

Enhancing NGO funding by adopting corporate governance practices. The Case of Botswana NGOs

Tendy M. Matenge

University of Botswana, Botswana
Email: tendy.matenge@mopipi.ub.bw

Jairos Josiah

University of Botswana, Botswana
Email: josiahj@mopipi.ub.bw

Godfrey Themba

University of Botswana, Botswana
Email: thembag@mopipi.ub.bw

ABSTRACT

The purpose of this paper is to understand the donor market as perceived by NGOs in Botswana in terms of who the major donors are; how, when and why they fund NGOs and the funding challenges NGOs face. The paper then addresses a key question of whether NGOs should adopt corporate governance practices to enhance their funding opportunities. A case study approach involving eight major NGOs based in Gaborone is adopted and data is collected using in-depth qualitative interviews with managers. Data is analysed using network analysis approach. The results show that NGOs in Botswana depend mainly on international donors and Government for funding. The results further indicate that although the private sector in Botswana hold great potential as a donor market, it is not fully utilised by local NGOs due to, among others, the prevailing misconceptions about NGOs and lack of disclosure and transparency among NGOs. The findings further indicate that although NGOs in Botswana recognize the significance of corporate governance practices, they lack the will to adopt them. The paper therefore concludes that NGOs in Botswana should adopt corporate governance practices by creating industry-wide norms and standards that ensure disclosure and transparency and thereby enhancing donor confidence in them. We however caution against wholesale adoption of corporate governance practices given that NGOs are unique from profit seeking entities.

Keywords: NGOs, Botswana, Corporate governance, Agency theory

INTRODUCTION

Non-Governmental Organizations or NGOs are independent organizations that are not profit seeking and whose work is based on volunteerism (James, 1987; Lador-Lederer, 1963; Salamon and Anheier, 1997; Willets, 1996). The Government of Botswana defines NGOs as “legally formed autonomous organisations that possess non-profit status whose primary objective is to improve the well-being of the people” (Government of Botswana, 2001). NGOs engage in varied activities relating to social development, social transformation and sustainable development. NGOs also play major civic, developmental and human rights-based roles.

NGOs have been growing in numbers and influence the world over in recent decades with most concentrated in developing countries particularly in Asia, Latin America, and Africa (Salamon and Anheier, 1997; McGann and Johnstone, 2005). Due to their growing influence NGOs are increasingly becoming significant participants in both political and socio-economic activities (McGann and Johnstone, 2005). According to Lekorwe and Mpabanga (2007 p. 3) NGOs occupy some “*institutional space between the state and the market*”. Being non-profit in nature, NGOs usually source their funding from governments and various other donor agencies around the world. Often this funding is intended to benefit marginalised groups which face various social challenges. In this respect, those who provide funding deserve proper information on how their funds are used and for what purpose. In other words, NGOs have an obligation to account to those who fund them. Failure to do so may result in the reduction or cessation of funding by donors. Given the funding challenges that NGOs in Botswana face, the following questions arise:

- What are the main funding challenges that NGOs in Botswana face?
- Can NGOs in Botswana enhance their funding by adopting corporate governance practices?

This paper addresses the above questions by investigating NGOs in Botswana and their funding from the perspective of NGOs themselves in terms of their perception of the donor market, the funding challenges and the prospects of enhancing funding by adopting corporate governance practices. The paper is arranged as follows: after introduction the paper examines the agency theory including its role in corporate governance and relevance to NGOs. The paper then examines the role of the Government in corporate governance. This is followed by the discussion of methodology and findings respectively. The paper ends with some discussions of key findings and conclusions.

AGENCY THEORY IN RELATION TO NGOS

The paper raises the argumentation that NGOs can, at a micro level derive some benefit from adopting some corporate governance mechanisms. Here NGOs can extract emancipatory

aspects from the conventional corporate governance systems and weave/integrate them into their internal management processes avoiding the exclusionist nature of the conventional concept (*cf.* Wiseman., Cuevas-Rodriguez and Gomez-Mejia, 2012; Van Puyvelde., Caers., Du Bois, and Jegers, 2012). Conventional corporate governance systems are theoretically explained by the Agency theory. From a strictly narrow perspective, agency theory demand accountability from agents to capital providers only. This perspective has however begun to marginally change with variants of capitalism emerging in places like Japan and Germany where other stakeholders are accorded some relevance (Ebbinghaus, and Manow, 2004). Expanding this narrow understanding can unlock some emancipatory characteristics. This paper, therefore, attempts to provide a rescuing critique (Gallhofer and Haslam, 2005) of the theory and raising possibilities of its integration into NGOs (Van Puyvelde, *et al.*, 2012). This section elaborates on the conventional agency theory and how it may be useful in the NGO context.

The agency theory has been used in various aspects of the organisation for decades, albeit with some controversial associations (Eisenhardt, 1989a). Historically agency theory is traced back in both implicit and explicit terms to Adam Smith (1776) in his *Wealth of Nations* text through to Berle and Means (1932) and to a more contemporary Jensen and Meckling (1976) contribution. It is a theory that some do not fully or readily approve for example Eisenhardt (1989a) even explicitly echoes Perrow's (1986) disapproval. They both agree that the theory could be seen as 'dehumanising' particularly due to its character of exclusion of other stakeholders in resource allocation.

The theory is more significantly concerned with how capital markets impact upon firms and returns to shareholders (see Jensen and Meckling, 1976). Minor differences within this theory have been raised largely relating to interpretations and mathematical rigour from an empirical perspective as argued by Eisenhardt (1989a). These minor differences in the understanding of the theory emerged as research explored the concept of risk sharing among individuals and groups. Studies describe risk sharing problem as what arises when cooperating parties have different attitudes towards risk (Wilson, 1968; Arrow, 1971; Ballwieser, Bamberg, Beckmann, Bester, Blickle, and Gaynor, 2012). In this case, a donor is a principal delegating work to an NGO where the NGO becomes an agent. Two problems can arise from agency relationships, which the theory seeks to address. Firstly the objectives of the principal and agent may be incongruent. The principal would have difficulties in ascertaining what exactly the agent is engaged in. This is an agency problem where information asymmetry is problematic. The second issue relates to a situation where the principal and the agent have different attitudes towards risk. These are practical problems because in the first case of information asymmetry the donor cannot be certain that the NGO has applied the donated funds appropriately while in the second instance the NGO and the donor may prefer using the donations for differing problems because of their differing understanding of where the donations are needed the most. Eisenhardt (1989a) argues that given these conflicts it should be understood that ultimately, the key idea to agency theory is that principal-agent relationships should reflect the efficient organisation of information and costs of risk bearing.

To appreciate agency theory further, it is important to note some of the related assumptions. Two key assumptions include seeing humans as heavily driven by self-interest and that information is a commodity that can be traded (Jensen and Meckling, 1976). The

agency theory can be applied where there is a clear need for better management of information and associated risk to improve performance and accountability in organisations using NGOs in Botswana as a focal point. Agency theory has been applied in a number of varied research areas especially with the promotion of contemporary stakeholder perspective. In this respect, studies have ventured to make an explicit argumentation for its application and integration into NGOs processes even though they are not driven by profiteering (Tosi *et al.*, 1999; Wiseman, Cuevas-Rodriguez and Gomez-Mejia, 2012).

In spite of the good intentions and seemingly practical nature of the agency theory, it has received some criticisms. Some have argued that the theory is only relevant to settings in which agents have little or no regard for moral values (Davids, Schoorman and Donaldson, 1997). At the core of the criticism is a contention that the theory ignores the importance of context and the institutional environment (informal and formal). Context is important, for example, Hofstede (1980) has shown that cultural values influence managers in the decisions they make in their jobs. As such, agency theory would be limited in its application in cultures that encourage collective responsibility and concern for others. In its conventional form agency theory assume a narrow approach in which assumptions are heavily intended to facilitate computational efficiency. Complex social issues are then reduced to a simple integer notation. It is important, however, to note that the conflict between principal and agent is always a possibility as parties may hold contrasting views regarding the desired objective and how to achieve the objective, resulting in a potential inconsistency between the agent's action and the principal's wishes (Wiseman *et al.*, 2012). The agency theory can however through a rescuing critique be applied subject to being alive to contextual imperatives.

Conspicuous changes in corporate governance occurred in the 1980s when institutional investors demanded protection of shareholder interest (Westphal and Khanna, 2003). The institutional investors at the time wanted boards of directors to exert more independent control over management to the benefit of shareholders. The result was a separation of powers of the Chief Executive Officer (CEO) and the board chair, and setting up of independent nominating committees (Westphal and Khanna, 2003). Corporate governance has since significantly improved across the globe with many countries developing their own corporate governance codes in pursuit of advanced corporate governance in terms of disclosure and transparency. NGOs can benefit from fundamentals of corporate governance by ensuring that they have systems of controls within their organisations as well as creating structured relationships between the organisation and stakeholders (see Cadbury, 1992; Organization for Economic Co-operation and Development, 2004; Shelfier and Vishny, 1997).

Further, the organisation should be managed in the interest of the stakeholders to create legitimacy. Improved disclosure and transparency could help minimise information asymmetry and assure stakeholders that the affairs of the organisation are in order. This will be firmly in line with McGann and Johnstone (2005) argumentation that NGOs need to address credibility issues as they become global actors. Various works on corporate governance including the seminal work of Berle and Means (1932) exposed some of the problems that arise when ownership of an organisation is separated from control. The same logic applies in the NGO setting. Key questions become relevant such as; how do donors ensure that NGO management does not misappropriate funds i.e. using funds for other purposes other than the intended? How do donors ensure that the NGOs do not become too powerful, or use the power in ways that are

not in the best interest of the donors? For example the issue of power is explicitly raised by McGann and Johnstone (2005, p. 159):

NGOs or Civil Society Organisations (CSOs) have moved from backstage to centre stage in world politics and are exerting their power and influence in every aspect of international relations and policymaking. NGOs have been a positive force in domestic and international affairs, working to alleviate poverty, protect human rights, preserve the environment, and provide relief worldwide. Few have, therefore, felt the need to take a critical look at the effectiveness and accountability of these organisations.

As NGOs become powerful others still raise questions about their fundamental existence and their achievement. Others see the existence and increase in NGO footprint as the triumph of neoliberalism over the welfare state that could otherwise be providing the services that NGOs provide (Godrej, 2014). In this respect, NGOs are seen as filling a void left by government. From this perspective, the proliferation of NGOs is a proxy of the extent to which governments have failed or abdicated their duties.

Godrej (2014) highlights this point and more clearly challenges the NGO notion of innocent benevolence thus arguing:

“With the fragmentation of the left under neoliberal attack, much of the energy that could have gone into fighting the power went into forming the NGO – they became repositories of a residual idealism still reeling from the onslaught” (para 7).

Godrej (2014) further elaborates on the argumentation by making reference to Roy’s (2014) observation that:

“...NGOs have waded into the world, turning potential revolutionaries into salaried activists, funding artists, intellectuals and filmmakers, gently luring them away from radical confrontation” (para 7).

These are pertinent questions and issues that NGOs in Botswana should be asking and considering more seriously in order to remain relevant. Questions for which an NGO exist must be answered and as the NGO exist it must dispel through transparency the original questions of existence. This helps NGOs’ legitimacy as well as raising funding from the local market. Key elements of corporate governance could be used to raise NGO integrity. For example, the monitoring mechanisms could focus on the board of directors as representatives of stakeholders (donors) to ensure that they minimise the agency problem (Raelin and Body, 2013; Ward, Brown, and Rodriguez, 2009; Zajac and Westphal, 2004). Others suggest that the board’s monitoring capabilities could be enhanced by other stakeholders such as government, the media, and the broader social stakeholders by publicly reporting or exposing any misappropriation of funds or sharing any information that would otherwise not be in the public domain (see Raelin and Body, 2013). Contracts have also been considered a further key element in minimising the agency problem. Contracts are intended to specify incentives for

performance, evaluation mechanisms including sanctions for failure (Eisenhardt, 1989a; Raelin and Bondy, 2013).

THE ROLE OF GOVERNMENT

Historically, it is argued that NGOs were predominantly governed by civic and economic elitists of Caucasian origin who made decisions without engaging other stakeholders in programs and service delivery leading to what Salamon (1995) termed 'voluntary failure'. Sources of voluntary failure are then identified as including amateurism, insufficiency, particularism, and paternalism. Amateurism refers to the nature of NGOs dependence on voluntary labour and not professionals, while insufficiency denotes the financial stability of NGOs as they rely on charitable donations that fluctuate with the state of the economy. Particularism indicates the tendency of NGOs to prefer to service certain subgroups of society potentially creating an inequitable distribution of resources, and paternalism refers to the historical nature of NGOs to be governed by civic and economic elites within a society (Salamon, 1995). As NGOs are susceptible to voluntary failures, similar to market failures by profit organisations Salamon (1995) contends that governments should intervene in the governance of NGOs. Government intervenes by providing an oversight body that sets out policy direction in social service provision and ensures that NGOs comply with the rules set (Leroux, 2009; Salamon, 1995). In corporate governance, such rules come in the form of a code of conduct. A code of conduct identifies organisational responsibilities towards stakeholders and compels top management to comply with certain guidelines when exercising their authority (Arrigo, 2006). As such, a code of conduct largely addresses the fundamental problems that may arise as potential donors to an NGO question whether their donations would be used effectively.

METHODOLOGY

The study adopts a qualitative research approach grounded on the interpretivist ontology (Carson, Gilmore, Perry and Gronhaug, 2001). In order to enhance the understanding of how Botswana NGOs perceive their local market, their potential to raise funds locally, and their corporate governance practices, eight cases of Gaborone based NGOs were studied. A case study is an empirical enquiry that investigates a contemporary phenomenon in depth and within its real-life context (Yin, 2009). Multiple case study approach was preferred because multiple cases tend to offer more insight into a phenomenon that is studied making it easier to generalise the findings (Eisenhardt, 1989b; Martin and Eisenhardt, 2010). However, Eisenhardt (1989b) argues that cases fewer than four are difficult to draw conclusions from and suggests any number between four and ten, while others posit that a researcher should keep on adding cases to a point of redundancy (Lincoln and Guba, 1985). As some kind of balance of the two positions, this study settled for eight after realising that any additional cases were not bringing any new insights.

Since the majority of major NGOs are located in the capital city, the researchers limited the sample cases to those in Gaborone. The selection of the cases was also based on the

subjective evaluation of their reputation and establishment in the market. Cases are mostly selected based on how they will inform the investigation (Eisenhardt, 1989b) than on random selection.

A semi-structured interview guide was used as an instrument of data collection. Semi-structured interview guides cover critical points of the study and interviewees are allowed to retain some freedom and flexibility to express their views (Rowley, 2012). Before any data could be collected an application for ethical clearance was launched with the Office of Research and Development (ORD) at the University of Botswana. After the study was cleared with ORD a research permit was granted by the Ministry of Labour and Home Affairs. This process was necessary to give the study legitimacy without which it would not have been possible to conduct interviews.

Introductory emails were sent to managers of selected NGOs requesting them to take part in a face-to-face interview. The emails stated who the researcher was, the university affiliation, what the study was about, its objectives, and assured confidentiality of the participants and their organisations. Only one NGO chose not to take part in the study. Appointments were set with at least one person in a managerial position. Seven NGOs preferred the interview to be held at their offices while one interview was conducted at a coffee shop in Gaborone. Seven NGOs assigned one person from management to take part while one NGO assigned two people.

Before every interview, it was explained to the interviewees that they are free to stop the interview at any point if they felt uncomfortable. It was also requested that voice recorders be used during the interviews and none of the interviewees objected. The voice recordings were important to allow researchers to listen to the interviews again in the event they missed something and when they transcribe. Data collected through interviews was also augmented with data from NGO published documents on their websites.

The first step in data analysis was the coding of data. The next step was to conduct within-case analysis and then cross-case analysis since the study focuses on multiple cases. Within-case analysis familiarised the researchers with each case in its own right, while cross-case analysis helped in exploring similarities and differences across cases, resulting in drawing comprehensive conclusions (Eisenhardt, 1989b). Through this process emergent themes and categories were graphically presented using the principles of network analysis (Kelman *et al.*, 2016) using the NodeXL Excel software application. Network analysis is a technique that allows systematic qualitative analysis of the links of actors or concepts. The goal of the analysis is to infer from the network structure the dynamics of the system and how concepts relate to each other (Kelman *et al.*, 2016). The interview responses were grouped into themes that emerge to allow for the analysis of the relationships and linkages amongst concepts.

Identities of NGOs and their funders were concealed by the use of codes. The use of network analysis allows for linkages between NGOs and themes that emerged. The links are shown by arcs/edges between NGOs and themes and such linkages do not show the direction of the relationship but only that there is a relationship. The more links/arcs there are between a theme and NGOs the more important the theme is. Colours and sizes of vertices used in the analysis are only for differentiation and emphasis of an emerging theme. As reflected in Figure 1, different donors were identified as 'donor' and NGOs as 'NGO' and differentiated by a number, e.g. NGO1, NGO2, and so on. Each NGO is linked to their donors by an arc/edge and

in turn, each donor is classified as either an ‘international donor’ or a ‘Botswana donor’ (BW donor). The process described above gives a comprehensive picture of the nature and structure of NGOs in Botswana. In the next sections of this paper, we present the major findings followed by discussions.

FINDINGS

Major Donors to local NGOs

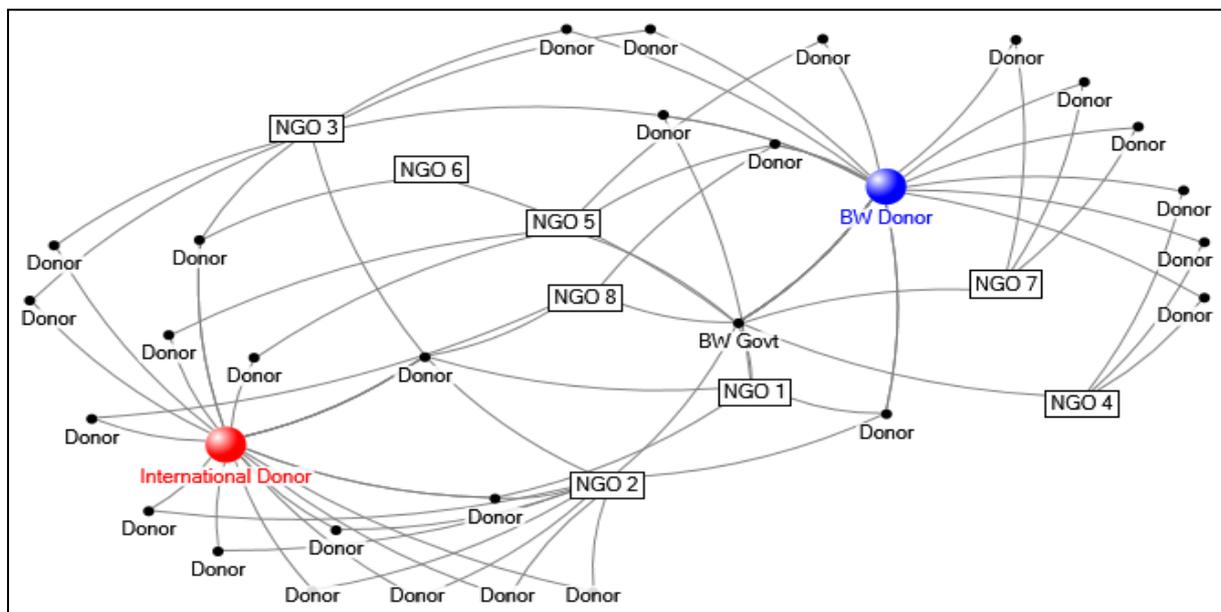


Figure 1: Location of Donors

As reflected in Figure 1 above the major donors to Botswana-based NGOs are government and international donors. Even though there is a clear dominance of international donors, the Botswana government is also positioned as a major donor with links to a number of NGOs. Local donors including local corporations and individuals are to a lesser extent actively used by NGOs. Of importance to note is that very few NGOs seem to include both local and international donors. For example, of the 8 NGOs only two (NGOs 3 and 5) seem to have a significant connection with donors based both in and outside Botswana, while the rest are either dependent on local or international donors. While there is over-dependence on one market or the other, the donors themselves also seem to be particular about causes they donate to as almost all of them donate to a limited number of NGOs. This phenomenon is evident with both the international and local donors, with the exception of the Botswana Government which seems to be donating to various NGOs. Some NGOs get funding from as many as 12 donors as is the case with NGO 2.

MAJOR FUNDING CHALLENGES

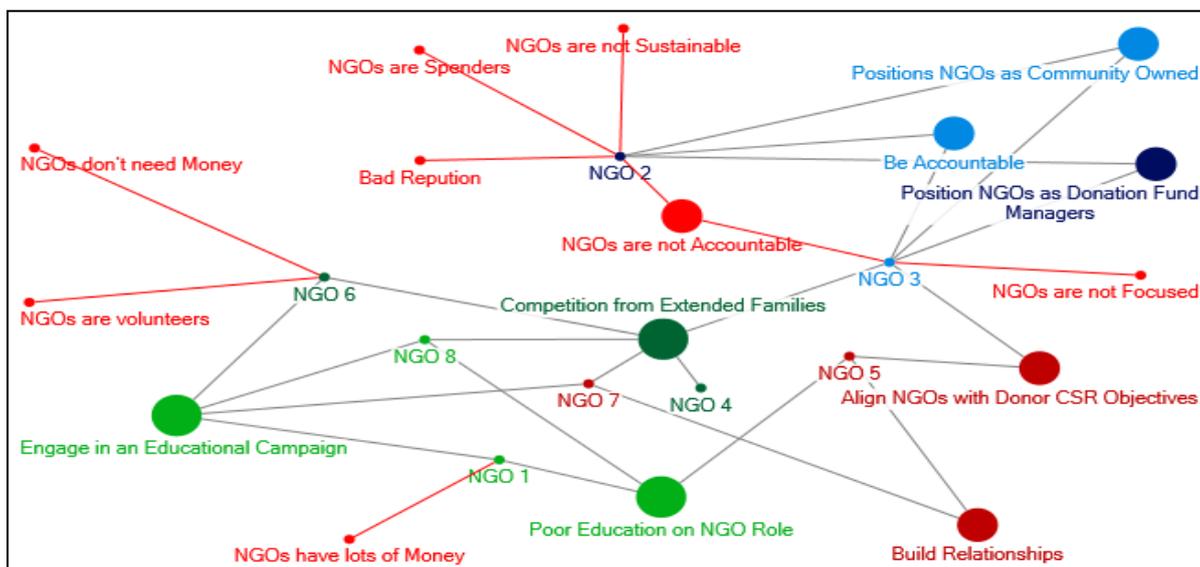


Figure 2: Challenges of Local Funding

Inadequate local funding

Inadequate local funding was seen as a challenge to NGOs. This challenge was identified by five of the eight NGOs. Relatively few NGOs raised funds from local donor market. Despite this, the majority thought there was great potential in raising funds from local donors. Local funding is thought to be hampered by the fact that companies and individuals tend to be cause specific when determining which NGOs to support. The misconception that international funding was enough is also thought to be a deterrent to private sector funding of NGOs in Botswana. It is clear therefore that whilst individuals and corporations in Botswana represent a viable donor market they are not being fully utilized by local NGOs.

Competition for donations from government

Although Botswana is a relatively small economy, it faces many socio-economic challenges that have resulted in many NGOs operating in the country. This has created a situation where NGOs have to compete for limited resources from the government. This situation has been aggravated by the fact that the Government of Botswana has recently embarked on parallel donation solicitation activities like the Presidential Housing Appeal which competes for donations from both government and the private sector.

Misperceptions about NGOs & their funding,

The unwillingness of individuals to donate was attributed to limited resources and inadequate knowledge about how NGOs function and the role they play in society. According to the NGOs members of public have many misconceptions about how NGOs utilize funds

from donors. In their view, for example, local NGOs are well funded; international donations are sufficient and local NGOs misuse donor funds. Other misconceptions that emerged (figure 2) include the following: (1) NGOs are not sustainable, (2) NGOs are spenders, (3) NGOs don't need money, (4) NGOs are volunteers and therefore do not need funding, (5) NGOs are not focused, and that (6) NGOs have lots of money. While some of these perceptions have the effect of eroding public trust in NGOs others underplay the need for NGO funding. Unless local NGOs address these misconceptions, they will continue to rely on government and international donors for funding.

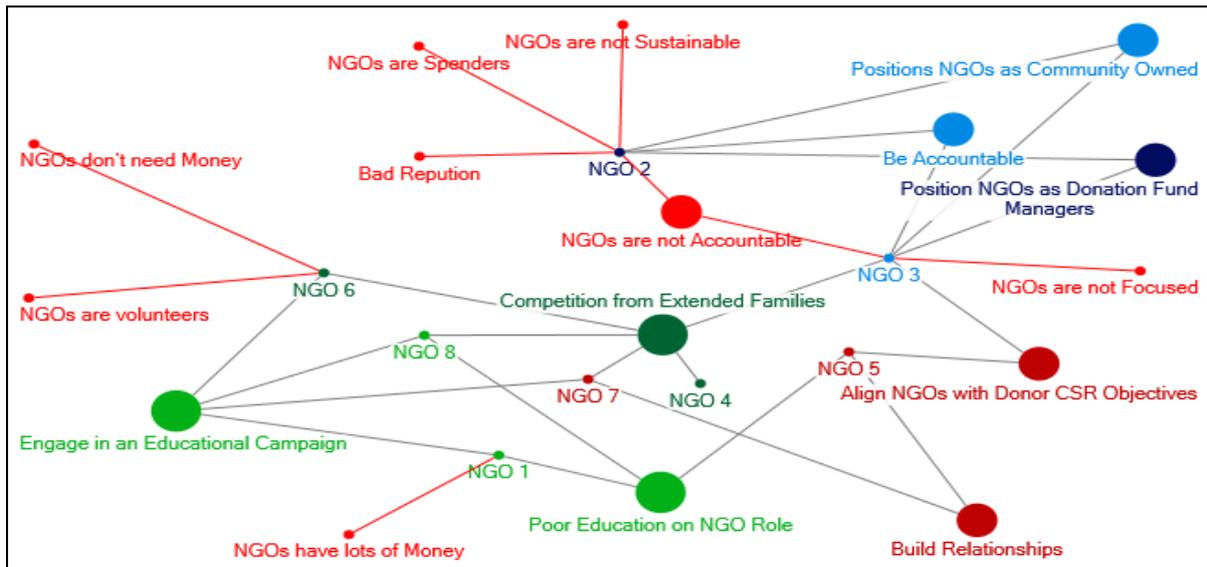


Figure 3: Perception of NGOs

SUGGESTED INTERVENTIONS

Engage in educational campaigns

The NGOs believe that one way of dealing with the misconceptions held by members of the general public is to engage in an educational campaign to explain the work of NGOs including how donors' funds are utilized. In addition to educational campaigns some suggested that NGOs should re-position themselves in the eyes of the public as 'community owned fund managers' to enable stakeholders to more closely associate with their cause.

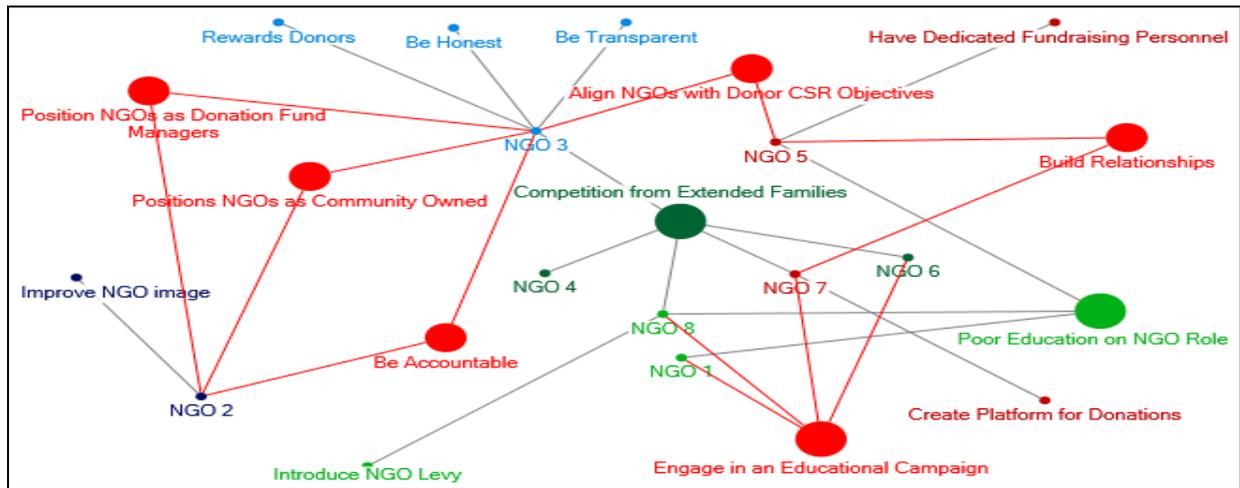


Figure 4: Challenges and suggested solutions

Accountability and transparency

Although accountability and transparency were mentioned as important mechanisms for assuring donors and improving funding (NGO 3) some NGOs were of the view that educational campaigns are more important. This paradox can be explained by the fact that while NGOs by their nature are averse to what is described as “institutionalized suspicion” that accountability and transparency represents, they are more attuned to communicating with stakeholders for the purpose of protecting their image (Moore & Stewart, 2000, p. 83). Thus it is not surprising that NGOs appear to be less inclined to adopting accountability and transparency measures than to engage in educational campaigns. Nevertheless, transparency and accountability on the part of NGOs is necessary to assure donors that they are “effective and making good use of their money” (Moore & Stewart, 2000).

Alignment of NGOs with donor CSR objectives

Some NGOs suggested that in order to enhance local funding they need to align themselves with the corporate social responsibility (CSR) objectives of donor companies. While this makes sense, it is also limiting in terms of the number of companies that would be considered as potential donors. The fact that different companies pursue different CSR objectives would make it difficult to associate with all of them.

DISCUSSION

NGOs in Botswana still rely on international donors despite calls for more local funding (Matenge et al, 2015). Consistent with Lekorwe and Mpabanga (2007) the findings show that the local donor market is (see figure 1) dominated by government. Almost all NGOs get some kind of assistance from the government. This dependence on government is however not conducive for the long-term survival and stability of the NGOs. Ideally, NGOs should operate independently of the state to ensure that they are not unduly circumscribed in their affairs (James, 1987; Lador-Lederer, 1963; Salamon and Anheier, 1997; Willets, 1996). Relying on state funding also diminishes the influence of NGOs in both political and socio-economic

activities (McGann and Johnstone, 2005) and minimises the institutional space they are supposed to occupy between the State and the market (Lekorwe and Mpabanga, 2007).

The fact that local NGOs are highly dependent on state funding has also caused many of them to be less creative and lethargic (Baingape, 2016). It is perhaps for this reason that, the Government of Botswana has decided to run a parallel structure in the form of the Presidential Housing Appeal (Republic of Botswana, 2011).

It is clear from the results that individual and corporate donors represent a sizable donor market for local NGOs to exploit. As noted earlier however, unlike government, private donors tend to be cause-specific and thus require NGOs need to align their activities with specific causes which they support (Lekorwe and Mpabanga, 2007). This requires local NGOs to communicate the causes they advocate for clearly so that prospective donors are able to identify with them. This also calls for greater transparency and accountability on the part of NGOs to assure donors that they are “effective and making good use of their money” (Moore & Steward, 2000).

The identified negative perceptions arise from failure of NGOs to operate in a transparent manner, giving rise to suspicion that they misuse funds. The key to dealing with this problem lies in adopting corporate governance practices such as sharing information with the stakeholders to make them aware of the activities of NGOs and the associated costs (Eisenhardt, 1989a). In addition to sharing information, this problem can be addressed by creating self-regulation in the form of industry norms and standards (see Cadbury, 1992; Organization for Economic Co-operation and Development, 2004; Shelfier and Vishny, 1997). Such norms and standards create legitimacy for NGOs, improve transparency and disclosure to stakeholders, and help to address key questions that every donor wants to be answered: how do I know that NGO management does not misappropriate funds, or use their power in ways that are not in my best interest?

It is posited that good corporate governance practices would minimise dependence of NGOs on government funding and increase funding from private donors. In this case, then the government would assume a more regulatory role. This is consistent with sentiments by Salamon, (1995) and Leroux, (2009) that governments should provide oversight bodies that enforce corporate governance practices for NGOs.

CONCLUSION

This study has established that Botswana NGOs still rely heavily on international donations despite the potential that exists within the local market. Within the local market, the government is the main funder of most NGOs. It is argued that in spite of the difficulties that NGOs face, with some application of corporate governance, they can cultivate an environment where they can reduce or eliminate reliance on government funding and subsist from local private donations. With reduced burden of funding NGOs, the government can then play an oversight role and enforce corporate governance practices. Future studies should locate the NGO problem from a critical perspective to elaborate on State failure versus NGOs proliferations.

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