

The management control processes – are these mandatory for churches as not-for-profit-organisations and social enterprises?

Kgaugelo Sammy Boya
Germinah Evelyn Chiloane

Department of Applied Management, University of South Africa

Keywords

Accountability; Agency Theory; Management Theory; NPOs; Stewardship; Strategy

Abstract

Accountability has been one of the eroding virtues across organisations. As such, the credibility of those involved in managing such organisations is often questioned by society. In corporate sector, a lot has been alluded to in terms poor governance principles. However, other unassuming institutions such as NPOs in general, and churches in particular, have also been indicted. This paper explored the necessity and ways in which accountability can be heightened in NPOs and church settings. A qualitative research methodology in a form of interviews occurred where church managers were participants. A total of 26 church managers were interviewed and data subsequently analysed through the use of thematic analysis and the Atlas ti software. The strategic management control processes of churches were analysed for their prowess and necessities. A strategic management control process is further proposed as a tool to curb lack of accountability in church settings. This is as extension of contributions in terms of both agency and management theories in both NPOs and churches.

Introduction and Problem

Churches are often viewed with “holy eyes” and as sacred spaces of “perfection.” Thus, church members in general and managers (as agents and stewards) are seldom held accountable in a rigorous manor (Asamoah-Gyadu, Kim, Davies & Anim, 2017). There is subtle trust and contentment in how the affairs of the church are undertaken. As such, lack of accountability and control processes towards the mission and the strategic agenda of the church as an NPO can easily occur without due notice (Gratton, 2018). In exploring Strategy-Identity Nexus, Ravasi, Tripsas and Langley (2020) infers that an organisation needs to understand their central mission as that shapes its strategic posture and clarifies what it needs to account for. It is for these reasons that this paper explores how churches hold managers (as agents & stewards) accountable. This is considered from both agency and management theories lenses. The following will be the questions to answer:

What are the management control systems of the church as an NPO and social enterprise?

Who is responsible for the administration of money?

How often is time set aside to discuss accountability towards the strategic agenda of the church?

Before discussions with participants are alluded to, it would be prudent to discuss what literature suggests about the subject matter. This is discussed under the following headings: Churches as NPOs and social enterprises, Accountability of money. Stewardship in both agency and management theories.

Churches as NPOs

Traditionally, churches have always been perceived as places of worship and where pilgrims gather to connect with their maker and with each other. In modern times, churches became legal entities that ought to be governed within the ambits of the laws of countries in which they operate (Iyer, 2016). For that reason,

there are legal prescripts that need to be honored by churches who are now perceived and not-for-profit organisations (NPOs).

This means that even though the church collects revenues, they may do so not for profit reasons but to run its affairs for sustainability purposes (Chukwumerije, Olusegun & Chima, 2018). This is consistent with what Gratton (2018) alludes regarding the value-based posture that NPOs have to assume. Hansen and Jacobsen (2014) advocate for cooperation rather than competition in NPO context. During such a process, money is requested, required, collected, administered and accounted for by church management (Morariu, 2020).

Churches as social enterprises

There are growing views that hold that churches ought to operate as social enterprises as a means to sustain themselves (Boya & Chiloane-Phetla, 2022; Antonites, Schoeman & Van Deventer, 2019). With the growing reality of shrinking public funds and scarcity of donors, churches are confronted with the need to find innovative ways to generate their own funds (Bousema, Burtscher, Van Rij, Barret & Whitfield, 2022). Compounding the financial difficulties are issues of ageing church communities, youth unemployment and child-headed homes within which the church is domiciled (Modula, 2022). As a proposed solution, Roy and Karna (2015) advocate for organisations to do social good in a sustainable manner. In the context of churches, income-generating social projects ought to be identified, initiated and managed. During this process, issues of accountability become imperative.

Accountability and money

The public purse requires greater care and financial prudence. Over and above that, periodic accounting for how money moved in and out of an NPO is essential (Bracci, Mouhcine, Rana & Wickramasinghe, 2022). This does not only require “grace,” but financial, numerical and people skills. At the heart of these, integrity and honesty are required from all money handlers within an NPO (Ferrell, Harrison, Ferrell & Hair, 2019). This is rather a difficult act that requires prudence. NPO money is often regarded as money set aside for community development. Thus, the consequences of the mismanagement thereof could prove to be catastrophic to the intended beneficiaries. King IV report states very clearly the significance and indispensability of accountability of any legal entity (King Committee on Governance, 2016). It is unfortunate that this phenomenon remains elusive.

Stewardship (in both agency and management theories)

In the world filled with self-centered people, stewardship has become a rare commodity. There are often phrases and inferences such as “nothing for free.” Rouault and Albertini (2022) observe greater increase in accounting requirements from managers as stewards. It is to be noted that, our Maker mandates us to act as stewards in the world that He has created. In some rare cases, there are still remnants of those who are charged with responsibility to serve without or with little expectation (Boya, 2022). This aspect of stewardship is covered in both the agency and management theories, and it summarily regarded as serving those who have enlisted an agent or manager with distinction (OGHUVBU, GBEREVBIE & Essien, 2022). In this case, aspects of servant leadership become applicable whereby a leader sees himself/herself as a selfless servant of the Lord and/or His people rather than a throne-seated King/Queen.

Research methodology

A qualitative research method in a form of interviews (total of 26 persons participated) and 12 church documents (in a form of canons, church manuals, church orders and constitution) were some data collection instruments. The participants were sourced from the South African Council of Churches [SACC] (within Gauteng Province, South Africa) through ethical procedures (such as written permission, ethical clearance, and participant concern forms). The key stakeholders in a form of SACC, the University of South Africa and church managers (as participants) heartily endorsed the research. There was an even spread among the races and ages of participants, and also both the adherents and protestants were involved. Data were

collected until the theoretical saturation was reached (Henning, van Rensburg & Smit, 2018). Furthermore, data from both interviews and documents were analysed through the use of the Atlas ti. Software, where themes, categories and sense making analysis occurred (Haar, Roche & Brougham, 2018).

Research findings

The findings will emerge according to key research questions being asked. The attempt to answer these questions emerged from the interviews undertaken and briefly from the church documents analysed.

The 1st research question: What are the management control systems of the church as an NPO and Social Enterprise? To answer this question, the following comments were made:

The church council also needs to take care of the finances and properties of the parish led by the church wardens. So, we have what we call a parish treasurer. So, those people are involved in the generation and handling of money of the church. – Participant 4

This participant suggested that his organisation assigned the church council, led by the parish treasurer to generate and handle money. These personas are thus answerable to the entire congregation and dioceses on how money was received and distributed towards the church activities. It was not clear as to what criteria were used to appoint treasurer and her/his team.

We put this in the register, we have the parish register and all the meetings are kept in a file for record purposes which the dioceses come in at any time in the archives. So, these archives contain every meeting, every letter received and written out. So, this is like a repository of all information, so it serves for review, for planning forward and writing. Also, our history is also in the archives. So, it helps so much to evaluate, and we also have evaluation of money where the PFC is challenged to tell us how they have used the money for frequent withdrawal of bank statements of the bank to verify and see how our is economic strength or how the PFC they are working. – Participant 8.

The participant mentioned the use of parish register as measure towards control systems. All transactions are recorded and made available to any stakeholder for scrutiny. This also serves as a repository that is used for monitoring and evaluation purposes. Record keeping seems to afford the organisation the latitude to plan better with relevant information at its disposal. Moreover, this system also serves as a way of preserving precious historical records that could be useful for future generations. To this end, some sense of transparency and accountability are apparent in that everyone authorized is able to peruse the documents. For instance, the participant alludes to how his diocese sometimes requires some records, especially financial records.

A group of elders and deacons are monitoring everything in the church. Members are also monitoring everything. We are a group of men looking after the church, at the end of the day we must be seen that we are responsible. – Participant 22.

The participant refers to a group of deacons who are responsible for monitoring the affairs of the church. He further alludes to the collective responsibility that everyone within his organisation observes. This is in line with an inclusive approach towards the strategic agenda of the organisation.

Auditing, internal audit, auditing the church funds, arranging church traction report on properties. – Participant 25.

Both the auditing of funds as well as the organisation's movable and immovable property. There is also a report that has to be produced regarding all the purchase made. These are some of the commendable control measures in the context of NPOs such as that of the participant.

The 2nd research question: Who is responsible for the administration of money?? To answer this question, the following comments were made:

The church elect committees and subcommittees. The treasurer of the women's Department is controlling money she received from the women Department. She'll be doing the banking she'll be doing their reporting and the secretary who will be gathering information who is in the church and externally and make it known to people make an announcement. They make sure that people respond to correspondence, and if necessary, this is added major functions

and he also has to account to the church in the form of a meeting, written and presented in a meeting as a report. – Participant 2.

The participant's organisation depends on the elected committee and subcommittees to carry out its mandate. It would appear that the subcommittees constitute those of men, women and youth departments. These committees are given the autonomies to collect, manage and record their finances through the leadership of their respective treasurers. However, these committees have to produce written reports which are to be read and/or announced by the general secretary of the entire organisation. It remains unclear how transparency and accountability occur at both the subcommittee and departmental levels. While the general meeting enjoys the right to ask questions, it could be difficult to get to the bottom of any discrepancy if no audit mechanisms are in place.

We've got a committee that does the finances, and there is a chairman and there are two people on that committee that are people in the finance, as well as auditors. – Participant 6.

The participant suggested that they make use of knowledgeable people in the areas of finance to form part of the committee which includes the chairperson of the organisation. He further mentions that some of these people are auditors by trade. It was not clear if the same people were also responsible for the auditing of the organisation's finances and properties.

So, at a diaconate level we have the treasurer, and he handles the day to day running of the finances. However, he has to present financial records and a budget which is discussed at each AGM. And so, once a quarter at our quarterly meetings we have a report back from him as to the budget, performance and how things are going. But the final decision rests with the church membership meetings. – Participants 12.

This participant alluded that his organisation makes use of the treasurer who forms part of the diaconate to handle the day-to-day financial transactions. It follows that on a quarterly basis as well as during the annual general meetings, the treasurer is answerable to the membership of the organisation. During this time, both the financial performance as well as the proposed budgets are presented for approval. These are some of the control measures of accountability and transparency implemented by his organisation.

The 3rd research question: How often is time set aside to discuss accountability towards the strategic agenda of the church? To answer this question, the following comments were made:

On the 15th of March every year, we need to produce audited financials. We need to give a report of the previous year. We need to give a proposed budget for the new year and in that meeting we have to also elect the new church council. So, every year before the 15th of March we need to go through that business. We have got people; the priest is also involved. – Participant 4

There seems to be a cut-off annual date that the participant's organisation sets to hold annual general meetings. During these meetings, the financial statements and other reports are tabled. Furthermore, budgets are proposed, and the new management is elected by members of the organisation. These are typical examples of responsive, inclusive, and accountable organisation. As concern, it is unclear how the frequency these processes (since elections occur annually) affect issues of continuity. The following participant also mentioned issues of frequency.

Once a month, that is to discuss the issues of the communities and to discuss our target and then once a year, we have evaluation. – Participant 9.

The participant alluded to how his organisation liaises with its immediate communities and attends to their pressing needs on a regular basis. Moreover, the participant alluded to annual statutory evaluation that his organisation had to adhere to.

All the elders administer, we are accountable to the local church, but we take a step further also accountable to the eldership, accountable to the presbytery. It's a model that we follow so that would be where our where we are as management. – Participant 20.

The participant alluded to accountable and inclusive leadership style and subsequently, organisational culture that elders infuse. This is consistent with the principles of good governance. Protocol at various managerial level is observed.

We wouldn't necessarily have the SWOT analysis every year but, what we do is that we have it quarterly and our annual general meetings, where we are just evaluating where the church is at, and the various ministries found out that the church has where the church is at. I think annual general meetings where we as a church as a body corporate have an opportunity to evaluate. – Participants 21.

The participant alluded to SWOT analysis as one of the environmental evaluation tools that his organisation employs, even though not on an annual basis. That said, his organisation makes use of quarterly report sessions and annual general meetings (AGMs) to reflect and evaluate on the progress made towards its strategic agenda. The participant compared the evaluation process as work done by the body corporate that serves the interests of its principals. These inferences border on stewardship in general and both agency and management theories in general (discussed in section 5 of this paper).

Document Analysis

The second instrument for data collection was document analysis. The church strategic and policy documents were perused to establish the processes they undergo to evaluate their strategic agenda. These are described in figure 1 below.

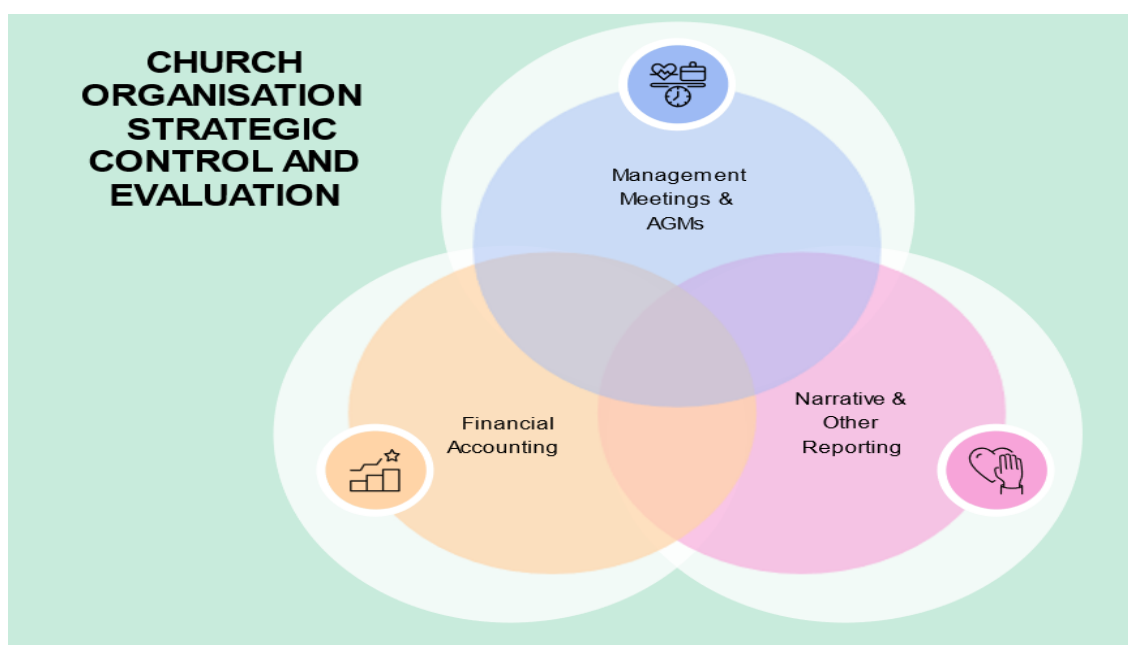


Figure 1: Church Strategic Control/Evaluation
Source(s): Fieldwork documents

Figure 1 highlights the key themes that emerged from document analysis. These themes were based on the activities that the organisations undertook when evaluating their strategic management processes. Three major themes were prevalent: management & annual general meetings (AGMs), financial accounting, and narrative & other reporting. Organizations relied on management meetings and AGMs to hold managers and other office bearers accountable. The frequency of such meetings had an average of once a months and AGMs took place at the end of each financial year. During AGMs, financial statements and narrative reports were presented before members for scrutiny and adoptions. These appeared to be tools employed towards evaluating the strategic agenda. The effectiveness of these tools was not too apparent.

Discussions and conclusions

This section will depart with figure 1 that summarises the key themes which emerged during the discussion.

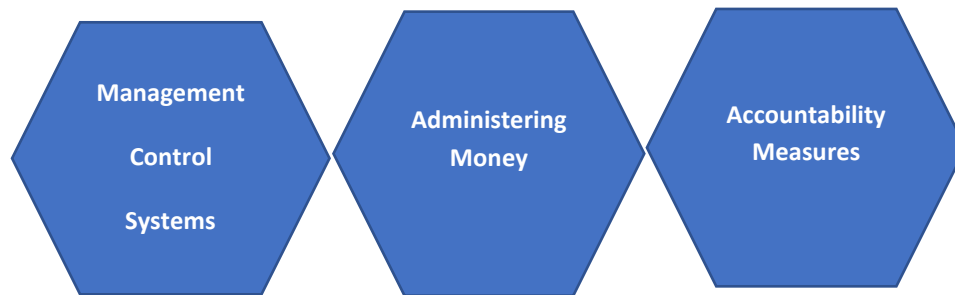


Figure 2: Strategic Management Control Processes of a Church as an NPO
Source: Authors' compilation from data (2020-2021)

Limitation, recommendations, and future research

From figure 2, it is apparent that the participants were preoccupied by management control systems, money administration and accountability measures. The control systems are needed as part of the financial prudence architecture, more so in a public entity. Various participants went at length to demonstrate how their organisations go about putting such measures and overall governance. This is consistent with the recommendations of King Committee on Governance (2016) that advocates for proper control systems and financial prudence. The participants also alluded to having finance committees which are often led by the treasurer. These committees are responsible for the handling of money (Enderle, 2015). At the heart of the matter lies the deep-seated need for accountability and management of public funds. It became apparent that the organisations in question depended on mechanisms such as the AGMs for inclusive and accountable reporting. In these meetings, both the financial and narrative reports were presented by finance committees for scrutiny and clarity seeking purposes. It is not clear if this mechanism is effective given the frequency of sittings and issues of literacy levels of those who need to hold managers accountable. Although some of the participants alluded to quarterly reporting, which is commendable. Sometimes issues of commitment may be questionable given the voluntary nature of the types of organisations (OGHUVBU, GBREVBIE & Essien, 2022). Voluntary work may create little desire to get to the bottom of true and honest reporting. Moreover, it was not clear if most of the financial reports were audited or not (Ferrell *et al*, 2019). This shows that inclusivity, transparency, and accountability are attributes of financial prudence.

Recommendations and managerial implications

Based on both the literature and primary data, recommendations of this paper are made. In the above sections, the indispensability of accountability, inclusivity, and sound financial management in NPO and social enterprises contexts became very apparent. For this reason, the following recommendations are made:

Recommendation 1: Knowledge on financial management

More often than not, people who lack requisite knowledge and qualifications are appointed in critical roles, including those dealing with financial management. This causes unprecedented errors and poor money management and generation thereof. The financial manager and his/her team must at least have financial literacy and or qualification(s) to be able to receive, record and report appropriately to their constituents.

Recommendation 2: Experience in NPO and public finance

In some instances, inexperienced persons and newly absorbed members need to first pass the litmus tests before assuming critical roles. In church context, it should be clearly stated that new converts may not assume critical positions before undergoing training and discipleship. In other NPOs a probationary process needs to be fully completed before critical positions are assigned. Over and above that, training on public financial management ought to be a requirement to be fulfilled (Bracci, *et al.*, 2022).

Recommendation 3: Aptitude in governance and ethics

Organisations such as churches often enjoy some advantages related to lessons on moral fibre, governance, and ethical conduct through the use of the bible. However, it could be a gross mistake to assume all their members are rich in terms of moral capital and integrity by merely being regarded as Christians. A deep sense of governance and ethical principles such as honesty, integrity, transparency, inclusivity, responsiveness and social responsibility cannot be overemphasized. Training on governance ought to prevail on a continuous basis (King Committee on Governance, 2016).

Limitations and future studies

This research was mainly based on churches as NPOs and social enterprises. While the principles of revenue collection and management are the same in NPO context, other organisations in different fraternities might have yielded different findings and outcomes. Moreover, the research was limited to church organisations affiliated with the South African Council of Churches (SACC), thus, many other independent churches and denominations were not considered. Only South African churches were units of analysis, and the dynamics of other countries might have provided dissimilar outlook. There was also a methodological limitation in that a mixed method could produce interesting outcomes. These limitations are what future studies in NPO, and social entrepreneurship contexts could consider. Finally, an impact study could serve as a useful follow-up on the current findings.

References

- Antonites, A., Schoeman, W.J., & Van Deventer, W.F.J. 2019. A critical analysis of social innovation: A qualitative exploration of a religious organisation. *Theological Studies*, (Online) 2072-8050.
- Asamoah-Gyadu, J.K, Kim, K., Davies, A., & Anim, E. 2017. The spirit in the letter: Pentecostalism and theological education. *Pentecost Journal of Theology and Mission*, 2(1): 4-20.
- Bousema, T., Burtscher, L., Van Rij, R.P., Barret, D. and Whitfield, K., 2022. The critical role of funders in shrinking the carbon footprint of research. *The Lancet Planetary Health*, 6(1), pp.e4-e6. DOI:[https://doi.org/10.1016/S2542-5196\(21\)00276-X](https://doi.org/10.1016/S2542-5196(21)00276-X) Accessed on 26 June 2023
- Boya, K.S. and Chiloane-Phetla, G.E., 2022. The Modern Church as Not-for-Profit Organisation: Is it not Time for the Church to Become More Strategic? *Studia Historiae Ecclesiasticae*, 48(1), pp.1-21. <http://dx.doi.org/10.25159/2412-4265/10581> Accessed on 03 May 2022.
- Boya, K.S., 2022. The Ambivalence regarding volunteering and reward systems in church settings. *HTS Teologiese Studies/Theological Studies*, 78(1), a7505. <https://doi.org/10.4102/hts.v78i1.7505>
- Bracci, E., Mouhcine, T., Rana, & Wickramasinghe, D., 2022. Risk management and management accounting control systems in public sector organizations: a systematic literature review. *Public Money & Management*, 42:6, pp. 395-402, DOI: 10.1080/09540962.2021.1963071 Accessed on 15 December 2022.
- Chukwumerije, O., Olusegun V., & Chima, M., 2018. Determinants of Nigerian managers' environmental attitude: Africa's Ubuntu ethics versus global capitalism. Emerging market perspectives: Africa. *Thunderbird International Business Review*, 60(2018): 577-590.
- Enderle, G., 2015. Exploring and Conceptualizing International Business Ethics. *Journal of Business Ethics*, 127: 723-735. DOI 10.1007/s10551-014-2182-z
- Ferrell, O.C, Harrison, D.E., Ferrell, L., & Hair, J.F., 2019. Business ethics, corporate social responsibility, and brand attitudes: An exploratory study. *Journal of business research*, 95(2019): 491-501.
- Gratton, P., 2018. Organization Development and Strategic Planning for Non-Profit Organizations. *Organization Development Journal*, Summer: 27-38.
- Haar, J., Roche, M., Brougham, D., 2018. Indigenous Insights into Ethical Leadership: A Study of Māori Leaders. *Journal of Business Ethics*. Spring: 1-7.
- Henning, E, van Rensburg, W., & Smit, B. 2018. Finding your way in qualitative research. Van Schaik: Pretoria.
- King Committee on Governance and King, M.E. 2016. *King IV report on governance for South Africa 2016*. Institute of Directors in Southern Africa.
- Modula, M.J., 2022, The support needs of families raising children with intellectual disability, *African Journal of Disability*, 11(0), a952. <https://doi.org/10.4102/ajod.v11i0.952> Accessed 8 May 2023.

-
- OGHUVBU, E.A., GBEREVBI, D.E. and Essien, N.P., 2022. Accountability and Public Policy Outcomes in Nigeria: A Stewardship Theory-Based Approach: 10.2478/bjlp-2022-002125. *Baltic Journal of Law & Politics*, 15(3), pp.1795-1819. DOI: 10.2478/bjlp-2022-002125
- Ravasi, D., Tripsas, M., & Langley, A. 2020. Exploring the strategy-identity nexus. *Strategic Organization*, 18(1), pp.5-19. <https://doi.org/10.1177/1476127019900022>
- Rouault, J. and Albertini, E., 2022. Reconciling the social sector with external accountability requirements: Lessons from stewardship theory. *Journal of Business Research*, 142, pp.485-498. <https://doi.org/10.1016/j.jbusres.2021.12.082>
- Roy, K. and Karna, A., 2015. Doing social good on a sustainable basis: competitive advantage of social businesses. *Management Decision*, 53(6), pp.1355-1374. DOI 10.1108/MD-09-2014-0561 Accessed on 29 June 2022.
-