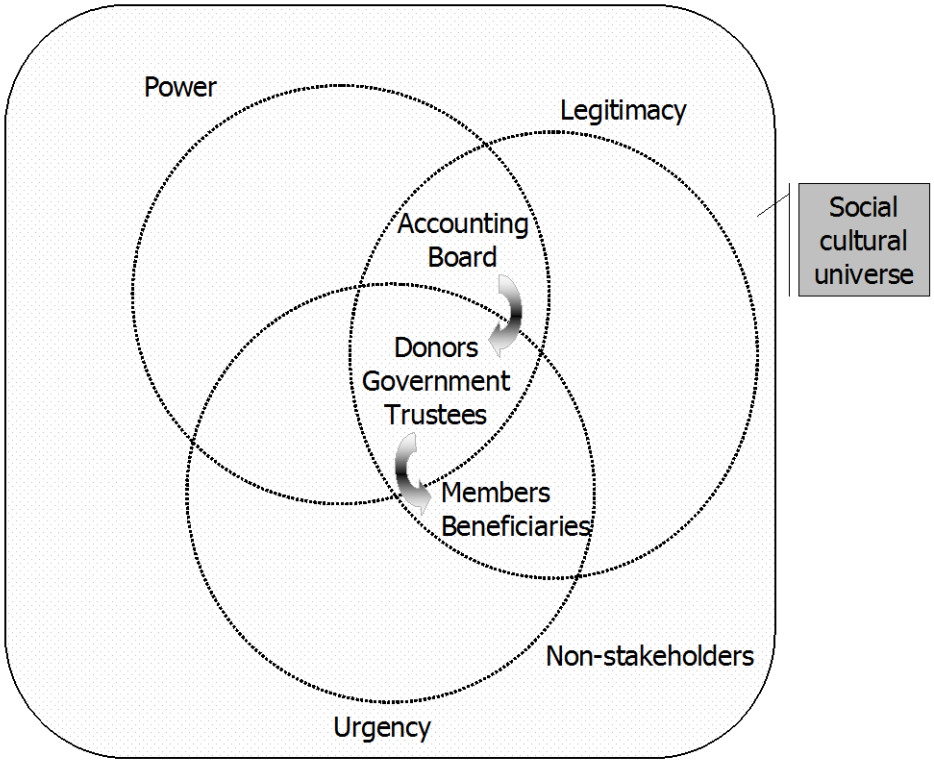


Fig. 1: A diagrammatic representation of stakeholder salience (adapted from Mitchell et al., 1997)

This diagrammatic account reflects stakeholder salience in a dynamic fashion as positions are continuously being negotiated. Changing broader social values and norms also influence both the process of creation as well as the acceptance of the stakeholder attributes of power, legitimacy and urgency. This salience is also not enjoyed across all issues. In some issues a salient stakeholder may lose one of the attributes and take a lower salience status. Managers therefore may pay certain kinds of attention to certain stakeholders regarding certain issues but these stakeholders will not attract the same attention in other issues. Two incidents capture and illustrate this position well; the joint efforts of a donor and members in effecting a leadership change at Aichi; and the successful negotiation for acceptance of basket funding arrangement (whereby all its major

donors to agree to pool their funding to the NGO for which a single set of accounts would be required) and uniform periodic financial reporting at Aika.

Accountability failure is the central issue in the first incident in Aichi, where managerial abuse of resources disenfranchised members and caused loss of credibility to key donors. Although the Donor that showed interest in rescuing the organisation had high salience they did not have the power or legitimacy to directly demand and effect a change in Aichi's top management. Only members had the legitimacy to demand that kind of change but they had no effective power. The Donor sent a signal to key, vocal members that it would only consider continued long term funding if Aichi would undergo a transformation heralded by a change in top management. The institutional donor also gave a commitment to fund the OD exercise and offered bridging finance for transitional arrangements. Vocal members, originally shunned by leadership, gained salience, top management was changed and Aichi started a successful turnaround. We observe in this incident a convergence of ‘stakes’ through which the donor lends support to a less salient stakeholder to effect a change that would possibly not occur if each acted single-handedly. As discussed later, accounting practices and processes were strengthened and accorded increased importance as part of the ensuing organisational transformation.

In the second incident, Aika endured a major administrative burden of frequent multiple donor financial reporting, from which it sought relief. The organisation had built good relationships with two international donors of good standing so it teamed with these two to persuade the remaining donors to ease what it termed 'petty financial reporting'. Aika preferred a basket funding arrangement and sought to persuade all its major donors to agree to such a funding arrangement from which a single set of accounts would be circulated at regular pre-agreed times. This strategy did not succeed during the first roundtable meeting but Aika included this information [of refusal of specific donors to

agree to basket funding and a common and uniform financial report] in its well-circulated and well-read annual report. This ensured that it was known around important donor circles, which of its donors stuck to 'petty financial reporting'. A year later all except one of its overseas donor agencies agreed to the idea of basket funding and a common financial reporting arrangement. In this incident we observe differences within one stakeholder group, donors, towards an issue, being taken advantage of by the organisation to persuade reluctant donors into acceptance.

Implications of Stakeholder Salience for Accounting

Stakeholder salience appears to have a major bearing on accounting practices and processes in NGOs. This is illustrated in two ways, the first is the overriding attention paid to donors' accounting needs and the second is in terms of financial reporting and organisational assessment. However, donor influence on accounting is less clear in the case of the visibility of accounting within the organisations. Each of these is discussed below.

Overriding attention paid to donors' accounting needs

> 'Because we are given a mandate by the Government of Swini we must follow the Swinish regulations to satisfy the national accountants. We usually demand different reports; one is the financial report, which should be delivered as soon as possible and also a narrative report of achievement, but the financial report is very important .... it is always. We cannot give support without signing a contract and demanding a financial report.'
>
> [Interview notes - manager: Swinish Embassy].

Of all stakeholders, donors emerge as the most salient with respect to accounting. They influenced not only the decision on whether an accountant position was to exist but also the form, frequency and format of accounting output.

As the opening quote illustrates, the Donor-NGO relationship includes contractual obligations to produce specific financial reports within prescribed time periods. Consequently, accounting in these organisations appeared to lean largely towards donor reporting. One donor required, for example that,

> 'As a minimum, [an NGO] observe the same guidelines as the Narish (an EEC country) NGOs [and] keep accounting records in accordance with the Narish accounts legislation'.
>
> [Interview notes – manager : Narish Embassy].

In this instance Narish accounting regulations were embedded into local NGO accounting practices entirely out of compliance. Accounting therefore, emerged as being predominantly donor driven and production of reports to donors was observed, from the organisations' perspectives, to be the primary role of accounting. Donors stress the importance of report production in enhancing organisational credibility and accounting is perceived as such by reporting non-governmental organisations.

Despite seemingly 'limited' accounting, organisations appear to have managed for long periods to meet requirements of donor reporting by keeping source documents and memoranda that allowed the production of donor reports. Provided donors accounting requirements were met, it appeared, there was little consideration for internal accounting needs.

> ‘Like so many other NGOs, Aika has in the main been guided by, or in some cases has been obliged to comply with, the requirements of donors regarding administration and reporting. As a result, the system used by Aika is not well suited to providing the information needed for Aika’s own management and budget monitoring.’
>
> [Donor inspection report: Aika, 1999, p. 3].

Accountability to stakeholders other than donors was faint. Statutory reporting in the form of lodging annual audited reports to regulatory bodies (Registrar of Clubs, Societies and Associations) was performed at the discretion of organisations. Reporting to beneficiary communities and the general public were largely non existent as there were no established avenues for reporting to these.

Financial reporting and organisational assessment

The annual report and audited accounts, donor periodic reporting, inspections and evaluations comprised avenues that facilitated organisational assessment. External constituents especially donors and members depended upon and used accounting reports for organisational assessment. Donors also undertook their own inspections and evaluations. All donors required an audit to be conducted to verify how funds given to an organisation had been utilised. Where multiple donors or multiple grants from the same donor were involved, a common occurrence in NGOs, multiple audits were conducted in a single financial year.

The audit of individual grants did not normally acknowledge the existence of the statutory annual audit, a subject of resentment within organisations because of the additional administrative workload demanded to accommodate multiple grant audits within a year.

Donors were resolute in demanding external audits for grants exceeding a stipulated ceiling as the following quote illustrates:

> 'If it [the grant] is $25,000 then there must be an external audit that must be approved by [the donor's acronym] … then they [NGOs] must also set aside a certain amount of the contribution for the audit.'
>
> [Interview notes –manager : Swinish Embassy].

The audit echoes organisational credibility and actors within NGOs attach a great deal of importance to it. Organisational actors and donors portrayed the view that the audit and the auditor were both important means of enhancing organisational credibility and donor confidence. Aika and Aichi had both switched auditors during and subsequent to this study [despite mounting audit fees], decisions that appear to be having impact on forms of funding in these organisations. The manner which organisations managed the audit process had consequences in important areas of operations for organisations, such as donors' attitude towards basket funding and their perceptions of accuracy and reliability of NGO financial statements.

> 'Donors were very much impressed that we on our own had decided to appoint an international audit firm. Actually there is increased credibility and donors were impressed but even members were impressed as well. So in terms of information made available to users it is the same as in previous years. But in terms of opinion it is now international. As you know many NGOs are problematic in accounting matters. So when they see these people are going to [a top five audit multinational firm] it means they are serious.'

[Interview notes - manager: AICHI].

As the above quote illustrates the perceived professional standing of the auditor appeared to be an important issue for consideration in the auditor's appointment. AICHI appointed a top five multinational accounting firm as auditors to replace a local audit firm, a decision that resulted in a three-fold increase in audit fees. However, it was made very clear to the researcher that this was money very well spent.

Contrasting visibility of accounting functions within organisations

The accounting function also appeared to be accorded different levels of prominence in the two organisations. The size of the organisation and its resource endowment seemed not to provide an explanation as both indicated more or less a similar trend. Desired and ongoing changes towards improving the state of accounting and strengthening accounting personnel were also observed. The impact of what one trustee referred to as 'professionalisation' on operations of the organisations was of particular interest.

Growth in resource endowment seemed to affect, in markedly different ways, visibility of the accounting function in the two organisations. Increase in resource endowment triggered a major and long running conflict in Aichi the resolution of which gave increased prominence to the accounting function. Aichi emerged from an organisational crisis with its financial credibility deeply eroded and consequently there was a strong accounting representation in the re-constituted organisation. There were four accounting positions in the organisational hierarchy as contrasted to one at Aichi. Moreover the accounting function was headed by a semi-professional who was conferred the title 'accountant' and its accounting processes were better developed.

At Aika in contrast, despite its substantially larger resource base, accounting was less visible as a function. It did not exist as an independent function but was embedded within the administration and finance department headed by an engineer. Within the organisation, actors conceded that the accounting position had not been accorded the importance commonly expected in organisations such as Aika.

> 'I have been here since 1996 and there is a big difference. We handle large amounts of money .. we were supposed to have a senior accountant. I am a bookkeeper but I am still the one who handles all accounting matters.'
>
> [Interview notes – manager: Aika].

The difference in titles of accounting personnel such as 'accountant' at Aichi versus 'bookkeeper' at Aika was not merely semantic. It appeared to demonstrate an apparent disparity in how accounting was viewed within the organisations. Aika has consistently maintained a credible image since its establishment while Aichi has experienced an extended period of loss of credibility to donors. Accounting practices on their own seemed not to be essential for an organization to attain high donor credibility. Aika has been able to consistently maintain its donor credibility for many years despite its lower stature of accounting within the organisation. In this case management personalities proved more decisive in building and maintaining Aika's donor credibility. Founders of Aika had the receptive understanding of key official in a high profile overseas donor agency that has since become a key financial supporter of Aika. Regardless of the stature of accounting in the organisation, once it had the confidence of one high profile donor it easily attracted others.

Discussion and Conclusion

This paper makes a contribution to the literature in both stakeholder theory and NGO accounting.

Whilst the generic stakeholder framework of Mitchell *et al* (1997) was certainly useful in providing a broad analysis of the stakeholder dynamics within the Tanzanian NGO community, the issues emerging from the grounded theory study has implications for the framework itself. More specifically the framework could be usefully extended in the three areas of power asymmetries of definitive stakeholders, stakeholder salience asymmetries across organisational phenomena and asymmetries across time.

It was clear from the research that donors had significantly more salience than the other definitive stakeholders (Government and Trustees) and this had significant implications for accountability and accounting. The source of this enhanced salience appeared to be associated with the power of the donors, resulting from their ability to withhold financial resources. Etzioni's (1964) categorisation of power into coercive, utilitarian and normative is useful in this research. In this study the coercive power of government was not perceived to be a major factor in determining salience as organisational actors did not believe there was an intention by government to use this power. However, the utilitarian power of donors was perceived as important in terms of salience as actors did believe donors would exert this pressure if their demands were not met. The Trustees' power was mainly normative, comprising prestige and esteem and whilst important in the long term did not have the urgency of utilitarian power. This suggests that Mitchell *et al's* category of definitive stakeholder's may comprise a further distinction between dominant definitive stakeholders who have high levels of utilitarian power and an intention to use it, and subordinate definitive stakeholders who have mainly coercive and normative power. Dominant definitive stakeholders are in a position to demand and ensure more significant

changes to organisational processes than subordinate definitive stakeholders. However, as discussed above with reference to the inability of donor's to effect a change in Aichi's top management, the power of even dominant definitive stakeholders is not without limit. The donors are to at least some extent, dependent on NGOs continued existence to carry out their objectives and this ensures the NGOs have some power to resist donors' demands.

Further light may be provided on the distinctions between definitive stakeholders by Phillips' (2003) conceptions of normative and derivative legitimacy. The donors clearly displayed high levels of both, with strong normative legitimacy, emanating from the NGOs moral obligation to them, and also a significant derivative power to change the organisation. In contrast, the Government had high levels of (latent) derivative legitimacy but little normative legitimacy, and Trustees had high levels of normative legitimacy but low levels of derivative legitimacy.

The second way in which the framework could be usefully extended is related to stakeholder salience asymmetries across organisational phenomena. The research was focused on accountability and accounting and salience was analysed with reference to these phenomena. A different analysis and different patterns of salience may well exist if different phenomena were researched. In other words the stakeholder framework of Mitchell *et al* (1997) is not all encompassing. In the issue of changing Aichi's top management, for instance, the most salient stakeholder was the membership and the donor had to work through them to influence the change. Another example was the relative lack of importance to actors of the internal accounting processes. These were of little concern to the donors or the subordinate definitive stakeholders and were influenced more by other organisational phenomena such as history and culture.

The final way in which the framework could be usefully improved is by emphasising stakeholder salience asymmetries across time. Over time the distribution of power

inevitably changes resulting in new patterns of salience. For example as discussed above, during recent years donor agencies had changed their attitude to the idea of basket funding and common financial reporting arrangements. This was accompanied by a subtle power shift towards the NGOs as their legitimacy, confidence and size grew. As a consequence the salience of the donors was reducing. Another example of shifting salience would occur if the government decided to exert its latent coercive power over accountability and accounting in the future.

By extending the stakeholder framework of Mitchell *et al* (1997) to incorporate these aspects the framework can become much more dynamic and contextual, providing a deeper understanding of organisational processes.

The research also contributes to a better understanding of NGO accounting. The role of accounting within the NGOs appeared to be providing a formal mechanism for communicating and justifying utilisation of resources availed by donors. The flow, frequency and density of accounting information were strongly related to resource flows. Donors as providers of funds received most accounting attention, followed by regulatory authorities, trustees and members. Beneficiary communities and the general public were of least importance in terms of accountability relationships and of accounting. The domination of donors over accounting activities in organisations did raise concern and other stakeholders wished to receive commensurate accounts of NGOs financial management.

O'Dwyer (2005) raises issues that echo those found in this paper, especially with respect to the discharge of upward accountability by organisations. He reports an overseas aid agency that considers maintenance of legitimacy in the eyes of its chief financier as an overriding concern. The financier of the overseas aid agency fits the description of a highly salient stakeholder. O'Dwyer (2005) notes the unremitting power of the overseas aid agency over

its stakeholders in developing countries. Nevertheless, the power asymmetry alluded to by O'Dwyer (2005) is not limited to the relationship of Overseas Aid Agency versus stakeholders in developing countries. It was also evident between local NGOs and beneficiary communities as well as other stakeholders who did not have sufficient power for their stakeholder claims to be met. A contrast of note in the Tanzanian study is in that local NGOs could and did engage in dialogue with Overseas Donor Agencies as was illustrated in the incident where Aika succeeded in relieving itself of multiple financial reporting burden to different donor agencies.

This study notes the on-going processes of incorporating 'sound' accounting practices into organisations that is driven by donor financial reporting needs. A decade ago all organisations in the study did not have 'sound' accounting systems by conventional standards, but currently this is changing as organisations seem to incorporate better accounting practices and processes. These changes have increased the functional visibility of accounting in the form of hierarchical positions; strength of accounting personnel; and in systems of documentation such as use of computerised accounting packages. Interestingly, these changes undertaken within organisations were not wholly attributed to NGO management but were often initiated by definitive stakeholders, in these instances overseas donor agencies and can be seen as pursuits to accommodate stakeholder interests in order to maintain organisational credibility.

However, changes in the accounting functions have not resulted in making accounting important in internal decision processes. The installation of a computerised accounting system at Aika for example ought to have made easier the accumulation and analyses of programme costs. Yet, it remained only a facility to perform faster virtually the same processes (production of expenditure reports by donor source) that the accountant

previously performed manually. Nevertheless, computerisation was of symbolic significance as an institutionalised aspect of modern day competent organisations. In this case computerised accounting appeared to be significant although organisational actors had not appreciated its utility. Cooper and Hopper (1987) echoing this observation suggested that 'accounting may be significant in organisations and society even if it is not extensively used or understood' (p. 408).

The appointment of auditors was yet another aspect of use of donor influence. Between the start and completion of this research both organisations had appointed multinational audit firms in place of local audit firms. The underlying justification had little to do with professionalism or opinion shopping, two themes of growing interest in studies of auditor switching (see for example Lennox, 1999_a, 1999_b, 2000; Beattie and Fearnley, 1998). The justification for auditor change was rather the perceived positive effect on donors' perceptions of organisations, as a result of being audited by renowned multinational audit firms. The audit, as Jacobs (2000) also found out, was a 'powerful form of symbolic capital (p. 377).

In summary, the stakeholder analysis clearly showed that stakeholder salience is influential in understanding NGO accountability and accounting practices. Definitive stakeholders, particularly donors exerted substantial influence, often to the detriment of dependent stakeholders with little power, such as beneficiaries, who were accorded little attention. However, stakeholder analysis does not explain all aspects of accounting practice, as evidenced by the differential visibility of accounting within the two organisations. To explain these differences a deeper contextual and processual analysis is required.

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