

Why do Ugandan NGOs diversify? Pecuniary and Private Benefits

Canh Thien Dang*

PhD Candidate

School of Economics, University of Nottingham

Abstract

The study attempts a neglected question in the nonprofit literature of why non-governmental organisations (NGOs) choose their current level of activity diversification. Typical answers from the corporation literature include the agent's desire to reduce idiosyncratic risks and to extract private benefits from an extended portfolio. Reviewing previous literature, the study finds that those motivations could be applicable to development NGOs. A multitask principal-agent framework is then adopted to incorporate the risk reduction and private benefits into the agent's optimal decision to diversify. The theory predicts that monetary incentives become an effective tool to reduce the level of diversification if the agent operates more services to primarily mitigate risks. The empirical analysis, using a unique dataset of Ugandan NGOs in 2008, finds robust results to suggest that it may not be the case. Instead, private benefits, particularly the intention to capture new grants, are driving the Ugandan NGOs' decision to diversify. When it comes to financial decisions regarding how the organisation's budget is spent, more committed managers are more cautious; while greater risk averse leaders appear to diversify more. The study also finds altruism being a less relevant explanation for the observed expansion into new services of development NGOs.

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