

# THE ACCOUNTABILITY IMBALANCE: What Nonprofits Need *to* Change

by Ruth McCambridge

*“With stakeholder theory,  
the study of organizations  
turns its attention to the  
notions of interest. . . .”*

—Maria Bonnaïfous-Boucher  
and Jacob Dahl Rendtorff<sup>1</sup>

IT IS GENERALLY ACKNOWLEDGED THAT NONPROFITS ARE NOT DESIGNED TO BE SHAREHOLDER driven but rather stakeholder driven; in other words, they are not meant to make individuals wealthy—they are designed to put the collective good first. In many cases, there is a subset of that “collective” that may be the focus of the organization—people with chronic mental illness, for instance. And those are the people in whose name the organization functions—raises money, et cetera. The organization exists in a special fiduciary relationship with this group, a relationship that too often is dishonored in neoliberal settings. The constituents that the organization serves, however, may be a larger group that includes friends, families, and allies—and then there is an even larger group that comprises all of those affected, which includes a series of institutions (jails, courts, police, and treatment facilities, among others), and beyond that the community as a whole. Add to that government regulators and funders both private and public. Each of these stakeholder groups holds its own set of complexities.

Accountability questions within this large collection of stakeholders, then, become a critical consideration. Whose interests do you hold as primary? How clearly is that expressed in structure, action, governance, and strategy? How much say do those primary stakeholders have over the direction setting and design of programs, or to define and design strategy being sold to a funder? These are questions that are central—or should be—to nonprofit leaders.

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Accountability, writes Alnoor Ebrahim, “. . . is a relational concept. Accountability efforts and mechanisms do not stand alone but are reflective of relationships among organizational actors embedded in a social and institutional environment. This suggests that asymmetric relationships among stakeholders are likely to result in a skewing toward accountability mechanisms that satisfy the interests of dominant actors. In other words, accountability is also about power, in that asymmetries in resources become important in influencing who is able to hold whom accountable.”<sup>2</sup>

### From Parts to a Whole: Our Internal Stakeholders

Coming to decisions about how to prioritize and engage external stakeholder groups is one thing, but there are also internal stakeholders to be addressed, and there are times and situations in which it can feel like the needs of these almost crowd out the relationship building with external groups. This can reflect other problems, like a lack of internal-to-external integrity, or the lack of a larger vision to which people have buy-in.

The staff and board are in an unusual stakeholder position in that they not only have a call on the organization but also have an explicit responsibility to know and serve the interests of external stakeholders—and in particular, those in whose name the organization operates. This position has a kind of three-way reciprocity, in that each member of staff and board has a responsibility to external stakeholders, the organization, and the team with which he or she works. Each of these relationships has to be kept dynamic and healthy for the whole to feel healthy.

There is a dearth of good literature on the relative role of internal versus external stakeholders, and it is arguable whether or not the board is or should be in a slightly different category, as it is explicitly charged with stewarding and representing the interests of other stakeholders. But the staff in a learning organization is in very much the same position. This creates a special category of the internal stakeholder, as those who can be deeply affected by the behavior of

an organization are also in dialogue with other stakeholders on behalf of the organization, and bound to represent those views as well as their own. If and when a break in the integrity of an organization’s spoken-to lived values occurs with internal stakeholders, the wound can fester and infect the whole system.

Among nonprofits, the issue of equity and inclusion is one such wound. In organizations that have chosen to remain largely noninclusive at leadership and governance levels, the changing external environment has now moved forward to a declaration that less than full inclusion is no longer viable. Where in the past it has been assumed that “diversification” is a choice that can and should be made in good organizations, the imperative has now largely been taken out of the realm of the individual organization and moved into field prerogatives. So, even though individual organizations must make their own changes, external stakeholders are very much a part of the environment influencing those decisions.

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The integrity issue is very often a good lens to use to understand these situations, in that doing something to staff that violates the values you purport creates a rupture that will eventually affect your reputation and your effectiveness. An organization that underpays employees to the extent that they must apply for public benefits, for example, may be seen as violating a sectoral mission that implies—or even explicitly articulates—a commitment to improving the health and well-being of the communities the sector serves. No one wins in such cases—the workforce on which vulnerable people depend is made unstable, the families of those workers are made unstable, the organization is rightly seen as lacking in a thorough kind of integrity, and the reputation of the sector overall is damaged. In such a case, the organization will need to combine with other stakeholders to address the issues that helped to create the business assumption of an entire field of underpaid workers in the first place.

## Boundaries and Bridges

There are increasing numbers of examples of for-profit organizations that have been called to account to a stakeholder environment that is broader than mere shareholders. In fact, the communicative distance between the decision makers in an organization and collections of stakeholders seeking accountability of one sort or another is collapsing, and technology makes boundaries between organizations and the external environment, and among various stakeholders in the external environment, ever more porous.

We are beginning to see the emergence of new collaborative movements for community health and well-being organizing for greater accountability of government and business (see “The Collision Course: A Conversation about Stakeholders with Tom Kochan,” in this edition). We would add that the same trend has been organizing itself around nonprofits for more than a decade.

Examples of this abound and have impacted a number of high-profile organizations (like Susan G. Komen for the Cure and Wounded Warrior Project), but also many that are not as well known (such as Sweet Briar College and Goodwill Omaha). In these cases, decisions were made at the board and staff leadership level that created such a values break between the organization and more than one stakeholder group, that the board’s governance ability was essentially either constrained or entirely overturned. In the case of Komen, the constituency’s reaction to a decision to defund Planned Parenthood clinics traveled quickly through existing national networks, creating a revolt that gained traction literally overnight. The organization’s revenue has been on a downward trajectory since, never recovering<sup>3</sup>—from a high-water mark of nearly \$350 million in 2011, before the scandal hit, its revenue plummeted to \$70 million in 2016.<sup>4</sup> Wounded Warrior Project’s total revenues dropped from \$373 million in 2014 to \$227 million in 2016.<sup>5</sup> One (Wounded Warrior) has committed to a reorganization that answered alienated stakeholders’ concerns; the other (Komen) has not.

Thus, when we discuss nonprofit accountability and transparency, some of what that automatically used to bring to mind seems almost archaic—often

being composed of static, one-directional communication, and answering questions few stakeholders ask while not answering those which, given the opportunity, stakeholders would not only ask but also be willing to help answer.

## What Is a Stakeholder Approach to a Nonprofit? Who Has an Interest?

The notion of stakeholders was popularized in 1963 by the Stanford Research Institute (now SRI International), and defined as groups “on which the organization is dependent for its continued survival”<sup>6</sup>—but twenty years later, R. Edward Freeman redefined the term to reflect a more reciprocal relationship, as in “any group or individual who can affect or is affected by the achievement of the organization’s objectives.”<sup>7</sup>

This notion is admittedly broad, but it is actually a fairly accurate description of who may now demand accountability from an organization and how various stakeholders, both direct and indirect, see their rightful call vis-à-vis an organization’s choices.

This establishes an assumption of mutuality, whereby the health of the stakeholder and organization are intertwined, and a reciprocal relationship is addressed, in shared assumptions, values, and knowledge built through intimate engagement and action.

Problems with accountability occur when organizations built to address the public good effectively ignore their stakeholders’ notions of what “good” is, using as proxies their own judgments, which may not align with one or more constituency groups. In such situations, the organization runs the risk of diverting and creating threats from its own natural base of support by not offering a way in to participate and to warn the organization that they are alienating a base of support or potential support.

In *Stakeholder Theory: A Model for Strategic Management*, Maria Bonnafous-Boucher and Jacob Dahl Rendtorff note, “[A] stakeholder can be affected by the corporation without being able to affect it in turn (and vice versa). Potentially, and alternatively, it can contribute to or threaten the organization.”<sup>8</sup> As mentioned, this has been evidenced any number of times over the

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last few years, when we have seen stakeholders who were assumed to be quite distant from rooms of governance deeply abuse or powerfully lift up the work of a particular nonprofit. When the abuse happens, the organization very often learns what it will take to regain trust and legitimacy—or it eventually dies.

One consideration for nonprofit managers and trustees has to do with their orientation. If they do not recognize their fiduciary duty to the organization and do not center the interests and opinions of primary stakeholders, they run the risk of rending the relationship. In other words, whose survival and well-being do we consider first—that of the organization or that of the stakeholder?

As Bonnafous-Boucher and Rendtorff posit, “[S]takeholder theory bears witness to a desire for change in approaches to governance, decision-making, . . . It reflects a shared aspiration to participate; it highlights the questionable nature of the distinction between those who have rights and those who do not.”<sup>9</sup>

Stakeholder theory also creates pressure around blind spots that develop through a refusal to ask stakeholders what they think or feel or want to take action on collectively—and in this way, it poses its own critique to the neoliberalism, classism, and racism that infuse much of the traditional sector’s thinking. It embeds the organization in its environment in a way that requires continuous sensing and engagement. In the end, this is not the responsibility of management but of governance.

### Capital and Domination in the Nonprofit Sector

It should always be remembered that nonprofits are sociopolitical actors and that they choose the narratives, worldviews, and approaches that they take. Just because you do not discuss the choice explicitly does not mean that you have not made it.<sup>10</sup>

And here is where the behavior of many nonprofits—in allowing dominant narratives to drive their work even as conditions for those with whom they work worsen—begins to resemble a dominant shareholder position to a degree that is obvious in some cases. You cannot, in fact, go into the work of the sector without an analysis or

values base; if you lack one, it creates a vacuum into which the preferences of those with capital are sucked. And, not surprisingly, it becomes very similar to a business overemphasizing the interests and opinion weight of shareholders over stakeholders: that “he” who owns the capital owns the decision making.

### Stakeholder Myopia and the Short-Sightedness of Attending Largely to the Formal Call to Account

Research indicates that the answer to the “accountability to whom” question is that nonprofits currently evidence the strongest accountability toward boards and donors and the weakest accountability toward communities and so-called beneficiaries. In “Putting the Lasts First: The Case for Community-Focused and Peer-Managed NGO Accountability Mechanisms,” Niaz Murtaza writes that “current accountability approaches prioritize accountability to boards and donors and give weak accountability to communities despite strong NGO rhetoric to the contrary.”<sup>11</sup> Indeed, the repeating of such rhetoric obscures the real weakness in those accountability systems.

Murtaza reinforces the vacuum analogy with the following discussion of the benefits of constituent engagement:

[T]here are several advantages that can accrue to NGOs from voluntarily undertaking more effective accountability activities despite the extra costs. More effective accountability will enhance incentives for improved performance, encourage NGOs to become more closely aligned with community perspectives, and enhance shared learning about good practices and programs (Wenar 2006). It will provide greater assurance to donors and supporters, and help expand their support. It will also help achieve the morality and transparency considerations that NGOs strongly subscribe to by increasing their credibility and influence, and enhancing their ability to influence larger stakeholders to become more accountable (Sawarung 2003). By initiating more effective accountability mechanisms, NGOs can avoid the imposition of

inappropriate and top-down accountability mechanisms by external stakeholders and protect themselves from politically motivated attacks (Wenar 2006; Unerman and O'Dwyer 2006).<sup>12</sup>

Indeed, not engaging community stakeholders and overemphasizing accountability to those who hold the purse strings ends up privileging that relationship over others. This constitutes a kind of short-term myopia that ultimately weakens the independence of the organization and its ability to properly understand and represent those stakeholders to whom it arguably has the strongest accountability responsibilities.

## Understanding Your Stakeholder Environment

Making sure you are accountable to stakeholders in the right combination and with the right priority set is a function of governance. There is a lot that goes into understanding your own habits of stakeholder accountability. One way to think about it is to consider not only to whom you report once you have done something, but also with whom you decide what is to be done, how its success is to be measured, and what adjustments may need to be made. The point that Murtaza makes about how the seeking of guidance expands support is one that should and does have great weight in nonprofit life. Thus, engagement and a two-way conversation of substance are required for the kind of accountability that strengthens rather than drains. Four “musts” to that end are the following:

- If you want to be conscious about accountability and not just have it thrust upon you, you must choose the stakeholder groups to whom you have primary accountability and create a culture and processes for dialogue and mutual development.
- Social media have provided a facilitative environment in which various stakeholders and stakeholder groups can find common ground. Times have changed, and if your nonprofit does not hold itself accountable to its environment, that environment may well eventually take it down.
- Many nonprofits tend to privilege stakeholders with money and formal authority over community stakeholders, and that eventually

creates myopia and weakens the organization, making it less effective and robust in the face of challenge.

- Integrity is a core concept in accountability; if you prove yourself capable of violating your own values in one area, it is likely that trust will run thin. If you make a mistake, own up to it and work to realign.

## NOTES

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12. Ibid.

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