



**THE UPWARD ACCOUNTABILITY PRACTICES IN  
NGO: THE CASE OF MALAYSIA**

**BY**

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## **ABSTRACT**

Donors always desire information disclosure on fund management and allocation from non-governmental organizations (NGOs). However, the rights of donors in respect of their demands sometimes ignored. This phenomenon has led to the withdrawal of donor participation in NGO activities particularly where it has come to light that an NGO has misused funds. Upward accountability practices offer a way of providing information to donors in order to meet their requirements. In this study, the NGO, Aman Palestin Berhad, was investigated as a case study using a qualitative approach. The NGO manages funds mainly from Malaysian donors and distributes them to Palestinian beneficiaries. This study aims to examine the ways in which the NGO discharges accountability to its donors and to understand the reason for the selection of particular methods of accountability. The data was collected by interviewing fifteen (15) informants, observation and document analysis. Drawing on social capital theory, this study found that trustworthiness, shared norms and information channel influence the practice of upward accountability in the NGO. The findings also indicate that when either formal or informal upward accountability is used in isolation the NGO is less effective in discharging its obligations to its donors because of barriers that prevent it reaching all donors using one type of practice. Therefore, the NGO uses both formal and informal upward accountability where both of them are coexist to satisfy its stakeholders. Also, the practice of informal accountability is more dominant than formal accountability. Overall, the implementation of both types of practice enhances the NGO's ability to satisfy donors about fund management and allocation.

## ملخص البحث

دائما ما تغرب الجهات المانحة الحصول على المعلومات المفصحة من المنظمات الغير حكومية عن كيفية إدارة وتوزيع صناديقها المالية، غير أن مطالبهم في الحصول على هذه المعلومات ما يقابلها التجاهل في بعض الأحيان. هذه الظاهرة أدت إلى سحب الجهات المانحة من المشاركة في فعاليات المنظمات الغير الحكومية لوجود سوء في استخدام الأموال الممنوحة. توفر ممارسات المساءلة التصاعدية وسيلة لجمع المعلومات للجهات المانحة من أجل تلبية احتياجاتهم. في هذه الدراسة، تم اختيار منظمة "أمان فلسطين" كدراسة حالة عن المنظمات الغير حكومية باستخدام المنهج الوصفي. تقوم "أمان فلسطين" بإدارة الصناديق المالية والتي تعتبر بشكل أساسي من الجهات المانحة المايزية وتقوم بتوزيعها على الفلسطينيين المنتفعين. بالتالي، تهدف هذه الدراسة إلى التعرف على الطريقة التي تقوم بها المنظمات الغير حكومة بتصريف المساءلة إلى الجهات المانحة و إلى فهم سبب اختيار هذا النهج. تم جمع البيانات في هذه الدراسة باجراء مقابلة شخصية مع خمسة عشر شخص، وجمع المشاهدات، بالإضافة إلى تحليل الوثائق. بالاعتماد على نظرية رأس المال الاجتماعي، وجدت هذه الدراسة أن الثقة وقواعد السلوك المشتركة وكذلك قناة المعلومات لها تأثير على إزدياد ممارسة المساءلة في المنظمات غير الحكومية لكن هذا التأثير أقل فعالية من أداء التزامها تجاه الجهات المانحة. لذلك، تستخدم المنظمات غير الحكومية المساءلة التصاعدية الرسمية والغير رسمية على حد سواء لإرضاء أصحاب المصلحة، لكن ثبت أن ممارسة المساءلة الغير رسمية هينمت على المساءلة الرسمية. وفي النهاية، يوضح تنفيذ كلا المساءلات الرسمية والغير رسمية قدرة المنظمات غير الحكومية في الحفاظ على حق الجهات المانحة حول طلبهم عن المعلومات المتعلقة بإدارة الأموال وتخصيصها.

## APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science in Accounting.

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## DECLARATION

I hereby declare that this dissertation is the result of my own investigation, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Noor Muafiza Binti Hj. Masdar

Signature .....

Date.....

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In the name of Allāh, the Most Gracious,  
the Most Merciful. I would like to dedicate  
this dissertation to my beloved parents, my  
brother, and my sisters.

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## **LIST OF ABBREVIATIONS**

APB	Aman Palestin Berhad
CCM	Companies Commission Act
CSR	Corporate Social Responsibility
NGO	Non-government Organization
ROS	Registrar of Societies
UN	United Nation

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.0. INTRODUCTION**

This chapter serves as the introduction to the present study. Section 1.1 starts with a discussion of the demand for upward accountability in non-governmental organizations (NGOs), which is followed by a presentation of the research objectives and research questions in Section 1.2. Then Section 1.3 provides an overview of NGOs in Malaysia. This is followed by Section 1.4, which presents some background information on the NGO selected for this study and Section 1.5, which describes the significance of the study. Finally, the chapter concludes with Section 1.6 by outlining the organization of the remainder of this thesis.

### **1.1. DEMAND FOR UPWARD ACCOUNTABILITY IN NGOS**

“... by a belief among donors that NGOs are more cost-effective than governments in providing basic social services, are better able to reach the poor, and are key players in democratization processes” (Ebrahim, 2003, p. 192).

Non-governmental organizations are not profit-driven organizations and so this type of organization always needs to raise funds from donors to survive. Hence, to receive donations from donors, transparency and accountability in NGOs are essential subject need to be clarified recently (Dixon, Ritchie, & Siwale, 2006, p. 421) because NGOs are involved in discharging multiple accountabilities or “360 degrees of accountability” (Murtaza, 2012, p. 114) compared to the private and public sectors (Najam, 1996, p. 350). Some of these accountabilities are upward accountability,

downward accountability, inward accountability, and holistic accountability (Murtaza, 2012, p. 114).

The reason for the demand for upward accountability is because NGOs are organizations whose work influences society (Willems, 2002) through the giving of time and energy as well as expertise to assist people. Besides, there is rapid growth in the number of NGOs advocating human rights and the need to attract more funds from donors (Bieske, 2012, p. 2) such as individual donors and corporate donors as well as government. Non-governmental organizations are also involved in developing a high-visibility profile based on their performance (Dixon et al., 2006, p. 406), where accountability and resource control are two critical attributes that NGOs need to demonstrate (Vakil, 1997, p. 2061). Therefore, in order for NGOs to get funds, they need to convince donors of their trustworthiness and this can be achieved through demonstrating accountability. However, NGOs may practise more than one type of accountability, which means that this concept is never the same in any two cases because of its multidimensional nature (Ebrahim, 2003b, p. 207) and it is therefore complex to define (Vu & Deffains, 2013, p. 335).

Also, it is often the case that the media has an ongoing interest in the work of NGOs, which indirectly puts pressure on NGOs to be more transparent in their activities. Conversely, this situation engaged to the informal accountability, which means that NGOs have to be transparent in communicating with the wider community (Vu & Deffains, 2013, p. 333). Non-governmental organizations interact with communities and individuals through the sharing of information on their values, their understanding of a particular issue and knowledge, and this tends to be done informally, whereas formal systems of reporting normally are used when approaching corporates rather than to all people the NGOs interact (Gray et al., 2006, p. 334).

Thus, formal and informal accountability coexist (Roberts, 1991, p. 357) and both are a crucial means whereby NGOs can discharge their obligations in terms of accountability to external parties.

Accountability happens when “individuals and organizations report to a recognized authority and are held responsible for their actions” (Edwards & Hulme, 1996, p. 967) and also involves “taking responsibility for oneself” (Cornwall et al., 2000, p. 3). Accountability to external parties can be shown through disclosure of activities in annual reports (Connolly & Hyndman, 2013, p. 261; Ebrahim, 2005, p. 58). When managing fundraising, NGOs practise upward accountability to their donors in order to account for the ways in which they spend donors’ money (Ebrahim, 2003, p. 814). The issue of accountability in NGOs has been of interest for the past two decades (Ebrahim, 2003a, p. 813, 2003b, p. 191, 2005, p. 56; Najam, 1996, p. 340) and more recently this issue has received serious attention because nowadays donors require more transparent documentation from NGOs to ensure that the funds they have given will reach the correct beneficiaries (Dhanani & Connolly, 2012, p. 1147; Soakell-Ho & Myers, 2011, p. 224).

Non-governmental organizations practise formal and informal accountability in order to demonstrate upward accountability to donors. These two types of accountability complement each other in delivering information to external parties. Formal accountability comprises the writing of formal reports (Connolly & Hyndman, 2013, p. 263), which are presented to donors, whereas informal accountability consists of communication between NGOs and donors through face-to-face interaction and various forums (Bovens, 2010).

Normally, formal accountability is strongly demanded by donors, but informal accountability can also be used to build trust (Unerman & O’Dwyer, 2006b) and



become the norms of the behaviour of the actors (Bovens, 2010). The actions of people in NGOs lead to the performance of upward accountability to their donors and the selection of the accountability type represents the character of the organization (Dixon, 2006). Therefore, trust and informal accountability through, for example, face-to-face interaction can never be discounted as a mechanism for upward accountability because donors will have faith that the NGOs will spend the money intended for beneficiaries by seeing action rather than elaboration in a reporting system such as an annual report (Awio et al., 2011, p. 84). Non-governmental organizations practise both formal and informal accountability because they are known as charitable organizations (O'Dwyer, 2007, p. 286) and this interaction with donors can happen in a variety of circumstances. Therefore, formal and informal accountability coexist in NGOs so that they can deliver information effectively.

The way NGOs demonstrate accountability to external parties is not limited to the disclosure of a project report during a forum or meeting; they may also discharge accountability through the Internet (Connolly & Dhanani, 2013), for example, through publication of information on a social networking site, which enables donors to access information at a time that suits them. Besides, some NGOs also disclose details about their projects and achievements on their own website. However, these various methods of practising accountability still need improvement because the issue of accountability in NGOs is very broad (Dixon et al., 2006, p. 406).

Recently, an issue has arisen pertaining to the money spent by NGOs. It has been argued that NGOs should maintain a break-even financial position in fulfilling their social agenda (Connolly & Kelly, 2011, p. 226) rather than misuse funds given by donors for other business with the intention of gaining profit or personal gain (Ebrahim, 2003b, p. 191; Hooi, 2012). Such misconduct in an NGO can lead to fraud

cases (Ebrahim, 2005, p. 82) and this behaviour will prevent the NGO from fulfilling its role to help those in need. Thus, this study aims to show the importance of NGOs explaining their activities through upward accountability.

## **1.2. RESEARCH OBJECTIVES AND RESEARCH QUESTIONS**

Concerning the issue of NGO funding (Ebrahim, 2005; Edwards & Hulme, 1996; Najam, 1996; O'Dwyer, 2005), the present study aims to examine the ways in which NGOs discharge accountability to their donors. NGOs often have to discharge multiple accountabilities to the stakeholders (Najam, 1996) because they are involved in a twofold accountability relationship (Bieske, 2012, p. 7) with their stakeholders. Thus, they might implement many approaches to convince donors to fund their work (Bovens, 2010; Connolly & Dhanani, 2013; Connolly & Kelly, 2011; Ebrahim, 2003; Gray et al., 2006; Oakes & Young, 2008). Further, donors always require NGOs to effectively manage their funds and if NGOs are doing so, this can be seen through, for example, reduction of poverty among beneficiaries. Previous research on upward accountability has focused on developing countries in Africa and developed countries in the West. Thus, this present study aims to widen the scope of this study area to understand the accountability practices in Southeast Asia, with a focus on Malaysian NGOs. As such, the present study aims to fulfil the following two research objectives:

- 1) To examine the way in which an NGO discharges accountability to its donors;
- 2) To understand the reason for an NGO's selection of a particular approach to discharge accountability to its donors.

Therefore, this study seeks to answer the following two research questions:

- 1) How does the NGO discharge accountability to its donors?
- 2) Why does the NGO choose a certain type of accountability to convince donors to give funds?

### **1.3. NGOs IN MALAYSIA: OVERVIEW**

The idea that the role of NGOs as a social organization pertains to human rights has been growing rapidly since 1945, after the involvement of the United Nations (UN) in differentiating between intergovernmental specialized agencies and international private organizations (Willetts, 2002). The reason for this classification made by the UN is because NGOs are recognized as private bodies that are independent of government control. Thus, NGOs are intermediary organizations between government and society.

The existence of NGOs in Malaysia has changed rapidly from the 1970s to the present day because the development of NGOs requires social movement and this has been influenced by globalization and the transnational nature of culture as well as the exchange of knowledge between countries. Social movement was started by awareness that exists among societies towards the issue of democracy, poverty, justice, freedom, equality, and peace. Therefore, all of these items are still under debate since people have become more committed to defending their rights.

Generally, NGOs can be categorized into six (6) types: welfare, development, advocacy, development education, networking, and research (Vakil, 1997, p. 2063). However, most NGOs in Malaysia can be categorized into two (2) types only, namely, advocacy and development (Registrar of Societies, Malaysia, 2013). The advocacy NGO is involved in political, social, and economic issues, whereas the development NGO focuses on issues that are of less concern to government and that are related to

welfare, humanity, consumer rights, health, and peace. In Malaysia, there are more advocacy NGOs than development NGOs (Registrar of Societies, Malaysia, 2013). Therefore, the present study focuses on the development NGO in Malaysia. This type of NGO requires funds from donors to survive and distributes these funds to beneficiaries to improve their lives. In 1981 and 1987, amendments were made to the resolution of the Societies Act 1966 because there were doubts about how funds were being managed by NGOs, and especially by those NGOs that worked with donors or beneficiaries from outside Malaysia.

#### **1.4. BACKGROUND OF THE STUDIED ORGANIZATION**

The Malaysian NGO investigated in this study deals mainly with local donors (Malaysians) and foreign beneficiaries (Palestinians). It was selected based on the suggestion of the Registrar of Societies (ROS), Federal Territory of Putrajaya, Malaysia. The NGO in question is also involved in a huge amount of fundraising and the funds are transferred to Palestinians on a monthly basis. The NGO was set up to assist Palestinians around the world and is also actively involved in many development projects in Palestine.

The donors to this NGO consist of individual donors and corporate donors, but the majority of funds received are from individual donors. Some of these individual donors can be identified, but some of them cannot because they can anonymously transfer money to the NGO's account without notifying them. This phenomenon exists because the donors trust this organization and they donate with sincerity. Therefore, for this NGO the performance of accountability is complicated because (1) it deals with foreign beneficiaries while the majority of its donors are local (Ebrahim, 2003b, p. 198) and (2) the existence of identified and unidentified donors means the NGO has

to discharge formal and informal accountability to its donors in order to reach them all. Generally speaking, the practice of both types of accountability should enable the NGO to provide information to all its donors about the funds it manages and the projects in which it is involved.

### **1.5. SIGNIFICANCE OF THE STUDY**

The findings of this study make significant contributions in terms of theory, practice, and policy. From a theoretical perspective, this study adds to existing knowledge on upward accountability in NGOs. Drawing on social capital theory, this study discusses the ways in which the elements of trust, information channel, and norms influence upward accountability. This study shows that formal and informal accountability to donors coexist in the studied organization. However, this study also demonstrates that informal accountability is more dominant than formal accountability because of the social interaction that exists between the NGO and its donors, which is developed through making donors aware on the issue of Palestine and this awareness leads to the existence of the element of donors having trust in the NGO.

From a practical point of view, this study adds to our understanding of current practices of accountability among NGOs that deal with foreign beneficiaries and local donors. In addition, this study can create awareness among donors that they need to be more concerned about NGOs' fund management and that they could indirectly assist the beneficiaries to receive what they should. Moreover, the findings on upward accountability could show NGOs how vital it is to disclose fund management practices to donors in order to ensure the survival of NGOs in the long term.

Finally, it is hoped that this study will encourage policy makers to review the regulations relating to the submission of NGOs' financial reports to the ROS. This

regulator should demand detailed reports and complete supporting documents on NGOs' fund management activities. It is suggested that financial reports or annual reviews should be submitted to donors as well.

## **1.6. ORGANIZATION OF THE STUDY**

The thesis consists of six chapters.

- Chapter 1: **Introduction.** This chapter presents a brief background of the study, the problem statement, motivation, research objectives and research questions as well as the significance of the study.
- Chapter 2: **Literature Review.** This chapter discusses the nature and role of NGOs, NGO accountability, the upward accountability practices in NGOs, and the concept of formal and informal upward accountability applied in NGOs.
- Chapter 3: **Theoretical Framework.** This chapter is concerned with the connection between social capital theory and the concept of upward accountability used by NGOs.
- Chapter 4: **Research Methodology.** This chapter discusses the methodological approach used in this study, the research design, data collection, and data analysis.
- Chapter 5: **Findings, Analysis and Discussion.** This chapter presents and analyses the findings, which are discussed in detail.
- Chapter 6: **Conclusions.** This chapter draws some conclusions from the findings in the study, including the research contribution, limitations, and suggestions for future research.

## **1.7. CHAPTER SUMMARY**

This chapter described the emerging issue of the use upward accountability in NGOs where the rapid growth in the number of NGOs every year leads to the demand on accountability. An NGO can practise different types of upward accountability and the present study aims to investigate the ways in which NGO practise upward accountability to the donors. An NGO may practise formal and informal upward accountability depending on the type of donor and both accountabilities coexist in order to discharge accountability to all donors. NGOs need to use both types of accountability because the definition of accountability itself is still unclear and complex to describe. Besides, different NGOs might practise different approaches in relation to upward accountability. Hence, formal and informal upward accountability is coexist and become one to enable NGOs to practise accountability to their donors with respect to the management and allocation of funds.

## **CHAPTER TWO**

### **LITERATURE REVIEW: NGOs AND THE PRACTICES OF ACCOUNTABILITY**

#### **2.0. INTRODUCTION**

This chapter focuses on understanding the concept of accountability, particularly upward accountability in relation to practices in NGOs. Section 2.1 discusses the nature and role of NGOs. Section 2.2 describes NGO accountability and this is followed in Section 2.3 by a review of upward accountability practices in NGOs. Finally, Section 2.4 briefly deliberates on the formal and informal upward accountability methods applied by NGOs.

#### **2.1. THE NATURE AND ROLE OF NGOs**

Vakil (1997, p. 2059) defines NGOs as ‘not-for-profit’ organizations rather than ‘nonprofit’ organizations because NGOs do not aim to generate and distribute profits. He also claims that there is a lack of distinction between not-for-profit and nonprofit organizations because the historical development of both terms has been quite similar. Therefore, NGOs are excluded from organizations or unions by nature of business (Vakil, 1997, p. 2060). Non-governmental organizations are crucial for people around the world to look into social development and are trusted agents to manage funds to achieve this aim (Goddard & Assad, 2006, p. 377) because the main purpose of NGOs is to assist those in need and to protect human rights.

Non-governmental organizations can be categorized into six (6) types: welfare, development, advocacy, development education, networking, and research (Vakil, 1997, p. 2063):