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DOI:

[10.1108/AAAJ-01-2020-4397](https://doi.org/10.1108/AAAJ-01-2020-4397)

Document Version

Peer reviewed version

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Citation for published version (APA):

Cazenave, B., & Morales, J. (in press). NGO responses to financial evaluation: auditability, purification and performance. *Accounting, Auditing & Accountability Journal*, 34(4), 731-756. <https://doi.org/10.1108/AAAJ-01-2020-4397>

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NGO responses to financial evaluation: auditability, purification and performance

NGO responses
to financial
evaluation

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Received 25 February 2020

Revised 5 November 2020

22 January 2021

Accepted 27 January 2021

Abstract

Purpose – Literature has widely studied the financial accountability pressures on NGOs but rarely analysed how NGOs respond to them. This paper studies one large humanitarian NGO to address this question. It investigates the NGO's responses to understand the extent to which NGOs are able to regain control over their own work and turn the frames of evaluation and accountability to their own advantage.

Design/methodology/approach – This article draws on a case study of one of the largest French humanitarian NGOs. Interviews and observation (both participant and non-participant) were conducted in the financial department of the NGO. These data are supplemented with field-level contextual interviews.

Findings – In the NGO studied, institutional pressure is largely mediated by compliance audits. The paper thus traces the consequences of compliance audits for the NGO's central finance teams and describes how they respond. The findings detail three responses to evaluation. First, to respond to the burden of evaluation, the organisation makes itself auditable and develops preparedness. Second, to respond to the anxiety of evaluation, the organisation engages in a process of purification and succumbs to the allure of the single figure. Third, building on its newly acquired auditability and purity, the organisation performs itself as a “corporatised NGO”. Together, these three responses constitute the NGO as an “entrepreneur” competing for eligibility, and financial literacy and managerialism become crucial to respond to pressure from institutional funders.

Originality/value – This paper extends the understanding of organisational responses to evaluation. The authors show the influence of evaluation systems on NGOs, but also how NGOs can react to regain control over their work and turn the frames of evaluation and accountability to their own advantage. However, despite several decades of calls for broader conceptions of NGO accountability, the case NGO prefers to promote a very narrow view of its performance, based solely on accounting compliance. It takes some pride in its ability to comply with funders' and auditors' demands. Turning a simple matter of compliance into a display of good performance, it builds a strategy and competitive advantage on its ability to respond competently to evaluation.

Keywords Non-governmental organisations, NGO performance measurement, Accountability, Auditing

Paper type Research paper

1. Introduction

This paper discusses NGOs' responses to external evaluation. The literature documents strong pressure for “upward accountability” and argues that it leads to an overwhelming burden that shapes and directs NGOs' practices (Goddard and Assad, 2006; O'Dwyer and Unerman, 2007; Everett and Friesen, 2010; Hall and O'Dwyer, 2017; Martinez and Cooper, 2017). Through upward accountability, institutional and governmental funders impose a multitude of evaluation mechanisms for NGOs' activities, including *ex ante* assessments,

The authors would like to thank the anonymous reviewers for their feedback. The helpful comments and suggestions of Jeffrey Unerman, Susan O'Leary and Lambert Jerman are gratefully acknowledged. Feedback from participants and discussants of the Alternative Accounts Conference (2016; 2019), AFC conference (2019), TBS workshop (2019) and Management Accounting as Social and Organizational Practice Workshop (2019) helped to develop earlier versions of the paper.



process controls and outcome evaluations (Chenhall *et al.*, 2013; Krause, 2014; O'Dwyer and Boomsma, 2015; Martinez and Cooper, 2017; O'Leary, 2017). However, we still know little about how NGOs respond to such pressure (Agyemang *et al.*, 2019).

Recently, Boomsma and O'Dwyer (2019) have argued that NGOs can offer “counter-conducts” to co-constitute rationalities of accountability together with their funders, while O'Leary and Smith (2020, p. 3) posit that NGOs can “look for ways to overcome or change” “authoritative forces of accountability”. O'Leary (2017) also shows how grassroots, rights-based development NGOs can draw on accountability to enact a specific “promise”. This paper contributes to this stream of research by investigating how evaluation systems influence NGOs' practices beyond accountability mechanisms. We discuss three responses to evaluation – auditability, purification and performance. First, to respond to the burden of evaluation, the organisation makes itself auditable and develops “preparedness”. Second, to respond to the anxiety of evaluation, the organisation engages in a process of purification and “succumbs to the allure of the single figure”. Third, building on its newly acquired auditability and purity, the organisation performs itself as a “corporatised NGO”. We argue that these three responses constitute NGOs as entrepreneurs competing for eligibility, and financial literacy and managerialism become crucial to respond to pressure from institutional funders.

Our research draws on a field study of Handicap International (HI) – one of the largest French humanitarian NGOs. A prolonged immersion in this NGO helped gain an in-depth understanding of the consequences of external evaluation requirements and how it responds to them. Empirically, we show how compliance audits “channel” funders' demands and make the related pressures deeper (e.g. auditors can see each invoice, not just a reporting document), closer (the presence of funders, even remote, is palpable through the presence of auditors on the premises) and more continuous (the auditors are frequently, almost constantly, present). However, we also highlight how the NGO deploys various tactics to “guide” and “educate” its auditors and neutralise, influence and reconfigure its funders' requirements.

One interesting finding is that the NGO in this case does not question financial accountability in the name of its beneficiaries, as often observed in calls for more holistic forms of NGO accountability (O'Dwyer and Unerman, 2008; Unerman and O'Dwyer, 2010; O'Leary, 2017). Instead, the organisation turns a constraint (compliance with funders' accountability requirements) into a target (“zero ineligible expenses”) that is disclosed externally as an indicator of efficient performance, used to contain auditors, and built on to develop a competitive advantage, expand and grow. This highly decontextualised, synthetic and purely financial performance indicator may seem surprising in the humanitarian sector, especially as it is not imposed by funders but has been devised by the NGO itself.

We analyse these findings by reference to studies of “reactivity” (Sauder and Espeland, 2009; Mehrpouya and Samiolo, 2016; Pollock *et al.*, 2018), which examine how organisations can respond to evaluation systems. We build on this framework to discuss the ambiguous consequences of what we see as an “extended” form of reactivity. HI embraces “reactive conformance” and uses it as a way to reconfigure not only its accountability but also its internal processes, governance structure, financial practices and even strategy. Paradoxically, it is by turning itself into a “corporatised NGO” that derives its sense of pride and distinctiveness not only from its humanitarian interventions but also from its ability to display “rigorous” financial managerialism that HI is able to regain control over its own work and turns the frames of evaluation and accountability to its own advantage.

The rest of the article is structured as follows. The second section discusses past literature on the proliferation of evaluation systems to measure and assess NGO performance. It also presents a framework for studying organisational responses to external evaluation systems. The third section presents our methodology and introduces the case organisation. We detail

our findings in a fourth section, structured around three responses to evaluation – auditability, purification and performance. We discuss these findings in a fifth section before our concluding remarks.

NGO responses
to financial
evaluation

2. Literature review

Previous literature has problematised performance measurement in the humanitarian sector by reference to the idea that there is excessive pressure for upward accountability. “Ballooning” upward accountability is said to shape and direct NGOs’ practices. This section thus describes how programmes to improve humanitarian “performance” have proliferated, and then suggests a framework to study organisational responses to such pressures.

2.1 Performance measurement in the humanitarian sector

The humanitarian field is marked by a multiplicity of evaluation systems, a situation often attributed to the difficulty of defining and measuring “organisational performance” in this field (Dixon *et al.*, 2006; Goddard and Assad, 2006; Gray *et al.*, 2006; Chenhall *et al.*, 2013; Hall & O’Dwyer, 2017; O’Dwyer and Unerman, 2008; O’Leary, 2017).

NGOs’ goals are controversial because NGOs have a multiplicity of heterogeneous stakeholders who do not pursue the same goals and may have conflicting ambitions for the organisation (Benjamin, 2008; Brown and Moore, 2001; Edwards and Hulme, 1996; Forbes, 1998). Due to this lack of consensus, NGOs are subject to different and sometimes conflicting regimes of accountability. According to Ebrahim (2005), resolving these tensions often leads to the emergence of a specific dominant regime of accountability labelled “upward accountability”. Upward accountability is mainly a hierarchical (O’Dwyer and Unerman, 2007, 2008), externally imposed form of accountability (O’Dwyer and Boomsma, 2015) that promotes mechanisms intended to make sure NGOs use the funds they receive in compliance with their funders’ requirements. However, upward accountability also shapes the ways the performance of humanitarian projects is evaluated (Krause, 2014).

The literature has criticised such externally imposed evaluation systems for sidelining alternative forms of accountability, such as “downward accountability” mechanisms designed to give voice to the beneficiaries (Ebrahim, 2005; Unerman and O’Dwyer, 2010; Dewi *et al.*, 2019). O’Dwyer and Boomsma (2015) also suggest that more attention should be paid to what they call “felt accountability”, which relates to how NGOs’ employees “feel responsible” and justify their actions by reference to the NGO’s long-term goals, culture and intervention philosophy.

Overall, these studies suggest that a proliferation of upward accountability mechanisms has led to a neglect of broader accountability mechanisms. It also forces NGOs to pour significant resources into monitoring information systems, producing compliance reports and filling in project evaluation templates for the sole benefit of institutional funders (Ebrahim, 2003; O’Dwyer, 2005).

Such external control essentially applies at two levels: project performance and financial compliance.

For project performance, the main assessment tool is the logical framework (Martinez and Cooper, 2017, 2019), a “methodology” developed by a management consultant firm in 1969 for USAID, which adopted it in 1971 to formalise development-focused NGOs’ performance. The logical framework is now used by large funders to assess NGOs’ projects (Hall, 2014; Krause, 2014; Martinez and Cooper, 2017). It consists of a matrix summarising objectives and expected outputs, including “objectively verifiable indicators” to measure progress towards “achievements”. The logical framework has become increasingly widespread and is now the main component of the project management apparatus used to monitor NGOs’ projects

(Martinez and Cooper, 2017, p. 22). Its main appeal is that it portrays humanitarian projects as components of a linear cause-and-effect chain of aid, offering distant agencies ways to assess and intervene in varied operations that are made commensurable (Krause, 2014). It also fosters engagement by providing a “workspace of interlocking inscriptions” through which the causal order of this logical framework can be connected to a chronological and financial order (Martinez and Cooper, 2019).

Financial compliance constitutes a second layer of external verification. Large donors lay down financial reporting templates and rigid accounting procedures (Ebrahim, 2002), inundating NGOs with administrative and costing requirements (Martinez and Cooper, 2017) that focus their attention on financial results (Duval *et al.*, 2015; Kuruppu and Lodhia, 2020). To ensure financial and procedural compliance, large donors also require NGOs to submit their operations to compliance and financial audits (Goddard and Assad, 2006; Assad and Goddard, 2010; Cordery *et al.*, 2019).

Institutional funders use *ex ante* performance evaluation systems to select the projects they will fund. Throughout a project’s life, they monitor financial compliance, procedures and results. Their intervention is materialised in evaluation and compliance systems that are particularly structuring (Martinez and Cooper, 2017). Research has shown that externally imposed evaluation systems can result in “mission drift” (Chenhall *et al.*, 2010; Christensen and Ebrahim, 2006; Kuruppu and Lodhia, 2019), prioritise information that is irrelevant for decision-making or action (Ebrahim, 2002), accentuate procedural formalisation (Martinez and Cooper, 2017) while increasing bureaucratic costs (Goddard and Assad, 2006; Roberts *et al.*, 2005; Agyemang *et al.*, 2019), direct NGO performance towards a financial perspective (Duval *et al.*, 2015), facilitate the depoliticisation of social movements (Martinez and Cooper, 2017) or even contribute to a shift of approach by shaping the long-term accountability of NGOs (Boomsma and O’Dwyer, 2019; Kuruppu and Lodhia, 2020). NGOs often portray these demands as an excessive burden that can create absurd situations (Christensen and Ebrahim, 2006). Yet they have no choice: they must comply if they want to secure access to funding (Chenhall *et al.*, 2010; Goddard and Assad, 2006; Cordery *et al.*, 2019). Recent articles, however, have started to argue that NGOs can find ways to mitigate the influence such forms of hierarchical accountability have on their aims (Agyemang *et al.*, 2019). To contribute to these debates, the next section presents a framework to study how NGOs respond to and cope with evaluation constraints.

2.2 Organisational responses to external evaluation systems

The proliferation of performance evaluation systems in the humanitarian field has been described as an overwhelming burden for NGOs. As the literature exploring how NGOs respond to this burden largely focuses on questions of accountability, much less is known about the organisational responses NGOs adopt to cope with funders’ demands. This section therefore presents a stream of literature that has described a range of organisational responses to externally imposed evaluation systems.

Although it concerns a very different set of organisations and evaluation systems, the study by Sauder and Espeland (2009) on the effects of rankings on the US law schools offers valuable insights. Its authors argue that although school rankings are imperfect, distant evaluation mechanisms, their influence is hard to resist because they exert a form of “discipline”. The deans of ranked universities, in particular, feel a need to comply and remodel their organisations to conform to the rankings’ templates. Sauder and Espeland (2009) speak of “reactivity” to describe evaluation systems’ ability to foster compliance and conformance.

However, not all studies have observed such strong compliance. Espeland and Sauder (2007) themselves detail several gaming tactics. Mehrpouya and Samiolo (2016) go further

and show how various actors can work to influence the evaluation system itself. Pollock *et al.* (2018) note that organisations can be subject to more than one influential evaluation system. In such situations, reactive compliance tactics become difficult, as the systems may exert divergent and contradictory pressures, forcing organisations to select and focus on a limited number of systems. Their study describes how high-tech companies react to the existence of multiple competing evaluations by influential analysts in their sector. They show that these companies choose to concentrate either on the measurement systems they consider the most influential, or on those they think they can influence the most. Pollock *et al.* (2018) do not suggest that organisations can ignore externally imposed evaluation systems or that they can only respond through decoupling. However, they show the complexity of these situations and argue that organisational responses can go beyond reactive conformance and involve more tactics, including selecting which pressures the organisation should prioritise.

An interesting finding of the above studies is that the evaluation systems treated as the most important are not necessarily those that give what the managers believe to be the most relevant or complete measure of their organisation's performance. Managers focus tactically on certain specific measures because they believe they understand how these measures work and consider that they have relevant levers to improve their position as assessed by the evaluation system.

Often, acceptance of these measures requires certain managers to play a "strategic interface" role between the organisation and its influential stakeholders. In listed companies, CFOs play this role and act as the shareholders' "voice" inside the organisation (Roberts *et al.*, 2006). Because they see rankings as a reputational opportunity, university deans are also becoming "sophisticated" in their responses, finding ways to transform their organisation and lead it up the rankings (Sauder and Espeland, 2009). Pollock *et al.* (2018) describe how dedicated departments, such as public relations departments, can select and respond to rankings but also project an image of professionalism and extend negotiating skills. Sometimes, impression management is the main outcome, as members of these strategic interfaces respond by selecting, simplifying and combining the information that will be disseminated (Sauder and Fine, 2008). The objective is to encourage other actors to adopt their point of view, that is, "to favour certain interpretations and try to convince others to do the same" (Sauder and Fine, 2008, p. 706).

Building on those studies, this paper aims to contribute to a better understanding of how organisations respond to externally imposed evaluation systems. We analyse how NGO teams respond to funders or their representatives, and how they aim to counteract the effects of upward accountability mechanisms in their organisation by tactically using certain information and elaborating practices and tactics to avoid and circumvent the impacts of these demands. More specifically, we study how certain staff members engage "on the frontline" with external auditors, actively select indicators that they believe they can control and use various tactics to gain acceptance for these indicators in the organisation. The next section presents the methods used to study this issue.

3. Research methods

This paper draws on an in-depth case study supplemented with field-level contextual interviews. To gain knowledge of the proliferation of humanitarian performance evaluation systems, we conducted 14 interviews with humanitarian evaluation "experts", including top managers of international humanitarian NGOs and their auditors (see Table A2). These interviews followed a relatively conversational mode with an interview structure allowing thematic comparisons (O'Dwyer, 2004). They provide a sound contextualised understanding of how performance auditors and humanitarian NGOs interact, and the main stakes of these interactions.

The case study itself was conducted through an immersion in the financial control department of HI's [1] headquarters. Direct observation of daily activities and interactions (Becker, 1958), participation in daily routines and concrete work situations (Covaleski and Dirmish, 1988; Dent, 1990) and a prolonged period of presence in the workplace of the people under observation (Sanday, 1979; Van Maanen, 1979) deepened our understanding of the views expressed by the different actors. In order to establish "mutuality" with a "gatekeeper" (Hammersley and Atkinson, 2007, p. 72) – HI's head of financial control – the first author worked pro bono as a "junior controller" and actively took part in the 2014 year-end financial closing during five weeks (December 2014–January 2015). He was stationed at an operational "desk" where he could observe the day-to-day work of the management controllers, be present at informal discussions about their job and see how they dealt with funders' compliance auditors.

Data collection was scheduled with a focus on this year-end closing period (Dalsgaard and Nielsen, 2013) to gain access to HI's financial teams at a time when they were responding both to statutory auditors and to funders' audits of expenditures. This corresponds to what Wall (2015) labels a "focused" ethnography or a "compressed" ethnography (Jeffrey and Troman, 2004, p. 538), that is, when researchers inhabit a research site during a time period deemed the most relevant to analyse a given social phenomenon.

The field researcher kept a fieldwork journal to note comments, personal experiences and reflections collected during more informal moments like coffee breaks or lunches in the cafeteria with the head of HI's financial control and colleagues. The field notes were complemented by accessing and analysing a great many internal documents (dashboards, proposals, financial and narrative reports).

After the five weeks of full-time immersion, the first author visited the site regularly over the two months of February and March 2015, conducting participant observation, non-participant observation and interviews, as well as attending meetings. The observational data were supplemented with 18 interviews with HI managers whose jobs require them to liaise with the funders' auditors, tackle compliance issues and reflect on the outcomes of audits (see Table A1). Interviewee selection was discussed between the primary researcher and the "gatekeeper". Semi-structured interviews were conducted throughout the organisation, from very experienced down to junior controllers, reflecting different standpoints within the organisation. The interviews focused on the recent changes HI was undergoing at the time and how they influenced the interviewees' own work. The conversation rapidly turned to the increasing significance of compliance audits for the organisation, which was almost always mentioned as a direct consequence of those changes. Questions then mainly revolved around the tasks performed during the audit phases, but the interviewees were also asked to reflect on how audits influence the organisation, and NGOs in general. Concerning HI, we discussed how work for the preparation of documents to be given to the auditors was distributed between the local field teams and the central teams at the Lyon headquarters. We were also interested in the daily interactions between HI's teams and their auditors. When the interviewees mentioned "ineligibility", which they almost always did, they were asked to explain why this was important and how they, individually or as an organisation, responded to it. The overall research design gave us a contextualised understanding of how HI's financial teams respond to and actively manage the auditors' requests and findings.

We analysed the data through a three-step approach (Miles *et al.*, 2014). The initial analysis used a relatively intuitive open-coding mode. Although the broad purpose was to understand how HI's financial managers use performance management systems, unexpected codes relating to accounting compliance and funders' audits rapidly emerged, such as "audit preparedness", "importance of the audits – internal", "importance of the audits – external", "audit outcome meaning", "simplification strategies" and "gaming strategies". We then

grouped these emerging themes into more theorised categories such as “changes in organisational activity to be able to answer auditors”, “audit outcomes as signals of organisational performance” and “counter-audit strategies”. In-depth analysis of these categories led to the narratives that form the core of this paper’s findings. Before presenting them, however, we present the NGO studied, Handicap International, and highlight the “funding drift” it has faced in recent years.

4. Findings

4.1 *Handicap International: increasing reliance on institutional funds*

HI is one of the largest French NGOs, with a €191m budget in 2018. It was set up in the 1980s, and currently has more than 3,300 employees worldwide working on over 402 projects in 62 countries. HI has a wide range of activities including emergency response, prevention and healthcare work in refugee camps, demining programmes and rehabilitation programmes. It also organises local advocacy campaigns raising awareness of the dangers of handling small arms, and initiatives at international level to limit the use of land mines.

HI’s headquarters employs 300 staff who are mainly in charge of steering programmes, fundraising and corporate functions such as general management, financial management and human resources management. HI has seen strong growth in its financial resources in recent years: the total budget increased from €119m in 2012 to €191m in 2018, through a combination of public generosity and institutional funding.

Individual donations have remained stable in absolute value, while HI’s operational expansion has been funded through international financing agreements. This has led to a progressive “funding drift”: private donations, which historically helped to create the organisation and fund its initial successes, are being replaced by institutional funding. Between 2012 and 2018, the share of private donations decreased from 50% to 33% of total financial resources, while institutional funding increased from 49% to 66%.

The decision to seek more funding from large institutional funders is not an easy one, for they have more power and greater expectations than individual donors. Some HI staff members are critical of this decision. Others, however, portray it as a positive strategic move:

Head of financial control: [Our new funding] comes from financing agreements [worth] several million euros [. . .]. The trend is for these funders to set up multi-year agreements with terms of reference covering several years [...] Having increasingly large funders over several years [...] gives us a certain stability in funding.

For the head of financial control, entering into “multi-year agreements” worth “several million euros” provides a stable level of funding over several years. This also means that access costs to obtain these resources (*e.g.* negotiation time and costs borne to sign the agreements) are not reincurred each year. The head of institutional funding also describes the involvement of US-based funds as a way to “diversify the risk”:

Head of institutional funding: We want to have 60% of USAID funding agreements. This may sound ambitious, but it’s realistic. We must have these margins of manoeuvre and we cannot let ourselves become dependent on EU funding. If you have an area that’s 100% covered by the EU, if anything goes wrong at the EU, we no longer have any money.

The overall strategic aim, then, is to have a balanced portfolio of funders to ensure that loss of one significant funder would not weaken the organisation’s operational capacity.

However, to access institutional funds, HI must comply with a set of strict processes and rules. Process-wise, when funders launch calls for projects, NGOs respond to this call by submitting a proposal. This is why some NGO managers view themselves as “project designers and executors” and their organisation as a “project factory” (Martinez and Cooper, 2017, p. 25). As the project unfolds, the NGO is required to have its expenses audited. This

might seem uncontroversial and sensible, but it also means that increasing the number of institutional funders translates into a proliferation of audits. Below, we analyse how HI reacts to this “burden” of evaluation, identifying three types of response: auditability, purification and performance.

4.2 Responding to the “audit burden”: reactivity, auditability and preparedness

4.2.1 Evaluation through a proliferation of audits. When tendering for funds from institutional funders, HI agrees to contractual rules that include ex post audits on how the funds are spent. These contractual audits are different from annual statutory audits since they are compliance-based audits that can take place at any time of year. The funders define the type and frequency of audits to be performed, the volume of expenditure to be audited, the type of documents to be presented to the external auditors (invoices, supplier agreements, expense reports, plane tickets, etc.) and the number of documents to be audited.

As HI has increased its portfolio of funders, the number of contractual audits has increased exponentially and outstripped its financial growth. HI’s CEO depicts this increase in audits as almost overwhelming for the organisation:

CEO: When I found out there were nearly 150 audits a year, I was speechless! I immediately asked how much that was costing us. On top of that, our auditors only charge us for 50% of the time they actually spend [on audits]. We cannot even raise this point with the international funders we deal with: they’re completely autistic! [2]

The CEO claims that “permanent over-auditing” has negative effects for the NGO. He also reveals that HI is bearing only half the audit costs it should be charged. If the auditors decided to charge their usual corporate audit fees, audit costs might threaten HI’s financial viability.

Additionally, funders are sometimes reluctant to fund large projects on their own: they may decide to fund certain sub-projects rather than a whole programme and encourage the NGO to look for other funders so that the risks are shared. This “co-funding” [3] approach has several consequences for HI’s accounting. HI’s finance teams must constantly be able to collect and retrieve vast numbers of accounting documents and to answer auditors’ questions. As the CFO humorously describes, contractual audit activity is continuously ongoing at HI’s headquarters:

CFO: Some funders require 60% of the accounting documents relating to a funding agreement to be audited. That’s a huge amount. [...] There are quite frequent discussions with them [the funder’s auditors] about the costs of permanently extracting accounting archives. In fact, the auditing is never-ending. I went on holiday: they [the auditors] were there. I came back: they were still there. I said to them: “Didn’t you take a holiday?”

When projects are co-funded, each funder asks “its” auditor to check that “its own” portion of agreed funds has been spent in compliance with the funding agreement. Therefore, the same accounting document is often requested and analysed several times, once for each funder. For HI, co-funding thus results in a situation where there are more funding agreement audits than actual projects. Combined with the fast-growing number of operational projects (and hence of funding agreement audits), this means that there are always auditors at HI’s headquarters. One room is set aside for audit teams all year round, and most of the NGO’s staff feel auditors have become a “permanent fixture”. HI’s financial teams are thus constantly “on call” to answer questions and explain how funds have been spent:

Management Controller: To quantify the internal costs of the contractual audits, we’ve been asked to take stock of the time spent answering auditors, sorting out documents, chasing up field sites for missing documents, participating in debriefings on the audits of our funding agreements; I calculated that I spend one third of my time just on audits! And it’s the same for my colleagues.

The rising number of funding agreements thus translates into a proliferation of audits. HI's accountants spend one-third of their time answering auditors' questions and supplying detailed documents. This results in a feeling of being overwhelmed by an "audit burden". Many members of HI's financial teams had left the organisation due to "administrative burn-out" just before the fieldwork started. The others were working to make the organisation "auditable".

4.2.2 Making disaster auditable. As Power (1997) argues, auditing creates an imperative of "making things auditable". Unsurprisingly, then, a first response to the proliferation of compliance audits is to make the organisation auditable. The preparations required for a contractual audit can be perceived as burdensome:

Auditor: Once they sign [a funding agreement], NGOs know from the beginning that they will be audited [...]. For instance, every time they issue a financial report for an amount above a certain threshold, there'll be an audit of those expenses [...]. When it's their first time, it can be a bit complicated and they may find it very burdensome. But the ones who know how it works are used to it. We can tell the difference. Some [NGOs] are very well prepared: we get an official contact who's in charge of audits, as they have several audits constantly in progress.

The primary purpose of contractual audits is to verify that the funds provided have been spent as specified by the funder. Responding to such audits requires a high level of preparedness, meaning that accounting documents and supplier agreements are available to show the auditors, or having a dedicated contact in the NGO responsible for arranging audits and answering the auditors' questions. However, making humanitarian NGOs auditable and building an audit trail can be difficult, as these organisations operate in often chaotic situations and may have to provide relief during large-scale emergencies or in war zones. Administrative procedures are low-priority and may be incomplete. The way NGOs manage their human resources can also create difficulties:

Audit Liaison Officer [4]: When responding to the funders' requests, we often receive incomplete paperwork from the field. So, we investigate and ask the field teams to dig through their documents, and send us back emails that can be used as additional documentation. It's not easy. For instance, our logistics managers change every six months so we have to start all over again every six months.

When personnel rotation is frequent, stabilising administrative procedures and accounting routines can be challenging. Some invoices may be missing or not translated, others may be improperly labelled according to the funders' requirements and some supporting documents may be unavailable. This instability leads to frequent back-and-forth contacts between headquarters and local offices to retrieve documents. It also means that HI's controllers repeatedly have to explain to the auditors how accounting processes are managed "in the field":

Management controller: One example of an audit going wrong: we're working in Tibet [an Autonomous Region governed by China]. Our CFO is based in Beijing [China's capital city] and our office is in Lhasa [Tibet's main city] where the operations are taking place. When I want to get accounting documents, I have to go through the Beijing offices first, which then pass requests on to Lhasa, because that's what we negotiated with the Chinese government, that's how it is. On top of the time difference problems for collecting documents, we've had information that got lost between Lhasa and Beijing.

HI's funders' auditors are not specialised in humanitarian action, rarely know much about local contexts and rarely have teams to send to local offices. One important task, then, is to "educate" auditors about the way an NGO operates. HI faces complex geopolitical situations, and this can complicate its administrative processes. In the above example, managerial logic would suggest the administrative office should be close to the operational sites. Instead, for political reasons, the CFO is located in Beijing, although the operations are taking place in

Lhasa. Having administrative headquarters more than 2,500 km away from the operational site complicates the coordination and circulation of accounting documents. As most audits are carried out in France, supplying the auditors with the proper documents can be problematic and the management controller needs to explain why it can take some time to collect them. Despite the explanations provided by HI, auditors may still have difficulties grasping how a humanitarian aid project works. This raises questions and potential doubts:

Management controller: The auditors' main mandate is to check whether we comply with the funders' standards, but the auditors struggle to understand how a project works "out there". For example, we have four types of invoices from China and Tibet. So, they ask: "*Why are there four types of invoices? Where do they come from?*" They want to understand more about the project, and they ask a lot of questions. Proof of settlement of an invoice can differ: there may be a simple "dot" on the invoice, and a "dot" means the invoice is paid. But if there's a signature or Chinese character, and they do not see the same form of validation, they soon get suspicious. Every year, they ask the same questions. Also, the auditors' teams here change substantially every year and so do we! In fact, the auditors' rotation is the same as ours: every two years.

With projects in process all over the world, HI frequently works with local subcontractors. As the management controller explains above, the templates, presentation or wording of some of these subcontractors' documents can be idiosyncratic, making the "audit trail" a bit muddy. Insufficient "humanitarian literacy" can also make auditors "suspicious", or, as they would probably say themselves, "uncomfortable".

4.2.3 *Creating reflexive behaviours. "Audits matter"*. In order to improve and homogenise the response to the growing number of funders' evaluations, in 2013, HI decided to create the new position of "audit liaison officer". HI already had a head of accountability, but this new position was created as the key contact person for the dozens of contractual audits taking place, as explained by the audit liaison officer herself, who has worked at HI for 15 years and was formerly its head of financial control:

Audit liaison officer: I'm in charge of coordinating all the controls performed by the auditors on behalf of our 70 funders. I'm also the expert on each funder's specific financial rules. For instance, all the new procedure requests from funders go through me, and it's my job to dispatch the new procedures to the relevant departments at HI.

HI's "audit liaison officer" plays the role of a "smart mailbox" between the management controllers and the auditors. This position thus constitutes a centralised internal added-value interface whose function is to translate funders' financial rules into HI's operational modes and ensure that these rules are properly applied.

Also in 2013, HI set up an "Audits Committee" to channel requests from its auditors. This committee is chaired by the CEO, is operationally managed by the head of accountability and includes both the CFO and the audit liaison officer. The plural title "Audits Committee" is unusual – the equivalent private-sector governance unit is usually called the "audit committee" – as the head of accountability explains:

Head of accountability: Before [he took charge of the committee], the Audits Committee was just reacting to the way controls and audits were managed, and what the results were. I'm not saying it was done badly, but. . . Well. . . You get hit with a control from the *Cour des Comptes* and you figure out how to respond. Then you get hit with a funder's audit: you figure out how to respond; you get hit with a controversy in the press: you figure out how to respond. Well, finally the volume increased to a point where in the end, it's better to say: "This is an ongoing situation. It's not just about responses we can give out one after the other".

In this quote, the Audits Committee is portrayed as an ad hoc committee formed to handle the constant stream of requests from external auditors or other monitors, whether they work for institutional funders, the *Cour des Comptes* (the French equivalent of the Auditor General) or

the media. Its aim is to turn “just responding” into an “ongoing situation”. One of its major roles is to ensure that HI stays constantly alert, as described below:

NGO responses
to financial
evaluation

Head of accountability: As ongoing external controls require constant vigilance from our side, instead of mobilising X, Y or Z depending on the subject, this concern is consistently addressed. The committee coordinates every response to accountability requirements. Accountability demands are thus addressed in a standard way. The Audits Committee structures our capacity to properly tackle the issues and shows that we take accountability seriously.

The committee’s function is thus to “set the accountability tone” and coordinate action plans and responses in order to demonstrate that HI “take[s] accountability seriously”.

The role of the Audits Committee is critical regarding funder audits. It acts as a “sound box” (or what [Clune and O’Dwyer, 2020](#), call a “sounding board”) inside HI to enhance perceptions of the importance of audit requirements. For example, the audit liaison officer disclosed the following message on behalf of the Audits Committee in an internal document distributed to all staff: “funder audits [...] cover a wide range of our work and are therefore *everybody’s business* [...] Everyone must keep track of what they do in their own area of responsibility, and must be prepared to provide documentation to the auditors” [5].

In this short extract, the audit liaison officer stresses that audit preparedness is key for successful funder audits. Reactivity to external evaluations should be “everybody’s business”. Like “sophisticated players” ([Sauder and Espeland, 2009](#)) who develop skills and tactics to respond to external pressures, HI sees the emergence of “sophisticated preparers”, audit specialists with expertise in auditability, accountability and professionalism. They also constitute a new interface, signalling that “audits matter”. A “strategic interface” ([Pollock et al., 2018](#); [Sauder and Fine, 2008](#)) emerges to mediate between the organisation and its influential stakeholders, acting as the latter’s “voice” inside the organisation ([Roberts et al., 2006](#)). To paraphrase [Miller and O’Leary \(1987\)](#), these interfaces serve as escape routes through which evaluations can leave accountability departments and enmesh, potentially, everyone in the organisation. They turn a constraint – responding to audits – into an organisational priority, something more than accounting compliance alone. This is not without risks.

4.2.4 Unsuccessful tactics. The risks of reactivity. The main risk of reactivity is that it may change the organisation so much that some will resent what it is becoming. This is a serious risk for NGOs, where increasingly formalised controls can be perceived as the organisation “losing its identity”, thus damaging internal bonding and negatively affecting service delivery ([Chenhall et al., 2010](#)). Reactivity can also backfire on its supporters themselves, as the following anecdote shows.

The cost of an HI expatriate varies significantly depending on the country. Previously, in order to prevent cancellation of a low-budget programme requiring specialised expertise, HI set up a specific budget known as the “Expatriates Pot”, equal to the sum of the salaries of every HI expatriate plus local costs such as rents, protection and electricity. To level the cost differentials between countries, this “Pot” is used to calculate a weighted average cost for all expatriates, and the total expatriate costs for every project (whatever the country) are thus based on that weighted average cost.

When she joined HI, the head of financial control restructured the accounting department and asked her teams to provide more detailed breakdowns. Among other things, this gave a more detailed understanding of the local costs previously included in the “Expatriates Pot”. She describes how the auditors responded to this:

Head of financial control: As soon as you bring new issues to the table, the auditors want more detailed data. Now, we have a better view of local costs, and we try to allocate those local costs by country and keep them out of the Expatriates Pot. In our opinion, that’s more accurate. . . So far, auditors have always accepted the Pot. But now they know we can be more precise they want to go further and audit our local costs!

The head of financial control acknowledges here that the “improvements” achieved by importing for-profit entity accounting processes into HI also created new “audit opportunities”. She is pleased to tell us that the auditors congratulated her on her improvements, but now realises she also gave them a reason to look deeper into HI’s operations. This may have helped to gain the auditors’ trust, but it also increased the audit burden.

Responding to evaluation by reactive conformance: preparedness, vigilance and auditability.

Previous literature has stressed the influence of NGO funders who, through the promotion of financial accountability, encourage “counterproductive”, “damaging” and “inappropriate” performance evaluation systems (Ebrahim, 2002; O’Dwyer and Unerman, 2007, 2008). However, the literature has tended to overlook an important dimension of this burden – the proliferation of audits. At HI, the pressure for upward accountability inside the organisation is materialised in compliance audits. To gain the trust of their funders, NGOs first need to gain the trust of their auditors, which means making themselves more auditable. Preparedness, vigilance and auditability constitute a first response to the burden of evaluation.

4.3 Coping with evaluation anxiety: purification and the allure of the single figure

4.3.1 Fear of “ineligible expenses”. The literature argues that the links between institutional pressures and organisational activities can become tighter when evaluation systems create “anxiety” (Sauder and Espeland, 2009). At HI, such anxiety comes from the fear of “ineligible expenses”. Contractual rules agreed with funders define the nature of the expenses that HI can incur, the period during which the NGO can use the funds and the control procedures applicable. Expenses failing to meet any one of these criteria are reported by the auditors as “ineligible” and will not be covered by the funder:

Deputy head of management control: Once the external auditor [appointed by the funder] points out an ineligible expense, we have to reimburse it. For example, I recently had a case: there was an [...] invoice that they would not allow in the negotiated expenses. Well, in fact, it turned out that the field administrator had mixed up two invoices: he posted the wrong invoice. Well, despite the fact that we fought hard to explain to the auditor this was a mistake, that we do have the right invoice, etc etc. . . . No way! You must repay your funder [...].!

Observer: Final word?

Deputy, head of management control: Final word. They would not budge. When you’re in the private sector, you say: “Oh yes, I made a mistake. Sorry. Yes, the net result is a little lower”, but there are no such consequences... Well, there are, the shareholder gets a bit less [...] but as far as we’re concerned, we have to pay back straight away.

Although this interviewee conflates contractual audits with statutory financial audits despite their different scope and purpose, his reaction is telling. He describes the funders’ audits as too strict. The inflexibility of this audit approach may be surprising, but is mainly due to the fact that the funders themselves are accountable to their own funders and have to ensure that their funds are only financing the projects agreed during the negotiation phase. However, as funding arrangements become more sophisticated for HI, the excessive rigidity described by the controller seems to prompt absurd situations. The interviewee talks about “repaying” the ineligible expenses, but what will happen in practice is that HI will not receive some of the funds it had included in its budget. Since projects start once funding has been agreed, without waiting for the money to arrive, this means that HI has started spending money it will never receive, a situation compared here to a form of “repayment”.

Failure to demonstrate that an expense matches what was agreed with the funder thus means that the expense will be considered “ineligible” for the promised funding. This

effectively limits NGOs' operational independence. Such potentially damaging consequences explain the level of anxiety evaluation systems create.

4.3.2 *Purifying accounting information.* As the cost of non-compliance weighs heavy on HI's financial resources, it is not surprising that its teams put considerable time and effort into responding to compliance audits. However, this had a surprising consequence at the time of our observations: most of the management controllers were focusing on "managing" the audits and "optimising" the audit outcomes, an activity rarely mentioned in the literature on management accountants' practices (Lambert and Sponem, 2012; Morales and Lambert, 2013; Mack and Goretzki, 2017; Heinzlmann, 2018). The main goal of such practices is to avoid "ineligibility", as explained below:

Management controller: So, in the audit of Country#1, I did not have any ineligible expenses!

Observer: Great! How did you do that?

Management controller: Well, I saw to it that there were not any (laughs). For example, we'd budgeted for creation of an intranet site in Country#2 [adjacent to Country#1]. The auditor wanted proof that the site was up and running. But in fact our Country#1 supplier had no legal obligation to provide that information. So as we had no evidence [...] I removed those expenses. Can you imagine! To prove [the existence of the intranet site], I would have had to take photos of the site home page, or print screenshots! Anyway, what I did made sure the expense was not reported as an ineligible one in the final report!

This quote illustrates how management controllers can avoid "ineligibility". The controller is not saying that she moved funds or used them in a way the funders would find questionable; this anecdote is neither about fraud nor about earnings management. The organisation used the funds for the purpose initially negotiated yet could not provide the related supporting evidence. Anticipating that the auditor would label the expenses as "ineligible", the management controller preferred not to include them in the request for funding, meaning that HI will have to cover them from its unrestricted funds (private donations). Financially and economically, the result is exactly the same as if this expense were classified as "ineligible", with one important difference: the reported amount of "ineligible expenses" would have been greater.

The question of "ineligibility" has become so widespread at HI that repeated use of the expressions "zero ineligible expenses" or "zero ineligibility" has turned it into an exhortation and rallying cry. The expression "zero ineligibility", often heard during the field work, creates a common, explicit, quantified goal for the financial teams. To reach "zero ineligibility", HI works to "purify" its accounts. "Ineligibility" is seen as a failure of accounting compliance tests, which may signal a dysfunction in the accounting chain between the operational fields and the head office. Rather than running the risk of visible non-compliance, the controller prefers to charge the related cost to the organisation's unrestricted funds. The decision to have HI bear the cost rather than see the intranet site publicly declared an ineligible expense is deliberate and tactical; it minimises the amount of ineligible expenses, and a "clean audit" result enhances the impression that accounting controls are properly performed in the NGO. Working to avoid ineligibility becomes a "purification" ritual.

Responding to evaluation by purification: anxiety, reflexivity and the single figure. The proliferation of audits creates a fear of ineligibility. To assuage the permanent anxiety associated with evaluation, the organisation engages in a "purification" ritual. It works to "purify" its accounts in order to present a "clean" image. To guide this purification ritual, HI has crafted a single accounting-based performance indicator. Reflexive behaviour, preparedness and reactive conformance all become means to reach the target of "zero ineligibility". This "extreme" commensuration and decontextualisation represents all the organisation's activities in a single figure. Through this indicator, the organisation makes its

own “purification” manageable and amenable to intervention. As the next section shows, the organisation can also build on such “purity” to make itself “eligible”.

4.4 Crafting a competitive advantage: performance and “standing out”

4.4.1 Productive frictions: the limit to compliance. Once a certain level of trust has been established with the auditors, management controllers are able to show them “technical shortcuts”. This tactic helps to relieve the audit burden, as the audit liaison officer explains:

Audit liaison officer: We constantly work with the auditors to reduce the number of accounting documents they can review and still tell [the funder] that they have properly reviewed the accounts (laughs). For example, we pay rents [for an expatriate] and they want to check all monthly rents over a 12-month period. We give them the first and last months’ rents, and say: “Don’t bother about the 10 intermediate rents, there’s no point seeing those.” The same goes for recurring costs [such as car leases]. So they report that they have reviewed 100% of these expenses, even if they’ve only actually seen 20%! That’s what they call rationalisation; and it means they can reach their coverage goals while reducing their workload (laughs).

This “win-win” shortcut tactic saves time and costs both for the auditor and HI’s teams. It avoids retrieving accounting archives or invoices, or printing out general ledgers. However, in order to be shared and accepted by the auditors, such “technical shortcuts” require sound knowledge of humanitarian project costs. This tactic is not so much about explaining these costs to the auditors as convincing them that this type of “rationalisation” is safe for them. In this case, both rents and “recurring costs” like car leases are fixed costs, which are recorded over the entire duration of the project.

Sometimes, HI openly refuses to comply with its auditors’ formal requests. For instance, requests that go beyond the audit’s “mandate”, such as intrusive data requests, may be rejected. This constitutes a form of upfront resistance, as the head of financial control herself says:

Observer: One option [to keep the auditors at a distance] would be to say that you’re unable to provide the information. Is that possible?

Head of financial control: Well. . . You know what I used to do in my previous [for-profit] companies? [...] I say: “Listen. . . We do not have to provide this information or answer this question.” From time to time, they begin to go beyond [their mandate] and we keep having to bring them back to the strict instructions and scope of their mandate. I tell them: “Your mandate is to look at this thing, so do not go beyond it.”

Thanks to her past experience in managing audits in the for-profit sector, the head of financial control is able to refuse requests that she deems to be outside the auditors’ “mandate”. By questioning the auditors’ “mandate”, the head of financial control is indicating that she knows the “rules of the game”. To do so, she needs to understand the funders’ terms and conditions, but she also needs to understand how auditors work. She often reminds them that she spent part of her career in a large group’s holding company; the legitimacy derived from this “for-profit” experience is crucial for “reframing” the auditors’ requirements when she considers they are “going beyond their mandate”.

This tactic thus calls on the manager’s ability to demonstrate to the auditors that her refusals to answer requests are professionally legitimate. Using her past experience, she shows that she is knowledgeable and “audit literate”. This avoids arousing suspicion – she is not refusing to answer because she does not know enough about audits, but because she knows more than enough. A person has to know the rules very well to know when they can say no.

Because it has “audit literacy”, this NGO can afford to “educate” the auditors, showing them how to make their work easier and keeping them within the boundaries of their

mandate. Sometimes, the idea behind such tactics is to establish some form of cooperation or compromise to point out opportunities for auditors and make allies of them. Another tactic is to create “productive frictions” (Chenhall *et al.*, 2010) and “constructive disagreements” (Clune and O’Dwyer, 2020). But responses also include the outright refusals of their requests. Ultimately, whether they offer shortcuts and cooperation or decide to refuse over-intrusive requests, HI’s financial teams are taking back the initiative – they become the people who can make the “game” mutually beneficial, or send potentially unwelcome reminders that the auditors, too, have a “mandate” to respect.

This observation is interesting because it shows how NGOs can influence their auditors, whereas the literature tends to assume only one-way influence – by the auditors over auditees. In a new form of audit work, the auditee’s teams “work” the audit and sometimes take action to influence the auditors’ work. The auditors are aware that HI’s teams are using tactics and relying on some “give-and-take”. They are willing to “play the game” because they understand that the suggested shortcuts can save them time and open up new audit opportunities. In other words, both sides share an “objective complicity” in keeping the game itself going (Bourdieu, 1980). However, to become “audit literate” and display knowledge of “the game”, the NGO had to internalise the logic and practices of the funders and their auditors. Responses to audit can “change” the auditors themselves and shape the audit, but the NGO had to change itself to better change its auditors.

4.4.2 Operating like a private company. To gain auditors’ trust, HI adopted a for-profit entity’s style of accountability and management. Many of its staff who have worked in the humanitarian field for a long time are sceptical and critical of this approach. Yet they also consider that access to stable resources would be made easier by recruiting managers from the private sector, like the CEO and the head of financial control, who both have much more experience in publicly listed corporations than in the humanitarian sector. HI’s head of financial control has worked there for three years, after ten years as financial controller in a very large listed company. She prides herself on having significantly improved monthly closings since her arrival, by introducing some of the “for-profit” financial processes and work practices learned in her previous jobs. As she explains, respecting deadlines is important:

Head of financial control: On the day before the annual accounts deadline [...] I was told: “Well, anyway we have another week [to close the accounts]”. So I said: “Well no. If you’ve been given a deadline, you need to stick to it; otherwise we would already have given you a week, so no way!” The answer I got was: “Oh! Usually, if we needed 10 weeks or 12 weeks, then we asked for it, and we were given more time.” And I said: “But life does not work that way. If you have a party, and you’re not ready, you’re not going to say: sorry, let’s postpone the party! Likewise for the accounts.” (. . .) We [the financial teams] are getting more and more professional.

The head of financial control stresses that reporting deadlines must be respected, and the accounts prepared on time. The flexible deadlines of the past no longer apply. The justification, that “life does not work that way”, suggests that HI’s financial teams need to adopt the “real-world” attitudes of private companies, and their previous humanitarian sector ways are relegated to a slacker, unprofessional world – with the argument that deadlines must be kept even when organising a party (which is really a very different matter from arranging emergency relief operations).

This head of financial control claims that the auditors congratulated her on the “improvements” she introduced. HI’s financial teams, although they often complained about the audit burden, thus decided to respond in a “reactive” way and adopt a style of accountability more familiar to their auditors, that is, more similar to private companies’ practices. By showing the auditors that she is importing work practices from her past jobs to HI, the head of financial control goes beyond compliance and draws on her previous

experience in the private sector to change the definition of NGOs' managerial performance.

4.4.3 *Displaying "eligibility": zero ineligibility as a competitive advantage.* HI has used its ability to "work the audits" to drastically reduce the amount of its ineligible expenses. HI's audit liaison officer stresses the significance of disclosing small amounts of ineligible expenses:

Audit liaison officer: [talking about funder audits] They're useless and they're costing us a lot [...]. Last year, the auditors examined nearly €64 million of expenses and they only found €53,000 of ineligible costs. [They] never find anything. And for that result, we paid [them] [more than €200,000]

Observer: [That result] seems too good to be true! How did you achieve that?

Audit liaison officer: We're good negotiators! (Laughs)

Again, there are no suggestions of fraud or manipulation, but of skill and sophistication in meeting auditors' requirements. In addition to well-managed operations, robust accounting systems, rigorous bookkeeping and sound documentation practices, the "zero ineligibility" target also serves a broader goal. As the teams have successfully reduced ineligible expenses to very small amounts, the audit liaison officer concludes that "[the auditors] never find anything". HI can then flag up these almost perfect audit results to its funders as sound evidence of its overall organisational performance and use this to lobby for a lighter inspection approach that will reduce the "audit burden".

HI's management controllers strive not only to avoid ineligible expenses but also to display their ability to avoid ineligibility. Beyond mere accounting compliance, avoiding ineligibility becomes a symbol of professionalism. Having a low level of "ineligibility", that is a high degree of "eligibility", becomes a way to demonstrate professionalism, highlighting the organisation's expertise in auditing practices, and show off its good performance. For some, this increasingly financial understanding of the NGO is unacceptable, and many staff have left HI. For others, accounting and auditing literacy becomes a way to display a certain expertise and contribution to the NGO's performance and reputation. HI staff thereby relate their contribution to the field to an ability to demonstrate and display their organisation's "professionalism", "purity" and "eligibility".

The amount of "ineligible" expenses is not only important to HI's financial managers and their auditors, but it is often shared beyond the restricted circle of auditors and central financial teams. Some senior management staff, in particular, consider that the absence of ineligible expenses can be considered as a competitive advantage, as indicated in comments made by HI's head of accountability:

Head of accountability: Both France and the EU are going to check whether or not I'm a reliable organisation [...] In the end, it will cost money and... well... I do not know if it'll kill us, because we could say: "Let's try to be the best at meeting [funder audit] requirements and maybe we can kill the others because we'll be the best." Well, of course that means we're heading for a bureaucratic battle and if that happens, it might not kill us but make us stronger.

For this manager, "be[ing] the best at meeting funder audit requirements" means providing the funders with the best comfort and reassurance so that they will go on funding HI's operations. The head of accountability's words suggest the allure of "being the best" and being perceived as a "reliable organisation". Insofar as almost no ineligible expenses are reported, "being the best" – presenting the lowest levels of ineligible expenses – is presented as an appealing type of competitive advantage. Such "best-in-class compliance" becomes a lever for "reputational entrepreneurs" to construct a desirable image for their organisation (Sauder and Fine, 2008). As a demonstration that the NGO is highly professional and capable, it facilitates negotiation for further funding.

Ultimately, reaching “zero ineligibility” is becoming a kind of “sales pitch” or “premium” quality that the organisation can put to use. It strengthens HI’s negotiating position with institutional funders, a category of funders for whom this measure is important. It also excludes from the competition other NGOs that are less able to demonstrate compliance, the implication is that not all NGOs will be able to endure the “audit burden”. The head of accountability speaks of a “bureaucratic battle” – not a battle with bureaucracy, but a battle won by the organisations that can afford to manage large-scale bureaucracy.

This helps answer the initial empirical puzzle. The reason HI has decided to prioritise institutional funders that enforce the most stringent controls and bureaucratic requirements is because it has become expert at compliance, answering auditors, managing the bureaucratic burden and avoiding ineligible expenses. It can enter into a large number of co-financed large-scale funding agreements because it can afford the related burden; it can even expect to “manage” that burden smoothly, as it has become expert at responding to funders’ demands and avoiding potential negative consequences. Increasing reliance on institutional funding is thus subjecting HI to a proliferation of audits, what its staff consider an overwhelming “audit burden”. However, the funding strategy has also made this burden heavier: HI has chosen to prioritise large institutional funders which have strict rules, want to decrease their own exposure through co-financing and focus on their own upward accountability.

4.4.4 Compliance as a competitive advantage: performance and standing out as a “high achiever”. The literature has described how some NGOs accept increasing formalised procedures and accounting controls to secure funding, yet they often remain critical and fear a “mission drift” (Chenhall *et al.*, 2010; Christensen and Ebrahim, 2006; Goddard and Assad, 2006; Kuruppu and Lodhia, 2019). HI goes further and seems to embrace the audit burden, although this has triggered criticism and some staff turnover. Beyond making its operations auditable, HI has adopted “reactive conformance” (Pollock *et al.*, 2018) strategies by introducing for-profit styles of accountability. Like many other NGOs, HI has deliberately hired managers from the private sector to change accounting processes and turn the NGO into something increasingly like a private company. These newcomers display their internalisation of the “corporate NGO ethos” to gain the auditors’ trust and to engage in “productive frictions” or what Clune and O’Dwyer (2020) call “constructive disagreements”. However, all this encourages an advanced form of conformance, as the main aim is to be “best in class” and make sure that the whole organisation focuses on doing what funders expect – HI is not trying to disrupt the institutional funders’ game, but to play it effectively. Its competence at compliance becomes a symbol of professionalism. Its members work to make the organisation “eligible” and display its “eligibility”. The question of (in)eligibility gradually moves beyond issues of compliance and reshapes the organisation’s overall strategy. Accounting and audit skills become a new competence to leverage for competitive advantage. Standing out as “high achievers” as regards ineligible expenses provides the foundation for a new strategy. This highlights the role of auditing, accountability and financial literacy in the constitution of “business-friendly” “corporatised NGOs”.

5. Discussion and conclusion

Previous literature has shown that the difficulty of measuring and assessing NGO performance has led to a proliferation of evaluation systems in the NGO field (Chenhall *et al.*, 2013; Hall, 2014). Past research has been particularly interested in how these systems influence NGO accountability and showed that institutional funders in particular tend to enforce financial accountability to the detriment of broader, more holistic patterns of accountability (Agyemang *et al.*, 2017; Dixon *et al.*, 2006; Goddard and Assad, 2006; O’Dwyer and Unerman, 2008; O’Leary, 2017). Overall, these studies generally describe the proliferation of evaluation systems as an overwhelming burden for NGOs (Martinez and Cooper, 2017).

This paper contributes to this literature by studying how NGOs respond to external evaluations. Below we discuss three responses we observed – auditability (the organisation develops “preparedness”), purification (the organisation copes with the anxiety of ineligibility by succumbing to the “allure of the single figure”) and performance (the organisation builds on its newly acquired auditability and purity to perform itself as a “corporatised NGO”). We argue that, overall, these responses show that NGOs are now acting not so much as project implementers but as entrepreneurs competing for “eligibility”.

The first response we identify is auditability. One important finding is that NGOs devote an important share of their resources to responding to compliance audits. Previous literature has stressed the influence of NGO funders who, through the promotion of financial accountability, encourage “counterproductive”, “damaging” and “inappropriate” performance evaluation systems (Ebrahim, 2002; O’Dwyer and Unerman, 2007, 2008). These systems can accentuate procedural formalisation (Martinez and Cooper, 2017) while increasing bureaucratic costs (Goddard and Assad, 2006; Roberts *et al.*, 2005; Agyemang *et al.*, 2019). However, these demands are mediated by compliance audits. The relentless audit work is making the distant pressure for upward accountability deeper (auditors can look at each invoice, not just a reporting document), closer (the presence of funders, even remote, is palpable through the presence of auditors on the premises) and more continuous (auditor presence is almost constant). To gain the trust of their funders, NGOs first need to gain the trust of their auditors, which means making themselves more auditable. Preparedness (Collier, 2008; Dewi *et al.*, 2020; Matilal and Adhikari, 2020), vigilance (Morales *et al.*, 2014) and auditability (Power, 1997) constitute a first response to the burden of evaluation and a first step in a process of “reactive conformance” (Pollock *et al.*, 2018).

The second response to evaluation is “purification”. The proliferation of audits and related pressure for auditability and constant preparedness creates anxiety. In the case organisation, the anxiety comes primarily from the fear of “ineligible expenses”, that is, expenses that the funders will refuse to cover. The proliferation of audits thus stokes the fear of ineligibility. To avoid ineligibility, the organisation works to “purify its accounts”. While previous studies have emphasised the role of funding tools such as the logical framework (Ebrahim, 2009; Hall, 2014; Krause, 2014; Martinez and Cooper, 2017, 2019; O’Dwyer and Unerman, 2007, 2008), direct observation of an NGO’s finance teams shows that accounting compliance and ineligible expenses can be more pressing concerns. Funders not only enforce normative controls through evaluation systems, they also have the means to control compliance with such norms through audits and eligibility checks. As ineligibility symbolises a failure of accounting compliance tests, it may signal a dysfunction. Avoiding ineligibility is thus important to secure financial stability, but it also signals compliance, displaying an ability to conform to funders’ demands. The organisation works to avoid ineligibility in order to display its “purity”.

The third response to evaluation is an emphasis on performance. Turning a question of simple compliance into a display of good performance, the NGO studied builds a strategy and competitive advantage on its ability to respond capably to evaluation. Avoiding ineligibility leads to a purification ritual which, in turn, fosters a sense of achievement – the organisation sees itself as competent at managing the audits, and this makes it feel “eligible” and perfectly prepared to go through increasingly challenging evaluations. “Purifying the accounts” to avoid ineligibility becomes an important impression management tactic, as this new form of “eligibility” can then be used to negotiate further funding. Compliance thus becomes a form of performance – financial performance, but also organisational performance (the ability to deliver what funders want through operational and managerial robustness) and individual performance (the ability to “work” the audits and display professionalism).

The three responses of auditability, purification and performance constitute NGOs as entrepreneurs competing for eligibility. Working to avoid ineligibility becomes a form of

“purification” ritual. The purification then produces a form of “eligibility” and becomes a symbol of professionalism. NGOs are no longer competing in a market for projects (Krause, 2014) but in a market for eligibility where brand management and financial compliance become more important than actual project implementation.

The organisation studied displays a high propensity for reactive conformance and devotes significant resources to responding to institutional pressures. Previous literature has documented the tendency to respond to institutional pressure and external evaluation systems through compliance and conformance (Pollock *et al.*, 2018; Sauder and Espeland, 2009). By turning questions of accountability into a concept of “eligibility” and using financial compliance as a symbol of performance, HI is engaging in an extended form of reactivity which goes further than forms of reactivity previously described in the literature. What is important is not so much operational or mission-driven performance – which is what funders try to capture and control through the logical framework (Hall, 2014; Krause, 2014; Martinez and Cooper, 2017) – but professionalism defined as compliance and process control. Some elements are probably idiosyncratic to the case, but it does suggest a broader trend of financial understanding and evaluation of NGOs’ performance.

Funders provide the framework, categories, criteria and conditions of eligibility; they set the terms of recognition as an eligible organisation; they define the conditions of recognisability as eligible. However, NGOs are neither purely passive nor entirely powerless (Agyemang *et al.*, 2019; Cordery and Sim, 2018; Kuruppu and Lodhia, 2019; Goddard *et al.*, 2006; Neu and Ocampo, 2007; O’Dwyer and Boomsma, 2015; Roberts *et al.*, 2005). Usually, the organisation cooperates and finds compromises with its auditors, but it can also try to influence them or refuse certain requests and “teach” them how NGOs work. It can create “productive frictions” (or what Clune and O’Dwyer, 2020, call “constructive disagreements” leading to “management friction”) and follow various tactics to avoid pure compliance.

Displaying “audit literacy” is one way for NGO staff to regain control of their work and actively reframe the constraints of external evaluation. NGOs internalise some specific logics and practices – those followed by institutional funders and large audit firms – to become audit literate as a preliminary step to influencing the auditors themselves and shaping the audit. The NGO studied displays audit literacy to improve its position in a negotiation with its auditors – it can now afford to “educate” its auditors. The audits change the auditee, but the auditee also “works the audits”. Both auditors and managers are learning and teaching rules of the game that evolve as each party develops a more “sophisticated” understanding of the other’s views and constraints, both sharing an interest in upholding the game itself in what Bourdieu (1980) calls “objective complicity”.

These tactics, although they provide a sense of regained freedom and agency, also constitute an advanced form of compliance. In the case organisation, as in many other NGOs, staff with experience in the private sector have been recruited to help with preparedness and auditability. They act as “sophisticated players” (Sauder and Espeland, 2009) and a “strategic interface” (Pollock *et al.*, 2018) – here as “sophisticated preparers” who can claim expertise in auditability, accountability and professionalism to mediate between the organisation and its influential stakeholders. Sophisticated preparers purposefully bring in “managerial” competences to rationalise the organisation. As others have remarked before, such so-called “professionalisation” (Hwang and Powell, 2009) can impact NGOs’ “mission”, influencing their “core values” (Chenhall *et al.*, 2010), shifting their rationalities (Boomsma and O’Dwyer, 2019) and depoliticising their action (Martinez and Cooper, 2017).

Yet NGOs increasingly adopt managerialism to access funding. Having demonstrated an ability to comply, they can claim to have internalised the patterns of organisational practices demanded by institutional funders and compliance auditors, and hence expect to receive more support. The NGO studied does not reject managerialism but embraces it, arguing that

fundes and auditors can reduce their scrutiny because it has already adopted for-profit styles of management and governance. It derives its sense of pride and distinctiveness not only from its humanitarian interventions but also from its ability to meet funders' expectations that NGOs should "manage" their affairs like private corporations.

NGO performance is thus increasingly assessed through financial indicators of accounting and administrative compliance. In the case studied, the movement from "purity" to "eligibility" is materialised through the emergence of a "zero ineligibility" indicator. This finding emerges after several decades of debates, proposals and calls for more holistic NGO accountability (Everett and Friesen, 2010; O'Dwyer and Unerman, 2007, 2008; Krause, 2014; Unerman and O'Dwyer, 2010; Agyemang *et al.*, 2019; Cordery *et al.*, 2019). The case organisation instead narrows the focus and uses a standardised, quantified, one-dimensional instrument to assess and communicate its performance: a single accounting-based performance indicator. This indicator emerges in a context of limited harmonisation. In response to proliferating evaluation systems (Pollock *et al.*, 2018), a single indicator becomes a mechanism of commensuration between the demands made by different bodies, each imposing their own standards. This "extreme" commensuration and decontextualisation represents all the organisation's activities in a single number and could very well be used by fundes or third parties to evaluate NGOs without any broader knowledge of their activities.

Calling this trend "professionalisation", as some observers do, implicitly relegates alternative approaches to a past when NGOs were "unprofessional". Indeed, while NGO staff were relatively sidelined in the past (Lewis, 2014), they can draw on this new understanding of NGO performance to claim a contribution to the field through their ability to demonstrate and display their organisation's "professionalism", "purity" and "eligibility". Accounting sophistication becomes a source of pride and distinction. This helps organisations turn the frames of evaluation and accountability to their advantage, and their staff regain control over their own work. In the process, the organisations actively reconstitute themselves as "corporatised NGOs" that resemble private corporations, adopt managerialism and excel at responding to institutional fundes' expectations.

Not all staff members are pleased about this trend, and some people with important experience in the NGO field have left. Even the staff who support the "new humanitarian management" can see some negative effects. Interestingly, by increasing their auditability, NGOs become more vulnerable to pressures for even more auditability. Making NGOs more transparent and creating new visibilities only help auditors to call for even more transparency and visibility. Such requests potentially contain the risk of creating a "tyranny of transparency" (Strathern, 1997, 2000) and a "dynamic of mistrust" (Roberts *et al.*, 2006), which, in turn, feed even greater anxiety. In the process, formalisation may increase trust in systems, but to the detriment of trust in persons, which used to be strong in the NGO field. If NGOs are prepared to behave like private corporations, they may find themselves importing some of the less admirable private-sector behaviours, including the willingness to reach targets even when that harms organisational integrity. The new humanitarian management is not without risks, and NGOs' responses to evaluation could lead them to lose the specific features that have so far been the foundations of their achievements and popularity.

Notes

1. The organisation has since changed its name to Humanity & Inclusion; to avoid ambiguity we will call it "HI".
2. This expression should not be taken literally. Although it is offensive to persons suffering from autism to consider it acceptable to insult someone's "inflexibility" by calling it "autism", we decided to keep the literal translation of what our interviewee said.

3. Co-financing covers two dimensions. First, large funders ask NGOs to part-finance projects (to the extent of 10%–20%) with their own financial resources, meaning private donations. Second, the NGO often signs contracts with several funders for different periods of the same project. For example, a €200,000 project may be financed €50,000 by funding contract#1 with Funder#1 between 1st January and 1st June, and €100,000 by Funder#2 (funding contract#2) between 1st March and 1st December, with HI covering the remaining €50,000. The overlapping dates of funding contracts in such a case make it more complex to link charges to funding contract #1 or #2.
4. The audit liaison officer at HI is the manager in charge of responding to (or redirecting) auditors' requests before they reach management controllers.
5. "Lettre des fonds institutionnels" (Letter from the institutional funds) - January, February, March 2015. Handicap International. Emphasis from original document.

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Appendix 1

We selected three types of interviewee: “Very experienced” (over 15 years at HI), “Senior” (five to nine years at HI) and “Junior” (one and a half to three years at HI).

NGO responses
to financial
evaluation

#	Position	Length (min)
1	Management controller, HQ (junior)	95
2	Management controller, desk#1 (junior)	75
3	Project Administrator, project#2, country#2, desk#2 (junior)	83
4	Management controller, desk#3 (junior)	63
5	Head of management control (junior)	89
6	Head of management control (junior)	54
7	Head of management control (junior)	93
8	Head of management control (junior)	57
9	Deputy - head of management control (senior)	118
10	Deputy - head of management control (senior)	83
11	Head of institutional funding (senior)	53
12	CFO (experienced)	69
13	CFO (experienced)	60
14	Audit liaison officer e)	104
15	Head of accountability (experienced)	48
16	Head of management control, Desk#1(experienced)	80
17	Head of management control	60
18	Head of management control	30

Number of interviews	18
Number of interviewees	11
Total interview time	21.5 h
Average interview time	1.12 h

Table A1.
Interviews – Handicap
International

#	Organisation (annual budget)	Position	Interview time (min.)
1	INGO#1 (€38m)	Head of financial control (since 2010)	142
2		Head of financial control (before 2010)	97
3	INGO#2 (€120m)	Head of management control	137
4	INGO#3 (€23m)	International head of financial resources	89
5		Chief financial officer	90
6	Comité de la Charte	General controller	137
7	France Générosités	Head of tax and legal	64
8	Auditor #1	Partner, head of non-profit activities	77
9	Auditor #2	Senior manager, non-profit activities	60
10		Partner, head of non-profit activities	85
11	NGO#1	Senior manager, non-profit activities	85
12	NGO#2	CEO and funder	69
13	NGO#3	CEO	112
		VP CEO – finance firector	112
		Chief financial officer	113

Table A2.

Interviews – Experts in humanitarian performance evaluation

Total	Number of interviews	13
	Number of interviewees	15
	Total interview time	21h
	Average interview time	1.24h

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