

**ESSAYS ON FINANCIAL ACCOUNTABILITY
OF HUMAN RIGHTS ORGANIZATIONS**

By

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GENERAL INTRODUCTION

The research interest of this dissertation concerns financial accountability and the reporting of empowering and advocacy nonprofit organizations (NPOs). NPOs differ from businesses in their missions, revenue acquisition (Mitchell, 2014), stakeholder interactions (O'Dwyer & Unerman, 2008; Rupp, Kern & Helmig, 2014) and performance evaluations (Chenhall, Hall & Smith, 2012; Cordes & Coventry, 2010; Hall, 2014).

The phenomenon of nonprofit accountability has received significant research attention during the past twenty years (Unerman & O'Dwyer, 2006, 2010; Kilby, 2004; Ebrahim, 2003, 2010; Assad & Goddard, 2010; Chenhall et al., 2012; Mook & Handy, 2010; Cordes & Coventry, 2010; McCarthy, 2007; Saxton, Jenn-Shyong & Ho, 2012; Verbruggen, Christiaens & Milis, 2011; Schmitz, Rago & Vijfeijken, 2012). Accounting literature provides a plethora of definitions and classifications for nonprofit accountability. These definitions vary regarding their focus, scope, paradigms of applied philosophy and approaches. Any single definition, however, typically highlights but one particular aspect of this complex phenomenon. Accountability could be defined in very broad terms as “acknowledging... responsibility for and being transparent about the impacts of ...policies, decisions, actions ... and associated performance” (AA1000 Accountability Principles Standard, 2008, p. 6). In a very specific way, accountability can be described as “reporting on the control and uses of resources by those accountable for their control and use... to whom they are accountable” (Bromwich, 1992, p. 310). Kilby (2004) emphasizes that in addition to functional reporting, the accountability relationships of NPOs and their stakeholders encompass power, authority, and ownership aspects.

Even though the current research agenda is moving towards prioritizing the need to explore the accountability of NPOs to their beneficiaries (Unerman & O'Dwyer, 2007, 2010; Ebrahim, 2010), there are significant reasons to continue investigating the financial accountability of

NPOs. These reasons include the persistence of financial scandals (Gibelman & Gelman, 2001; Bothwell, 2004; Trivunovic, 2011) and the legitimacy crisis in the nonprofit sector (ICHRP, 2003; O’Sullivan & O’Dwyer, 2009), broad areas that are susceptible to financial manipulations (Sidel, 2005), and a widespread perception of the need for higher levels of financial discipline (Keating & Frumkin, 2003; Saxton et al, 2012).

All these factors support a general call for increasing the financial transparency and accountability of NPOs (McCarthy, 2007; Sloan, 2009; Verbruggen et al., 2011; Schmitz et al., 2012) and an advocacy for new forms of financial reporting on donations (Keating & Frumkin, 2003; Ryan, Mack, Tooley & Irvine, 2014). In order to accommodate these demands by “extensive academic examination of ... accountability in specific ... contexts” (O’Dwyer & Unerman, 2008, p. 819), this dissertation aims to explore the phenomenon of the financial accountability of human rights organizations (HROs) from broad institutional, socio-political, and organizational perspectives. The research is grounded on an intellectual perspective of interpretivism and presupposes an interdisciplinary approach. The study applies the triangulation of research methods and theoretical frameworks.

In order to explore NPO accountability, prior literature examined empirically researched cases of hospitals (Schlesinger, Mitchell & Gray, 2004), churches (Laughlin, 1990; McCarthy, 2007), charities (Gourdie & Rees, 2009; Knutsen & Brower, 2010), and cooperatives (Monsen, 2010), but little research has yet been done on the accountability of human rights organizations (Candler, 2001; O’Dwyer & Unerman, 2008). In the present circumstances of their operations and the state of scholarly research, as this dissertation discerns it, HROs face the highest level of financial accountability demands among NPOs. The attention they must pay to the propriety of their donors and their concern for public expectations and scrutiny encourages HROs not to compromise their declared principles and crucial values. HROs also must address the power of institutional donors in settling accountability frameworks, cope with a condition that human

rights issues too often have a low priority in the eyes of individual donors and acknowledge that these issues are enmeshed within complex relationships with governments.

The accountability of HROs is closely related to significant phenomena of human rights concerns and problems and the emergence over a long period of a “rights-based” approach to development. Human rights as complex phenomena are a product of continuous philosophical debate, are crucial, indeed basic and fundamental, characteristics of human existence, and are often held up a universal standard of social systems judgment (Heard, 1997). Since the establishment of the United Nations, the promotion of human rights and fundamental freedoms has found its moral, social and political support in the principles of the UN Declaration of Human Rights, adopted by the Third United Nations General Assembly on December 10, 1948.

In the contemporary context, HROs are those nonprofit organizations that are not merely “agencies providing technical expertise” (ICHRP, 2003, p. 1), but are the representatives of value of human rights “that are concerned with the promotion and protection of human rights in the long term” (Tsutsui & Wotipka, 2004, p. 591). HROs play an important role in international and local arenas (Matlary, 2002). The HRO “community” is characterized by the global, international and dynamic development with its focus on information sharing, partnership and networking, communications and capacity building, the expansion of liberation. HROs are tasked with enforcing transnational and domestic activities and responding effectively and rapidly to crucial issues of human interaction, justice and social order.

There are no precise statistical enumerations of HROs; however, it is a plausible estimate that more than four hundred of HROs are operating globally around the world (Tsutsui & Wotipka, 2004). There is a variety in the size, structure and mission emphasis among these organizations. For example, HROs differ very much in their sizes and operating arenas (from small local organizations to the world’s largest HRO, Amnesty International with its 2.8 million employees and volunteers, operating across 150 countries). Their sizes, organizational structures and

declared mission priorities normally do in and of themselves give a clear idea about the potential weight of their individual and collective contributions to the advancement and protection of specific human rights and the human rights phenomenon understood as a social and moral movement of global significance.

Sweeping global humanitarian challenges set the parameters and the specific agendas for HROs which, for example, focus particular attention to the following issues in their mission statements and programs, in their activism:¹

terrorism,	freedom of religion,
enforced disappearances,	health and human rights,
slavery,	demands for dignity,
death penalty abolishment,	detention and imprisonment,
armed conflicts,	economic, social and cultural rights,
arms trade,	human rights education,
corporate social responsibility,	indigenous people,
discrimination,	poverty,
sexual orientation and gender identity,	refugees,
human rights of women and children,	migrants and internally displaced persons,
freedom of expression,	protection of human rights defenders.
freedom of association,	

¹ According to the inspected program documents of Amnesty International, “Free the Slavers”, Helsinki Committees and Groups, International Federation for Human Rights (FIDH).

In addition to this comprehensive “sample agenda”, as a part of transnational advocacy networks, HROs accuse politicians of passivity with regard to the human rights of their citizens, HROs speak out to address situations of the isolation and control of domestic press and NPOs by governments, They play a catalytic role in shaping the emerging norms, policies and practices of human rights (Tronvoll, Grimsrud, Havnevik & Rembe, 1996; Matlary, 2002). Due to these functions, HROs are often called “watchdogs” of governments, politicians and businesses.

The challenges of the global environment and the critical importance of fulfilling stakeholders’ expectations determine that HROs have increased accountability that results in their “openness [and transparency] ... to being judged” (Cordes & Coventry, 2010, p. 249). In order to gain a better understanding of the modern challenge of HROs for greater accountability, it is crucial to pay attention to the transition from the charity model and a needs-based approach to development and humanitarian activities toward the so-called rights-based approach (RBA) reviewed in particular programs and to a general oversight of the practices of HROs, their donors and international institutions (Hansen & Sano, 2006).

RBA is “a framework that integrates the norms, principles, standards and goals of the international human rights system into the plans and processes of development” (Boesen & Martin, 2007, p. 9; see also O’Dwyer & Unerman, 2008; O’Dwyer & Unerman, 2010). RBA implementation increases demand of accountability from “duty bearers” which include not only the state authorities, but also the wide group of non-state actors (Nyamu-Musembi & Cornwall, 2004). HROs that implement RBA are required to present a high level of transparency that supports the ability of “partners, stakeholders and oversight mechanisms to have access to relevant information, including financial information” (Boesen & Martin, 2007, p. 30).

The explicit focus of this dissertation on financial accountability of HROs and the declared objectives of the research have resulted in three studies (essays). These essays shed light on a

phenomenon that is considered from the perspectives of three different actors: nonprofit practitioners, institutional donors, and regulation in a specific socio-political context.

The first essay, “**Human Rights Organizations: Financial Accountability and Accounting Challenges,**” explores several angles of HRO financial accountability by applying the multiple lenses of resource dependence, legitimacy and stakeholder theories and acquiring knowledge of the main concerns of HRO professionals within the nonprofit community. I approach this by introducing netnography (Kozinets, 2010) as a method in accounting research and conducting a hermeneutic study that permits the discovery of the practices, challenges and concerns of accounting and fundraising practitioners within the scope of Internet-based professional discussions.

The essay shows a linkage between the complexities in performance measurement and accounting and the difficulties for HROs to demonstrate legitimacy and accountability. The study acknowledges the exaggerated focus of HROs on relationships with their donors and notes the increasing fundraising competition, which forces nonprofit managers to use business approaches to fundraising and business terminology. At the same time, NPOs do not support business-oriented performance measurement. They emphasize that such measurement does not accurately represent the success or failure of any NPO but may force these organizations to manipulative actions and make it necessary for them to hire professional fundraisers and consultants. This leads to resource outflows that may detract from the missions of the HRO. The essay advances a significant argument for the development of a special accounting framework for NPOs. The study provides empirical evidence that the existing framework and practice has significant limitations and is burdened with complexity, duality and controversy, especially in cases of revenue recognition, costs allocation and reporting. In this context, accountants are forced to manipulative actions to accommodate NPO financial activities to

accounting standards. The research recognizes a significant demand by practitioners for an accounting framework for NPOs that is more relevant to the nonprofit context.

Considering accounting as a user-oriented practice (Hyndman, 1990; Mayson, 1992) with accountability and decision-making objectives (Mellemvik, Monsen & Olson, 1988), the second essay, **“Accounting Information Demands of Institutional Donors from a Human Rights Organization in Norway: Parallel Reporting Realities,”** explores the accounting information needs of institutional donors. It examines their reasoning and motives for high financial accountability demands, their outcomes for the nonprofit sector, and the linkage between annual financial reporting and the alternative reporting systems created by the donors.

The nonprofit accounting practices are challenged by a trend toward harmonization with business accrual accounting principles despite their irrelevance to NPOs (Keating and Frumkin, 2003; Christiaens and Rommel, 2008), and the inconsistency between standards and practice (Conolly and Hyndman, 2000; Hooper, Sinclair & Hui, 2008). The contemporary situation demonstrates an insufficient level of information quality (Torres and Pina, 2003; Ryan et al., 2014), the non-correspondence of this information with stakeholder demands (McDowell, Li & Smith, 2013), and failure to address crucial specific reporting issues (Mook and Handy, 2010). In addition, Conolly, Hyndman & McConville (2013) report on the low interest of potential users in official financial reports of nonprofits. Within the contemporary context, it is also important to note that institutional donors have enough power to require as much accounting information as they need from the supported HROs. Exercising this power, they often demand special financial control and reporting (ICHRP, 2003; Ebrahim, 2003; 2010; O’Dwyer & Unerman, 2008; Assad & Goddard, 2010). Prior research has acknowledged institutional donor-NPO tensions in relation to reporting and the establishment of its targets (Clayton, 1994; Hudock, 1999; Fowler, 1997). Ebrahim (2003, 2010) identified the mechanisms of donor influence and charted NPO resistance shaped in the forms of information flows.

Aiming to unpack and understand the reasoning of institutional donors, this essay applies the analytical lenses of institutional logics (Thornton & Ocasio, 2008; Thornton, 2004). I argue that systematization and analysis of outputs (i.e. expressed values, accounting information priorities and demands of institutional donors) could increase our understanding of the specific logics (inputs) which underlie and determine these actions. The essay undertakes a case study of a Norwegian human rights organization, the Rafto Foundation, and applies a triangulation of qualitative research methods (Modell, 2009; Hopper & Hoque, 2006), including interviews with an embedded real-life construct (Lapsley & Llewellyn, 1995; Hellstrom & Lapsley, 2016). This procedure contextualizes qualitative and quantitative accounting information and thus provides respondents with an alternative scenario aimed at facilitating their discussions and supporting the researcher's subsequent analysis.

The study shows that in a situation where official financial statements do not provide users with sufficient accounting information, these powerful stakeholders (the institutional donors) establish supplementary (parallel) reporting systems, using their own perceptions on accountability and legitimacy determined by embedded logics and patterns of governance. These two different reporting systems contradict one another on the level of information aggregation and applied accounting principles. The institutional donors influence the reporting practices of the HRO by determining the accountability level, requiring parallel (supplementing) reports, suggesting the form and frequency of reporting, assisting in quality improvement, and linking extensiveness of reporting with the level of uncertainty/risk and the size of the grant. Such influence also involves a requirement of internal control, oversight of the application of restricted funds, and the creating of the image of "ideal" NPO-partner. The case study shows that the desire to control is the initial motivator of these processes. The level of control is determined by the level of expected risk, legitimacy and reputation, the donors trust, NPO dependence and the size and condition of investment. There are several instruments

applied for controlling the risk and elimination of uncertainty, including different levels of reporting that are required for different projects and from different NPOs, disclosing the sources of revenues, gaining a capacity to demonstrate revenues from other sources. The desire of the institutional donors to work only with long-term trustworthy NPO-partners and with well-established large-scale professional NPOs makes it extremely difficult for newer small- and medium-scale NPOs to compete for funding.

In this essay, I identify both positive and negative outcomes of the financial accountability demands of institutional donors from the HRO. The positive outcomes include sanitary purposes (an ability to identify HROs financial impropriety), educational purposes (providing feedback to the HRO on their financial reports, improving the reporting forms and manuals), and increases in the financial discipline of the HRO. The possible negative outcomes of donors' financial accountability demands include an absence of a clear borderline between demanding information for reporting purposes and direct intervention in organizational activities; reporting overload; inability to exercise control over the most efficient way of spending; the limitation of NPOs by the concept of an ideal NPO-partner.

The third essay, **“Mechanisms of Financial Reporting and Accounting Regulation for Foreign Funding Restrictions: A Case of Human Rights Organizations in Russia,”** explores the role of financial reporting and accounting regulation in foreign funding restrictions. It proceeds by analysing outcomes and consequences of an abrupt change of financial reporting and accounting framework on an institutional field of HROs in the case of the implementation of the “foreign agents” law in Russia. This essay contributes to critical accounting literature (Neu, 2000; Davie, 2005) by examining the role of accounting in a modern non-liberal socio-political context, exploring the spectrum of governing purposes for which accounting mechanisms could be applied, and considering the interplay between accounting and various

notions of justification, politics (Miller, 1990; Rose & Miller, 1992; Skærbæk & Melander, 2004) and power (Burns, 2000; Collier, 2001).

Foreign funding of NPOs is restricted in more than fifty countries, mostly in emerging (transition) and developing economies (Sidel & Moore, 2015; Christensen & Weinstein, 2013). Even though, the power exercised by some individual governments demonstrates their straightforward capacity directly restrict or even ban foreign funding of NPOs, some governments choose to mobilize indirect mechanisms of advancing financial reporting and accounting regulation and requirements for their restrictive purposes.

The essay undertakes an exploratory study of the “foreign agents” law in Russia by means of a document and media analysis. In 2012, Russia established a new financial reporting and accounting regulation over NPOs that were engaged in “political activism” and funded by foreign donors. The regulation is particularly focused on HROs. The new regulation complicates bookkeeping, mandates more frequent and a more extensive scope of reporting, and requires HROs to register as “foreign agents.” The law had a dramatic effect on the operationalization of HROs in Russia. Traditionally Russian HROs were financed mainly by grants of large overseas foundations (Jacobson, Mersiyanova & Efremov, 2012). Under the new regulatory regime, HROs had to conduct new campaigns for collecting money from individual donors in Russia in order to continue the program activities that previously had been funded with outside sources.

In the context of two oppositely directed international trends (increasing transparency and restricting foreign funding), the “foreign agents” law increases the legitimization of regulatory actions. The essay provides new evidence in support of the social research claim that hybrid and democratizing regimes are seeking more delicate mechanisms for the governance and control of the nonprofit sectors of their societies as compared to the fully-authoritarian ones of the recent past (Christensen & Weinstein, 2013). The study notes that within specific settings

it is deemed necessary to achieve the restriction of foreign funds and limit their influence on institutions that operation within the society by mobilizing indirect accounting and reporting mechanisms of governance. Such purposes are being sought by means of (at least) a moderate level of legislation and an incremental tightening of the regulatory system. The studied case demonstrates stakeholder change and shifts in power on the institutional field of human right activism in Russia from foreign donors to the state (represented by the regulators and inspectors). These shifts are related to the transformation of accountability centers and influential actors who now have the power to claim and satisfy their accountability demands from the foreign donors to the state. This is because newer non-state donors within Russian society tend to be passive and do not demand HROs accountability. New visibilities (such as the legal status of “foreign agent” and a “foreign agents” register), mechanisms of selectiveness and exclusion that empower external controllers, and deep interventions into the lifeworld of the governable objects signal the disciplining power of the law on the Russian nonprofit sector. Strong reliance on foreign funding and paid employees, lack of philanthropy traditions and a paucity of sustainable Russian donors who could support HROs increased the vulnerability of this sector, and together with the “foreign agents” law implementation provoked additional damage to the institutions that were functioning within the sector. A massive resistance has been demonstrated de jure. In contrast, self-absorption and self-discipline are recognized de facto which can be seen, for example, in the attempts by HROs to escape from the scope of the “foreign agents” law by securing vital funding without relying on any foreign sources for those monies.

To summarize: this dissertation contributes to an ongoing interdisciplinary debate on nonprofit accountability by exploring the institutional field of human rights organizations, examining how financial reporting mechanisms are being employed to satisfy growing accountability demands, and studying how the distinct pressures from stakeholders and financial reporting and

accounting regulation, as well as specific social-national contexts, interact to shape accountability practices of HROs in recent years. The dissertation argues that the financial accountability of HROs is a complex context-specific phenomenon. Relying on a socio-constructivist perception on accounting, this dissertation applies several innovative empirical and methodological approaches to nonprofit accounting and accountability research, including netnography, analysis of Internet-based discussions of practitioners and the use of real-life constructs that are embedded in interview sessions. The dissertation follows the approach of Lukka & Vinnari (2014) which distinguishes between domain and method theories in research. It applies a triangulation of selected theories (including legitimacy, stakeholder, and resource dependence theories), as well as the analytical lenses of institutional logics for advancing research equipment. It also tests several theories in new empirical settings (for instance, the theory of attention on intra-organizational level in public-nonprofit interactions and non-liberal governmentality in the nonprofit sector) in order to enrich our knowledge of the phenomenon under consideration.

Even though HROs' resource dependence, specific interactions with stakeholders, and the socio-political environment influence the accountability of HROs, the dissertation claims that a desire to achieve and sustain organizational legitimacy is the main driver for HRO accountability. Evaluating financial reporting as a mechanism for the satisfaction of accountability demands, the dissertation demonstrates that constant financial outflows from the core missions in order to prepare financial reports that comply with existing accounting standards did not prompt stakeholders' interest in these documents. Instead, supplementing accounting standard setters in this role, powerful stakeholders have created alternative reporting systems using their own patterns of governance, and this has increased HROs workload on reporting issues. Exercising a great deal of influence over the setting in which HROs operate, by demanding not only financial accounting, but also management accounting information,

donors interfere significantly with the operationalization of HROs—challenging their very independence of their missions and affecting the practical aspects of their working agendas.

Establishing a bridge between prior research on nonprofit accountability and user-need research in nonprofit accounting, this dissertation extends views on the reasoning behind and the impact of donors' demands on the financial reporting mechanisms that seek their satisfaction. The present study advances an argument for creating a specialized accounting framework in the nonprofit sector and for considering institutional donors as the ideal user-group in development of such a framework. Finally, the dissertation shows that in certain socio-political settings, shifts in power from donors to the state regulator demonstrates a significant recent effort to mobilize financial reporting and accounting requirements for disciplining, changing and shaping the institutional field of human rights activism and HRO accountability.

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Essay 1:

Human Rights Organizations: Financial Accountability and Accounting Challenges

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Abstract

Human rights organizations (HROs) operate in a context of increasing demand for transparency and accountability and seeking better control of donated financial resources. HROs differ from business enterprises and other types of nonprofit organizations (NPOs), but little research has been conducted on the accountability of HROs. This paper contributes to an understanding of HROs' financial accountability by providing hermeneutic netnographic study on the main concerns of HRO's professional community. The study finds that HROs face the highest accountability requirements among NPOs. The main concerns of HROs' professionals are determined by financial vulnerability, resource dependence, lack of legitimacy and high level of public scrutiny. The paper advances a significant argument for the development of nonprofit financial accounting framework.

Keywords: human rights organizations; financial accountability; nonprofit accounting; Internet-based nonprofit community; netnography.

1.1. INTRODUCTION

Numerous global issues create environments for human rights violations in many forms and diverse contexts. Civil societies respond by increasing the power of human rights organizations (HROs) (Cingranelli & Richards, 2001). HROs are nonprofit organizations (NPOs) that are independent from governments, political ideologies, economic interests and religions. They focus on defending human rights and preventing human rights abuses (Gaer, 1995; ICHRP, 2003; Tsutsui & Wotipka, 2004; Davis, Murdie & Steinmetz, 2012).

HROs differ from businesses in their missions, revenue acquisition (Monsen, 2010; Mitchell, 2014), stakeholder interactions (O'Dwyer & Unerman, 2008) and performance evaluations (Chenhall, Hall & Smith, 2012; Mook & Handy, 2010; Cordes & Coventry, 2010). Various types of financial contributions are the main sources of support for NPOs (Khieng & Dahles, 2015). International funds, institutional and private foundations provide the major resources for HROs. Donations function, in principle, to keep HROs independent as the organizations are controlled for the appropriate use of the donated funds through their financial reporting systems. Even though various stakeholders require different types and levels of accountability (Ebrahim, 2003), there is, a general call for increasing financial transparency and accountability of all NPOs (McCarthy, 2007; Sloan, 2009; Saxton, Jenn-Shyong & Ho, 2012; Verbruggen, Christiaens & Milis, 2011; Schmitz, Raggo & Vijfeijken, 2012) and for new forms of financial reporting on their received donations (Keating & Frumkin, 2003; Ryan, Mack, Tooley & Irvine, 2014).

The increasing demand for NPOs' accountability "has not been accompanied by extensive academic examinations of the emergence of accountability in specific ... [NPO] contexts" (O'Dwyer & Unerman, 2008, p. 819). Existing literature includes accountability studies of hospitals (Schlesinger, Mitchell & Gray, 2004), churches (Laughlin, 1990; McCarthy, 2007), charities (Gourdie & Rees, 2009; Knutsen & Brower, 2010), and cooperatives (Monsen, 2010),

but with the exception of some studies on Amnesty International (Candler, 2001; O'Dwyer & Unerman, 2008), little attention is given to the accountability of HROs. Even though many scholars advocate greater accountability, disclosure and transparency of NPOs (Sloan, 2009; Schmitz et al., 2012; Breen, 2013) through compliance with accounting standards (Verbruggen et al., 2011) and provision of clear financial information (Schlesinger et al., 2004; Saxton et al., 2012), there has been little research that examine whether the existing accounting framework is relevant to nonprofit contexts (Keating & Frumkin, 2003; Helmig, Jegers & Lapsley, 2004; Mook & Handy, 2010; Monsen, 2010; Ryan et al., 2014).

This article contributes to an understanding of the main concerns on HROs' financial accountability and accounting through an explorative study of the opinions of nonprofit practitioners. These are collected from discussions within Internet-based nonprofit professional groups. The study discusses NPOs in general, including situations where HROs are similar to other NPOs, and treats HROs' differences from other NPOs wherever they occur. Interpretivist hermeneutic positions ground the study.

Different theoretical frameworks are applied to explain the financial accountability of NPOs: agent theory (Laughlin, 1990), institutional theory (Helmig et al., 2004; Verbruggen et al., 2011), resource dependence theory (Knutsen & Brower, 2010; Froelich, 1999; Khieng & Dahles, 2015), structuration theory (Helmig et al., 2004), legitimacy theory (Schlesinger et al., 2004; O'Sullivan & O'Dwyer, 2009), and stakeholder theory (O'Dwyer & Unerman, 2008; Saxton et al., 2012; Sinclair & Bolt, 2013). This paper applies theory triangulation. Financial accountability of HROs is analyzed in terms of their high degree of financial vulnerability and their resource dependence on institutional donors (Verbruggen et al., 2011; Gaer, 1995; Trussel, Greenlee & Brady, 2002; Mitchell, 2014), taking into consideration possible lack of legitimacy and recent marks of the public scrutiny of NPO's performance (Schlesinger et al., 2004; O'Sullivan & O'Dwyer, 2009; Gibelman & Gelman, 2001; Bothwell, 2004).

The article has the following structure. The next section discusses the main characteristics of HROs. Section 3 presents a theoretical framework for studying financial accountability of HROs. Section 4 describes the research design, focusing on methodology, data characteristics, data collection, and fulfilment of ethical standards. Section 5 presents the findings of empirical study. The final section discusses the implication of the findings and expresses some concluding remarks.

1.2. HROs AND OTHER TYPES OF ORGANIZATIONS

The choice of accountability mechanisms depends on organizational type, structure, missions and activities (Gourdie & Rees, 2009; Williams & Taylor, 2013).

Profit maximization is the core objective of businesses (Knutsen & Brower, 2010) which acquire revenues through market exchange transactions (see Figure 1.1). In contrast, NPOs are focused on service provision and do not have profit objectives (Gourdie & Rees, 2009). They acquire revenues through one-way money transactions (donations) without providing a direct return to their donors, and use budgets for the allocation of the donations to cover expenditures (Anheier, 2014; Monsen, 2010). Thus, they can be called budget-linked organizations (Danielsson, 1977). The efficiency of nonprofits cannot be solely determined by the information in financial statements (Cordes & Coventry, 2010; Morgan & Fletcher, 2013); their revenue does not indicate the demand for services or performance. From an accountability perspective, budgetary-linked organizations differ significantly from market-linked organizations (Trussel, 2003; Monsen, 2010; Ryan et al., 2014; Williams & Taylor, 2013), and business accountability mechanisms may not apply to NPOs (Gourdie & Rees, 2009).

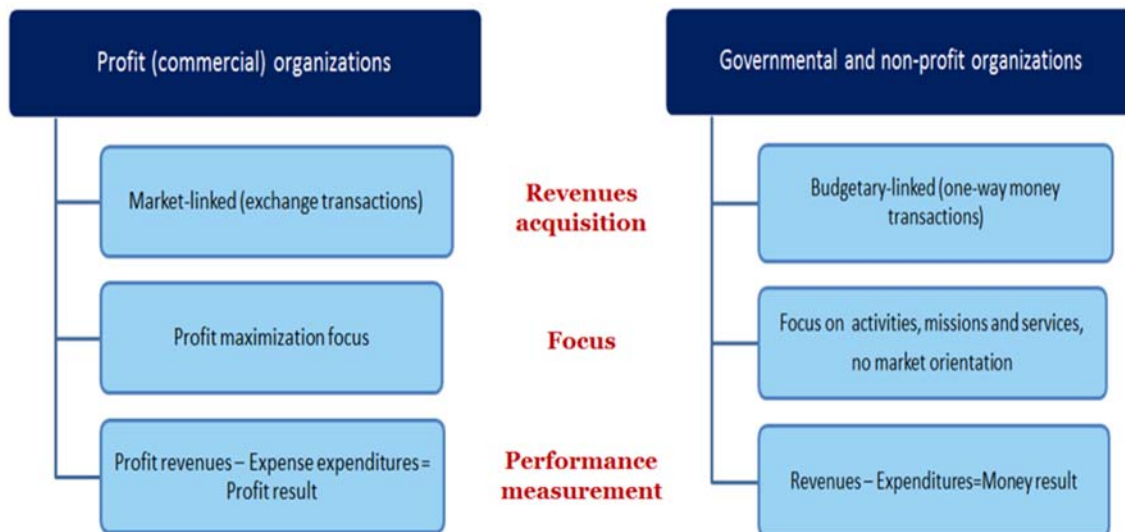


Figure 1.1: Profit and nonprofit organisations

Much organizational and functional diversity exists within the nonprofit world (Anheier, 2014). In the existing literature terms like “nonprofit organizations,” “nongovernmental organizations” (NGOs), “civil society organizations,” “voluntary organizations,” and “social profit organizations” as well as “charity” are commonly used as synonyms (ICHRP, 2003; Anheier, 2014). Schlesinger et al. (2004) and Anheier (2014) emphasize the risk of confusion and unclearness, since each of the preceding terms portrays only one characteristic of the nature and features of NPOs.

Even though there have been many attempts to define nonprofit organizations, a single precise definition has not yet appeared (Unerman & O'Dwyer, 2006). Most frequently, NPOs are given a negative type of definition by clarifying and listing what NPOs are not (ICHRP, 2003; Gray, Bebbington & Collison, 2006; Schlesinger et al., 2004):

NGOs are organizations which are neither governmental (public sector) organizations ..., nor private (for-profit) commercial organizations (Unerman & O'Dwyer, 2006, p. 307).

For the purposes of this paper, the term “nonprofit organizations” has been chosen in order to emphasize that NPOs, in contrast to business organizations, do not have a profit objective. As the paper refers to the research of other scholars, it will make use of these other terms, as well. Different types of NPOs face a variety of accountability requirements (McCarthy, 2007; Gourdie & Rees, 2009). According to Cousins’ widely used classification (1991), four types of orientation represent NPOs: charitable, service, participatory, and empowering (see Figure 1.2).



Figure 1.2: HROs in organizational classification

Source: adopted from Cousins (1991); visualized by the author

The UN in its Handbook on Non-Profit Institutions in the System of National Accounts (2003) uses the nine-group NPO classification adapted from Salamon et al. (1999; see also Vakil, 1997). In these classifications, HROs belong to the empowering advocacy group. Tsutsui & Wotipka (2004) note the increase of the number of international HROs from 30 in 1970s to 412 in 1998. HROs themselves declare their purposes as: “monitoring and reporting of government [and private sector] behavior on human rights, particularly violations, building pressure and

creating international machinery to end the violations and to hold governments [and businesses] accountable” (Gaer, 1995, p. 394). HROs commonly use several tactics for achieving their purposes: to uncover the abuses of rights by using investigations and independent monitoring, “shaming and naming,” and making use of campaign strategies (Bonner, 2005; Davis et al., 2012; NHC, 2012), communications with decision-makers and expert advice (Gaer, 1995; ICHRP, 2003 Davis et al., 2012). They also provide services (legal support, education) and support democracy (NHC, 2012). Within transnational advocacy networks (Davis et al., 2012), many HROs have obtained official consultative status in international institutions (Tsutsui & Wotipka, 2004) and are often called “watchdogs” of governments, politicians and businesses.

Currently, the rights-based approach (RBA) has been chosen as a principal background for integrating human rights principles into measures of global change (Hansen & Sano, 2006). RBA claims that all people are “rights holders”, and therefore “duty bearers” are indebted to protect their rights. RBA implementation increases demand for accountability not only for state authorities, but also for non-state actors (Hansen & Sano, 2006).

1.3. FINANCIAL ACCOUNTABILITY OF HROs

Accountability is a complex “chameleon-like” concept (Mulgan, 2000; Candler, 2001; Bovens, 2007). It acquires multiple definitions (Williams & Taylor, 2013) and classifications (Laughlin, 1990; O’Dwyer & Unerman, 2008). This paper adopts Bovens’ definition (2007):

Accountability is ... a relationship between an actor and a forum, in which the actor has an obligation to explain and to justify his or her conduct, the forum can pose questions and pass judgment, and the actor may face consequences (p. 447).

Based on the nature of the conduct, Bovens (2007) classifies financial, procedural and product accountabilities. Keating & Frumkin (2003) define financial accountability through “fiscal honesty and avoidance of fraud” (p. 4).

Because acquisition of revenues is crucial for avoiding bankruptcy (Trussel et al., 2002; Anheier, 2014; Monsen, 2010), from an accounting perspective financial accountability is the most important form of NPOs’ accountability. NPOs’ claim of financial accountability sends a positive signal to donors, builds trust and minimizes the risk in financial relationships; this has strong reputational effect (Offenheiser & Holcombe, 2003; Saxton et al., 2012).

Given the complexity of the topic, this study applies multiple theoretical lenses (theory triangulation) (Denzin, 1978). Resource dependence and legitimacy theories are applied, to answer why HROs need to be financially accountable (Froelich, 1999; Khieng & Dahles, 2015; ICHRP, 2003). Stakeholder theory assists in the mapping of actors to whom HROs are accountable (Rupp, Kern & Helmig, 2014); general accounting principles and consideration of organizational context (Laughlin, 1990) frame knowledge on HROs’ accountability mechanisms. These lenses supplement one another to achieve a coherent and comprehensive understanding of phenomenon (Modell, 2009; Berg & Line, 2012; Hopper & Hoque, 2006).

1.3.1. Resource dependence and financial vulnerability

The resource dependence theory postulates that the ability of an organization to accumulate and maintain resources is crucial for its survival (Pfeffer and Salancik, 1978). All NPOs, including HROs, are highly dependent on external foundation (Verbruggen et al., 2011; Khieng & Dahles, 2015). NPOs face tough fundraising competition (Mitchell, 2014) which demands greater financial accountability. This mandates that NPOs be judged (Cordes & Coventry, 2010; Reheul, Van Caneghem & Verbruggen, 2014) on whether their performance meets public

expectations (Helmig et al., 2004). NPOs use various sources of revenue: individual and corporate donations, grants from foundations, governmental transfers, grants and contracts, as well as commercial activities (selling goods or charging service fees) (Froelich, 1999; Anheier, 2014).

In contrast with other NPOs which can accept governmental foundations, many HROs try to stay financially independent from governments and powerful groups (O'Dwyer & Unerman, 2008; Gaer, 1995). HROs usually do not carry out commercial activities to gain revenues. Finally, even though some of HROs attract volunteer labor, they typically rely on paid employees. Normally, funding for the concrete projects of HROs comes from independent foundations, including the European Commission and United Nations, the Ford Foundation, NED, MacArthur Foundation, and Open Society Foundations.

Resource dependence makes organizations vulnerable to resource flows and institutional pressures (Verbruggen et al., 2011; Khieng & Dahles, 2015). Saidel (1991) classifies three resource dependence criteria: the importance of the resource, availability of alternatives, and ability to compel provision of the resource. By applying a measurement of financial vulnerability, Trussel et al. (2002) claim: “[NPOs] with fewer revenue sources are more vulnerable to financial shock than those with multiple revenue sources” (p. 67).

The fact that HROs must limit their revenue sources makes them more financially vulnerable than other NPOs. As a result, HROs are the type of NPOs, which face the most substantial requirements of financial accountability.

1.3.2. Lack of legitimacy. Accounting and performance measurement

The legitimacy crisis is another reason of the increasing demand for the financial accountability of nonprofits, including HROs (ICHRP, 2003; Schlesinger et al., 2004; O'Sullivan & O'Dwyer,

2009). Many financial scandals have had an impact on the nonprofit sector (Gibelman & Gelman, 2001; Bothwell, 2004; Trivunovic, 2011). Consider as examples the scandals of the Bishop Estate, Feed the Children, Women's Royal Voluntary Service, Bavarian Red Cross, Foundation for Peace and Justice. The employees and management of these NPOs committed fraud, falsifications, theft, misuse of funds, embezzlement, tax evasion, and face criminal allegations (Gibelman & Gelman, 2001; Trussel, 2003; Krishnan, Yetman & Yetman, 2006; Trivunovic, 2011). The most remarkable HRO financial scandal is the case of International Helsinki Federation for Human Rights, which filed for bankruptcy and consequently closed down due to massive fraud, economic crime and embezzlement of €1.2 million by its financial manager (Trivunovic, 2011).

The International Council on Human Rights Policy (ICHRP) (2003) claims that "[HROs'] success, even survival, depends significantly on their ability ... to demonstrate that they respect their own values. Challenges come ... from those they criticize ... the media, and ... independent observers in government" (p. 49). These challenges are determined by two factors. Firstly, after RBA was introduced, HROs were the first type of organizations from whom the public expected RBA's implementation (Offenheiser & Holcombe, 2003; O'Dwyer & Unerman, 2008). Secondly, the "naming and shaming" strategy that HROs apply to human rights violators might well be turned against their own organizations and challenge their own legitimacy (Schmitz et al., 2012).

Truthfulness in financial reporting is one of the cornerstones of the legitimacy of NPOs (Keating & Frumkin, 2003; Schlesinger et al., 2004; Saxton et al., 2012). Nevertheless, it is not obvious whether current financial statements satisfy users' demands (Mook & Handy, 2010; Monsen, 2010; Breen, 2013; Ryan et al., 2014). Today, profitability accounts are the dominant framework for extending a profit-oriented approach to NPOs. Several researchers claim that

NPOs diverge from businesses and thus need a distinctive accounting framework (Keating & Frumkin, 2003; Monsen, 2010; Ryan et al., 2014).

Another crucial component of NPOs' accountability is the demonstration of mission-based performance (Saxton et al, 2012). It is not obvious which performance indicators that NPOs should employ (Barman, 2007; Hall, 2014). Van der Heijden (2012) suggests using a statement of functional expense which splits NPO's expenses into three groups: program, administrative and fundraising. Independent monitoring bodies usually set a threshold of 25% for effective NPOs' administrative and fundraising expenses (CN, 2013). These thresholds can, however, motivate NPOs to manipulate their accounting numbers (Trussel, 2003; Offenheiser & Holcombe, 2003; O'Dwyer & Unerman, 2008). Krishnan et al. (2006) provide evidence that more than 50 percent of all US NPOs report zero fundraising expenses. ICHRP (2003) includes public recognition, trust and support, media coverage and achievement of specific targets among the alternative criteria of HROs' effectiveness. These criteria, however, cannot always be quantified.

Performance measurement and financial reporting are important components of the legitimacy of HROs, when "voluntary disclosure of pertinent financial and performance related information [makes] ... organizations ...able to signal their efficiency, effectiveness, credibility, responsiveness, ... accountability" (Saxton et al, 2012, p. 1066; see also McCarthy, 2007; Breen, 2013) and may help them to attract new providers of financial and labor resources (Keating & Frumkin, 2003).

1.3.3. Stakeholder perspective

To identify those to whom HROs are accountable the stakeholder approach is applied (ICHRP, 2003; Keating & Frumkin, 2003). The fact that NPOs (including HROs) do not have specific

owners or any shareholders (Knutsen & Brower, 2010) makes them accountable to an unlimited number of widely defined stakeholders (Niskala & Näsi, 1995). The stakeholder of an HRO is “everyone who may be affected by a project or piece of work, or have an interest in its outcome” (ICHRP 2003, p. 61).

HRO stakeholders can be classified into four groups: recipients/beneficiaries, internal stakeholders (founders, board, managers, employees), financial supporters (donors, sponsors) and external stakeholders with control, monitoring and cooperation functions (governments, partners, international monitoring bodies, international institutions, community). Particular stakeholders may belong to several of these groups. For example, international institutions, governments and partners could also provide financial support; a given community could be a beneficiary and a monitoring stakeholder at the same time (see Figure 1.3).

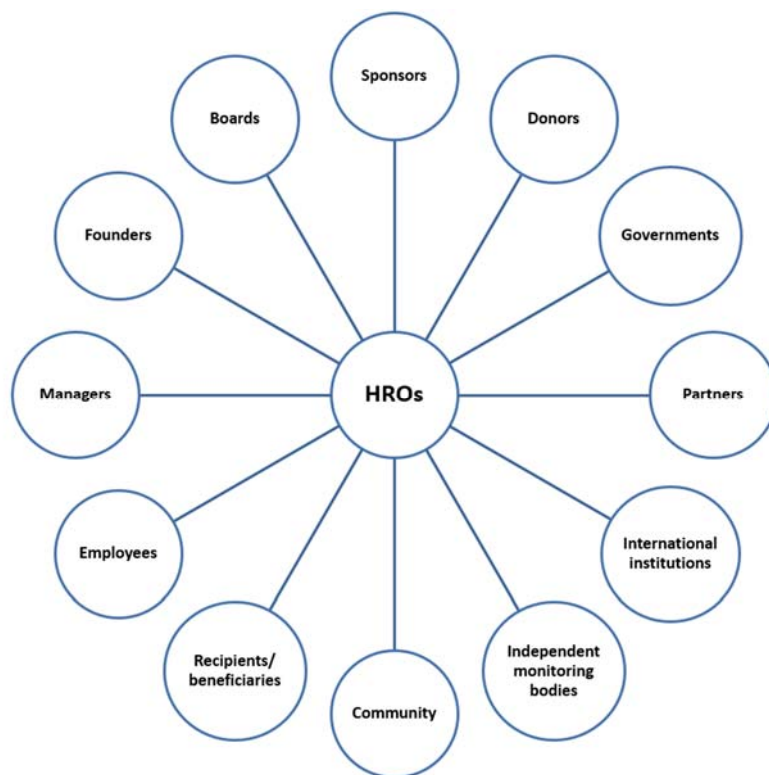


Figure 1.3: Stakeholder map for HROs

Source: adopted from Näsi (1995), ICHRP (2003); modified by the author

Due to its technical and conceptual complexity, financial accounting information is understandable only to those users who have appropriate professional education and experience (Keating & Frumkin, 2003). Accordingly, donors, sponsors, partners, government and independent monitoring groups are the most likely stakeholders who demand financial accountability (Krishnan et al., 2006; Sloan, 2009; Sinclair & Bolt, 2013).

The main **beneficiaries** of the services of HROs services are the core mission group of HROs. Simply stated: they can avail themselves of the free legal, mental and financial support provided by HROs (ICHRP, 2003).

Donors are the most salient stakeholders when it comes to financial accountability (Assad & Goddard, 2010). Keating & Frumkin (2003), ICHRP (2003), O'Dwyer & Unerman (2008) defined two groups of donors according to accountability demand. The first group can be called "unprofessional" (mostly private) donors, who are inspired by the mission and the reputation of HROs and are mostly driven by emotions and intuition. The second group of donors, foundations and grant providers, express high levels of concern about HROs' financial issues (Verbruggen et al., 2011; Saxton et al, 2012); sometimes these donors demand special financial control and reporting (Keating & Frumkin, 2003; ICHRP, 2003; Gourdie & Rees, 2009) and even arrange financial inspections (Assad & Goddard, 2010).

International institutions can function as financial providers, but most importantly create the arenas where HROs could play semi-official roles, share the results of their investigations and affect decision-making processes (Matlary, 2002).

Independent monitoring bodies are intermediary agents between donors and NPOs. They provide information about financial health, accountability, transparency and performance of

NPOs and advise donors on how to choose reliable NPOs. Krishnan et al. (2006) and Sloan (2009) claim that positive ratings of NPOs increase donor contributions.

On the national level, HROs deal with legislative and executive agents: **parliaments and governments**. As has been mentioned, HROs try to avoid political or financial affiliations with governments (Gaer, 1995; ICHRP, 2003; O'Dwyer & Unerman, 2008), especially in developing and transitional countries. Even functionally independent HROs are obliged to report on their activities to government authorities.

To summarize, due to the dominance of institutional foundations among HROs' supporters, relationships with them should be built on trust and long-term perspectives. HRO stakeholders achieve power to affect reporting systems of HROs and to monitor their financial accountability on a constant and close basis. The financial vulnerability and resource dependence from powerful stakeholders, the legitimacy crisis and public scrutiny, together with imperfections in the accounting framework and lack of clarity in performance measurement determine demand for the financial accountability of HROs.

1.4. RESEARCH DESIGN

HROs have significant reasons to demonstrate their accountability and legitimacy. There are, however, controversial views on appropriate accounting and performance measurement systems. Understanding accounting as institutional practice and considering the role of professional groups in institutional change (Greenwood, Suddaby & Hinings, 2002), this paper examines these issues by "giving the floor" to nonprofit practitioners.

In order to establish the necessary insights into the nonprofit community (mainly, HROs), to get a sufficient overview of the main concerns they face and test the chosen theories, an exploratory study approach is applied (Yin, 2003). The exploratory study of Internet-based

professional discussions gives opportunity to examine rich and massive datasets with a tentative preliminary agenda. The ethnographic method enables a close examination of everyday practice of subjects while observing their daily behavior and assessing their interpretations of accounting use (Grey, 1998; Dey, 2001). Ethnographic research based on Internet data is called netnography (Kozinets, 2010).

The research uses netnographic analysis, supplemented by elements of stakeholder analysis and visual mapping. The nonprofit community is construed as an ethnographic group that shares common knowledge and culture. In contrast with other qualitative methods, in this case netnography provides an opportunity to observe large number of practitioners around the world while they engage in discussions based on their own interests. It also enables to avoid respondents' misreporting (Lee & Woodliffe, 2010) and the effect of the interviewer on their opinions (Hammersley & Atkinson, 2007; see also Kozinets, 2010 for the quality criteria of netnographic research).

The author is not aware of the total population of NPO discussion groups on the Internet; therefore, the study does not aim to generalize over the population, but to provide scientific propositions about the studied phenomenon (Kozinets, 2010). The research relies on the principles of theoretical sampling (Glaser & Strauss, 1967; Hammersley & Atkinson, 2007), which means choosing the samples in which the research interest is “transparently observable” (Eisenhardt, 1989).

The groups which have been studied are located on a single professional networking platform. The author performed the preliminary screening of available nonprofit community groups. Two types of groups were identified: “open” (the discussions are fully seen, shared and discovered on the Web) and “closed” (the content is visible to the membership). All groups are dynamic organisms, which frequently change their status. In addition, most popular discussions circulate within different groups. Therefore, even though the author “lurked” on more than ten different

groups, the final dataset includes data from five publicly accessible groups: Mango Worldwide (MNG), Governmental - Not-for-Profit Accounting and Auditing Issues (GNPAAI), Nonprofit Accounting & Grant Management (NPA&GM), Charity UK(C_UK), and UK Fundraising(F_UK). These groups are active (“alive”) on a daily basis (as of October 2012).

An independent discussion is chosen as one sampling unit. The discussion is defined as a single conversation (“thread”) on a topic. Since systematic sampling is neither possible in netnographic research, nor desirable within the purposes of this explorative study, theoretical sampling was applied (Hammersley & Atkinson, 2007). The author performed the screening of available discussions based on their relevance to the context of HROs. The author targeted and selected only the discussions directly related to accountability and accounting issues.

The final database includes 120 samples. All available discussions were collected from the dates of the groups’ creation (or opening for public) until the October 2012. The author observed the discussions within a five-month period; however, the opportunity to read archival data permitted the inclusion in the dataset of discussions that took place over several years (see Table 1.1 in Appendix 1.1). The dataset consists of the discussions of accounting, management and consultant professionals employed by different NPOs (without the specific extraction of HRO employees). Such an extraction would have damaged the nature of the observed discussions, since HRO professionals do not exclude themselves from the Internet-based nonprofit communities, and according to the author’s best knowledge, the discussions within special HRO accounting and fundraising groups do not exist. In order to preserve the authenticity of the discussions and research neutrality, the author did not engage with the studied community.

Dean, Eichorn & Dean (1967) specified that ethnographers typically aim for the involvement of two types of informants: “informants who are especially sensitive to the area of concern and the more-willing-to-reveal informants” (p. 285). In this specific study, the author identified both

types of informants within the studied discussion groups. The first type of informant includes the members who create the discussions based on their own concerns and information needs; the second type of informant contributes the most by commenting on the issues under discussion.

After selecting the practitioners' quotes and comments that were deemed most relevant for the research focus, the following distribution can be shown:

- total number of contributing participants – 40 (100%);
- employed by HROs and other advocacy NPOs – 14 (35%);
- accountants and fundraisers, working in accounting and consulting firms for all types of NPOs – 13 (32, 5%);
- employed by charities – 4 (10%);
- employed by religious NPOs – 4 (10%) (see Table 1.1 in Appendix 1.1).

The examination demonstrates that financial accountability is a very interesting topic for HRO practitioners. Accordingly, the research findings are accepted as relevant to HROs. In order to focus on HROs, the author paid special attention to the comments of HRO practitioners and based the development of the research findings on these particular comments.

Seeking a reasonable confidence in the professional levels of participants, the author traced the personal information which they provided on the networking platform (names, positions, CVs) and compared this data with the information available on the sites of their employers. Because practitioners use the platform for professional communication, the author found that the information they provide is factually accurate.

All data samples were analyzed manually. Texts of particular discussions were interpreted from the positions of critical and alternate templates research perspectives through the identification of patterns and the finding of distinctive meanings in patterns (Belk, Fischer & Kozinets, 2013;

Lukka & Modell, 2010). For data interpretation and structuration, the hermeneutic approach is used instead of analytical coding and content analysis. The participants (Kozinets, 2010) because the main attention is given to the meanings shaped in the interaction (Lukka & Modell, 2010) rather than to the forms of expression or the word choices make this.

Seeking hermeneutic interpretations is presumed to be “coherent and free of contradiction... comprehensible to the reading audience ...supported with relevant examples... enlightening [and] fruitful in revealing new dimensions of the problem at hand” (Arnold & Fischer, 1994, p. 64). In netnographic interpretive research, such interpretations represent an equivalent of internal validity as this is understood in positivist epistemology (Kozinets, 2010). The interpretive approach identifies two components of qualitative research validity: authenticity and plausibility (Lukka & Modell, 2010). This study attempts to achieve a high level of authenticity by analyzing naturally constructed and publicly traceable professional discussions (Kozinets, 2010). Plausibility of explanations is achieved by presenting multiple and contrasting explanations of the financial accountability of HROs, in particular by applying theory triangulation (Berg & Lune, 2012), several rounds of analysis (Kozinets, 2010), elements of respondents’ validation (Hammersley & Atkinson, 2007) and giving voice to the ‘Others’ (Lukka & Modell, 2010).

The author uses the element of content analysis (the Word cloud) only once (subsection 4.2.2) as a supplement to the main approach, to demonstrate the exaggerated focus that NPOs place on their donors. The Word cloud is created by incorporation of all the textual data into the Wordle program. The cloud shows the frequency of each term by the size of the word. Together with the distribution of participants as already shown, these are the only two episodes where the analysis appropriates the quantitative characteristics of data. In this way, the study only applies an analytical theoretical generalization and not an enumerative statistical generalization (Yin, 2003).

Even though it is not obvious if online communities are public or private spaces (Kozinets, 2010), the study applies high ethical standards of research. All selected groups are open. Allen, Burk & Davis (2006) claim that in such situation “manual, non-automated access of information on publicly available web pages should be acceptable without special permission” (p. 607). Yet because the practitioners are the authors of their own statements, the author of this paper collected written permissions, which allows direct quotations. The group members, who approve the direct quotations, prefer to be quoted with their real names. This signals that the collected dataset is a reliable source of information and contains within itself the element of respondents’ validation (Hammersley & Atkinson, 2007).

1.5. ANALYSIS

1.5.1. An overview: community characteristics and the main issues of concern

The Internet nonprofit community appears to look professional, reasonable, and reliable, with a “knowledge entry fee”; that is, the group members need to have sufficient knowledge, education and experience to discuss specific nonprofit accounting and accountability issues. The group participants demonstrate low emotional level, use professional terms and discuss professional subjects. The group members identify themselves as professionals who can benefit from the discussions. The content shows that the participants consider the groups as suitable places for discussing the everyday problems and challenges of NPOs operationalization, seeking advice and planning fundraising events.

The main issues of concern for each group are listed in Table 1.1 (Appendix 1.1) and are allocated within chosen multiple theoretical lenses for all the groups combined in Figure 1.4.

The findings demonstrate that managers, accountants and fundraisers are concerned about different issues. The financial and project management of NPOs in developing countries

struggle with bribes and corruption (MNG group); entrepreneurs, consultants and fundraisers (UK_F and C_UK groups) are mainly focused on fundraising strategies and donor relationships; accountants from NPA&GM and GNPAAI groups focus on accounting, reporting and control issues.

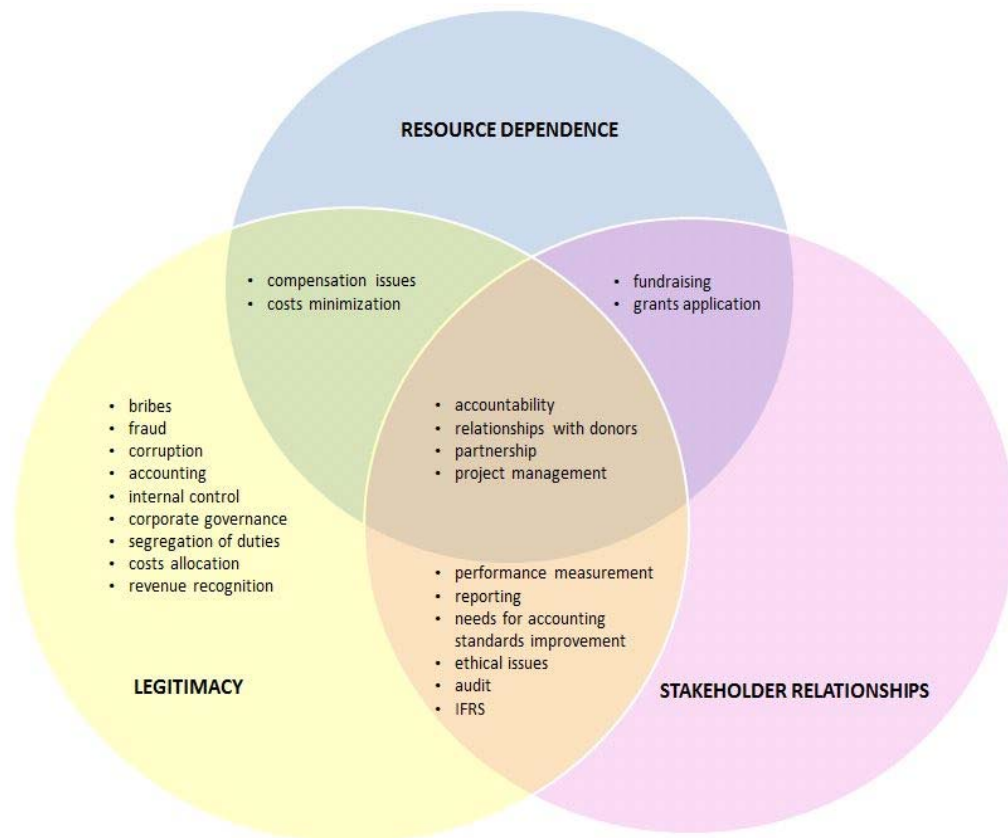


Figure 1.4: The determinants of the main issues of concern of nonprofit practitioners

The nonprofit professional community has a mix of heterogeneity and homogeneity. From one side, different groups of stakeholders have various issues of concern and demand different types of NPO information. From another side, the stakeholders of different NPOs who belong to the same type of the stakeholder group (employees, donors, monitoring bodies) have mostly similar interests and concerns with one another. HRO practitioners (stakeholders) do not separate themselves from the rest of the nonprofit community in the discussions that they find relevant to themselves.

1.5.2. Resource dependence, fundraising and relationships with stakeholders



The figure shows clearly that nonprofit practitioners discuss donors and relationships with donors much more frequently than other issues (the appearance of word “donor(s)” is highest (17%) among all concepts mentioned in the dataset). C_UK and UK_F group participants assert the importance of donations for sustainable operationalization. The major source of funding determines the type of fundraising strategy. Various fundraising issues and the ways of attracting and keeping donors are central to many discussions. The nonprofit fundraisers believe that implementation of different motivational techniques in relation to the attraction of individual donors is more effective than the demonstration of financial performance.

Giles, a fundraising consultant, UK, GNPAAI group states:

You need to present the need in a way that is emotive and compelling. Then you can argue that your organization has the solution, and needs money to implement it.

In contrast, organizations financed by the institutional funds (most HROs belong to this group), focus on other principles in donor relationships. For example, MNG group members discuss the best approaches for preparing grant applications, where an emotional component is not important and formal criteria are used.

Fi, a program manager in an empowering NPO, UK, MNG group asserts:

I'm trying to develop a tool to help organizations decide whether or not to bid for different grants? ... Questions I have so far are 'Is this proposal in line with existing organizational strategies? ... Does this proposal add significant ... added value to the existing strategies which make it worth considering? ... Is the donor of longer-term strategic interest?

This situation is typical for HROs, especially in Europe, where the level of private donations to HROs is lower than in the USA.

Some of the members of nonprofit groups realize the danger of a too strong focus on donor relationships and fundraising (“when money becomes not a tool, but a symbol”) that pulls NPOs too far from their original missions. In contrast, the author of this study was able to find only a few comments that were focused on interests of beneficiary groups and downward accountability.

1.5.3. Legitimacy, organizational authenticity and performance measurement

The data analysis demonstrates that extremely tough fundraising competition forces nonprofit managers to use business approaches and terminology (such as “NGO competition,” “donor markets,” and “branding”). For example, the CEO of an empowering NPO claims that his

colleagues need to think “like business persons” and consider donors’ financial support as investments. By adopting a business philosophy, NPOs are caught within the trap of the demands of constant growth. Several participants, including an HRO’s senior development executive, claimed that in order to keep their NPOs growing, they use business valuation terms and indexes, such as return on investment (ROI), SWOT-analysis in planning fundraising, and surplus revenues use for “reinvestment” for building “revenue generating capacity.”

Kevin, fundraising professional in a religious NPO, USA, GNPAAI group:

Fundraising planning should always include the numbers that an NPO/NGO is willing to invest in generating income, and projected ROI.

In contrast, when the business approach contradicts the original ethic and mission of NPOs, the participants focus on the nature and fundamental principles of nonprofits.

Robin, a director of development in empowering and religious NPOs, USA, NPA&GM group states:

Charitable purpose is the most important thing. We do not want even place our organizations in compromising our missions, damaging donor trust or promoting self-interest over the common good.

This is observable in the discussion of whether to base the fundraiser’s compensation based according to results. Even though some participants accept this as an effective way to motivate fundraisers, they claim that it can destroy the original nature of nonprofits, where supporters donate for the achievement of the NPO’s mission and not because of the specific fundraiser.

Giles, a fundraising consultant, UK, UK_F group, asserts:

I think payment on commission is just wrong. ... Supposing someone gave £1m, they would be furious that a percentage was going to the fundraiser, as should the charity.

Other discussants (the director of development in a children-empowering NPO and the donor relations' manager in an HRO) claim that compensation for fundraising based on results is against the charitable purpose of NPOs to serve the public and can damage donor trust.

Contrasting with the business approach to fundraising, discussants from NPOs (HROs) do not want to be judged based on a business-oriented performance measurement. The participants are not supportive of the idea of using quantitative indicators for performance measurement, since it is not always possible to define program and administrative expenses fairly and financial indices do not really correspond to nonprofit specifics.

Giles, a fundraising consultant, UK, UK_F group, states:

People often confuse 'donors' with 'the general public'. ... In my experience, donors are quite happy with the truth. The non-donors are the ones who create the impression that charities spend too much on admin, and this is picked up by the media. Charities then get defensive, and try to hide the costs. ... Charities don't need to lie. They should write their Annual Report and Accounts for the investors (donors).

To support this claim several consultants of HROs argue that the large NPOs are responsible for setting performance standards, based on program/administrative expenses thresholds, which they are not capable of meeting themselves. Such organizations justify fundraising expenses by calling them “education” (for example, when HROs provide human rights information on their fundraising flyers) and thus create pressure on other NPOs to show a reduction of administrative costs.

In addition, young philanthropists with business background demand clear performance indicators (as in businesses) from HROs.

Giles, a fundraising consultant, UK, C_UK group, states:

Pre baby-boomers (civics) were happy to give to charity, and trusted them to help the needy. Baby boomers ... demand much more ... They want permanent change, not helping the needy. And they want outcomes.

In this context, fundraising competition and efficiency demand determine a necessity to hire fundraisers and consultants to attract sustainable funding. This leads to resource outflows from the original missions of HROs and other NPOs.

The observed discussions are quite controversial when it comes to debating the level of transparency and disclosure that HROs and other NPOs should provide. Some participants, including the marketing director and program officer of one of the biggest US HROs, value transparency as the core fundament for building trusting relationships with donors. Others argue that it is sufficient for donors to know that their funding is supporting core NPO's aims, since management knows better than the donors about how to achieve the main goals and basic missions of the particular NPO.

Concluding with respect to increasing accountability demand, nonprofit professionals understand that donors are interested in whether NPOs (HROs) achieve external outcomes by using donations, but they prefer that donors be focused on qualitative measures of performance and provide the professionals with freedom in relation to decisions disclosure. In addition, there is dissonance between using business approaches in fundraising planning and some tendencies to reject business criteria of performance evaluation.

1.5.4. Demonstration of financial accountability and accounting challenges

A certain amount of participants' attention is given to accounting issues and challenges of accountability which NPOs (including HROs) face. Since the majority of accounting group participants is from the U.S., the major accounting framework that is considered is US GAAP. Despite this, most of the findings are generally applicable to NPOs operating within other accounting frameworks, since nonprofit accounting develops mostly in convergence with business accounting standards around the world (Monsen, 2010; Ryan et al., 2014). Moreover,

analogous accounting challenges appear in all types of NPOs (including HROs) since all of them must apply similar accounting standards within their particular jurisdictions. According to analysis, accountants of nonprofits face their main challenges due to duality, complexity and the existence of different meanings in the interpretation of revenue recognition, costs allocation, and reporting. Often these challenges and problems of reporting transactions take place because the standards of nonprofit accounting originate as a part of the history of standards setting for profit-oriented businesses.

Based on the findings, the following accounting challenges take place:

- In certain cases, it is unclear if grants should be recognized as contributions/donations (i.e., revenue) or as a service contract/exchange transaction (i.e., liability). Grant conditions also affect the period of revenue recognition (for example, if the grant is given for more than a year).
- Many accounting software programs are oriented to business types of transactions and accept payments only against invoices. The accountants of NPOs need to be creative in order to record their transactions according to existing standards, while at the same time making sense of the distinctive nature of NPO activities.
- Another reason for the accounting complexity is the necessity to use accrual and cash methods in different situations: income and expenses need to be recorded on an accrual basis, but reimbursement for grants is received on a cash basis.
- In order to get meaningful reports, NPOs need to recognize donors as customers and their contributions as sales receipt or invoices within the existent accounting system.

Sandi, a director of administration at a religious NPO, USA, NPA&GM group, asks:

How are you entering the donations? Are you entering them as a sales receipt or invoices or just connecting them with the donor's name on the deposit screen?

The suggested approach is incorrect, since the donor is not an equivalent to the customer of the business organization and is not a beneficiary of NPO activities.

- The members of accounting groups regularly criticize the misunderstandings that NPO financial reporting forms can create. For example, the participants discuss the reporting form, IRS Form 990, used in USA for charities that accept tax-deductible donations. In this form, the reporting of charitable contribution of fundraising events creates the illusion of loss on events, since “the character of the proceeds collected at the event is differentiated between... the market value of the event expenses and charitable contributions.” This gives the false impression that the success of fundraising depends on the ability to minimize the event costs, rather than on the willingness of donors to support the organization.

- The participants in these discussions show doubts that financial reports in their existing form can be an effective tool for attracting donors:

Sara, an owner of an accounting services bureau, USA, GNPAAI group asserts: “Donors need to be able to ... trust the figures. We are still very far away from this goal.”

Christine, a CPA in an HRO, USA, NPA&GM group remarks:

I have heard some express doubt that funders actually look at the 990, much less use it as an informational tool for assessing a nonprofit's performance.

- Participants claim that the complexity of accounting standards has a negative effect on the quality of financial reporting, and, therefore, on the transparency and accountability of small NPOs that cannot afford permanently employed accountants. They demand “easier” reporting forms for nonprofits.

To conclude, even though accountants seem to be more oriented to solving everyday accounting problems than to the strategic improvement of nonprofit accounting standards, the low level of

satisfaction with existing accounting standards, along with significant demand for an accounting system which is authentic to NPO activities and transactions, is clearly observed.

1.6. DISCUSSION AND CONCLUSIONS

This paper reveals the lack of attention to human rights organizations in third sector research and seeks to contribute to an understanding of HROs financial accountability. The study explores several angles on HRO financial accountability and accounting by applying multiple theoretical lenses and acquiring knowledge of the main concerns of professionals within the nonprofit community.

Targeting diversity in the financial accountability of different types of NPOs, the research explores HROs within the larger community of NPOs. Practitioners of HROs (empowering and advocacy organizations) represent 35% of the active contributors to the Internet-based discussions on financial accountability, relationships with donors, fundraising, accounting and reporting challenges. Therefore, HROs have the largest representation in these discussions than compared to other types of NPOs. Since an enrolment in discussions is volunteer, this signals the strong concern of HRO professionals with accountability issues.

Analytical lenses of resource dependence and legitimacy theories applied to the studied phenomena prompted the author to propose that HROs face the highest level of accountability requirements among NPOs. This is because of the scrupulous attention HROs must pay to their methods of securing donations and sources, the nature of those sources of funding and high public expectations that HROs express their core values not only in their programs but also in their fundraising and accountability strategies. The empirical study recognizes an exaggerated focus on the part of HRO professionals on relationships with donors, which indicates the strong resource dependence of these organizations. Applying three theoretical lenses simultaneously

to the empirical findings, the research claims that even though these concerns have multiple reasons, seeking legitimacy is the main driver of HROs financial accountability (see Figure 1.4).

The study confirms earlier research findings (Keating & Frumkin, 2003; O'Dwyer & Unerman, 2008; Rupp et al., 2014) about the existence of several groups of donors, with low and high accountability demand respectively. NPO (including HRO) fundraisers treat these groups in different ways: private donors are attracted based on their emotional motives; by contrast, grant providers and financially astute private donors demand financial disclosure and performance evaluation. In addition, the participants of fundraising groups claim that the younger generation of donors is more demanding of accountability than is the older generation.

The research recognizes duality in relationships between HROs and their donors. HROs demand financial support, but attempt to remain independent in decision-making. The accountability relationships depend not only on what donors want to know, but also on what NPOs are ready to tell them. In contrast to the prior research on downward accountability (O'Dwyer & Unerman, 2008; Jacobs & Wilford, 2010), this study has not identified the NPOs/HROs interest to accountability relationships with other stakeholders than the donors and supports the concern of Wellens & Jegers (2014) on overrate of downward accountability.

The study shows a linkage between the challenges and complexities in performance measurement and accounting and the difficulties for HROs to demonstrate legitimacy and accountability. Increasing fundraising competition forces nonprofit managers to use business approaches and terminology. Even when they apply business approaches to fundraising, NPOs do not support business-oriented performance measurements. They emphasize the imperfections of existing performance measurement systems which do not accurately represent the success or failure of any given NPO, but may force these organizations to manipulate their accounting data and create the necessity for them to hire professional fundraisers and consultants. This leads to resource outflows that may detract from the missions of the HRO.

Given this context, an exploration of the dissonance between approaches for fundraising planning and performance evaluation corresponds to disagreements on appropriate performance measurement systems in third sector that is revealed and discussed in the previous academic literature (Hall, 2014; Barman, 2007).

With respect to the recent claims on the irrelevance of the business accounting framework for application in third sector (Ryan et al., 2014; Monsen, 2010; Mook & Handy, 2010), the paper advances a significant argument for the development of special accounting framework for nonprofit organizations. The study provides empirical evidence that the existing form of accounting for nonprofits has significant limitations and is burdened with complexity, duality and controversy, especially in cases of revenue recognition, costs allocation and reporting. These conditions have emerged because currently there is an inappropriate basis of the existent accounting system and an absence of clear definitions for key accounting concepts. In this context, accountants are forced to manipulative actions to accommodate NPO financial activities to accounting standards. Such pressures and practices decrease the value of the financial reports created in such environment. These findings support an observation of the International Accounting Standards Board, which reports that non-for-profit entities often have difficulties as they attempt to apply current accounting standards to their distinctive organizations and missions. Finally, the research recognizes a significant demand by practitioners for an accounting framework for NPOs based on a relevant accounting theory. Even though a national variety in Internet accounting groups is quite limited, the global operation of donors and NPOs, together with the similarities of philanthropic principles across nations and around the world, and an emerging movement towards the international unification of accounting principles make these findings applicable to different (inter)national context(s).

In addition to the stated implications of this study, the paper provides an impulse to conduct explorative research in nonprofit sector using Internet-based data sources and online

communication (Tremblay-Boire & Prakash, 2015; Eimhjellen, Wollebæk & Strømsnes, 2014). To advance such research, the paper introduces netnography as a method in nonprofit accounting research that allows to obtain knowledge about the practices, challenges and concerns of qualified accounting and fundraising practitioners around the world as these matters are communicated within the scope of naturally created professional discussions. This method minimizes the influence and potential bias of the researcher on the collected opinions (in contrast to other qualitative methods). The method, however, does require collecting appropriate type of netnographic data for each research project, grounding analysis in particular contexts, applying hermeneutic interpretation, determining and fulfilling ethical standards (Kozinets, 2010).

The author can highlight several directions for the further research on NPOs/HROs financial accountability. Firstly, the observation type applied in this study gives an opportunity to collect currently available data. In further research, a higher level of interaction with the Internet community can be suggested. Secondly, the study claimed that accountants, managers, fundraisers and donors have various issues of concern, and, therefore, demand different types of accounting information. This diversity should be taken into account by any further research on the development of appropriate accounting principles and standards for nonprofits. Since a single accounting framework cannot satisfy the needs of all stakeholders, the interests of one of the groups may need to be prioritized. Finally, the findings of this paper provide a rich background for in-depth case studies on the financial accountability of HROs among the main issues of concern for HRO practitioners.

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Appendix 1.1

Table 1.1 - An overview of the main concerns of nonprofit practitioners

Group/year of creation (becoming open)	Total amount of members	Contributed participants, total\from HROs	Major location	Professional majority	Main issues of concern	Other discussed issues
Mango Worldwide (MNG)/ 2010	232	4\2	UK, Kenya, Pakistan	Finance, project management	Bribes, fraud, corruption and anticorruption measures	Developing countries specifics, project management, costs allocation, costs minimization, partnership, grants application
Governmental - Not-for- Profit Accounting and Auditing Issues (GNPAAI)/ 2009	1818	10\3	USA	Accounting, Finance	Nonprofit accounting and reporting issues, internal control, segregation of duties	Accountability and reporting to donors, corporate governance, audit, IFRS, fraud
Nonprofit Accounting & Grant Management (NPA&GM)/ 2009	6205	16\5	USA	Accounting, Finance	Financial reporting issues, costs allocation, revenue recognition	Relationships with donors, performance measurement, corporate governance, needs for accounting standards improvement
Charity UK (C_UK)/ 2010	12357	4\1	UK	Community and social services, consulting, marketing	Different forms and challenges of fundraising, relationships with donors	Corporate governance, ethical issues, performance measurement, reporting
UK Fundraising (UK_F)/ 2009	5035	6\3	UK	Community and social services, consulting, marketing	Fundraising, relationships with donors	Compensation issues

Essay 2:

Accounting Information Demands of Institutional Donors from a Human Rights

Organization in Norway: Parallel Reporting Realities

Galina Goncharenko

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Abstract

Nonprofit accounting practices are challenged by the trend toward harmonization with business accrual accounting principles. At the same time, dissatisfied with the type of information presented in annual financial reports, its main users - institutional donors - create alternative reporting systems in parallel for NPOs they support. The paper undertakes a case study of a Norwegian human rights organization, the Rafto Foundation, explores the reasoning of the high financial accountability demands of its institutional donors, their information needs for decision-making and accountability, and the interlinkage between annual financial reporting and the alternative reporting systems. The study applies the analytical lenses of institutional logics and triangulation of qualitative methods.

Keywords: financial accountability; nonprofit organizations; nonprofit accounting; institutional donors; institutional logics; real-life construct.

2.1. INTRODUCTION

Accounting is a calculating and social practice that is primarily oriented to the demands and desires of its users (Young, 2006; Hyndman, 1990; Mayston, 1992; Fortin, & Côté, 2007; Daniels & Daniels, 1991). There are two basic objectives of accounting: accountability and decision-making (Mellempvik, Monsen & Olson, 1988). These objectives are expressed in the approaches by accounting and financial reporting to all types of organizations: business enterprises, governmental bodies and nonprofit organizations (NPOs).

In recent years, we have witnessed an international trend towards harmonizing nonprofit accounting with business accrual accounting. Accounting research indicates significant challenges to the practical implementation of nonprofit accounting when it is harmonized in this fashion. These challenges include the criticism that this accounting framework is irrelevant to the missions and activities of NPOs (Keating and Frumkin, 2003; Helmig, Jegers & Lapsley, 2004; Christiaens and Rommel, 2008; Mook and Handy, 2010), perceived inconsistencies between the standards and practice (Conolly and Hyndman, 2000; Hooper, Sinclair & Hui, 2008), evidence concerning the insufficient level of information quality (Torres and Pina, 2003; Breen, 2013; Ryan, Mack, Tooley & Irvine, 2014), the non-correspondence of accounting reports with stakeholder demands (McDowell, Li & Smith, 2013; Sinclair and Bolt, 2013), and failure to address specific reporting issues (Mook and Handy, 2010). In addition, there are several calls for new forms of nonprofit financial reporting (Keating and Frumkin, 2003; Monsen, 2014; Ryan et al., 2014).

Nonprofit organizations are accountable to a large number of widely differentiated stakeholders (ICHRP, 2003; O'Dwyer & Unerman, 2008; Rupp, Kern & Helmig, 2014). In order to satisfy these demands for accountability, NPOs use various accountability mechanisms (Ebrahim, 2010). Amidst this variety of accountability mechanisms, financial accounting information as a mechanism of accountability can only benefit those stakeholders who possess an adequate

level of accounting knowledge and economic competence to make thoughtful use of the information that is conveyed. Of the numerous stakeholders, donors have been named as the most salient stakeholders of NPOs (Assad & Goddard, 2010) who place a variety of demands for information about NPOs. Prior literature on nonprofit accountability claims that individual and institutional (organizational) donors have different accountability demands (Keating & Frumkin, 2003; ICHRP, 2003; O'Dwyer & Unerman, 2008). The effect of accounting information on individual donors' decision making to give funds to NPOs has been evaluated by several experimental studies (Trussel and Parsons, 2008; McDowell et al., 2013), and these studies yield mixed results.

By contrast, the needs of institutional donors for accounting information have been explored to a lesser extent by scholarly research. This deficiency in scholarship is significant, because institutional donors often exercise their power to gain as much accounting and reporting information as they need from the NPOs they support. Frequently, institutional donors even demand special financial control and reporting (Keating & Frumkin, 2003; ICHRP, 2003; Ebrahim, 2003; 2010; O'Dwyer & Unerman, 2008) and arrange financial inspections (Assad & Goddard, 2010). This power potentially affects all types of NPO stakeholders (especially, beneficiaries), because extensive reporting leads to resource outflows from the core missions. Prior research has acknowledged institutional donor – NPO tensions in relation to reporting and the establishment of its targets (Clayton, 1994; Hudock, 1999; Fowler, 1997; Ebrahim, 2003, 2010) and has identified the mechanisms of donor influence and NPO resistance that is shaped in the forms of information flow between NPOs and their donors with the main focus on the decision-making and coping strategies in NPOs. To this point, however, the specific reasons that underlie the reporting demands of institutional donors, the types of accounting information they seek and their use of this information in their own decision processes remains unclear.

This paper undertakes an exploratory case study of a Norwegian human rights organization, the Rafto Foundation. The study applies the analytical lenses of institutional logics and triangulation of qualitative methods with a real-life construct within semi-structured interviews. The paper explores what types of accounting information the institutional donors demand, and seeks to discern the specific reasoning that underlies these demands while sketching out their implications for the accountability practices of HROs. Special attention is given to the interlinkage between the annual financial statement that is prepared according to accounting standards and the alternative reporting systems created by donors themselves.

The paper has the following structure. The next section contains an overview of previous research on nonprofit accountability and accounting. Section 3 outlines the analytical lenses of institutional logics applied in the paper. Section 4 explains the research design, methodology and data collection. Section 5 presents the empirical context: the case and a brief overview of the Norwegian nonprofit sector and its accounting regulations. Section 6 contains the empirical findings. Section 7 provides summary discussion and offers concluding remarks.

2.2.ACCOUNTABILITY AND ACCOUNTING IN THE NONPROFIT SECTOR

2.2.1. Nonprofit accountability and stakeholders

A phenomenon of nonprofit accountability, or “being held to account”, received significant research attention during the past twenty years (Unerman & O’Dwyer, 2006, 2010; Kilby, 2004; Ebrahim, 2003, 2010; Assad & Goddard, 2010; Chenhall, Hall & Smith, 2012; Mook & Handy, 2010; Cordes & Coventry, 2010; McCarthy, 2007; Saxton; Jenn-Shyong & Ho, 2012; Verbruggen, Christiaens & Milis, 2011; Schmitz, Raggo & Vijfeijken, 2012). Stakeholder theory asserts that an organization has obligations and responsibility (accountability) to different dynamic entities and needs to pay continuous attention to the interests of these groups. Mitchell, Agle & Wood (1997) classified stakeholders based on the characteristics of power

(ability to influence), legitimacy (socially accepted moral claims or formal relationship), and urgency (time-sensitive claims). Different groups of stakeholders have various requirements for HROs' accountability and information based on their own interests and motives.

According to its functional dimension, accountability is classified as downward (functional, hierarchical) or upward (social, holistic) accountability (Unerman & O'Dwyer, 2007, 2010; O'Dwyer & Unerman, 2008; Ebrahim, 2010; Anheier, 2014). Table 2.1 presents an overview of the different types of accountability.

Table 2.1 - Different types of accountability

Upward accountability assumes that NPOs are supposed to be accountable to the fund providers, including donors, sponsors, governments, international institutions, and that these providers have a right to be informed about the fund spending.	Downward accountability assumes that the priority for accountability be granted to NPO beneficiaries (recipients).
Functional accountability supposes short-term oriented accountability with a narrow focus on the financial indicators of NPO performance.	Social accountability suggests that NPOs need to be broadly accountable for the direct and the indirect social impacts of their actions (in contrast with a narrow functional accountability focus on project activities).
Hierarchical accountability is short-term accountability to NPO supporters with the use of quantitative indicators for measuring NPO performance.	Holistic accountability seeks to combine upward and downward accountability and focuses on long-term sustainable outcomes of the nonprofit activism and mission achievement.

Source: based on Unerman & O'Dwyer (2007, 2010); O'Dwyer & Unerman (2008, 2010)

Even though research interest is trending towards exploring NPO accountability to society as a whole and to the beneficiaries of NPO activities (Unerman & O'Dwyer, 2007, 2010; O'Dwyer & Unerman, 2008; Ebrahim, 2010), there are significant reasons to continue investigating the financial accountability of NPOs, unpacking the reasoning that underlies donors' demand for particular types of accounting information, and seeking improvements in the mechanisms of financial accountability. This agenda is influenced by the publicity surrounding recent financial

scandals and the legitimacy crisis in the nonprofit sector, the recognition of wide areas wherein NPOs could misuse their granted funds and manipulate their financial data; the perceived need for higher levels of financial discipline; the unclear linkage (and possible overlap) between official financial reports and the reports required by donors; the need for better understanding of the background of financial reporting demands and the pressures in donor – NPO relationships. The legitimacy crisis, it can be stated, determines the increasing demand for the financial accountability of nonprofits (ICHRP, 2003; Schlesinger et al., 2004; O’Sullivan & O’Dwyer, 2009). The many financial scandals have had a significant impact on the nonprofit sector (Gibelman & Gelman, 2001; Bothwell, 2004; Trivunovic, 2011). Even with extensive financial accountability demands, NPOs can and sometimes have manipulated their fund usage in specific areas, such as salaries, purchases, choice of the field partners, and administrative expenses. This is related to inadequate evaluation (or even the complete lack of evaluation) of financial performance (the assessment of whether money has been spent in the most efficient way) (Sidel, 2005). Accounting scholars claim that truthfulness in financial reporting is one of the cornerstones for improving the legitimacy of NPOs (Keating & Frumkin, 2003; Schlesinger et al., 2004; Saxton et al., 2012). In addition, it is difficult to assume that a NPO that is not transparent and accurate in its financial transactions and is not itself in good financial health could deliver high-quality service to the recipients (beneficiaries) of its programs and activities. Moreover, it is important to note that upward and downward accountability are interdependent, at least in relation to the allocation of resources that NPOs spend in order to signal their accountability and fulfil accountability demands. O’Dwyer & Unerman (2008) warn that the predominant role played by hierarchical accountability among NPOs could lead to a trend “to measure impacts mechanically, in order to provide an impression of precision” (p.804). Too much of a focus on downward accountability, however, might make NPOs look like service-oriented organizations to particular groups of recipients. This might be dangerous for the

missions of those international empowering and advocacy NPOs that do not represent any particular vulnerable or disadvantaged population in their mission outreach, but are, in fact, campaigning against human rights violations all over the world. In this context, the responses of NPOs to accountability demands from different stakeholders need to be balanced carefully.

2.2.2. Nonprofit accounting and users

Financial accounting and reporting are the mechanisms and outcomes of NPO financial accountability. Unerman & O'Dwyer (2006) assert:

Key accounting ... strategies used by the NGOs to help build credibility included: judicious conformity to the accounting requirements of major donors; ... [mentioning] the names of their high profile donors to provide comfort for other donors; managing the audit including appointing more expensive global audit firms for the added perception of credibility ... greater transparency and accuracy of accounting information (pp. 311 – 312).

For more than sixty years, the possible direction of nonprofit accounting development has been a frequently debatable issue. A long-term scientific debate on nonprofit accounting emerged in the 1950s (Figlewicz, Anderson & Strupeck, 1985), continued during the 1980s (Anthony, 1980, 1987; Herzlinger and Sherman, 1980), and is ongoing here in the twenty-first century (Monsen, 2014; Ryan et al., 2014). Since Anthony's evaluation of the distinction between accounting for commercial entities and accounting for nonprofit organizations, their differing priorities in the pursuit of financial information and organizational decision making, and his call to address various needs of accounting information for a wide range of stakeholders (Anthony, 1980), this subject has been much-discussed within the scholarly community.

Modern nonprofit accounting research expresses several focuses. Figure 2.1 presents an overview of these emphases from the more general (relevance of existing accounting framework) to the more detailed (including challenges in application, concerns about the quality

of financial reports, surveys of the stakeholders' (users') needs, and the decision-usefulness of accounting information).

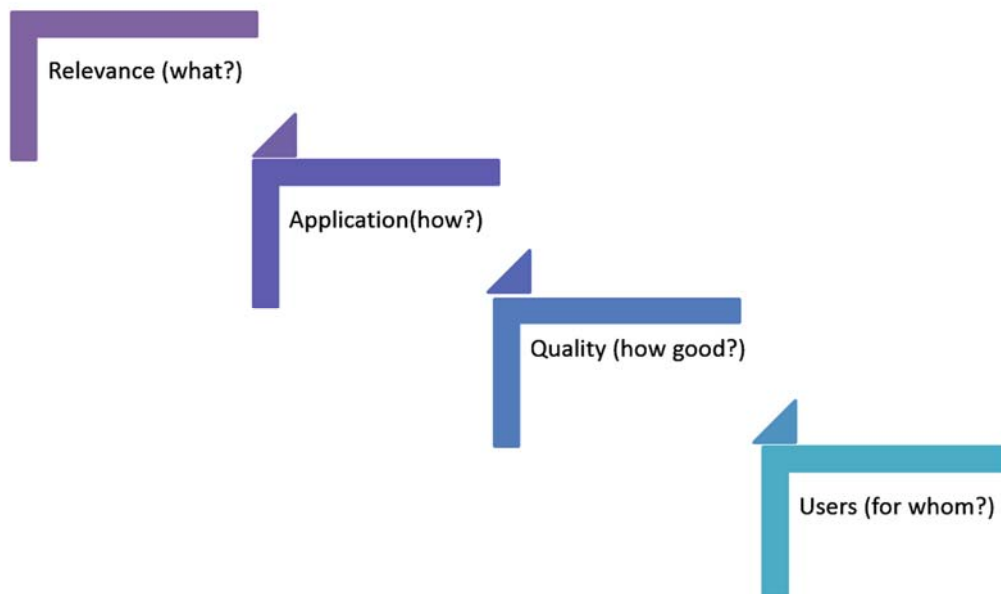


Figure 2.1: Focuses of nonprofit accounting research

Within the first category, scholars question whether the existing accounting framework is appropriate for nonprofits. They claim that NPOs are different from business entities, and therefore they need a “purpose-designed” accounting framework (Christians and Rommel, 2008; Monsen, 2014; Rossouw, 2007, 2013; Ryan et al., 2014). Profit maximization is the core objective of businesses (Knutsen & Brower, 2010). By contrast, NPOs are focused on providing services and do not have profit objectives (Gourdie & Rees, 2009). These organizations acquire revenues through one-way money transactions (donations) without providing a direct return to their donors, and they use budgets for the allocation of these donations to cover expenditures (Anheier, 2014; Monsen, 2010). The efficiency of nonprofits cannot be determined solely by the information in financial statements (Cordes & Coventry, 2010; Morgan & Fletcher, 2013); their revenue does not indicate the demand for services or performance. The existing business

and governmental accounting frameworks ignore the specifics of NPOs' economic nature, mission orientation and accountability (Monsen, 2014; Ryan et al., 2014; European Center for Not-for-Profit Law, 2009), as well as neglecting the decision-making criteria of fund providers (Falk, Colin & Waterhouse, 1992).

International Financial Reporting Standards (IFRS) do not establish special standards for nonprofits, even though the International Accounting Standards Board acknowledges that not-for-profit entities often have difficulties as they attempt to apply current accounting standards to their distinctive organizations and missions. The US Not-for-Profit Generally Accepted Accounting Principles (GAAP) are themselves grounded on the principles of business accrual accounting (and this limits their applicability to the accountability of NPOs).

Even though fund accounting principles are used by many NPOs on a level of project accounting and for reporting to donors, IFRS and GAAP do not allow fund principles to be applied as a reporting entity in financial reports (Breen, 2013; Rossouw, 2013). Larkin & DiTommaso (2013) in Wiley Not-for-Profit GAAP argue that readers of commercial financial statements are not aware of fund accounting principles, and this could be confusing and may well limit the decision usefulness of the information they gather from the reports. Consequently, they conclude:

GAAP specifically requires the reporting of certain financial information by net asset classifications rather than funds. This does not mean the [nonprofit] organization will not keep detailed internal bookkeeping records on a fund accounting basis. It will still have to do so, or it will lose track of whether it is complying with donor-imposed restrictions (p. 79).

Given the internal need for knowledge about the use of funds that have donor-imposed restrictions, NPOs are allowed to use fund accounting principles for internal purposes and for donor reporting, but they do not use these principles in preparing annual financial statements in accordance with accounting standards. In addition, the current accounting frameworks for

NPOs do not address properly the reporting of non-exchange transactions, such as restricted revenues (donations) (Rossouw, 2007, 2013; Ryan et al., 2014), volunteer labour (Mook and Handy, 2010) and fixed assets (Falk et al., 1992; Rossouw, 2013).

The second category of nonprofit accounting research seems to support the use of accounting frameworks for nonprofits that are based on business accounting principles. Even so, scholars report significant complexities in the way NPOs apply these frameworks and note a significant failure in achieving the purpose of financial reporting; namely an inability to provide a useful basis for decision-making and accountability (Torres and Pina, 2003). They argue that the nonprofit sector is always given too low a level of attention and “third priority” (after for-profit and public sectors) in the process of accounting standards development (Torres and Pina, 2003). Lack of appropriate legislation has led to significant differences between accounting standards and accounting practice and crucial variations in reporting content in the nonprofit sector (Christensen and Mohr, 2003). Conolly & Hydman (2000) and Hooper et al. (2008) studied charity accounting in the UK and New Zealand, respectively. In both studies, the authors note that practice significantly deviates from accounting standards (for example, in the meaning of concepts), and the researchers propose clarifying concepts and advocate reducing diversity in accounting reports among NPOs. They touch briefly on the problem of accounting framework irrelevance, but they do not seek a solution beyond the pre-set accounting framework.

The third research focus, the quality of accounting statements in the nonprofit sector and their ability to provide information for decision-making and report the value of donations, is a logical outcome from the two previous categories (Torres and Pina, 2003). Breen (2013) analyzed the reliability, consistency and comparability of financial reports of charities in Ireland, UK, and the US: Examining these qualities under current accounting frameworks, the authors claimed that the reports do not achieve these quality criteria in most of the cases they reviewed.

Because decision-usefulness is one of the major purposes of financial reports, the fourth category of nonprofit accounting research examines the information needs of NPO stakeholders and particular aspects of reports that are important for fundraising and accountability to donors. Accounting research of user needs in both the private and public sectors presents significant challenges in defining the user of accounting information and linking user needs to specific settings in the accounting standards (Young, 2006; Hyndman, 1990; Mayston, 1992; Durocher et al., 2007; Daniels & Daniels, 1991). Young (2006) asserts that even though the standard setters have decided to link the purpose of accounting to financial statement users, “actual users were viewed as multiple, conflicting, inconsistent, uneducated...not only were they unreliable but little was known about their decision processes” (p. 596). These perceptions of users and their needs in the business sector have had an impact on how the nonprofit sector is assessed according to business accounting standards and the techniques originally developed to provide information on for-profit entities.

There were several experimental studies to understand the effect of NPOs’ financial reports on individual donors’ decision making about their contributions to NPOs (Trussel and Parsons, 2008; McDowell et al., 2013). McDowell et al. (2013) claim that individual donors prioritize nonfinancial information (missions, outcomes) over financial accounting information and explain this, in particular, by the fact that the accounting information provided by NPOs does not correspond with stakeholder demands. Keating and Frumkin (2003), however, note the absence of interest on the part of individual donors in the financial reports of nonprofits by individual donors and interpret this as an expression of their inability to access and understand the financial information of NPOs. These findings, however, are mostly relevant to individual donors and are not of great interest; it seems, to donor organizations. In contrast, Yetman & Yetman (2013) claim that donor organizations discount low-quality accounting information. Sinclair and Bolt (2013) studied whether the nonprofit stakeholders can affect the standards

setting. These researchers point to the low level of influence of stakeholders' opinions on the standard-setters in New Zealand. By contrast, Conolly, Hyndman & McConville (2013) examined stakeholder engagement in the charity accounting standards-setting in the UK and report that stakeholders did not take the initiative to express their opinions to the standard-setters. The scholars explained this by the fact that "small funders lacked the time, drive and platform to engage easily in a meaningful way ... large funders could demand highly specific and detailed information directly from charities and therefore saw few benefits from engagement" (Conolly et al., 2013, p. 68).

To summarize: the nonprofit accounting literature demonstrates, on the one hand, the complexities and the lack of a systematic approach in nonprofit accounting standards setting (what Anthony (1995) called "the nonprofit accounting mess") and the irrelevance of information that the nonprofit accounting reports provide for potential users. On the other hand, the low interest of users in this information is also reported. With respect to the specifics of the nonprofit sector, it may well be that these two issues have some type of causal consequence.

2.3. INSTITUTIONAL LOGICS OF INSTITUTIONAL DONORS

The forms and sources of donation shape the types of NPO-donor accountability relations. Each nonprofit organization has an opportunity to choose sources to which they apply for financial support. The major sources of revenue acquisition in the nonprofit sector include donations from individuals, grants from institutional foundations, government transfers, government grants (and contracts), business or corporate donations, and commercial activities (Froelich, 1999; Anheier, 2014).

Nonprofit research cites the existence of several groups of donors (individual/unprofessional and organizational/institutional), which have low or high accountability demand, respectively

(Keating & Frumkin, 2003; O'Dwyer & Unerman, 2008; Rupp et al., 2014). NPOs treat these groups in different ways: private donors are attracted based on their emotional motives. By contrast, grant providers and some financially astute private donors demand financial disclosure and performance evaluation.

Even though NPOs prefer to diversify their funding sources in order to reduce the risk of financial vulnerability and resource dependence (Verbruggen et al., 2011), certain types of NPOs, in particular, empowering and advocacy human rights organizations, build their revenue streams on grants from institutional donors. These NPO-institutional donor relationships normally exist in the form of long-term, project-based partnerships that are built around the verification of reputation and credentials and elements of political lobbying. In addition, these relationships are well structured with a high level of accountability demand and formalized application and reporting processes. Moreover, “sophisticated donors [donors which impose grant restrictions] are more able or willing to unravel complex signals of low-quality reporting [and attach larger discounts] than are the average donors” (Yetman & Yetman, 2013, p. 1063). Because of this, institutional donors are able to have a significant impact on NPO accounting and reporting practices by requiring additional accounting information, imposing the application of donor-imposed restrictions, inspections, and demanding a high level of accountability for the funds that have been granted.

Prior literature mostly focused on the actions and strategies of the NPOs to cope with or resist the high financial accountability demands of donors and to shape accounting and reporting practices according to these demands (Ebrahim, 2003, 2010); but the literature has neglected the need to explore the logic and reasoning processes of donors which might reveal their perception of NPO accountability and determine the nature of their accountability demands. Aiming to unpack the reasoning of institutional donors, this paper applies the analytical lenses of institutional logics.

Institutional logics is defined as “the material practices, assumptions, values, beliefs and rules by which individuals [and organizations] produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality” (Thornton & Ocasio, 2008, p. 101). Friedland & Alford (1991) identified several core institutions in society: the capitalist market, bureaucratic state, democracy, nuclear family, and Christianity, and this list was further developed by Thornton (2004) into seven institutional orders: the market, the corporation, the professions, the state, the family, the community and religions. Each of these orders shapes specific institutional systems by providing a distinct set of logics, determined by such categories as source of legitimacy, source of authority, source of identity, basis of norms, basis of attention, basis of strategy (Thornton, 2004; Thornton, Ocasio & Lounsbury, 2012). These categories facilitate the identification of specific types of logics (orders).

Garrow & Hasenfeld (2014) emphasize the explanatory potential of the lenses of institutional logics for the nonprofit sector. Knutsen (2012) asserts that NPOs often have to adapt to “external” institutional logics, such as the logics of fund providers and recipients depend on the type of funding they accumulate (private/governmental), as well as their mission and organizational type (membership/ civil society organization). These logics could conflict and confront each other in such way as to create an environment for the change of institutional logics themselves.

Institutional logics are embedded in organizational practices and thereby shape individual and organizational actions by the collective identification of the actors, contests for status and power, classification and categorization, and the attention (priorities) of actors (Thornton & Ocasio, 2008). The theory of attention asserts that “institutional logics focus the attention of decision makers on issues and solutions that are consistent with prevailing logics” (Thornton & Ocasio, 2008, p. 114; see also Thornton, 2004; Ocasio, 1997). Because the current nonprofit accountability research lacks a clear understanding of donors’ reasoning processes for asserting

specific information demands and expressing needs, the systematization and analysis of outputs (i.e. the expressed interests, values, accounting information priorities, focuses and demands of institutional donors) might well increase our knowledge and understanding of the specific logics (inputs) which determine these actions and prompt these outputs. Moreover, the exclusive status of institutional donors as the most salient type of NPO stakeholders affords them with the ability to act from the perspective of institutional entrepreneurs and thus to shape NPOs accounting and reporting logics and embedded practices in distinctive ways.

2.4. RESEARCH DESIGN AND METHODOLOGY

This paper aims to contribute to user-need accounting research (Young, 2006; Hyndman, 1990; Mayston, 1992; Durocher et al., 2007; Daniels & Daniels, 1991) by exploring the needs of financial reporting users, analyzing the reasons and motives for their information demands and discussing their impact on HRO accountability practices in a specific empirical context. Considering donors as external stakeholders who are supposed to consume accounting and reporting information provided by the HRO to external users, this paper compares the donor demands with the information supplied in annual financial reports. This study examines the demands and the supplies of accounting information by looking at the circulation of information between the HRO and its donors in every stage of interaction (grant application, grant decision, evaluation of ongoing projects, ex-post reporting and evaluation, long-term cooperation); examines the routines, practices and informational background of the decisions that shape giving and their ex-post evaluation, and discusses specific foci, key-points and expectations of the decision-makers in the donor organizations.

2.4.1. Triangulation of methods

The triangulation of qualitative methods is applied to fulfil the objective of this study. Methodological literature traditionally suggests addressing explorative research questions such as “how and why” by using instruments of qualitative methodology (Yin, 2003; Denzin and Lincoln, 1994; Berg & Lune, 2012). Triangulation of methods facilitates the achievement of a comprehensive understanding of complex phenomena (Modell, 2009; Hopper & Hoque, 2006) and enhances the validity of research interpretations (Marginson, 2004). Figure 2.2 presents the research design of this paper.

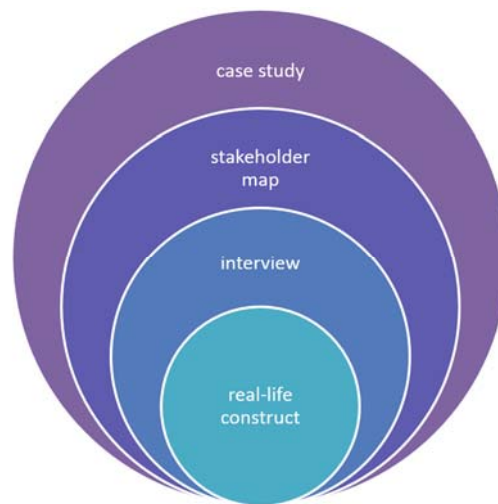


Figure 2.2: Research design

The research design consists of four different components: a case study, stakeholder mapping, interviews and a real-life construct. The design is founded on a principle of constantly narrowing the research focus and the theoretical sampling, i.e. choosing the samples in which the research interest is “transparently observable” (Eisenhardt, 1989; Glaser & Strauss, 1967; Hammersley & Atkinson, 2007). Within the case study of the Rafto Foundation that is conducted through direct observation and document analysis, the author identified the relevant

groups of actors by means of stakeholder mapping. After the mapping, the representatives of these stakeholders were interviewed. The analysis of the interviews was supplemented by presenting the interviewee with what is called a “real-life construct” (Lapsley & Llewellyn, 1995; Arnaboldi & Azzone, 2004; Hellstrom & Lapsley, 2016). This involves the creation of an alternative scenario that is intended to contextualize the discussion of the interviews, provide a focal point for commentary to be aimed at and to facilitate the identification of salient values for analysis. The new set of documents (“parallel” reports required by the donors and the guidelines for these reports) has been explored during interviews and was analysed during a later stage of research. The forthcoming subsections provide a detailed explanation of each component of the research design.

2.4.2. Case study

Presupposing the strengths of the case study method and its potential for enhancing financial accounting research, this study undertakes an exploratory case study as a non-laboratory social study method. The case study approach expresses analytical, systemic and individual perspectives (Yin, 2003) and is a valuable tool by means of which a researcher can assess complex phenomena and evaluate practices that are influenced by multiple actors within natural settings, “real life” contexts (Cooper and Morgan, 2008). In addition, the case study method allows for the involvement of the researcher who can play the alternative roles of outsider, visitor, facilitator or actor (Ryan et al., 2002). The dynamics of the case study method make possible the provision for simultaneous data collection and analysis (Hartley, 2004) and encourages a continuous learning process (Hagg and Hedlund, 1979).

2.4.3. Stakeholder map

Due to technical and conceptual complexity, financial accounting information seems to attract the attention of and be comprehensible only to selected groups of NPO stakeholders—those who have appropriate education, knowledge and experience. Board members, management, donors, sponsors, partners, government and monitoring groups are generally the only stakeholders who demand and can make effective use of the financial accountability of NPOs.

Prior to the interviews, the author had two meetings with one of the managers of the Rafto Foundation, seeking a general overview of the accounting and reporting practices within the organization and potential users of financial reporting information. Even though the NPO under study has a significant variety of stakeholders, the author identified three specific groups of actors (stakeholders) from whom knowledge might be accumulated and who could provide significant and detailed information appropriate for the purpose of this study. These key groups include employees engaged in management, fundraising and reporting, Rafto board members, and institutional donors.

2.4.4. Interviews

The method of semi-structured interviews (Smith, 2011) was implemented in the case study to acquire knowledge about the accounting practices of the Rafto Foundation, the needs of the stakeholders in terms of financial reporting information, accountability relationships between the HRO and its donors, decision-making and accountability routines. This method permitted the discovery of the kinds of information that the users need, the opportunity to identify accounting emphases that may have gone missing in the annual financial statement and to consider alternative sources of information. The interview questionnaire was constructed to address the type of stakeholder who was interviewed (see Appendix 2.1 for an example).

2.4.5. Real-life construct. Official and alternative financial statements

Aiming to discover a linkage between the annual financial report and alternative sources of accounting information, the interview design is enhanced by the incorporation of a real-life construct (RLC) to facilitate the analysis. The idea of RLC is to contextualize qualitative and quantitative accounting information in order to provide respondents with a scenario (model) of how something might look and to use this as a background for the interview (Lapsley & Llewellyn, 1995; Arnaboldi & Azzone, 2004; Hellstrom & Lapsley, 2016). The particular strength of RLC within this research design is its applicability for gauging the influence of accounting information on the decision-making processes that are embedded in a specific social context:

An RLC is an information assemblage which is derived from actual organizational practices. It combines real qualitative and quantitative data to form a focal point for case studies which explore decision-making processes in organizations...This setting requires a recognition that decisions involve value judgements, may have to balance competing objectives, and take place in an uncertain environment (Lapsley & Llewellyn, 1995, p. 224).

An RLC “Alternative design of financial reports for the Rafto Foundation” (Appendix 2.4) was used to facilitate the discussions with the interviewees. Alternative accounts within the framework of fund accounting have been prepared for the Rafto Foundation in Raftorapport (Monsen, 2015). Based on this work, two alternative financial statements were developed in Raftorapport (Monsen, 2015): an overview of revenues and expenditures and an overview of money status. The overview of revenues and expenditures shows revenues and expenditures that have been incurred during the most recent 3-year period (2011-2013), budgetary revenues and expenditures for the latest year (2013), as well as the variance between the accounting and budgetary figure for this year.

2.4.6. Data collection and data analysis

The process of data collection commenced in December 2014 with meetings with one of the managers of the Rafto Foundation and the evaluation of provided documents (annual reports and financial statements, the grant agreement between the HRO and the Ministry of Foreign Affairs, a general ledger, an annual budget, etc.). After that, the mapping of relevant stakeholders (donors, employees, and board members) took place.

Development of an interview questionnaire was completed in July 2015. An establishment of necessary contacts with the external stakeholders took place within five months (May - September 2015). Contrasting with the theoretical assumption of general willingness of nonprofit practitioners to participate in interviews due to the general transparency of the nonprofit sector and the wish “to talk about their work ... with interested outsiders” (King, 2004, p. 12), several potential participants appeared to find financial accounting a sensitive topic. Due to the limited number of potential interviewees (the studied HRO has 4–5 major institutional donors), the researcher had to develop two additional explanations for successful enrolment of these practitioners in the interview process. First, the author had to specify that participation in the interviews for this research project did not require education or experience in accounting. Secondly, the researcher had to explain that she did not intend to “check” compliance of annual reports with the accounting standards or to trace financial flows.

Simultaneously, two pilot interviews were conducted with the board members of NPOs that are external to the Rafto case, in order to test the questionnaire. After these interviews, three employees, two board members and eight representatives of institutional donors of the Rafto Foundation were interviewed within a four-month period (see Table 2.2).

Each interview with the donor representatives enhanced the study with the new documents for analysis (such as forms of the reports required by the donors, guidelines and manuals for filling out these forms, forms for grant applications and their manuals, guidelines for processing grant

applications, decision-making and evaluation of reports). Within the process of document analysis (Appendix 2.2), four interviewees were contacted again to address follow-up questions.

The process of data analysis included data reduction, data display, and verification (Miles & Huberman, 1994; O'Dwyer, 2004). A professional software program for qualitative and mixed methods data analysis MAXQUDA was applied as an ancillary tool for the systematization and analysis of the documents and analytical coding.

Table 2.2 – The interviews for the case study of the Rafto Foundation

Organization/body	Type of stakeholder	Number of interviewees
Pilot study (NPO representatives outside the Rafto case for the test of interview design)	Board members	2
The Rafto Foundation	Employees in managerial positions	3
Board of Directors of the Rafto Foundation	Board members	1
Nonprofit association “Fritt Ord” (“The Freedom of Expression”)	Representatives of the donor organization	3
Bergen Municipality	Representative of the donor organization	1
Regional Bank	Representative of the donor organization	1
The Norwegian Ministry of Foreign Affairs	Representatives of the donor organization	2
The Norwegian Ministry of Education	Representative of the donor organization	1

The interview data and the findings of the document analysis were interpreted from the positions of critical and alternate templates research perspectives through the identification of patterns and the finding of distinctive meanings in patterns (Belk, Fischer & Kozinets, 2013; Lukka & Modell, 2010). The hermeneutic approach is applied for data interpretation and

structuration. For this approach: hermeneutic interpretations have to be “coherent and free of contradiction,” “comprehensible” to the intended reading audience, “supported with relevant examples,” clearly related to “relevant literature,” “enlightening” and “fruitful” in revealing new dimensions of the problem at hand” (Arnold & Fischer, 1994, p. 64).

2.5. EMPIRICAL CONTEXT

2.5.1. The nonprofit sector of Norway and its accounting regulation

According to the Norwegian Register Centre (Brønnøysundregistrene), there are more than 85 thousand NPOs registered in Norway as of 2014. Many well-established Norwegian NPOs rely on grants from institutional donors, including various governmental and municipal agencies, businesses and nonprofit foundations (Angells, 2008). According to Lange, Spissøy & Brudvik (2002), there are over 30 acting business-NPOs partnerships in Norway, which are oriented to the synergy of professional competences in the development of joint projects and products.

These close NPOs-government and NPOs-business collaborations developed naturally in Norway, and sometimes this constitutes a challenge in the eyes of outsiders regarding the independence of nonprofits. Hopgood (2006) in his anthropological study of the Amnesty International (AI) reported:

AI Norway...made a presentation on its human rights education work with the Norwegian oil company Statoil that drew criticism from other [AI] members. One delegate from AI Ireland said she was disturbed to see the AI logo near the Statoil logo on the screen and worried about the “contamination of that image (p. 196).

The Norwegian Accounting Act regulates accounting and financial reporting practices of the Norwegian NPOs. The current act was adopted in 1998 and went into effect early in 1999. The act was developed primarily for business enterprises. The accounting act requires the

preparation of two financial statements: result and balance sheet statements. The act applies to all types of organizations operating in Norway, except the public sector entities.

Accounting regulation for some types of organizations, such as NPOs and small entities, could vary from the basic principles of the accounting act when this is in accordance with good accounting practice for these organizations. Moreover, they could also vary from the specific design of the two financial statements required by the accounting act (i.e., the result and balance sheet statements). In 2000, the Norwegian Accounting Standards Board issued a Norwegian accounting standard for small economic entities (NRS 8) which lays down good accounting practice for these organizations. Currently this standard is applicable to organizations that do not exceed the limits of at least two of the following three criteria: sales revenue of NOK 70 million, balance amount of NOK 35 million, average number of employees during the financial year of 50. As a follow-up, the Board has also established a preliminary accounting standard (NRS (F)), which stipulates good accounting practice for organizations without profit objectives, including nonprofit organizations and foundations. A study of the accounting standard for NPOs revealed its complexities and ambiguity (see Solbakken and Monsen, 2008). The standard departs from use of the profit accrual principle of the Accounting Act, but it also requires that some revenues and expenditures be accrued by use of a money accrual principle when they are received and paid in cash. As a result, a corresponding mixture could be found in two related financial statements: activity accounts and balance sheet.

Given these regulations, there are three accounting systems in Norway that might be applied by NPOs: general accounting standards, accounting standards for NPOs, and accounting standards for small entities (SME). Norway aims to harmonize its national accounting standards with IFRS. IFRS is adopted for publicly listed companies. IFRS for SMEs has not yet been adopted in Norway. A new Norwegian accounting act is currently being drafted, and presumably, it will provide the small entities with the option to choose between NRS 8 and

IRSR-for-SMEs in their separate financial statements. It is unclear what will happen with NRS (F) for nonprofit organizations under the provisions of the new Norwegian accounting act.

According to the information the author has received from the Norwegian Register Centre (Brønnøysundregistrene), only 5 per cent of all NPOs in Norway choose to apply special accounting standards for NPOs. It seems that only NPOs that cannot fulfil the criteria of accounting standards for SMEs apply the accounting standards for NPOs.

2.5.2. The Rafto Foundation

The Rafto Foundation (in Norwegian – Raftostiftelsen) is a well-established organization with more than 25 years of activism dedicated to the global promotion of human rights. It was established in the humanistic tradition of the Helsinki Accord. The activities of the Rafto Foundation include the Rafto Prize that is awarded for human rights work; follow-up projects in cooperation with former Rafto Prize laureates; human rights educational courses on human rights issues for pupils, students and teachers; information and lobbying activities. Even though “stiftelsen” is translated from Norwegian as a “foundation”, the Rafto Foundation is neither a foundation nor an HRO within the classical definition of each. In contrast to traditional foundations, the Rafto Foundation operates its own educational projects and delivers educational services for Norwegian schools and students. At the same time, the organization provides financial support to winners of the Rafto Prize for human-rights work outside Norway on a non-systematic basis. In contrast with HROs, the Rafto Foundation does not directly target “needy” groups, people requiring human rights defence, or address the prevention of human rights violations. Given these constraints, the Rafto Foundation could be defined as a “hybrid” organization, having characteristics of both a foundation and an HRO at the same time.

The Rafto Foundation has an extensive network of various private and public financial supporters and partners who make different types of contributions. Figure 2.3 presents the stakeholder map of the Rafto Foundation.

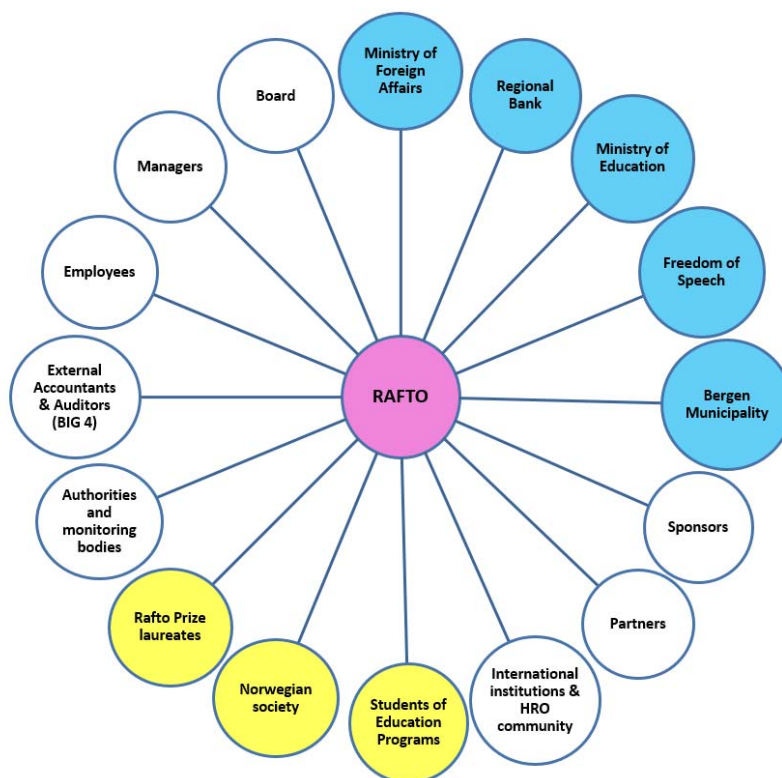


Figure 2.3: The stakeholders of the Rafto Foundation

Similar to the funding of many other Norwegian NPOs (Angells, 2008), financial grants from the state authorities are the major funding source of the Rafto Foundation. Strong reliance on support from the institutional donors, long-term partnerships and well-established relationships with them have determined the previous research interest in the study of the Rafto Foundation.

The Rafto Foundation prepares its official accounts in accordance with the accounting rules in the Norwegian Accounting Act for small entities. Annual financial statements contain the result statement and balance sheet (see Appendix 2.3). The Norwegian Accounting Act does not require that small enterprises prepare a supplementary cash flow statement.

2.6. EMPIRICAL FINDINGS

This section provides an overview of the case study findings based on the interviews and document analysis. The first sub-section reveals the role of annual financial reports prepared according to the accounting standards in terms of their capacity to satisfy the accountability demands of the institutional donors. The second sub-section outlines different levels of accountability demands and the types of accounting information demanded in parallel reporting systems. The third sub-section analyses selected reasons and motives of donors for high accountability demands. The fourth sub-section treats positive and negative outcomes of financial accountability demands and the alternative reporting systems on HRO accountability practices.

2.6.1. The role of annual financial reports

A supposition that an annual financial report is a document created according to the accounting standards in order to satisfy the needs of external users of any organization has been taken as the starting point for analyzing the informational demands of the Raft Foundation donors.

Consistent with this supposition, the interviewees are also assured that the main purpose of the annual financial report is to demonstrate its compliance with accounting standards. Most of respondents are not familiar with the fact that the Norwegian Accounting Act provides an opportunity to choose between three different regimes, including the standards for NPOs.

The employees of the HRO claim that they rely on the opinion of the external accountant in relation to decision-making with regard to the choice of accounting framework and other financial reporting decisions. This can happen in NPOs where accounting is outsourced and management and board members do not experience clear linkage between financial stability and mission achievement. Two Big 4 firms deliver accounting and auditing services to the Rafto

Foundation. The annual costs of these services are equal to the prize amount awarded by the Foundation annually with the Rafto Prize for Human Rights to advocates of human rights and democracy.

An application of the accounting standards for SMEs that are irrelevant to this type of organization causes inconvenient complexities for understanding these financial statements and may mislead potential users. For example, the Rafto Foundation reports about 2,000,000 NOK in costs of goods sold (inventory expenses). At the same time, the Rafto Foundation does not sell any goods and therefore does not have the inventory expenses. Moreover, the Rafto Foundation reports an ordinary result before tax and an annual result (after tax). These two results are identical, because the Rafto Foundation is not taxable and, therefore, it is presumed not to have a profit result before tax or an annual result after tax. The only reason why the organization still reports these particular results is the accounting regulations, which require all types of companies to report their annual results both before and after tax. In addition, even though donations are the main source of revenues for the Rafto Foundation, it uses the account designated as “Accounts receivable”. The name of this account comes from business sector accounting and is not relevant to a nonprofit organization since a donor is not the equivalent of a customer.

The management of the Rafto Foundation states that the HRO has never received any feedback on the official financial reports from the donors and this, together with the continuous financial flows, is to be considered as a positive signal of donor satisfaction. The representatives of donor organizations state that the annual financial report, together with the auditor’s report, is a standard document required from NPOs at the stages of grant application and reporting. They also claim that a single financial statement does not provide an adequate background for decision-making due to its lack of relevant information.

2.6.2. Levels of accountability demands and type of information demanded

In the situation where official financial statements do not provide users with sufficient accounting information and when certain stakeholders (specifically, institutional donors) hold significant power over the operations of the HRO being studied, these users are able to establish supplementary (parallel) reporting systems in order to satisfy their own informational needs. Four out of five institutional donors require the Rafto Foundation to provide additional accounting reports. Before any grant is given, the HRO has to sign an agreement that it will report to the donor according to the reporting forms and guidelines that the donor provides. Some donors require the electronic signature confirming the potential compliance with donor reporting requirements from all grant applicants.

The interviews and analysis of the supplementary reports reveal that donors prioritize the following aspects of accounting information:

- Project-based accounting/fund-based accounting (low interest to aggregated reporting information);
- Detailed description of revenues (information about other donors, state/private sources, domestic/foreign sources, etc.) for sharing the risk with other fund providers;
- Detailed description of expenditures; program, administrative and fundraising divisions; donor-imposed restrictions;
- Budgetary figures and compliance with budgets.

The donor representatives claim that comparability of financial results within the several years (to check “progress” and “positive trend”) and accounting figures with the budgets (which the presented RLC provides) is important for assessing NPO financial performance.

Due to the NPO resource dependence and an absence of any legislation that regulates these parallel reporting systems, each donor performs the role of the “rules of the game setter” in its

relationships with the NPO and designs the reporting system in a way it prefers, often bringing its own governance patterns to the nonprofit sector.

For instance, the reporting requirements vary among the different donors, which allows assessing different levels of accountability demand for each donor (see Figure 2.4).

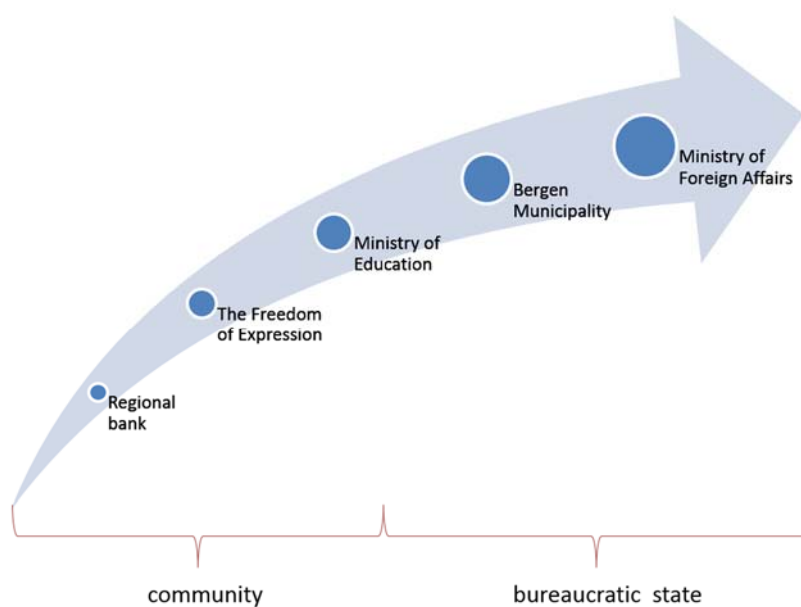


Figure 2.4: The level of accountability demand among the donors of the Rafto Foundation

Three donors with the highest level of accountability demand, the Ministry of Education, the Bergen Municipality and the Ministry of Foreign Affairs (MFA), all belong to the state group of donors. Applying institutional logics terminology, the paper refers to this group as “bureaucratic state” donors. The state support is well regulated (for example, the MFA Grant Management Manual contains 130 pages), requires extensive reporting (see Appendix 2.2), and may affect the mission and agenda of the organization to a great extent since the supported NPO needs to fit all criteria of a specific certain line within the state budget. The “bureaucratic state” donors emphasize the importance of budgetary discipline for the NPOs they support (bringing this pattern from the public sector). In order to prevent inconsistency between project budgets

and submitted reports, the donors require that “the financial report ... include[s] project accounts with related explanations, and must be presented according to the same structure and elements as in the approved, detailed budget.”² At the same time, the relationships with the “bureaucratic state” donors are more secure and predictable for the HRO. State grants received by the Rafto Foundation are provided for a period of several years each.

The Regional Bank and the nonprofit association “Fritt Ord” (from the Norwegian, “The Freedom of Expression”) both belong to the “community” type of donors. The Regional Bank provides grants to organizations and individual activists for the projects contributing to development of a specific geographical location in Norway (where the Rafto Foundation is territorially located). The bank usually does not disclosure publicly the organizations; this is so they do not prioritize particular NPOs over others. Fritt Ord Association supports NPOs and individuals “for projects within the areas of media and democracy, information and public debate, grants and training [stimulating interest to the freedom of expression] and art and culture.”³ Financial support from the “community” donors is less demanding in relation to reports, but the grants are usually limited to a one-year period. These donors typically rotate the organizations they support in order to provide all NPOs/projects in their community with a fair share of their funding.

2.6.3. The reasons for accountability demands and their impact on HRO practices

Nonprofit financial accountability is a complex phenomenon that emerges and develops in the area of socio-economic interactions (in the studied case, between the HRO and its institutional donors) and therefore is shaped by multiple reasons and motives.

² Final report for grants from the Norwegian Ministry of Foreign Affairs (MFA), S81 – Final report form for project/programme support

³ <http://www.frittord.no/en/prosjektstotte/programomrader>

The interviews reveal that the donor's desire to control is the initial driver for creation of the parallel reporting systems. One grant manager (MFA) claims:

The new reporting system tries to cover more space, all previous gaps...For example, more control over the local partners.

The level of control is further determined by the level of expected risk, legitimacy and reputation (both of the donor and the NPO), the donor's trust, the dependency of the NPO, and the size and condition of the particular grant. Each of these components is likely to have a complex structure that is determined by other factors and could cause high accountability demands in and of themselves. For example, according to Attack (1999), the legitimacy of an NPO is shaped by four criteria: representativeness, distinctive values, effectiveness and empowerment.

In the studied case, the donor's desire to control is implemented in the following reporting practices and accountability procedures:

- determination of the required accountability level,
- requirement of parallel (supplementing) reports,
- suggestion of the form and frequency of the supplementing reports,
- assistance in quality improvement of the reports,
- linkage of extensiveness of required reporting with the level of uncertainty/risk and the size of the grant,
- requirement of internal control,
- application of restricted funds,
- creation of the “ideal” NPO-partner image.

For instance, the representatives of the three institutional donors with the highest level of accountability demand (the “bureaucratic state” type of donors) claimed that they provide feedback on the HRO reporting and that the quality of reports affects the forthcoming donations.

Moreover, the Ministry of Foreign Affairs (MFA) and the Bergen Municipality assist in quality improvement of the reports; the report can go back and forth from the NPO to the donor until it is finally approved. A grant manager (MFA) explains:

If we [MFA] see that the application is very relevant, but the [project] budget [a part of the grant application] is not good enough, then we could go back to this organization and inform them that they need to do better...We have experienced that with some applications we could go back and forth 3 – 5 times....If they want to get the money, they need to deliver what we would require [regarding the quality of the documents] ... With the size of the Rafto Foundation grant - they must have good reports.

In addition, the MFA could request the HRO to highlight some aspects of its activities in its report (aspects that this particular donor deems of interest to its own goals), and in this way, the donor would affect the content of report. Such an approach may well be interpreted as meeting a need of the supported NPO to follow precisely specific bureaucratic patterns and well-specified routines to satisfy the type of donor. In contrast, if the “community” type of donors does not provide feedback on the content and quality of reporting, this could signal a higher level of trust in the HRO or the donor’s lower interest in the function of the reports as mechanisms for assessing HRO performance.

The study reveals that all donors seek to share their risk with other fund providers. Several instruments are applied for controlling risk and eliminating uncertainty, including the demand for different levels of reporting for different projects and from different NPOs (new versus trustworthy long-term partners), disclosing the sources of revenues, manifest ability to demonstrate revenues from other sources. There is also a linkage between the extensiveness of required reporting (frequency, detail) with the level of uncertainty/risk taken by the donor. For example, the MFA provides three types of grants: project and program support, general grants and small-scale grants. For the first category, financial reporting is mandatory; for the second, optional (mandatory only for the certain types of grants); for the third category, not mandatory in any circumstance. The Regional Bank delegates its representatives to participate in the

project boards when it provides an NPO with funding that exceeds 250 000 NOK. In addition, in all donor organizations, a group of 3–5 professionals who independently evaluate the grant applications and the reports makes the decisions on donations collectively. All these methods show that risk could be secured by achieving a high level of access to accounting information. The previous sub-section demonstrates that even though donors are the external stakeholders, they require management accounting information that in the business sector would be available only for the internal purposes.

As another instrument of control, four out of five donor organizations impose restrictions on the donated grants (see Table 2.3).

Table 2.3 - Donor-imposed restrictions on the grants provided to the Rafto Foundation

Donor	Purpose of the grant (restriction)
The Freedom of Expression	Rafto prize
Bergen Municipality (Department of Culture)	General maintenance
Regional Bank	Rafto prize
The Norwegian Ministry of Foreign Affairs	Human rights activities (project support, widely defined)
The Norwegian Ministry of Education	Education services

For example, the grant agreement with the MFA allows the HRO to spend only 7 per cent of the donated amounts on indirect purposes. The case reveals, however, that donor-imposed restriction on grants is not the most prominent instrument through which to control that funds are spent in the most effective way when it comes to empowering and advocacy NPOs. In other words, the types of the HRO activities allow diversity regarding mission-oriented expenses, and if the organization does not exceed its original budget, there is no control that the purchases and labour expenses are taken in the most cost-effective way.

In addition to the reporting mechanisms that are supposed to increase the level of donors' awareness and control over donated resources, certain reporting procedures applied by the donors could interfere with the operational independence of the HRO. The respondents state that the annual meetings of the NPO with each donor are important events during which reporting takes place. During such meetings, the donors provide their feedback and opportunities for further cooperation are discussed. The MFA manager asserts:

[An NPO] has annual reports and annual meeting [MFA and NPO]. When [NPO] has multi-year agreement, annual meeting is the key...They present the annual report during the annual meeting...and based on this we [MFA and NPO] agree what we should do the next year...If...[NPO] has a multi-year agreement and is working in the country that we [MFA] are no longer give priority to, we could direct them to other country, for instance...we [MFA and NPO] could find out together that we are not going to work more in Columbia...because it is no more a priority or it was not successful, but what you [NPO] are done in the neighbouring country is perfect and we [MFA] would like to point you [NPO] more towards this neighbouring country...This is what we are going to discuss during the annual meeting.

Moreover, the “bureaucratic state” donors create an image of an ideal NPO-partner where high quality of financial reports and compliance with accountability requirements become the hallmark. For example, MFA is moving towards financing only large-scale professional NPOs.

An MFA manager explains:

Here is the clear difference between big professional NGOs [nongovernmental organization] and small NGOs....for small NGOs it is much more difficult to deliver good applications and good budgets... We come to the conclusion that the small NGOs could create more damage, especially in crisis areas.

The desire of the institutional donors to work only with the long-term trustworthy NPO-partners and well-established large-scale professional NPOs makes it extremely difficult for new small- and medium-scale NPOs to compete for funding. In addition, financial scrutiny of the new partners would be much higher.

2.6.4. Positive and negative outcomes of alternative reporting systems on the HRO accountability practices

Based on the studied case, the paper identifies both positive and negative outcomes of financial accountability demands of the institutional donors from the organization. These outcomes could shed the light on economic reality of NPOs relationships with their institutional donors in situations where the business sector demand-supply mechanisms could not obviously be applied.

The positive outcomes include the following:

- Sanitary purposes (an ability to identify NPOs financial impropriety): Long-term donors show a high level of knowledge (awareness) of HROs financial health, routines and practices;
- Educational purposes (providing feedback to the NPOs on their financial reports, improving the reporting forms and manuals): One of the respondents has used the term “good standardization,”, i.e. all long-term NPO-partners (especially, those cooperating with the state donors) at some point of time would have to demonstrate a high quality of internal control, budgets, applications, and reporting systems which would standardize these systems to a large extent (same purpose as the accounting standards have);
- Increasing financial discipline of NPOs: The institutional donors are the only stakeholders that have the interest (and more importantly) the knowledge and expertise, to emphasize and control the financial accountability, discipline and transparency of the Rafto Foundation. The paper shows that the regulatory bodies cannot achieve this purpose by using the official financial reporting mechanisms. The beneficiaries (the Rafto prize-winners from the developing countries and the students who engage in human rights education) do not have sufficient accounting qualification and interest; the board is quite powerful in decision-making, but at the same time is very “academic” and does not signal its independence from the HRO management.

It also lacks a sufficient number of members who have a background in economics. The self-accountability and the financial self-discipline of NPOs are questionable.

The possible negative outcomes of donors' financial accountability demands include the following:

- There is no borderline between demanding information for reporting purposes and a direct intervention in organizational activities (affecting targets, management decisions);
- Reporting overload (different donors require that the organization provides separate detailed reports to each of the donors);
- High financial accountability demands and the forms provided for reporting and the reporting manuals do not lead to the control of spending; i.e. spending in the most efficient manner;
- Donors have a concept of an ideal NPO-partner;

To be eligible to receive grant support, the NPO needs to fit specified criteria of a certain budget line and to comply with international and local socio-economic and political trends. At the same time, the history of financial scandals in the nonprofit sector (see Gibelman & Gelman, 2001; Bothwell, 2004; Trivunovic, 2011) demonstrates that the sheer size of NPOs does not guarantee their financial propriety and that even well established professional NPOs are frequently involved in cases of funding misuse, corruption and financial fraud.

2.7.DISCUSSION AND CONCLUSION

This study explores the accounting information demands of NPO stakeholders with a special focus on the institutional donors of empowering and advocacy NPOs. Shedding the light on the aspects of HRO reporting that receive the highest level of attention from the institutional donors

creates an opportunity to understand the reasoning behind these demands, the embedded logics and the impact of the reporting on HRO-donor accountability practices.

The study reveals the existence of two types of reporting systems that function in parallel: the annual financial reporting in accordance with accounting standards and the reporting systems created by the donors. These two systems differ from each other regarding the level of information aggregation and accounting principles that they apply. The accounting standards aim to achieve standardization, simplification and aggregation of accounting information. In contrast, the reporting systems created by the donors require management accounting information from the NPO, more details on the level of project (fund) accounting and evidence of budgetary discipline. In this situation, NPOs that have limited financial and labor resources must handle the burden of these two reporting systems. Regarding the official financial reporting, the case underscores the significant role of external accounting consultants who determine the accounting practices of the HRO and align accounting routines between the nonprofit and the business sectors (in this case, between NPOs and SMEs). These consultants are not among the users of annual financial reports of nonprofits and, therefore, they give higher priority to purposes of standardization and compliance with the standards rather than to the goals of user satisfaction and decision-usefulness.

The study demonstrates that in the situation where specific users (institutional donors) are not satisfied with the financial reporting information that is provided in accordance with accounting standards, they have enough power and interest to demand an alternative type of reporting. Going through the continuous cycles of improvement and modification in order to achieve a high level of control and minimization of risk, these information demands create alternative reporting systems (realities) that parallel the official system. These demands are usually determined by donors' desires to control, eliminate risk, and increase legitimacy, trust and dependence.

The paper claims that the institutional donors create these alternative reporting systems within the scope of their own logics, patterns of governance and constructs of accountability and legitimacy. Initially having different purposes, “community” donors and “bureaucratic state” donors shape their accountability demands in differing ways that affect the reporting systems they design for the NPO that they support. The bureaucratic logics that predominate in the public sector determine the creation of similar types of extensive reporting for the nonprofit fund recipients. The state donors demand a high level of applied control because they are acting on behalf of the state and are redistributing public money. They seek trustworthy long-term partners in the nonprofit sector who are able to deliver specific services and provide high-quality reports. The state donors also use these reports to legitimate their giving actions in the eyes of controlling institutions (including the Parliament and the Office of the Auditor General) and the public. By contrast, the “community” donors prioritize “commitment to community values and ideology” (Thornton et al., 2012, p. 53). Given this goal, their levels of accountability demands are lower, the reporting systems they create are less advanced, and they show less concern for the quality of reports (no feedback to reports is provided). Since the “community” donors seek to support as many NPOs within a given community as possible, they shift their support for particular organizations frequently without referring very much to the reports provided. In such a context, the ability of an NPO to provide sufficient reports can only affect its overall reputation in the eyes of the “community” donor, but this will not in itself guarantee the stability of stable financial flows.

The paper identifies both positive and negative impacts of donors’ financial accountability demands on NPO accountability practices. The positive outcomes include sanitary purposes, education purposes, and the increase of the financial discipline of the NPOs. The possible negative outcomes include the absence of a clear borderline between demanding information for reporting purposes and a direct intervention in organizational activities, reporting overload,

the inability to exercise control over spending (i.e. to spend the funds in the most efficient manner), and the framing of NPOs' activism by the concept of an ideal NPO-partner.

Applying the lenses of institutional logics and the theory of attention on the intra-organizational level, the paper attempts to establish new connections between the prior research on nonprofit accountability (research that reveals abstract and multiple stakeholder demands) to the user-oriented research on nonprofit accounting. By linking these two streams of accounting research, the paper, from one side, explores the accountability demands of various types of donors and the concrete mechanisms for satisfying these demands. From another side, the study supports the nonprofit accounting research that asserts the irrelevance of business accounting principles to the task of reporting on the nonprofit sector by bringing forth new empirical evidence which supports such a claim.

The paper provides also a methodological contribution to the qualitative user-need accounting research in the nonprofit sector. Inspired by Lapsley & Llewellyn (1995), Arnaboldi & Azzone, (2004), Hellstrom & Lapsley (2016), the study reports that incorporation of contextualized accounting data through the use of the real-life construct within the interview design has permitted discovery of accounting emphases that are currently demanded by users but which are missing in annual financial statements. The method gives an opportunity to open the respondents for more discussion, because it pulls them from situations in which they seem forced to speak about the actual organizational practices into a hypothetically-constructed "what if" reality (wherein they feel more comfortable at offering their opinions and commentary.)

Even though there is a strong need to develop accounting standards for nonprofits on national (and arguably) on international levels, there is always a question of its original purpose and beneficiaries. Not all accountability requirements can be satisfied by financial accounting and reporting information. In addition, not all stakeholders require financial accountability.

Empirical user-need oriented research in the nonprofit sector can facilitate an examination of the specific accounting needs of nonprofit sector stakeholders. This paper presents a case of an empowering nonprofit organization and its five donors who are embedded in the Norwegian institutional context. The findings of this study assert that institutional donors should be considered as a possible target group or an ideal-user group of financial reporting in the process of developing an accounting framework for the nonprofit sector. Observing and supporting diversity in the nonprofit sector with regard to types of NPOs and a variety of approaches to fundraising and signalling accountability, the author suggests exploring institutional donor-NPO accountability and reporting relationships in a variety of organizational and institutional empirical settings. Moreover, further research could reveal how to incorporate the best practices of the supplementary reporting systems that are being created by donors into the framework of accounting standards.

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Appendix 2.1

Interview guide for institutional donors

1. Please introduce yourself, your position and your main responsibilities in the organization where you work.
2. Please explain the decision-making process for providing financial support to an NPO (you can use the Rafto Foundation as an example).
3. What kind of information sources do you use in these processes?
4. What kind of reports do you require NPOs to provide?
5. What are the main key points you control/ focus on in provided reports?
6. Are your decisions to support the organization in the future based on reporting targets?
7. Do you have any concerns regarding existing reporting system? Is there any need for change?
8. Do you study annual financial reports of NPOs applying for funding or reporting on prior donation? For which purposes?
9. On what kind of information do you focus when consulting the statements?
10. What kind of (financial) information do you expect to find in the statements? Do you look for a general overview of your organization or do you expect to find certain particular information?
11. Do you think the statement can inform you about the financial soundness of an NPO?
12. Do you miss some information? What kind?
13. Are all the concepts understandable for you?
14. Do you think that all the concepts are relevant for NPOs?
15. Do you provide any feedback to NPOs based on their annual financial statements?

Evaluating the RLC:

16. Do you find it useful if the financial statement contains information for the last three years?
17. Do you find it useful if the overview of revenues and expenditures contains budgetary figures and the deviation between budgetary and accounting figures for the reporting year?
18. Do you find it useful that the overview of revenues and expenditures also contains change in net revenue in liquid assets (in the form of change in accounts receivable)?
19. Do you prefer to have more details about the information disclosed in financial statements (for ex., the detailing of revenues and expenditures)? Please provide examples. (An example if necessary, source of revenues, private/state; main purpose/fundraising/administrative expenses)
20. Do you prefer that in addition to numerical information that some details of financial statements are visualized graphically or accompanied by verbal commentaries? Please elaborate on your answer.
21. Do you want to suggest any other improvements in financial statements?

Appendix 2.2
Document analysis

Organization	Document
The Rafto Foundation	<ul style="list-style-type: none"> - Annual reports 2013, 2014; - Annual financial statements 2013, 2014; - Annual budget 2013; - Annual ledger 2013; - Grant letter from the Norwegian Ministry of Foreign Affairs concerning financial support for the Rafto Foundation 2013 – 2015.
Nonprofit association “The Freedom of Expression”	<ul style="list-style-type: none"> - The Report to Nonprofit association “The Freedom of Expression” for the project support (form).
Bergen Municipality	<ul style="list-style-type: none"> - Grant portal: www.bergen.kommune.no/tilskudd - The Reporting Form 2015
Regional Bank	<ul style="list-style-type: none"> - Grant portal: https://www.spv.no/skjema/allmenntytigemidler-soke-midler/prosjektinformasjon - Application for funds for charitable purposes; - Report Form: Funding for charitable purposes is used in conjunction with assigned grant (more than 250000 NOK)
The Norwegian Ministry of Foreign Affairs	<ul style="list-style-type: none"> - Grant portal: http://udtilskudd.regjeringen.no/#/en/country?year=2016 - Grant Management Manual. Management of Grants by the Ministry of Foreign Affairs and Norad; - Norwegian development assistance in numbers; - Final report for grants from the Norwegian Ministry of Foreign Affairs (MFA), S82 – Final report form for small scale grants; - Final report for grants from the Norwegian Ministry of Foreign Affairs (MFA), S81 – Final report form for project/programme support; - Progress report for grants from the Norwegian Ministry of Foreign Affairs (MFA), S61 – Progress report form for project/programme support; - Application for grants from the Norwegian Ministry of Foreign Affairs (MFA), S01EN – Application form for project/programme support; - Guide to filling in S51– Application form for project and programme support; - Grant Manual. Human rights. UN Department / Section for Human Rights and Democracy

Appendix 2.3

OFFICIAL ACCOUNTS

For 2013

Result accounts

	2013	2012
Operating revenues		
Other operating revenue	<u>7 733 316</u>	<u>7 386 435</u>
Operating expenses		
Inventory expense	1 988 094	2 277 555
Wage expense	4 016 746	3 191 049
Depreciation	65 901	77 589
Other operating expense	<u>1 391 412</u>	<u>1 401 053</u>
Total operating expenses	<u>7 462 153</u>	<u>6 947 246</u>
Operating result	<u>271 163</u>	<u>439 189</u>
Financial revenues and financial expenses		
Other financial revenue	86 259	52 230
Other financial expense	<u>1 003</u>	<u>115</u>
Net financial items	<u>85 256</u>	<u>52 115</u>
Ordinary result before tax expense	<u>356 419</u>	<u>491 304</u>
Annual result	<u>356 419</u>	<u>491 304</u>
Transfers and disposals		
Transfer other equity	<u>356 419</u>	<u>491 304</u>

	Balance	
	31.12.2013	31.12.2012
Fixed assets		
Long-term assets		
Building sites, buildings and		
Other fixed assets	284 058	331 372
Operating assets, furniture, tools,		
Office machines etc.	<u>32 354</u>	<u>11 725</u>
Total long-term assets	<u>316 412</u>	<u>343 097</u>
Total fixed assets	<u>316 412</u>	<u>343 097</u>
Current assets		
Accounts receivable		
Accounts receivables (customers)	36 999	533 898
Other accounts receivables	<u>17 849</u>	<u>31 992</u>
Total accounts receivables	<u>54 848</u>	<u>565 890</u>
Bank and cash accounts	<u>6 546 055</u>	<u>2 385 657</u>
Total current assets	<u>6 600 903</u>	<u>2 951 547</u>
Total assets	<u>6 917 315</u>	<u>3 294 644</u>

	Balance	
	31.12.2013	31.12.2012
Equity		
Equity provided		
Basic capital	<u>300 000</u>	<u>300 000</u>
Total equity provided	<u>300 000</u>	<u>300 000</u>
Equity earned		
Other equity	<u>2 143 649</u>	<u>1 787 230</u>
Total equity earned	<u>2 143 649</u>	<u>1 787 230</u>
Total equity	<u>2 443 649</u>	<u>2 087 230</u>
Liabilities		
Short-term debt		
Supplier debt	350 880	67 661
Public charges	309 170	253 235
Other short-term debt	<u>3 813 616</u>	<u>886 518</u>
Total short-term debt	<u>4 473 666</u>	<u>1 207 414</u>
Total liabilities	<u>4 473 666</u>	<u>1 207 414</u>
Total equity and liabilities	<u>6 917 315</u>	<u>3 294 644</u>

Appendix 2.4
Real-life construct
ALTERNATIVE ACCOUNTS (Monsen, 2015)
For 2013

Overview of revenues and expenditures for The Rafto Foundation

Accounts			Budget	Variance	
2011	2012	2013	2013	2013	
			Ordinary activities		
			Revenues		
7,410,582	7,386,435	7,733,316	Operating revenue	7,108,123	625,193
			Expenditures		
-3,391,958	-3,191,049	-4,016,746	Wage expenditure	-3,734,240	-282,506
-3,984,835	-3,678,608	-3,379,506	Operating expenditure	-3,296,000	-83,506
33,789	516,778	337,064	A. Net ordinary activities	77,883	259,181
			Investment activities		
-24,825	-0	-39,216	Investment expenditure	0	-39,216
-24,825	0	-39,216	B. Net investment expenditure	0	-39,216
			Financial activities		
42,887	52,230	86,259	Financial revenue	50,000	36,259
-292	-115	-1,003	Financial expenditure	0	-1,003
42,595	52,115	85,256	C. Net financing revenue	50,000	35,256
51,559	568,893	383,104	Net revenue (A+B+C)	127,883	255,221
			Change in liquid assets		
51,559	568,893	383,104	Net revenue		
86,878	-540,111	511,042	Change in accounts receivable		
-93,797	-115,499	3,210,317	Change in short-term debt		
48,426	32,291	55,935	Change in public charges		
93,066	-54,426	4,160,398	Change in liquid assets		

Overview of money status for The Rafto Foundation

	31.12.2011	31.12.2012	31.12.2013
LIQUID ASSETS AND			
ACCOUNTS RECEIVABLE			
Cash/bank deposit	2,440,083	2,385,657	6,546,055
Accounts receivable	25,779	565,890	54,848
Total (A)	2,465,862	2,951,547	6,600,903
SHORT-TERM DEBT			
Short-term debt	1,069,678	954,179	4,164,496
Public charges	220,944	253,235	309,170
Total (B)	1,290,622	1,207,414	4,473,666
MONEY DEPOSIT			
Money deposit at 01.01 (A-B)	1,123,681	1,175,240	1,744,133
Net revenue	51,559	568,893	383,104
Money deposit pr. 31.12 (A-B)	1,175,240	1,744,133	2,127,237
SUPPLEMENTARY INFORMATION ABOUT FIXED ASSETS:			
Building sites, buildings and			
other fixed assets	378,686	331,372	284,058
Operating assets, furniture, tools			
And office machines	42,000	11,725	32,354
Total fixed assets	420,686	343,097	316,412

Essay 3:

Mechanisms of Financial Reporting and Accounting Regulation for Foreign Funding Restrictions: A Case of Human Rights Organizations in Russia

Galina Goncharenko

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Abstract

Foreign funding of nonprofit organizations is restricted in more than fifty countries. Few of them mobilize accounting mechanisms of governance for these purposes. This paper explores the role of financial reporting and accounting regulation in foreign funding restrictions by analyzing the outcomes and consequences of an abrupt change of the financial reporting and accounting framework on the institutional field of human rights organizations in the case of the “foreign agents” law in Russia. By blending regulation of accounting and financial reporting practices with non-accounting mechanisms of discipline and control, the “foreign agents” law aims to increase legitimization of its regulatory actions. This study reveals that in certain socio-political settings and with a moderate level of economic and regulatory system development, indirect accounting and financial reporting mechanisms of governance could effectively achieve the same outcomes in the nonprofit sector as could direct restrictions.

Keywords: restrictions on foreign funding; financial accountability; human rights organizations; discipline; accounting change; institutional field change

3.1.INTRODUCTION

In July 2012, two Russian nonprofit organizations (NPOs), Moscow Helsinki Group and For Human Rights, asked U.S. President Barack Obama to answer for them whether they are U.S. agents:

We ask you, Mr. President, to give an answer to the question whether Moscow Helsinki Group and For Human Rights are U.S. agents in the standard sense of this word, i.e. whether MHG and For Human Rights are authorized to carry out the instructions of the U.S. government, whether the U.S. government influences, directly or indirectly, the work of our organizations...Our organizations can be put by the authorities on a list of foreign agents because we are actively involved in forming a public opinion with the aim to influence the government decision-making in the interests of Russian citizens...Our organizations almost fully operate on grants from U.S. foundations, including the National Endowment for Democracy (NED) which is financed by the U.S. taxpayer. So under the new law, we will have to ... get registered as 'an NGO performing the functions of a foreign agent,' in this particular instance, as an agent of the U.S. which acts as the principal, the letter said.⁴

During the past fifteen years restrictions on foreign funding and cross-border funding of nonprofit organizations (NPOs) have appeared in more than fifty countries, mostly in emerging (transitional) and developing economies, such as China, India, Pakistan, Ethiopia, Egypt, Ecuador, Venezuela, Russia (Christensen & Weinstein, 2013).Some restrictions can also be traced in a number of countries which have elaborate welfare systems, such as Canada and Israel (Dupuy, Ron & Prakash, 2014). From one perspective, international law is supposed to protect cross-border funding of NPOs from governmental interception (Rutzen, 2015); from another point of view, the power exercised by certain governments enables them simply to ban

⁴ Russian human rights activists write letter to Obama, July 25, 2012, Russia Beyond The Headlines RBTH, Interfax, http://rbth.com/articles/2012/07/25/russian_human_rights_activists_write_letter_to_obama_16664.html

or directly restrict foreign funding of NPOs. According to Christensen & Weinstein (2013): from 2005, laws prohibit empowering NPOs to receive more than 10% of foreign funding in Ethiopia; Belarussian NPOs need prior approval before receiving foreign funding; all foreign-funded NPOs were closed down in Ecuador in 2012. Yet paradoxically, a few governments, such as those in India, Uruguay and Russia (see Dupuy et al., 2014), choose to apply indirect methods for the elimination of foreign funding, methods which include advancing financial reporting and accounting regulation and specific requirements for NPOs.⁵

Dupuy et al. (2014; 2016), who provide the most recent and complete international overview of legal restrictions on foreign funding in the nonprofit sector, assert that “future research should focus on examining the implications and enforcement of restrictive NGO finance laws to better understand their impact, as well the non-legal methods states use” (p. 9). From an accounting perspective, it is important to explore the role of financial reporting and accounting mechanisms in restricting foreign funding of NPOs and examine the nonprofit field and organizational responses.

Aiming to achieve this purpose, the paper investigates the case of the “foreign agent” law in Russia. The new accounting regulation on nonprofit organizations that are engaged in “political activism” and funded by foreign donors was established in Russia in 2012. It complicates bookkeeping, increases the frequency and scope of reporting and governmental control, requires these organizations to register themselves as “foreign agents”, and applies substantial penalties that could result in the liquidation of these organizations. Due to these requirements,

⁵ According to the database of Dupuy et al. (2014) which consists of 45 countries that restrict foreign funding of local NPOs, reporting requirements, supplemented by the requirements to obtain governmental approval or to follow certain procedures for receiving foreign funding are also applied in nine other countries (Bhutan, Burundi, Israel, Pakistan, Rwanda, Sierra Leone, Thailand, Uganda and Uzbekistan). However, only in India, Russia and Uruguay are special accounting requirements applied.

the Russian and international media began to label this law as the “foreign agent” law. This name is used throughout in this paper.

This law contributes to two international trends: from one side, creating mechanisms for increasing accountability, transparency and disclosure for the nonprofit sector (McCarthy, 2007; Guo & Saxton, 2007; Sloan, 2009; Verbruggen, Christiaens & Milis, 2011; Schmitz, Raggio & Vijfeijken, 2012) and, from another side, growing restrictions on foreign and cross-border funding in the sector (Sidel & Moore, 2015; Christensen & Weinstein, 2013). The regulation is particularly focused on one type of NPO – human rights organizations (HROs). The law has had a significant dramatic effect on the operationalization of HROs in Russia. Traditionally, Russian HROs have been financed mainly by grants from large overseas foundations (Jakobson, Mersiyanova & Efremov, 2012). With the new regulations, this type of funding has to be renounced by HROs. Coping with the new regulations, HROs have had to conduct campaigns for collecting money from individual donors in Russia in order to operate their programs and pursue their organizational activities. This has led to a radical change of stakeholders and significant change in the format and shape of the organization’s accountability and its relationships with donors. This has also raised the financial risk for their sustainable operationalization. The substantial financial penalties for non-compliance with the law has, in fact, already lead to the liquidation of several HROs.

The case that is the focus of this study provides an opportunity to examine the consequences of an abrupt change of financial reporting and a significant alteration of the accounting framework in the nonprofit sector. More generally speaking, the paper contributes to an understanding of how change in accounting regulation could lead to specific transformations within a particular institutional field.

The paper has the following structure. The next section contains a brief overview of power relationships between NPOs, their donors and the state and the emerging trend of governmental

restrictions over foreign funding of NPOs. Section 3 treats the specific purposes of accounting as a mechanism of governance, such as discipline and change in institutional (organizational) field, and reflects on the relationship of accounting regulation and the socio-political context in which such regulation applies. Section 4 explains the methodology and describes the data used in the study. Section 5 presents the case of the “foreign agents” law. Section 6 analyzes the consequences of the implementation of the “foreign agents” law. Section 7 summarizes the discussion and presents concluding remarks.

3.2. HROs, DONORS AND THE STATE.

RESTRICTIONS ON FOREIGN FUNDING

Human rights organizations are a response of civil society to the serious problem of human rights violations. HROs themselves declare their purposes as: “monitoring and reporting of government [and private sector] behavior on human rights, particularly violations, building pressure and creating international machinery to end the violations and to hold governments [and businesses] accountable” (Gaer, 1995, p. 394).

At the same time, states (represented by governmental authorities, parliaments and others who act on behalf of the particular state) and donors to the organizations are the most powerful stakeholders of HROs. White (1999) claims that “the relationship of the state and NGOs ...cannot be understood simply as a one to one: it is always conducted in the shadow of a triangle with the donors” (p. 311).

In contrast to other types of NPOs, such as charities or membership organizations, funding for HROs comes mostly from large institutional donors, such as the European Commission and United Nations Voluntary Fund, and private US foundations (Ford Foundation, National

Endowment for Democracy (NED), MacArthur Foundation, Open Society Foundations) for the implementation and support of concrete human rights projects.

Applying logics of philanthropic appropriateness and outcomes, Ron, Pandya & Crow (2015) unpack the reasons that explain the fact that many HROs have to rely extensively on funding from foreign institutional donors and are usually not successful in conducting in-country fundraising:

Donating to LHROs [local HROs] engaged in long-term social change efforts is not a taken-for-granted charitable behavior, unlike donating to traditional charities through religious mechanisms; entrenched philanthropic logics of appropriateness militate against giving to LHROs. These ingrained habits, combined with LHROs' previous success at international fund-raising, and the high costs of launching new local fund-raising campaigns, have pushed LHROs toward international financial sources (p. 27).

The scholars focus particularly on HROs from “the global South”, but their conclusions would also be appropriate for many developing and transitional economies. In addition, they identify public skepticism toward HROs and the poverty of the groups which would most likely to be interested in supporting HROs as among the reasons of for the underdeveloped state of in-country funding. Given these conditions with regard to HROs and their funding, it is possible to agree with the claim of Assad & Goddard (2010), that “[institutional] donors ... [are] the stakeholders with the highest salience as a result of which they significantly influenced accountability relationships and accounting processes and practices within NGOs.”

Even given the importance of donors and their influence on NPOs, the state holds the most significant power in determining the legal and institutional frames of the NPO-donor relationships, and particular states are equipped with a wide variety of policy instruments for shaping the reality in which NPOs have to operate (Clark, 1995; Gill, 2016). In some countries, extensive foreign funding of national NPOs might be considered as an interference with the state's sovereignty (Sen, 1999; White, 1999; Gershman & Allen, 2006; Gill, 2016; Christensen

& Weinstein, 2013) in the fields “where the NGO’s activities are controversial, where it challenges government decisions ... or where its participatory approaches lead to the empowerment of groups which are traditionally exploited” (Clark, 1995).

Sidel & Moore (2015), Christensen & Weinstein (2013) focus attention on the international trend of governmental restrictions on accepting and using foreign funding (primarily, monies coming from the U.S. and Western Europe) by local NPOs in Asia, Africa, South America and Post-Soviet states:

Fully authoritarian regimes often openly repress independent NGOs ... hybrid or democratizing regimes, however, often permit freedom of speech and association while finding other, more subtle ways to limit the scope and scale of independent groups (Christensen & Weinstein, 2013, p. 80)

Christensen & Weinstein (2013) report that there is a reduction of more than 50 per cent in the amount of foreign financial aid in the countries where restrictive laws have been implemented. Dupuy et al. (2014) assert that the majority of the countries applying foreign fund restrictions are “very poor”⁶ with anocratic political regimes.⁷ Since this paper focuses on three countries where accounting mechanisms are mobilized for foreign funding restrictions, it could be useful to specify their characteristics according to the applied classifications. These countries contrast to the majority with regards to the both characteristics: Uruguay and Russia are belong to the group of high-income economies (India is a lower middle-income economy); Russia is defined as an open anocracy, India as a democracy and Uruguay as a full democracy.

3.3.ACCOUNTING AS A MECHANISM OF GOVERNING

Accounting and financial reporting regulation is named among the policy instruments which governments might use for creating operational settings for organizations and citizens, i.e. to

⁶ The scholars apply World Bank data. Currently the World Bank is using a concept of “low-income economies” for defining this group of countries.

⁷ Defined in accordance with Polity IV data series, <http://www.systemicpeace.org/polityproject.html>

govern economic life at a distance and to construct a governable person (Miller & O'Leary, 1987; Rose & Miller, 1992; Neu, 2000; Mennicken & Miller, 2012). Considering accounting as a governing technology which is used as an indirect method of achieving specific purposes (Miller & Rose, 1990, 1992; Neu, 2000; Markus & Pfeffer, 1983; Roberts, 1991), it would be logical to assume that a change of accounting policy or reporting regulation is prompted by a change in the governing strategy which a given state as a regulator seeks to apply. This section considers possible outcomes of change in financial reporting and accounting regulation characterized as a transformation of the institutional field of governable objects and disciplinary effect of accounting and reporting requirements. The section treats some specific aspects of the socio-political context in which accounting operates.

3.3.1. Accounting change for institutional field change

A phenomenon of accounting change (reform) viewed in its specific context has received significant attention by accounting researchers (Robson, 1991; Burchell, Clubb & Hopwood, 1985; Potter, 2005; Andon, Baxter & Chua, 2007; Toms, 2005; Innes & Mitchell, 1990; Lapsley & Pallot 2000; Lüder, 1992; Monsen & Näsi, 1998). This paper focuses specifically on the outcomes and consequences of accounting and reporting change for the organizational (institutional) field which, according to prior literature, are usually accompanied by notions of politics, legitimization (Ogden & Anderson, 1999) and juridification (Laughlin & Broadbent, 1993) of specified outcomes and mobilizations (Burns, 2000; Liguori & Steccolini, 2011) and shifts (Collier, 2001) of power.

Traditionally, accounting practice has close and strong relations to legal and political environments in their different aspects (Neu & Graham, 2004; Laughlin & Broadbent, 1993; Ogden & Anderson, 1999). Ogden & Anderson (1999) assert the fundamental role of accounting regulation in legitimizing what one would be accountable for and signaling new expectations

of one's responsibility. Laughlin & Broadbent (1993) discover interaction between regulatory law and accounting and its intervention in core organizational systems in the public sector in the UK:

Law increasingly needs to be in a dynamic partnership with accounting to perform its complex regulatory role in certain areas... When law oversteps its defined structurally-coupled role ... law can lead to... a disintegration of the organizational social systems or involve these systems in costly absorption processes... Thus, "politicized" accounting, which dominates ERA and NHSCCA, arguably can be seen as culpably guilty of deflecting attention from substantive issues which need debate in these institutions... These laws are heavily "constitutive" ...and are perceived to be a life-threat to the core lifeworlds of these institutions ... As a result there is a real possibility that the changes will disintegrate these education and health institutions and fundamentally change their nature and/or lead to the disintegration of the political masters (pp. 338 -339, 363).

Neu & Graham (2004) confirm the cooperation of accounting techniques and legislative initiatives for creating space for governmental interference in another socio-political context. Such interference could frequently lead to resistance from the governable objects when the change in accounting and financial reporting regulation is proposed by regulative context which is "out of line with [their] lifeworld expectations and wishes" (Broadbent, Jacobs & Laughlin, 2001, p. 578).

In order to implement new governing technologies, the regulatory body needs to have power. Rose & Miller (1992) analyzed the instruments of political power and claimed:

To speak of the 'power' of a Government, a Department of State, a local authority ... is to substantialize that which arises from an assemblage of forces by which particular objectives and injunctions can shape the actions and calculations of others (p. 184).

The authors specify that these forces can be legal, architectural, professional, administrative, financial and judgmental. They stated that these forces could govern the actions and events on all economic levels: national economy, private firm, household and even individual person.

Consideration of accounting as a political instrument suggests the existence of different power (interest) groups of actors (Burchell et al., 1985; Hopwood, 1987; Markus & Pfeffer, 1983; Skærbæk & Melander, 2004; Scapens & Roberts, 1993). Collier (2001) discovered a shift in power between different actors which appears within accounting and reporting change (reform) by changing centers of accountability, taking power over decision-making, resource allocation and accountability demands from one actor and empowering the other actors.

3.3.2. Accounting for disciplining

Accounting as a regulatory technology includes both administrative and political components (Mennicken & Miller, 2012). Accounting legislation and information can appear to be a priori objective and truthful by providing certain forms of rationality (Markus & Pfeffer, 1983; Roberts, 1991; Roberts & Scapens, 1985; Davie, 2005). Such legislation and information can also equip accounting regulation with the power to identify, classify, categorize, order, judge (Neu & Graham, 2004), label, mark, and stigmatize (Walker, 2008) and even blame (Skærbæk & Christensen, 2015). In other words, a disciplinary mechanism is embedded in accounting regulation and can represent given a government's attempt to use a tactic of accounting regulation "to arrange things in such a way that certain ends are achieved" (Neu, 2000, p. 166). Because of this, it is crucial to distinguish between the particular standards and guidelines of accounting regulation and the function they may play in a given society (Burchell, Clubb, Hopwood, Hughes & Nahapiet, 1980).

Discipline as a "general formula of domination and order" (Foucault, 1995, p. 137) and as a "corrective character of penalty" (Foucault, 1995, p. 8) in accounting regulation might be realized through the core elements of accountability "exclusion" and "self-absorption" (which leads to acceptance or resistance), as suggested by Roberts (1991). When talking about exclusion as a component of accountability relationships, Roberts (1991) asserts:

Real power [of exclusion] ...is not so much around ... who is excluded ... but in its impact on those who witness the exclusion. For them, it is an example of what might happen. It traces out a possible future and thereby reinforces the weight of the standards by which they are judged. It reminds them of the conditional nature of their membership... [and] that their security depends upon their utility ...The fear of exclusion ...leads to a sort of self-absorption; it forces one back repeatedly to a concern with one's own singular survival which depends upon meeting the standards that are set (p. 359).

Davie (2005) uses the term “excludability” and claims that accounting exclusionary policy implies negative referencing (or selectiveness). Self-absorption which leads to the individual's acceptance (absorption, willingness to satisfy expectations, standards) is crucial for the success of the disciplinary power effect (Roberts, 1991), which increases docility and self-discipline.

3.3.3. Accounting and socio-political context

Context plays an important role in understanding the nature of accounting change, reforms and regulation (Hopwood, 1983; Burchell et al., 1985; Miller, 1992; Napier, 2006; Potter, 2005; Pushkin & Pariser, 1991; Preston, 1992; Young, 2014), and a given situation determines the evaluation of any accounting governing incentive (Skærbæk & Melander, 2004) and its impact on society. Scholars claim that accounting is never neutral (Hoskin, 1994); accounting meanings and knowledge can be politically mediated (Jönsson & Macintosh, 1997) and connected to the technologies of political force (Neu, 2000; Neu & Graham, 2004) and national power (Miller, 1990). Considering accounting in a broad social context (Hopwood, 1992; Miller, 1994) and as “as an instrument for social management and change” (Burchell et al., 1985), researchers point out its close relation to politics (Skærbæk & Melander, 2004).

Davie (2005) who studied involvement of accounting instruments in the politics of racial exclusion, stated:

It has been emphasized that accounting systems of social control embody and communicate radically different and conflicting rights, roles and obligations in

different ensembles of social relations ...Accounting is not in itself racist, but can become racist through the context in which it is practiced (p.572 - 573).

In order to contrast different types of socio-political context in which accounting mechanisms of governing might appear, this paper follows Dean (2002, 2010) who defines liberal and non-liberal (authoritarian, hybrid) regimes of government. Liberal forms of governmentality aim to defend the “natural liberty of individuals” (Jeffreys & Sigley, 2009) and govern through tactics of freedom and independence. In contrast, the non-liberal forms of governmentality prioritize a distinct planning, administrative rationality, and collective interests over the individual (Hindess, 1996, 2001; Jeffreys & Sigley, 2009). Non-liberal governmentality questions “its subjects' capacity for action as subordinate to the expectation of obedience” and challenges the idea of limited government. Liberal and non-liberal governmentalities apply different levels of intervention onto the governable object. Non-liberal governmentality assumes the possibility to understand the governable object in all details and, therefore, prefers “direct and coercive interventions” rather than the “indirect methods of shaping human conduct” that are favored by the liberal approach. (Jeffreys & Sigley, 2009).

Dean (2002) claims that “the opposition [distinction] between liberal and authoritarian governmentality is highly unstable” (Dean, 2002, p. 56) and notes that even liberal governments sometimes use authoritarian measures and instruments (Dean 2002, 2010; Hindess, 2001). Asserting the distinction between liberal and non-liberal governmentality regimes and mechanisms, this paper, however, proposes to avoid any over-simplification that may result from a description that too directly links governmentality and political regimes. This qualification takes into account that non-liberal approaches of accounting and financial reporting regulation could appear in liberal economies under certain circumstances and liberal approaches can be seen in some non-liberal regimes. This corresponds to the earlier mentioned

work of Laughlin & Broadbent (1993) who showed that regulatory legislation could aim a high level of interference into the lifeworld of governable objects within certain settings.

3.4. METHODOLOGY AND DATA SOURCES

This study analyzes a case of financial reporting and accounting regulation change that is faced by human rights organizations in Russia in the form of the establishment of the “foreign agents” law. The paper focuses on the organizational field of human rights activism in Russia represented by HROs, and it follows Ezzamel, Robson, Stapleton & McLean (2007) in its applied definition of an (organizational) field.

The case under study has received extensive media coverage both in Russia and abroad. The researcher has observed the case over a period of five years (2011 – 2016) applying the method of document analysis (legislation and normative acts, expert and analytical reports, internal documents) and longitudinal media observation (newspapers, press-releases, online media, TV and radio, social-networking platforms, blogs, webpages of HROs) that covers all stages of the change (from the initial discussions regarding the law and its establishment, to its inception, realization and outcome). In addition, it should be noted that the author is affiliated on a long-term basis with the community of HRO professionals that is the subject of the study, through an indirect involvement in the Russian human activism network. The author, however, has not ever been directly employed by or provided any paid/unpaid services to any Russian HRO. This indirect involvement provides access to this particular community, enhances the ability to understand the specific context in which the community functions and a capacity to use relevant language and terminology. This type of indirect involvement also allows the researcher to keep requisite scholarly distance from the objects under consideration. Interpretivist hermeneutic positions ground the study.

Taking into account the research objective and the specifics of the context in which the studied phenomenon takes place, the study applies documentary, archival record and media analysis as the main methodological instruments for this research. Yin (2003) names documentation and archival records among six sources of evidence within a case study. He asserts stability, unobtrusiveness, exactness and preciseness together with broad coverage as the strengths of this source of evidence; with retrievability, biased selectivity, reporting bias and accessibility listed as its potential weaknesses. In order to establish and enhance the validity of the method, Rowlinson (2004), Yin (2003) and Berg & Lune (2012) suggest that the researcher not consider the studied artefacts (documents, archival records, media) as sources of absolute truth, but work constantly to reveal the particular purpose and targeted audience of each document. In keeping with this advice, the author of this study constantly compared and contrasted the information from different media sources. The applied methodology permitted an exploration of a broad spectrum of opinions and enabled the researcher to follow the development of the particular situation, with its dynamics, multiplicity of individual cases, and features of transformation on the level of the institutional (organizational) field.

3.5. THE CASE OF THE “FOREIGN AGENTS” LAW

Avoid distributions in groups; break up collective dispositions; analyze confused, massive or transient pluralities. Disciplinary space tends to be divided (Foucault, 1995, p. 143).

The studies on social activism in Russia suggest a special classification of Russian NPOs with respect to this specific country. Summarizing the categorization of Henry (2006) and Cook & Vinogradova (2006), Crotty (2009) suggests three categories of NPOs in Russia:

- Government affiliates (or marionettes) which normally are highly institutionalized, created or affiliated with the state, actively supports the state's agenda, funded from the state budget;
- Grass roots organizations which normally are apolitical, focused on satisfying needs of the members or the local community, limited in funding and connections with overseas donors;
- Professional organizations (or policy/advocacy organizations) which are grown from the former dissident movement, have broad international connections, strongly relying on overseas funding, in opposition (conflict) with state\government, politically adversarial, demanding political and social change.

The independent Russian HROs which are studied in this paper belong to the final category of NPOs in the previous listing.

Institutional and political contexts affect the level of respect for human rights. Cingrsnelli & Richards (2000) studied different approaches to measuring the impact (evaluating power) of HROs in different countries. As one of the possible mechanisms for such an evaluation through the measurement of “government respect for physical integrity rights” (p. 228), they refer to the Political Terror Scale (PTS) (see Wood & Gibney, 2010). The scale is computed by an independent expert analysis of the annual reports on the practice of human rights in various countries. Russia is consistently scored 4 out of 5 in PTS in most years since 1994. According

to the PTS, this means that “civil and political rights violations have expanded to large numbers of the population.”

Development of the legislation regulating operational and financial activities of HROs in Russia went through several stages of ever-increasing and consistent tightening. The governmental control on Russian HROs rises along with the increasing power of HROs in Russian civil society (Figure 3.1).

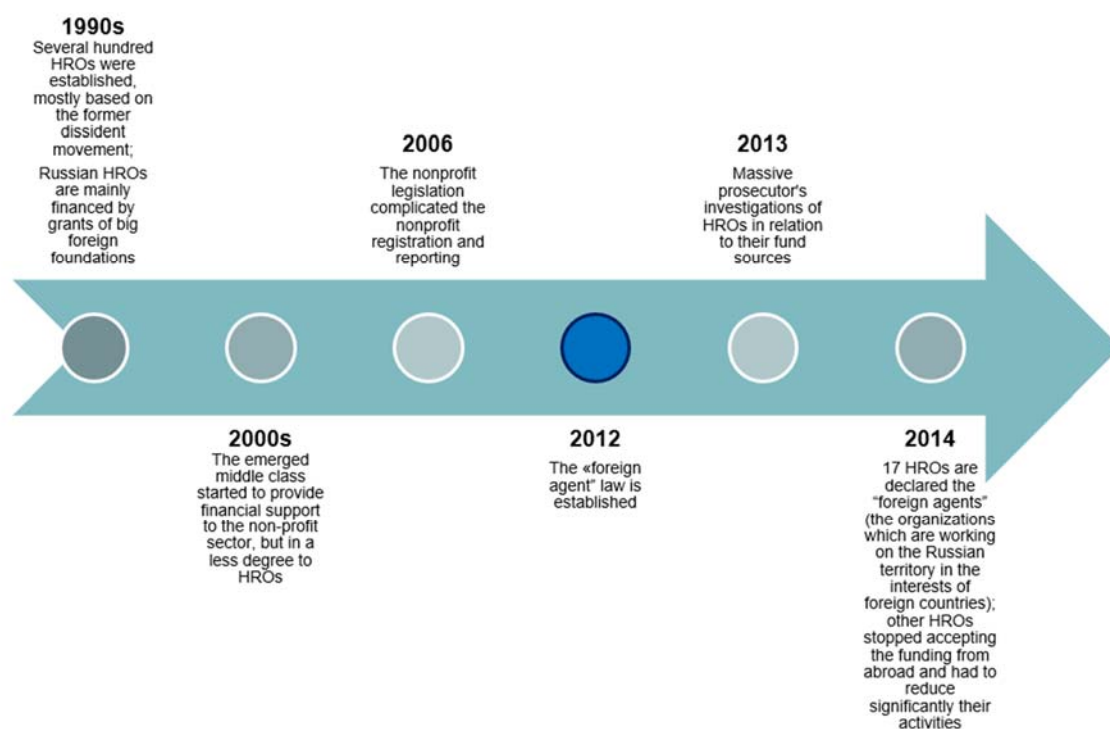


Figure 3.1: Governmental control over HROs in Russia

The first significant complexity in registration and reporting of HROs appeared in 2006 simultaneously with the so-called “color revolutions” in post-soviet territories: Georgia in 2003, Ukraine in 2004 (Jakobson et al., 2012). The next stage of legislative complexity took place in

2012. The Russian Law 121-FZ “On Amendments to Legislative Acts of the Russian Federation regarding the Regulation of the Activities of Non-profit Organizations Performing the Functions of a Foreign Agent” (2012) further expanded the state control over empowering and advocacy NPOs that receive foreign funding, are involved in broadly defined political activism, and represent units of international HROs operating in Russia (HRW, 2013). “After removing...a number of specific activities from the scope of the law, what is left is obviously directed against HROs that receive foreign financing” (NHC, 2012; see also Appendix 3.1). According to the law, any type of published materials (including press and Internet releases) has to contain a mark that these materials are produced by organizations which “perform the functions of ‘foreign agents’” (HRW, 2013).

Even though the “foreign agents” law has been formally established as accounting and financial reporting regulation, it contains, in fact, several different components, including bookkeeping, financial and activity reporting, accountability aspects (relationships with stakeholders, stakeholder salience), and new control instruments (Figure 3.2).

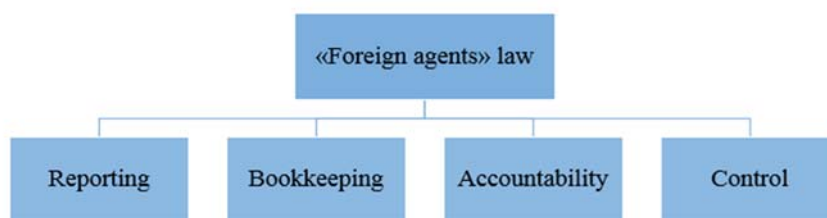


Figure 3.2: Components of the “Foreign agents” law

For instance, Article 2 of the “foreign agents” law is focused on amendments to the Federal law 7-FZ “On nonprofit organizations”. Article 2 (5a) asserts:

Annual accounting (financial) statements of nonprofit organization performing the functions of a foreign agent, and ... annual accounting (financial) statements of the structural unit of foreign nonprofit organization shall be subject to an obligatory audit.⁸

In this way, the new regulatory concept “nonprofit organizations performing the functions of a foreign agent” is integrated with ordinary financial reporting concepts, such as “annual financial statement” and “audit.” In addition, the same Article 2 (5m) refers to “a counteraction to legalization (laundering) of incomes from crime and financing of terrorism” as a background and outcome of the “foreign agents” law. This regulatory act also contains Article 2 (2) which provides a broad definition of political activism (“involvement in organizing and conducting political activities in order to influence decision-making of public authorities ...as well as in shaping public opinion for the specified purposes”); and Article 3 which describes legal penalties for “creating a religious or voluntary association whose activities involve violation against citizens or ...causing harm to their health.”

Changes in bookkeeping, accountability, reporting and control in accordance with the “foreign agents” law are listed in Table 3.1 (Appendix 3.2).

Since the 1990s when most of Russian HROs were established, foreign funding was crucial for Russian HROs because they could not get sufficient funding within Russia itself. The United States Agency for International Development (USAID), formerly the largest foreign sponsor of Russian NGOs, had to end all activities within Russian territory because of the establishment of the “foreign agent” law. USAID had worked in Russia for 20 years, spending around \$2.7 billion in grants, of which democracy support programs had accounted for about a third. Due

⁸ From this point on, translated from Russian by the author

to the fact that the accounting and reporting complexities initiated by the law are accompanied by the “foreign agent” status, the HROs demonstrated massive resistance to complying with the new law, and none of the HROs willingly sought the “foreign agent” status.⁹

Mixing financial reporting and accounting routines with the contradictory concepts of “NPOs performing the functions of a foreign agent,” “NPOs involved in political activism,” “NPOs involved in money laundering and financing terrorism” and “NPOs created with the purpose of violation against citizens” under the umbrella of a singular regulatory act permits the legislating authority to make all elements and regulatory mechanisms seem more acceptable and legitimate in the eyes of the general public. In addition, such an approach creates a distinctive impression that there is a certain negative connotation to the advocacy, empowerment and activism of human rights efforts.

3.6. CONSEQUENCES OF “FOREIGN AGENT” LAW

3.6.1. Disciplining effect of the “foreign agents” law

The “foreign agents” law provides new visibility and shapes new ways of governance and disciplining via mechanisms of excludability and selectiveness. By determining HROs as the main focus of the law, including categorizing some of these organizations within the “foreign agents” register and then practicing extensive inspections of these agents, all HROs are excluded from the community of NPOs which can take foreign funding without being claimed as “foreign agents,” and thus they cannot benefit by being exempted from the additional complicated accounting and reporting systems that are mandated by the new law. An absence of explicit legal definition of political activism and the selectiveness and ostentation of the “foreign agents” law application is supposed to send disciplinary signals to the broad

⁹ As on 10.03.2016, «foreign agent» register includes 122 empowering and advocacy NPOs (HROs).

community of civil society activists. The Human Rights Watch (HRW) in its report on the “foreign agents” law (2013) calls attention to its opacity, obscurity, and broad scope, which lead to its selective (i.e. discriminatory) implementation.

Like its assessment of the level of intervention into the governable object in the case that is the focus of this study, Human Rights Watch (2013) reports that “the inspections [of the “foreign agents” law observance] were highly extensive, disruptive, and invasive, and seemed aimed at intimidating NGOs”. (p. 25). Such an evaluation puts into doubt any assumption by liberal governmentalsists that “the disciplinary effect of accounting ... is independent of physical and material sanctions” (Armstrong, 1994).

The law has power selectively to attach the label of “foreign agent” to each and every empowering and advocacy NPO (HROs), which due to its strong negative connotation has a powerful discrediting impact on the professional reputation of these organizations (HRW, 2013). The foreign funding of an HRO once disclosed during in accounting report or during an investigation often prompts an extensive media coverage. The HROs report that this does not affect the opinion of the groups that need the support of the HRO (they continue to consume HRO services in the same volume as before the law’s establishment—if those organizations are still able to provide the services). These campaigns, however, do indeed affect those Russian supporters who aim to avoid direct public affiliation with HROs and want no disclosure of their donations or wish to provide untraceable support by offering their donations only in cash.

In relation to self-absorption, Russian HROs do not accept (legitimize) the “foreign agents” law *de jure*. In 2013, 11 Russian HROs complained to the European Court of Human Rights against Russia and claimed that “the ‘foreign agents’ law violated their rights to freedom of association and expression that are protected under the European Convention on Human Rights” (HRW, 2013). This position, supported by expert reports (HRW, 2013), claimed to provide the juridical proof that the “foreign agents” law is opposed to the Russian constitution and international

legislation. Russian HROs, however, had to obey the “foreign agents” law *de facto*, but they complied not by their willing acceptance of its terms (which could be realized in the form of the continuation of foreign funding acceptance but with voluntary registering themselves as foreign agents), but by avoiding coming under the jurisdiction of altering their funding practices (most of the HROs operating in Russia declared officially that they would no longer accept foreign funding).

3.6.2. Consequences for the institutional (organizational) field

The establishment of the “foreign agents” law led to a significant change in the donor maps of HROs which had become accustomed to rely on funding from foreign institutions. These organizations decided to renounce this funding in order to avoid the extensive scope of the jurisdiction of the new law. Figure 3.3 provides one example of the change of the donor map by using the publicly available data¹⁰ of the funding sources of the Moscow Helsinki Group in 2012 and 2013.

The press releases of Russian HROs and their foreign donors disclose that they were not prepared for such a dramatic change in accounting and financial regulation. Moreover, the “foreign agents” law did not allow for any transition period, and the long-term projects of the several Russian HROs financed from abroad had to be stopped due to the suspending events (force majeure) in this case.

¹⁰ Sources:
<http://webcache.googleusercontent.com/search?q=cache:GYTOVRbRVDEJ:www.mhg.ru/english/190c97f+&cd=4&hl=ru&ct=clnk&gl=no;;> <http://www.mhg.ru/smi/13B6CFA2>.

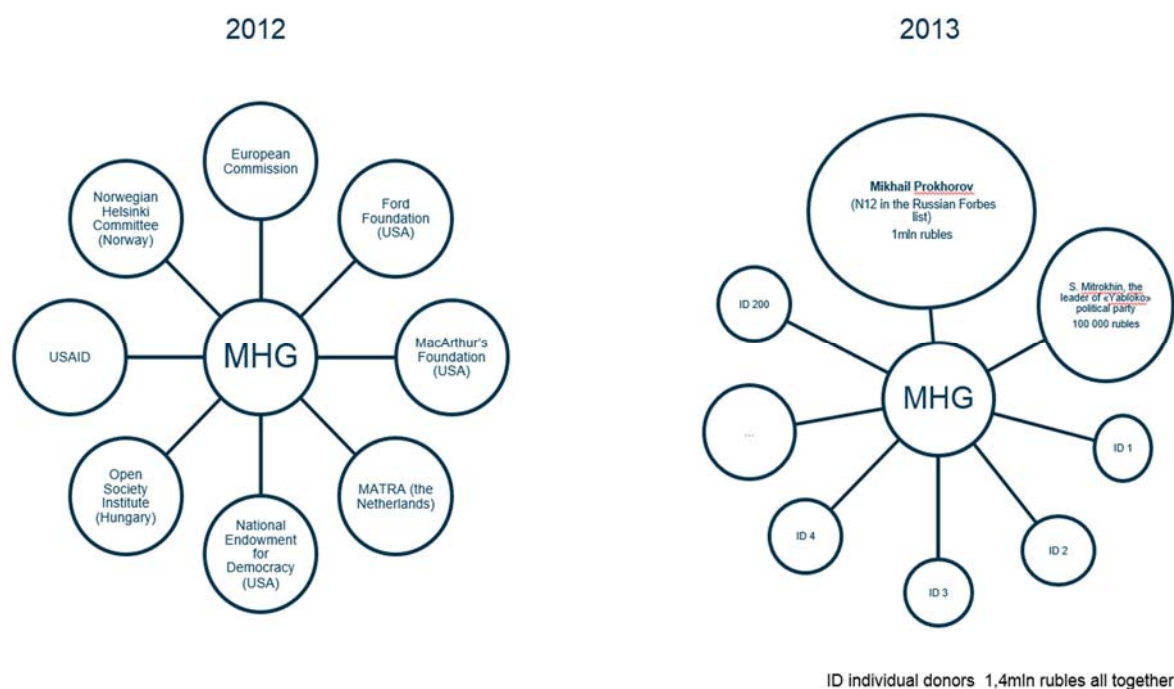


Figure 3.3. The stakeholders change: donors and partners of the Moscow Helsinki Group

The rhetoric around the new law determined the increasing attention of media to the field of HROs and gave significant coverage to each step taken by HROs with regard to their adaptation to the new legal environment. In order to defend themselves, HROs had also increased their use of and presence in the media to explain their position and actions. For instance, the author was able to track and comment on the media discourse of the coping strategy of the Moscow Helsinki Group (MHG).

A research and analytical think-tank, the Institute of Modern Russia, states in August 2013:

The Helsinki Group's chair, Lyudmila Alekseeva, proudly declared that her organization would never register as a "foreign agent"—but by renouncing its foreign funding, the Group as good as complied with the law on NGOs. One can put a brave face on a sorry business for as long as one wishes, but the fact remains: the Moscow Helsinki Group complied with an illicit act of legislation and accepted the rules of the game imposed by the regime (Podrabinek, 2013).

In her interview with the National News Service in October 2014, Alekseeva stated:

We are just surviving at the moment... We are grateful for the presidential grant, of course, but it is a much smaller sum than the funding we used to have. We have had to stop our most expensive awareness-raising programs ... Once, ...[MHG] used to hold summer schools and winter schools on human rights, which trained 340 people. ...We can't do that any longer ...The monitoring programs, our primary activity, can be carried out by volunteers. Of course, volunteers work less effectively because they cannot dedicate themselves completely to the task ... Presidential grants are given to far fewer organizations and supply much less money than we used to receive from foreign sponsors (Rights in Russia, 2014).

This public statement discloses that the strategy of the MHG contains, in particular, a renunciation of foreign funding, closing the most expensive programs, attracting volunteer labor and applying for the presidential grants. Such public statements of several HROs that the author followed for the five-year period have been taken as the background for the analysis presented in Table 3.2 (Appendix 3.3). The table shows three alternative scenarios that were applied by the HROs to address the impact of the four stages of the “foreign agents” law on this institutional field.

At the present time, the foreign donor network for Russian HROs is destroyed and does not exist officially. HROs found new sources of financial support in state grants and non-systematic donations from Russian business and individuals. The size of this support is significantly smaller than that provided previously by the foreign donors. The lack of philanthropy traditions and an absence of supportive legislation in Russia (especially in the human rights sector), together with the discrediting impact of media campaigns which affected the Russian donors and a paucity of institutional funds in Russia to support human rights activism have contributed to the reality that the majority of “new” Russian donors does not support Russian HROs systematically and, consequently, these donors do not signal any accountability demands. The non-systematic donations are usually based on impulse and an intention to support the specific human rights defender who has a well-established personal reputation.

The state grants lack transparency in the selecting process and its criteria for accountability within a reporting system. It appears that the formal reporting system for the grant holders is based on the reporting system for the foreign grants; it is, however, much less complicated. For example, HROs representatives signal the in media that the civil servants (on behalf of state) demonstrate less interest in the HROs' grant reports than did the foreign grant providers previously. In brief: the absence of clear and specific accountability mechanisms for communication with Russian non-state donors inhibits the development of a coherent set of fundraising strategies for Russian HROs, under the current legislative regime.

As of March 2016, one HRO Agora (an association of 35 lawyers dealing with power abuse cases) has been liquidated by the Supreme Court responding to a request from the Ministry of Justice in compliance with the “foreign agents” law. Over the last two years, Agora experienced intensified tax inspections and accusations of tax evasion. Agora received the “foreign agent” status in 2014, together with 77 other HROs, after the prosecutors' investigation. The prosecutors claim that Agora receives funding from abroad and is involved in political activism. Agora appealed in court, but the court has rejected the appeals. In the same year, “the “foreign agents” law precluded Agora from accepting the monetary contribution awarded as part of the Rafto Prize Foundation for human rights work” (NHC, 2016). Further inspections of Agora lead to the liquidation request of the Ministry of Justice which argued that Agora influenced public opinion and published information materials without marking them with its “foreign agents” status. Moreover, dissatisfaction of inspectors with the quality of the financial reporting and the control systems in Agora has also been mentioned as a reason for the liquidation of the organization. Another HRO, the election watchdog Golos, is undergoing a similar process of liquidation. In addition, the Russian media signals the risk that similar liquidation schemes would also be applied to other HROs. These cases express a shift of power regarding the shape of accountability for HROs—from donors to regulators and empowered inspectors.

3.7. DISCUSSION AND CONCLUSION

This paper aims to contribute to the critical accounting literature (Neu, 2000; Davie, 2005; Neu & Graham, 2004; Funnell, 1998) by examining the role of accounting in a different modern socio-political context and empirical setting than those with a liberal pattern of governance and regulatory environment. It explores the spectrum of governing purposes to which accounting and financial reporting mechanisms could be applied as well as the interplay between accounting with its notions of juridification and politics (Miller, 1990; Rose & Miller, 1992; Skærbæk & Melander, 2004) and power expressed in the larger social arena (Burns, 2000; Collier, 2001). The study showed how financial reporting and accounting mechanisms could be mobilized in non-liberal settings of governmentality for achieving certain outcomes in the nonprofit sector, in particular by restricting foreign funding flows and reducing cooperation between HROs and foreign institutional donors.

Compared to other instruments for reducing foreign funding of NPOs that are applied in different countries, the case of Russian HROs has its own specifics including the application of indirect mechanisms of accounting and financial reporting regulation instead of directly banning or restricting. Contributing to two oppositely directed international trends (in one trend, increasing the transparency of the nonprofit sector and in another trend restricting foreign funding), the “foreign agents” law aims to achieve a high level of legitimization of the regulatory actions in comparison to that could be achieved by the direct restrictions. This shows that even in non-liberal contexts indirect methods of governance might well achieve the necessary outcomes. For this to take place, however, certain conditions have to appear. The paper provides new evidence in support of the social research claim that hybrid and democratizing regimes are looking for more delicate mechanisms for the governance and control of the nonprofit sectors of their societies as compared to the mechanisms pursued within fully-authoritarian regimes (Christensen & Weinstein, 2013). By showing the contrast among

aspects of income and between characteristics of the political systems of Russia, India and Uruguay and other countries, the paper notes that, at a minimum, a moderate level of legislation and regulatory system development is required for achieving the purpose of restricting the foreign funding of HROs through the mobilization of indirect accounting mechanisms of governance. It should also be noted that even though the paper asserts certain similarities among the countries which mobilize accounting mechanisms of governance for foreign fund restrictions, the study does not attempt to provide any statistical generalizations.

The establishment of the “foreign agents” law has led to a very rapid and abrupt change in financial reporting and accounting framework. As a result, the actors have not been well prepared for the change, and they have not had adequate time for adaptation and transition. The case does demonstrate stakeholder changes and clear shifts in power from foreign donors to the state (represented by the regulators and inspectors) within the institutional field of human right activism in Russia. These shifts are determined by the transformation of the centers of accountability, empowerment of the state actors to satisfy their accountability demands and taking this ability away from the foreign donors. The newer Russian non-state donors are fairly passive and do not demand accountability from HROs.

The opacity of the “foreign agents” law, the selectiveness of its implications and enforcement, new visibilities (such as, the status of “foreign agents” and the “foreign agents” register) for exclusion, as well as the application of the new accounting regulation in the context of administrative hurdles (obstacles) that empower external controllers, deep interventions into the lifeworld of the governable objects, and the achievement of specific outcomes, signal the disciplinary effect of the law even though this goal is not explicitly declared by the setters of the legislation. A massive resistance to the law is demonstrated *de jure*; however, self-absorption and self-discipline are also recognized *de facto*.

The consequences of the human rights movement and HROs' operationalization in Russia within last twenty years, in particular, with its too-strong reliance on foreign funding and paid employees, the lack of traditions of philanthropy and a recognizable cohort of sustainable Russian donors that could support HROs, have resulted in the vulnerability of this sector which has been heightened by the implementation of the "foreign agents" law. After experiencing shock in the abrupt changes, Russian HROs are now starting to adapt to the new realities. Some HROs, however, have had to be liquidated, others have gone on the "sleeping mode", while still others struggle to reduce their own vulnerability by attracting new donors and local funding in the unfavorable socio-political and regulatory environment.

As recently emerged phenomena, our understanding of accounting and financial reporting mechanisms mobilized for foreign funding restrictions could certainly benefit from further research. The present study bases its analysis on publicly available documents and media sources. Closer interaction with the field and applying ethnographic methods of research might reveal further insights regarding the coping and adaptation strategies of HROs. Such interrogations would need to be planned wisely and take into account the socio-political environment in which the studied objects operate. In addition to the "foreign agents" law in Russia, accounting and financial reporting regulation is applied for foreign fund restriction in India and Uruguay. In this international context, the present study could be used as a background for comparative studies among various institutional settings. Such study could enrich our knowledge of the implications of accounting and financial reporting mechanisms on foreign fund restrictions in the nonprofit sector.

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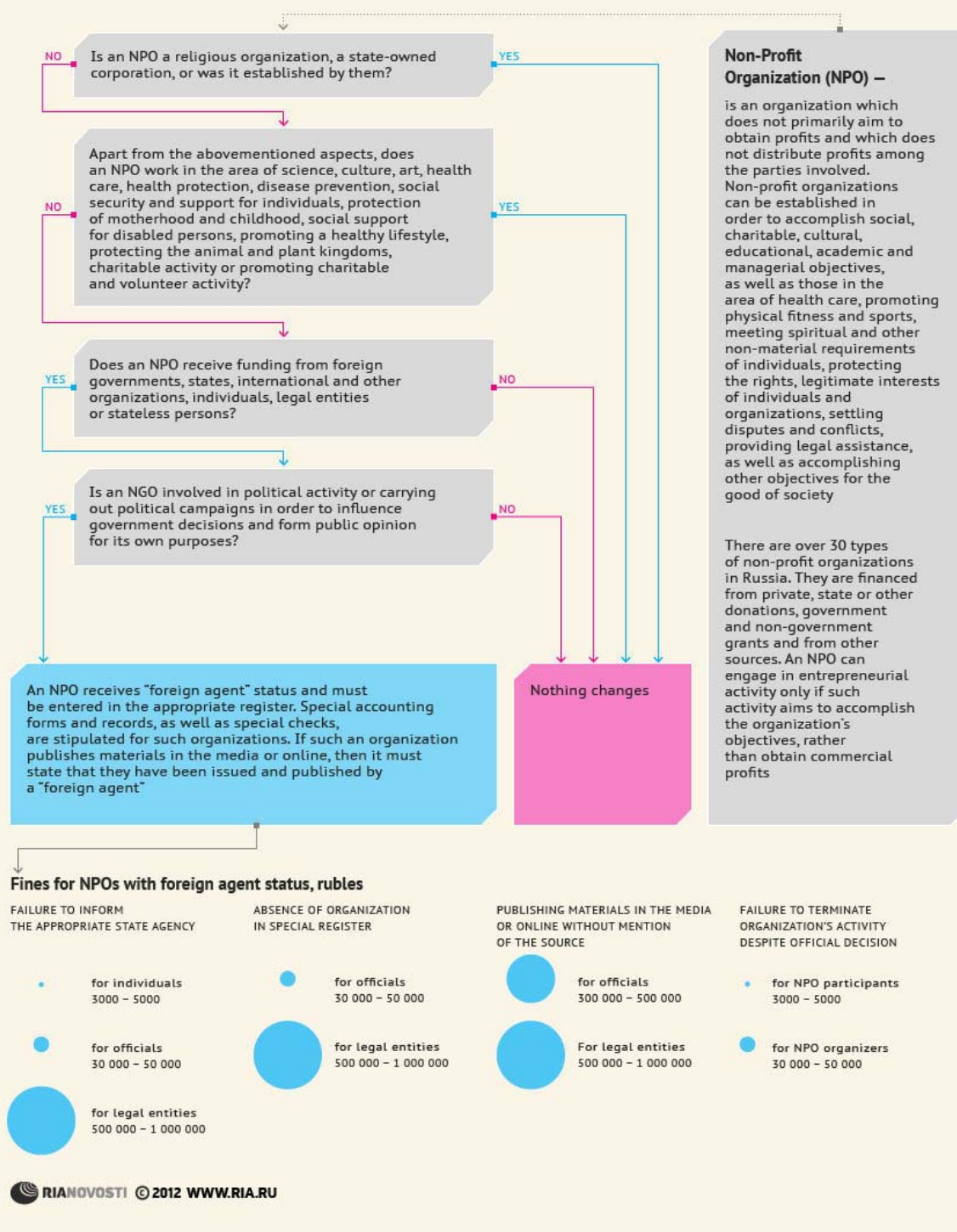
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What Changes Lie in Store for Non-Profit Organizations

The State Duma has approved the third version of amendments to the law on non-profit organizations



Source: http://rapsinews.com/legislation_mm/20120720/263859140.html

Appendix 3.2

Table 3.1 - Changes according to the “foreign agents” law

Before	After
Financial reporting	
Russian accounting system consists of two different types of accounting for all groups of organizations: tax accounting and book-keeping accounting. In addition to the general financial statements, NPOs submit separate reports on funding sources and expenditures to the Tax Authority and the Ministry of Justice.	New additional forms of financial reporting. For HROs: more frequent reporting (report on the management team and activities – every half of the year; expenditure reports every three months) and inspections. Other types of NGOs which stay beyond the coverage the new law have to submit these reports once a year. Conduct a compulsory annual audit ¹¹ .
HROs reported to each donor (commonly, foreign institutional funds) separately according to the reporting forms provided by the donors.	
Bookkeeping	
	Separate bookkeeping for expenditures of funds received from foreign donors and from the Russian donors.
Financial accountability	
	The extremely high level of financial vulnerability due to the significant revenue cut and elimination of existed funding sources.
Project accountability to the institutional donors, which constantly affects the resource inflows. An opportunity for HROs to affect their accountability reporting and to negotiate with the partners\donors.	New types of stakeholders (individual donors), new users' needs. Lack of accountability tools. Lack of possibilities for HROs to affect their accountability reporting.
Control	
Inspections by governmental authorities once in three years	High level of accountability to the government. For HROs annual inspections by governmental authorities; plus practice of “unannounced” inspections. Other NPOs: inspections once in e years. The government gains the power of a suspension decision (up to 6 months) to HROs which fail to comply with new law; administrative sanctions: failure to submit complete activity report on time – fine approx. equivalent to 600 ¹² euro/ 6000 euro ¹³ , failure to register as a “foreign agent” or failure to notice “foreign agent” status in published materials – fine 6000 euro/ 10000 euro; personal criminal responsibility for employees - from the fine 6000 euro to up to two-year prison sentence.

Source: based on materials of Russian Law No. 121-FZ; HRW, 2013

¹¹ This innovation could be considered as positive; however, in fact, auditing service is quite expensive in Russia, and the audit requirement leads to significant resource outflows from the limited resources of Russian HROs.

¹² As on 28.03.2015.

¹³ From this point on, individuals/ organizations.

Appendix 3.3

Table 3.2 - HROs lifecycle under the “foreign agents” law. Effect of the “foreign agents” law on the human rights movement in Russia

	HROs lifecycles		
1 st stage: Initial response	Do not take any foreign money (including awards, prizes, etc.): self-discipline, docility in order to avoid reputational damage		
2 nd stage: Coping strategies I	“Sleeping mode” , significant reduction in activism	Re-orientation to national funding, acceptance of governmental grants, compromising missions, reduction of activism since the amount of national funding is significantly lower than provided by the foreign sources	“Foreign agents” , as on 08.03.2016, 122 HROs have been placed in the “foreign agents” register as a result of governmental investigations. Most of HROs claim that they do not accept foreign funding; however, even the trace of prizes/premiums that supplement human rights awards can be classified as foreign funding
2 nd A stage: Coping strategy II	On a longer term, all three types are trying to build human rights philanthropy and crowd-funding in Russia, but this is complicated due to the lack of traditions, low public interest, the lack of accountability instruments, an under-developed civil society, and the negative connotation of the affiliated concepts “foreign agent” and “political activism”		
3 rd stage: Penalties			Multiple fines are applied for non-compliance with the legislation; and there is reputational damage. Most of HROs are not able to pay the fines
4 th stage: Result/Outcome	No human rights activism due to the lack of resources	No human rights activism due to compromising missions and visions and the lack of resources	No human rights activism due to bankruptcy and liquidation