

## **To What Extent Are NGO Self-Regulation Initiatives Effective?**

This paper examines how accountability and regulation is practiced by non-governmental organisations (NGOs) through the use of self-regulation initiatives (SRIs). The aim of this paper is to outline the emergence and subsequent variations of SRIs and to use club theory (also referred to as an ‘economic approach’) to analyse their efficacy. Despite the imperfect nature of SRIs, this paper finds that in some cases, within specific regulatory and institutional contexts, NGO self-regulation initiatives, can be considered effective. Furthermore, the paper finds that while SRIs may be effective at successfully signalling to governments and donors, enhancing accountability towards it’s beneficiaries remains comparatively underdeveloped. As there is currently limited research on the impacts SRIs have on enhancing beneficiary accountability, this paper has opted to measure effectiveness as an SRIs ability to ‘successfully signal’ to donors and governments. This paper does not overlook the importance of enhancing beneficiary accountability and looks to the challenges and possible remedies to saving the ‘moral capital’ of NGOs. The paper starts by contextualising the demand for NGO self-regulation. Key terms, ‘accountability’ and ‘self-regulation’ are then defined. A typology of NGO SRIs is then presented which allows for the criteria of effectiveness to be detailed. Using Club theory, NGO self-regulation initiatives are subsequently analysed to determine their efficacy.

Having emerged as important actors across both the humanitarian and developmental third sector since the end of the Cold War, the rapid increase in size, scope and influence of NGOs has led to demands for increased scrutiny (Warren & Lloyd, 2012, p.2). It is approximated that there are currently 40,000 internationally operating NGOs (Anheier et al, 2001). To contextualise this proliferation, that is an increase from 176 in 1909, with

90% of those having been created within the last 30 years (Edwards, 2000). It is now not enough for NGOs to claim good intentions and values as a sufficient basis for accountability. Numerous highly publicized scandals embroiling NGOs over the years have only added fuel to the fire (Gibelman and Gelman, 2001). Combined with concerns over high executive compensation, high administration and fundraising costs, but perhaps more importantly a failure to reach those in need, has led to a decline in public trust among the non-profit sector (Gibelman and Gelman, 2001; Light, 2004; Salamon, 2002). These demands for increased accountability are what appear to be responsible for the proliferation of NGO self-regulation initiatives (Gugerty et al, 2010, p.1028). The assumption behind SRIs was that NGO accountability and performance can be enhanced by successfully adopting shared norms and standards within the sector. Yet despite important contributions to the study of SRI effectiveness (Gugerty, 2009; Gugerty & Prakash, 2010, Bekkers, 2003; Ortmann et al. 2005), academics and practitioners alike still acknowledge that empirical research is still limited regarding the systematic effects of SRIs. The absence of which could threaten the future of such initiatives, as without evidence of effectiveness, stakeholders are only right to question whether self-regulation initiatives are a worthwhile indicator of an NGOs integrity. In turn, this could lead NGOs to reconsider whether they're worth the resources required to sustain them.

Although no single definition of 'accountability' exists within the literature (see Bendel, 2006; Edwards and Hulme, 1996; Cornwall, Lucas and Pasteur, 2000; Kilby, 2006; Lloyd, Warren and Hammer 2008), there is a general consensus that there is a need to move past the traditional principal-agent model of accountability. According to the principal-agent model, only those with formal authority over NGOs have the right to hold them to account. However the works of Najam (1996) and Edwards & Hulme (1996) have demonstrated that NGO have multiple (and often conflicting) accountability

relationships. Instead of focusing solely on formal relationships, the stakeholder approach to accountability includes any actor that is affected by the decisions and actions of the NGO (Lloyd, 2005, p.3). In this model, accountability runs in multiple directions; Upwardly towards governments and donors, downwardly to their beneficiaries, internally accountable to staff and externally accountable to fellow NGOs within the sector (Ebrahim, 2003, p.814-15).

Thus far, self-regulation initiatives have been the most significant attempt to collectively promote these ideals (Crack, 2016, p. 41). Self-regulation in this essay is broadly defined according to Ebrahim who defines self-regulation as “efforts by NGO or non-profit networks to develop standards or codes of behaviour and performance” (Ebrahim, 2003, p.819). Self-regulation has arisen primarily in an effort to improve sectoral image, with the intention of encouraging further donations from donors or as a means to forestall restrictive government regulation (Ebrahim, 2003, p.820). However what is clear, is that the majority of NGOs are attending to accountability towards stakeholders that exert the most pressure on them, such as governments and donors. The result of which is that stakeholders who are relatively powerless such as beneficiaries fail to exert the same pressure and thus have not received the same level of attention (Lloyd & de la Casas, 2006, p.4). Asymmetries have thus emerged in relation to enhancing upward and downward accountability (Ebrahim, 2003; Lloyd & de la Casas, 2006). While this essay focuses on effectiveness as defined as successful signalling, this paper acknowledges sections of the literature that criticise the effectiveness self-regulation initiatives because they does not enhance beneficiary accountability equal to upward accountability. However the lack of research on SRIs impact on beneficiary accountability makes it difficult to analyse how effective they are in this respect. Preliminary evidence however does suggest that SRIs are not as effective as hoped in enhancing beneficiary

accountability. Third wave reforms as proffered by Crack (2013) may be a solution to enhance beneficiary accountability. This paper in principal supports the recommendations of reconceptualising accountability relationships (Crack, 2013, p.302) and improving dialogic accountability (Crack, 2013, p.302). The real challenge in this will be to incentivise NGO to adopt these new practices. Crack herself notes that these prospective changes amount to challenges of intimidating proportions (Crack, 2013, p.306). The scarcity of resources and the competing accountability claims are no easy problems to alleviate. It seems then, that in order for NGOs to retain their moral credibility, changes are due. But if 'critical self-reflective practice' requires additional resources and is against the wishes of donors, NGOs may be left stuck between a rock and hard place.

The multifaceted nature of the drivers facilitating SRIs present significant challenges when attempting to produce a unifying framework able to analyse 'effectiveness' in measurable variables. The three main drivers for self-regulation can be categorised as follows: A means for signalling credibility to attract potential donors (Gugerty, 2009; Prakash and Gugerty, 2010); A strategy to stave off restrictive government legislation (Gugerty, 2010; Sidel, 2010) and more generally as a means of organisational improvement through strengthening of mission/beneficiary accountability (Crack, 2013; Hielscher et al, 2017, Jacobs, 2010, Featherstone, 2013). Identifying the drivers responsible for instigating the SRI is therefore crucial in analysing its efficacy. However the impacts that SRIs claim to affect, such as changes in perceptions, changes in relationships and changes in organisational ability are difficult to empirically measure (Obrecht, 2012, p.10). The challenge of finding a common measure has been noted by some within the literature (Crack, 2016; Featherstone, 2013). This difficulty has led the

majority of the literature to focus on the factors underlying the emergence of SRIs and variations in regulatory and compliance mechanisms.

The two main explanatory theories used to account for the emergence, and in turn outline the conditions of “effectiveness” for NGO SRIs are club theory and constructivist theory. While the two proffer different explanations as to the emergence and subsequent notions of effectiveness regarding SRIs, the two are not mutually exclusive (Crack, 2014, 2018). However for the purpose of this essay, club theory will be used in the analysis NGO SRIs. Club theory (interchangeably used with ‘economic approach’) is based on the idea that the Non-income-Distributing Constraint (NDC) that forms the basis of Weisbrods’ (1975, 1988) “trust hypothesis” is insufficient to maintain trust within the non-profit sector. As demonstrated earlier, public scandals of mismanagement and misadventures indicates the NDC is no longer a strong enough disincentive to stop NGOs from acting opportunistically. SRIs have arisen in response to this reputational crisis as a means of providing a reputational signal of quality to governments and donors (Obrecht, 2012, p.11). The development of SRIs strengthen collective standards for NGO activity, which has the desired consequence of signalling credibility to donors and governments. However, in order to send a credible signal an SRI must ensure standards are stringent and compliance is monitored (Crack, 2018, p.421). Programme design is therefore essential for effective self-regulation and will form the basis of this analysis. Consideration of the operational context an SRI operates in and how that may determine its efficacy is also important.

Multiple typologies of SRIs have been undertaken with each one differing slightly (Warren and Lloyd, 2009; Gugerty et al, 2010; Obrecht, 2012). This papers categorises SRIs into one of two forms. These are ‘codes of conduct’ and ‘certification/accreditation

schemes'. Codes of conduct are defined as a self-regulatory mechanism "where groups of organisations come together in agreement over standards governing their conduct with each promising to abide by established norms" (Lloyd, 2005, p.7). Although they tend to be quite formalised they generally do not include compliance mechanisms (Warren & Lloyd, 2009, p.5). Certification schemes, similar to codes of conduct have agreed upon standards and norms. They too tend to be quite formalised in structure as well. The main difference is that independent external reviews of an NGOs compliance with the standards are conducted (Lloyd, 2005, p.7).

In their research on compliance systems, Lloyd, Calvo, Laybourn (2010) found that just 41 out of the 149 (27.5%) codes of conduct identified had elements of a compliance system. That meant that 72.5% had no way of monitoring whether NGO were adhering to the principles they set (Lloyd et al, 2010, p.9). Further concerns are prompted by the fact that 113 out of the 149 identified codes had no sanctioning mechanisms (Lloyd et al, 2010, p.9). This means that the majority of codes had no measures in place for reprimanding members that failed to comply with the set standards. The findings of Lloyd et al. (2010) raises serious questions regarding the effectiveness of a codes ability to send a credible system to donors and governments if in over half of all codes, no compliance systems are found. It should be noted that the absence of a monitoring mechanism doesn't necessarily always imply the ineffectiveness of an SRI (Lloyd et al 2010, p.11). The development of a code within a sector that is highly fragmented could be seen as a major accomplishment, and at the time, "relying on a commitment from signatories might be the most appropriate approach for improving performance" (Lloyd et al, 2010, p.12). Although monitoring and enforcement mechanisms may be developed as the principles are better understood, the point stands that the lack of a monitoring mechanism isn't necessarily evidence of an ineffective SRI. While an interesting point to consider, when

looking at the breakdown of SRIs by region (Warren & Lloyd, 2009, p.15) it is clear the majority of codes of conduct are not all in fragmented sectors and so the impact of the argument is somewhat limited. Significant amount of codes are not operating in fragmented sectors and so the possibility for opportunistic NGOs to exploit these SRIs for their reputational benefits remains unchecked.

In contrast to the codes of conduct, Lloyd et al. (2010) identified all 82 certification schemes in their research as having elements of a compliance system. In contrast to the 5 third-party compliance systems identified in the codes of conduct, 60 (74%) of the certification schemes use third-party monitoring. However not all compliance systems are created equal. Compliance systems may instead use self-assessment or peer-assessment as forms of monitoring mechanisms. Although more cost efficient, the integrity of the assessment may be called into question by external stakeholders (Lloyd et al., 2010, p.11). Third-party assessments appear to be the most effective for providing a credible signal to stakeholders due to the independence a third-party organisation possesses. Compliance systems can then be categorised as to whether they are 'reactive' or 'proactive' (Obrecht, 2012, p.20). Reactive approaches to compliance monitor members through complaints mechanisms which allows for the reporting of members who are non-compliant. In contrast, a proactive approach expects members to continually monitor and report on their compliance to the initiatives standards (Obrecht, 2012, p.20). This is usually achieved through recertification of members, with the Humanitarian Accountability Partnership (HAP) being a good example of this. Although there is no empirical evidence available, having to continually demonstrate adherence to an initiatives standards, would logically follow that proactive monitoring provides a stronger form of compliance than reactive monitoring (Obrecht, 2012, p.20).

Recent research examining monitoring and sanctioning features within accountability clubs found most voluntary accountability clubs were in fact weak in terms of monitoring and sanctioning (Tremblay-Boire et al., 2016, p.720). The proliferation of less stringent clubs have in fact added “a layer of complexity for stakeholder trying to distinguish between credible and non-credible clubs.” This led to the conclusion that most accountability clubs would therefore be “unlikely to provide a reputational signal strong enough to allow outside stakeholders to differentiate legitimate non-profits from opportunistic ones” (Tremblay-Boire et al., 2016, p.720). Cracks’ (2017).

Given the research on self-regulation within the profit and non-profit sectors that shows a strong link between the existence of compliance systems and the effectiveness of self-regulation; Given the fact that only 47% of SRIs in existence have some element of a compliance system, raises legitimate concerns as to how many of these SRIs are able to effectively improve NGO practice and successfully signal to governments and donors. On top of that, the research conducted by Tremblay-Boire et al. (2016) suggests that in a lot of cases, the SRIs that do have compliance mechanisms are not stringent enough. This raises further concerns about whether opportunistic free-riders are able to enjoy the benefits of clubs without having to adhere to the standards. Again the effectiveness of SRIs to successfully signal to external stakeholders is called into question.

Having examined the characteristics which determine the effectiveness of NGO self-regulation, this essay has hopefully demonstrated that the degree to which an SRI is effective is dependent on the compliance systems in place. The variation of regulatory structures and operational context that SRIs operate in will also alter the comparative effectiveness of an SRI. That said, the paper can reach some general concluding remarks. Firstly, as observed, an SRI is only able to send a credible signal if strong compliance



systems are in place. Although there may be some exceptions, this point has been thoroughly established within the literature. The fact that less than half of all SRIs in existence have no form of compliance systems, is an alarming number and calls into question the efficacy of over half of SRIs. Although further empirical research is needed to confirm this, proactive, third-party certification seems to be the most effective form of compliance systems seen within SRIs to successfully signal to external stakeholders. In some circumstances such a formalised and stringent SRI may not be necessary. However, what seems apparent is that without compliance and monitoring systems, self-regulatory initiatives will remain unlikely to influence an organisation's behaviour, and therefore impact its ability to effectively signal to external stakeholders.

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