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Good work done well?

-A study of the measurement of effectiveness
and efficiency in Swedish charities

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ABSTRACT

Bachelor Thesis in Management Accounting, spring 2010. Gothenburg School of Business Economics and Law.

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Title: *Good work done well - a study of the measurement of effectiveness and efficiency in Swedish charities.*

Background: The increased number of contracts for public services and the media scrutiny following recent control failures have placed a focus on nonprofit organizations and their reporting of effectiveness and efficiency. Since nonprofit organizations per definitions are not allowed to distribute profits to the suppliers of capital, something else must be used as a substitute for this measure. Previous research on the subject area is limited, especially in a Swedish context, while the need for such measures appears to be prevalent.

Purpose: The purpose of the thesis is to contribute to the body of research concerning the measurement of effectiveness and efficiency in nonprofit organizations and investigate how such measures are designed and used. This thesis will hopefully have some useful applications, beyond promoting understanding of the sector, for donors as well as for the nonprofit organizations themselves.

Restrictions: The study is restricted to four large Swedish charitable organizations. The scope of the study is also limited to the measurement of effectiveness and efficiency, leaving out other parts of the management control system.

Method: The thesis is descriptive and exploratory, using a literary survey and open interviews with representatives from four major Swedish charities. The empirical findings from the studied organizations were compared and analyzed using a relevant frame of reference in order to arrive at a conclusion.

Conclusions: The process of developing measures for effectiveness and efficiency has not come far enough to produce a measure that can quantify nonfinancial value creation in a uniform way. The majority of the used measures are related to specific processes in the organizations. Some measures are also used to assess outcome on a higher level in the organizations, while no measures currently exists that provide information about an organization's impact on society. Many of the uses identified in the frame of reference were absent in the studied organizations. Factors influencing design and use of measures are operations and activities, organizational structure, external dependencies and, in the case of use, the measures that exists.

Suggested further research: Since this study has focused on charities, a similar study in other parts of the nonprofit sector, such as sports clubs or lobbying organizations, could be of interest. Finally a comparative study between nonprofit organizations in Sweden and the Anglo-Saxon countries could be of interest in order to analyze to what extent the institutional background influences the measurement of effectiveness and efficiency.

PREFACE

It has been an intense experience writing this thesis during the last ten weeks of our undergraduate education. We have learnt a great deal, ranging from the methods of writing a thesis to the realization of the vast range of important public services provided by nonprofit organizations in Sweden.

We want to express our gratitude towards the respondents who took time out of their busy schedules to answer our questions, senior lecturer Filip Wijkström at the Stockholm School of Economics for helping us find some good literature. Finally, we would like to direct a special thank you to Christian Ax, our tutor, who has helped us stay on course during the writing process and provided us with valuable feedback. All of these people have given us time, effort and good advice, which make any and all deficiencies in this thesis entirely our own.

One of the strongest experiences we will take with us from this project will be meeting the amazing, dedicated and competent people who work in the studied organizations. Their hard and invaluable work helps so many people and displays a great amount of humanity towards those in need.

Gothenburg, June 2010

Johan Ridelberg

August Runge

"Never doubt that a small group of thoughtful, committed citizens can change the world. Indeed, it is the only thing that ever has."

Margaret Mead

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1 INTRODUCTION

1.1 Background

Nonprofit organizations (NPOs) have played an important role in society as well as in the world economy as a whole for hundreds of years. This long evolution, along that of society at large, has transformed the sector into a heterogeneous group of foundations, associations, government entities, charities and interest groups. The sector participates in public life on a wide range of activities and provides different kinds of services to groups and individuals, from the poorest to the richest members of society (Salomon & Anheier 1998).

What unites these often radically different nonprofit organizations is that they have a common mission to provide the maximum benefit to their constituencies. Nonprofit organizations are, per definition, not allowed to distribute any residual earnings to those who provided the initial capital (Hansmann 1980). As a consequence of this non-distributional constraint, the mission of the nonprofit organization must be something else than maximizing bottom line profit. Even though such financial performance is not the main objective of the nonprofit organization, it does not mean that the operations cannot be more or less effective and efficient.

In the literature, effectiveness is defined as an organization's ability to reach its goals – to do the right things – while efficiency is defined as the relation between output and input in order to reach those goals, i.e. the organizations ability to do things right. Both effectiveness and efficiency are usually expressed as ratios and in financial terms. (Eliasson & Samuelson 1991) A wider definition of the concepts is also possible as the measures can be expressed as absolute values and in non-financial terms (Frenckner 1989). The subject area of both effectiveness and efficiency has been examined for a long time in management accounting literature. There are various approaches to this subject area, depending on what aspect of the organization is being examined and from what scientific discipline. The common denominator for these approaches is that they aim to explain how good an organization is at reaching its goals and how well suited the organization's structure and operations are at doing so. Examples of such academic disciplines are sociology, organizational theory and management accounting (Stone & Cutcher-Gerschenfeld 2002).

The research on nonprofit sector effectiveness and efficiency can be divided into a few major approaches; the goal attainment approach, the system resources approach and the broad multidimensional approach (Forbes 1998). Stone & Cutcher-Gerschenfeld (2002) identify two further approaches to nonprofit organizational effectiveness as the decision-process model, which considers effectiveness as the quality of decisions based on structure and processes within the organization, and the natural system model, which considers organizations as natural entities and that effectiveness will depend on the organic context and purpose of the individual organization. The area of nonprofit sector effectiveness and efficiency has received growing attention during the last decades, but remain a contested area and a consensus among researchers does not exist (Sowa et al. 2004, Ritchie & Kolodinsky 2003). Meanwhile, research focused on the Swedish nonprofit sector has been very limited, despite the fact that the external environment has changed drastically since the early 90's, with nonprofit organizations becoming more professional as the number of government contracts for public services has increased. This development can also be seen in the context of the increased pressure for accountability and effectiveness in municipalities and the public sector as a whole since the 1980s (Kolam 2007).

1.2 Research issue and objectives of the study

For-profit organizations can measure success more or less by one simple variable: added shareholder value. This does not apply to nonprofit organizations that need to display their results in a different way. Since financial profit is not the ultimate goal, something else must be the aim of the organization. In the current situation where their legitimacy is being challenged, nonprofit organizations need to restore confidence by showing that they are effective in meeting their long term goals. Efficiency is defined as the relationship between output and input, something that is complicated by the fact that in many nonprofit organizations, both are very difficult to quantify. The informal input constituted by voluntary work made by the organizations' members is absent from the organizations' formal accounts but is still a vital part of the operations. This dilemma, along with the inherent difficulty in measuring intangible, and sometimes conflicting, goals makes effectiveness as well as efficiency problematic to measure in many nonprofit sector organizations.

In charitable organizations, commonly recognizable measures of performance and effectiveness are in the interest of both the donor and the donee. The donor must be able to satisfactorily compare and evaluate different organizations serving the same cause in order to decide to what organization he or she is to make the donation. For the donee it is necessary to display legitimacy and, through the communication of performance measures, compete for potential donations. Many of the world's largest charities have millions of dollars in revenues and thousands of members and employees, making it a necessity to employ management accounting techniques to achieve an acceptable level of control over the organization's activities. Various studies have been performed to increase the knowledge on the subject area of effectiveness and efficiency in nonprofit organizations. However, no consensus exists and further studies have been suggested in order to address specific areas of the nonprofit sector (Stone & Cutcher-Gershenfeld 2002, Ritchie & Kolodinsky, Herman & Renz 2008).

Donations are still flowing into the Swedish charitable organizations despite the severe effects of the current global economic crisis (SVT - Rapport), but dark clouds are gathering. Recent failures in organizational control and the high salaries paid to executives of such organizations have reduced their public confidence. A recent survey in the Swedish Church Magazine (Kyrkans Tidning, nr 15 2010) compared the salaries of top executives in 100 Swedish nonprofit organizations and found them very well paid, with the top five CEOs making more than SEK 1.200.000 annually. A further discussion in the magazine article related to whether these men and women actually add value to their organisations and if it would be possible to measure their individual performance in relation to increased or decreased efficiency and effectiveness.

The purpose of the thesis is to describe and analyze the measurement of effectiveness and efficiency in Swedish charities. By fulfilling this purpose, the thesis aims to contribute to the body of research concerning effectiveness and efficiency in nonprofit organizations as well as expanding knowledge on the properties of management accounting in a new context. This thesis will hopefully have some useful applications, beyond promoting understanding of the sector, for donors as well as for the nonprofit organizations themselves.

- *How are measures of effectiveness and efficiency designed and used in Swedish charitable organizations?*

2 METHOD

2.1 Characteristics of the study

In an attempt to arrive at an answer to the research questions, this study is based on existing research and literature as well as gathered empirical material from interviews with representatives of Swedish nonprofit organizations.

The survey of the previous research on the subject was systematically performed to gather some of the most important and most current findings on nonprofit sector organizations. With the aid of this theoretical framework, interviews with representatives from several Swedish charitable organizations were then prepared. As the interviewees were all high-ranked and knowledgeable within their respective organizations, the interviews treated the design and use of measures at all levels in the organizations. The respondents were carefully selected and then interviewed in person, with the exception of one telephone interview, using an open interview technique with tools such as follow-up questions to get the most relevant information possible.

A descriptive investigation aims to describe an object, process or relation in the past or present. An exploratory investigation aims to gather information within a field that is at least to some extent unknown (Patel & Davidson 2003). As the aim of the thesis is to analyze the way measures of effectiveness and efficiency can be designed and used within the nonprofit sector of the economy, the investigation will be descriptive. The investigation is also exploratory as the existing previous knowledge in the field of the Swedish nonprofit sector is limited.

The authors believe that the most suitable way to understand how effectiveness and efficiency are measured and the process of developing measurements in charities is to conduct interviews with carefully selected members of the management teams of such organizations. The character of the thesis is therefore qualitative as the empirical findings are based on the intensive study of a few specific organizations. The key benefit is the increased understanding of the essence of the issue rather than a more shallow statistical and quantifiable description.

2.2 Collection of data

Data was gathered from primary sources in the form of interviews with key managers of Swedish charities to establish their respective organizations' views on, and measurement of, effectiveness and efficiency. Secondary sources in the form of books, academic articles and internet web pages were used to create the theoretical frame of reference presented in section 3.

The origin of the literature used in the thesis has been academic and the aim has been to use as recent material as possible. Books, articles and other publications have been chosen on the recommendations of our tutor or based on their evident importance in the field. Standard works that have been referenced to extensively have been preferred. Older original literature has only been used to explain some basic concepts, this as first hand sources have been preferred to second hand ones.

Interviews were chosen as a source for empirical material because they offer the most in-depth approach to the key processes of the subject areas. This personal approach allows the researchers to ask questions and then follow up on answers to get as much information as possible (Jacobsen 2002). A few in-depth interviews were chosen instead of several less

extensive counterparts, this as a mass survey would have required more standardized questions. An important part of the interviews was to clarify the definitions of the terms effectiveness and efficiency, something that also would have proved more difficult in a larger survey.

Charities were chosen for the study because they are some of the most identifiable nonprofit organizations, have a wide range of operations and have existed in Sweden for a long period of time. They are also often very large organizations which make them relevant objects of study from a management accounting perspective. As Chenhall (2003) describes; large organizations often have more diversified operations, more formalized procedures and more sophisticated control mechanisms. These properties make charities relevant for a study of how effectiveness and efficiency is measured in the nonprofit sector.

<i>Organization</i>	<i>Respondents with job title</i>	<i>Date of interview</i>	<i>Length of interview</i>
Göteborgs Kyrkliga Stadsmission	Mats Bäckman, CFO and Olof Jacobson, Strategic development	11-05-2010	90 min
Göteborgs Räddningsmission	Carolina Malmberg, CFO	12-05-2010	70 min
IOGT-NTO (Telephone interview)	Per-Åke Lundin, Strategic development	17-05-2010	50 min
Swedish Red Cross	Ingela Höij, Controller Western Sweden	20-05-2010	70 min

Table 2.1. Organizations in the study

The individual organizations were chosen on basis of their structure, type of operations and size. The organizations are all large charities with active operations in western Sweden and with funds raised, at least in part, from sources other than government subsidies. They are all relatively old organizations, making it possible to analyze the use of performance measures over time. The respondents were various high ranking members of the management teams of the different organizations and were therefore in a position to adequately represent their charities.

<i>Organization</i>	<i>Founded</i>	<i>Revenues MSEK</i>
Göteborgs Kyrkliga Stadsmission	1952	202,3(2009)
Göteborgs Räddningsmission	1952	57,8 (2009)
IOGT-NTO	1970 (Sweden)	90,5 (2007)
Swedish Red Cross	1865	795 (2009)

Table 2.2. Year of foundation and revenues of the organizations in the study

Three interviews were performed in the offices of the respective organizations and one interview was conducted over the telephone with the interviewee located in the organization's

national headquarters. The interviewees were asked the questions in the interview guide and additional follow-up questions were used to clarify previous answers. Upon completion of the interviews and the transcription processes, the respondents were asked to review the written records and comment if it was representative of what they had said during the interviews.

The interviewees were first asked to give a brief description of their respective organizations as well as their job title and place within the organizational structure. They were then presented with the following definitions of effectiveness and efficiency and the potential uses for performance measures listed in section 3.3, before being asked pre-determined questions as described in Appendix I. The relatively wide definitions of effectiveness and efficiency were used because they were deemed appropriate in order to encompass all relevant measures in the studied nonprofit organizations.

Effectiveness: *The level of goal completion, i.e. the extent to which the organization is achieving its long term goals. "Doing the right things" (Yttre effektivitet). Measures of effectiveness are often designed as specific ratios, but can also be expressed as an absolute value.*

Efficiency: *The relation between output and input, usually expressed in terms of financial value. It can, however, also be expressed as an absolute value as well as in nonfinancial terms. How well the organization is running its operations, the extent to which the greatest benefit can be obtained from a given amount of resources. "Doing things right" (Inre effektivitet).*

(Sources: Frenckner 1989, Eliasson & Samuelson 1991)

Finally, as the interviews were performed in the Swedish language, the quotes in the empirical findings of the study were freely translated from Swedish into English. Transcriptions of the quotes in their original language are found in Appendix II.

2.3 Credibility

Regardless of what kind of empirical material it is based on, all scientific studies need to meet two different criteria, *Validity* and *Reliability*. These are both necessary for the study to be credible and useful to its designated purpose (Jacobsen 2002). These two qualitative properties are not inseparable as a piece of scientific research can be valid but not reliable.

2.3.1 Validity

Validity is the study's likelihood of actually representing the examined reality in a fair way (Lekvall & Wahlbin 1993). In order to achieve this, it is important to make sure that the results of the research really measure the desired variable and arrive at a credible conclusion. The aim of this thesis has been to add to the understanding of the measurement of effectiveness and efficiency in Swedish charities and in order to achieve this, it has been important to construct a strong and relevant theoretical framework to optimize the material gathered from the interviews. The respondents have all been practitioners in the field, consequently making the collected data first hand information. They were also sent an outline of the questions in advance to be able to prepare accordingly. In the beginning of the interviews the respondents were presented with specific definitions of effectiveness and efficiency as well as uses for measures. This was done in order to obtain information concerning the same aspects of measurement from the same perspectives in all of the studied organizations.

There is a further division of validity into internal and external validity that can be applied to a scientific study (Jacobsen 2002). Internal validity is the extent to which the study actually measures what it intends to measure. The external validity is how well the results of the study can be applied to different contexts outside the examined organization. For this thesis the internal validity will be how well the measurement of effectiveness and efficiency in the different organizations is presented and analyzed and the external validity will be whether these findings can be applied to Swedish nonprofit organizations in general. To improve the internal validity it was made sure that the respondents were knowledgeable of the processes in their respective organizations. Finally, to improve the external validity the selection of organizations for the study was thorough in order to examine only representative charities within the nonprofit sector. The small number of organizations in the study does, however, limit the applicability to other charitable organizations as well as to the entire nonprofit sector.

2.3.2 Reliability

Reliability in a piece of academic work is the extent to which the same results would be obtained if the study was to be reproduced at another time, with different researchers or with different respondents. There is no reason to believe that the respondents have been untruthful during the interviews but, as for much of qualitative research, there is a degree of subjectivity in the process of interviewing. There is a well known effect in the process of interviewing where the interviewers may to some extent affect the interviewees' answers (Lekvall & Wahlbin 1993). Precautions were taken to avoid this as much as possible by designing the interviews with pre-prepared and objective questions. Follow-up questions were only used to clarify a previous answer or line of reasoning by the respondents. This makes it all the more important to consider such aspects as body language, tone of voice and relationships between members of the studied organization. These kinds of observations were made in order to provide additional depth to the collected qualitative data and enhance understanding.

Both authors have also been present for all interviews and used various aids to record the conversation. Special care has been put into making sure that the material presented in the study is representative of the opinions and answers given by respondents. To make sure of this, the respondents were sent a copy of the transcribed interview and asked if the written record could be considered a correct representation of what was said during the interviews.

3 THEORETICAL FRAMEWORK

3.1 The nonprofit organization

3.1.1 Nonprofit organizations and the third sector

Nonprofit organizations operate within the so called third sector of the economy that is separated from the market and the state (Salomon & Anheier 1992). By this definition, the sector is described more by what it is not, than what it actually is. The third sector has been growing in importance and operates a variety of different services for the benefit of different groups in society. Such goods and services include hospitals, universities and cultural activities.

There are several different definitions of nonprofit organizations based on different aspects of the operations such as output, externalities and income/supply of labour (Morris 2000). One simple definition is: *“a non profit organization is, in essence, an organization that is barred from distributing its net earnings, if any, to individuals who exercise control over it, such as members, officers, directors or trustees”* (Hansmann 1980). A more comprehensive description is made by the structural/operational definition (Salomon & Anheier 1992). This definition provides five specific characteristics of organizations within the third sector including: formal, private, non-profit distributing, self-governing and voluntary. This definition offers a broad description of the often quite different types of organizations that constitute the third sector. The organizations need a formal structure, they need to be private and separate from the government, any profits generated may not be distributed to the owners, they need to be self governing and controlling and to at least some degree voluntary, either on a managerial level or at the operational core.

The reasons why some services are provided by for-profit enterprises and some by nonprofit organizations are discussed by Hansmann (1980); a fundamental approach is the theory of contract failure, also known as market failure as developed by (Weisbrod 1988), which considers why organizations bound by the non-distribution constraint are needed to provide valuable services to the public. Two specific situations are discussed in Hansmann's article: the provision of public goods and the contract failure when there is a separation between the purchaser and the consumer of a good. In the case of public goods, they are defined as goods that are not limited to the use by one single person and that one individual's consumption of such goods does not limit other individuals' consumption. An example of such a public good is clean air which can be consumed by different individuals without interfering with each other's consumption. What makes the situation special is that everyone would be able to enjoy the clean air regardless if they have paid for it or not. And even if an individual was to pay for the service, the individual contribution would be so small that it would be difficult to identify any significant contribution, therefore discouraging payment of the good. This makes it difficult to produce the service as a commercial venture when a potential consumer does not need to pay to get access to the service. Even if the public pays, it will be difficult to control how much of available funds that will be used to improve air quality and how much will become profits to the owners.

The same situation concerns the provision of goods that are not purchased and consumed by the same party. In a situation where a citizen of one country wants to send food to people suffering famine in a different part of the world following a natural disaster, it will be difficult to assess the quality of the food that reaches its final destination. If there is no way to control the quality of the food, an incentive will exist for the for-profit company to reduce quality and increase profits, leading to contract failure. Both these situations are remedied if the

organization is not allowed to distribute any profits to its owners, but simply use any input to provide the maximum benefit for the organisation's stakeholders.

There is a major difference in strategy between for-profit and nonprofit organizations in that the for-profit firm has a basic responsibility to maximize profits generated to the owners. The nonprofit organization needs to specify its goals in a mission statement and then formulate a strategy that directs its activities in the pursuit of that mission (Moore 2000). It is only after examining the degree of completion of that mission that results and goal achievement can be assessed in the nonprofit organization. The practical significance of this is that a for-profit firm can achieve its fundamental goal using a diverse range of products and services directed to different costumers. The nonprofit organization on the other hand, can only achieve its long term goals by pursuing the organization's specified mission, providing a more narrow description of value creation than just maximizing shareholder value. As a consequence, money is a means to the end of running operations in a nonprofit. In the for-profit organization, the situation is reversed as money usually is the end and operations are the means to achieve it.

	For-profit	Not-for-profit
End	Money	Operations/Activities
Mean	Operations/Activities	Money

Figure 3.1 Means to ends model (Adapted from Ekonomistyrningsverket 1999 p. 7)

As there is a difference between the ends and means, as well as operations, between for-profit and nonprofit organizations, there are also different challenges and control mechanisms at work. A number of specific challenges exist for nonprofit organization management, including conflicting goals, non-professional management and a widespread difficulty to measure and evaluate results (Merchant & Van der Stede 2007). Hofstede (1981) describes how goal ambiguity exists between the different constituencies of a nonprofit organization and how this can influence the organization's measurements of success. Hofstede's article introduces a decision making model to achieve management control, which is defined as: "*management control is the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives*". The model has several key considerations that affect management decisions in nonprofit organizations: are objectives ambiguous?, is output measurable?, is the activity repetitive?, and are effects of management interventions known?

3.1.2 The third sector in Sweden

The size of the third sector in Sweden is comparable to that of other European countries and consists to a large extent of organized labour groups, recreational associations, cultural organizations and popular mass movements (Johansson 2005). There are a few characteristics of the Swedish nonprofit sector that distinguish it from that of other countries. The development of the Swedish welfare state has made the nonprofit sector less involved in the provision of some services, as compared to other developed nations, but is still closely connected to, and influences the government in different ways (Lundström & Wijkström 1997, Grassman & Svedberg 1996). This means that such services as health care, social services and compulsory education are, with an increased number of exception, mainly carried out by the state. The size of the Swedish sports and recreational movement is also an exceptional feature of the nonprofit sector with approximately 3, 5 million members (Wijkström 2004).

A development in the Swedish third sector since the 1990s is the increase in the provision of public services by nonprofit organizations as government subcontractors. This development has contributed to the increase in the number of persons employed in the sector with 10 000 or 8

percent between the years 1992 and 2002. Within the category “Social welfare” (“social omsorg”), the number of persons employed has grown with 9 100 persons or 39, 5 percent during the same period (Wijkström 2006). There are several reasons behind this development of increased outsourcing of public services by the government. These include cost reduction as nonprofit organizations can use gifts and donations from companies and the general public and often have access to free voluntary labour, less costly bureaucracy and also the fact that nonprofit organizations employ low-cost labour to a greater extent than the government (Lundström & Wijkström 1997).

The third sector in Sweden has always been subsidized by the government but this development of increased outsourcing services during the last 10-15 years has changed the relationship between local government and nonprofit organizations (Johansson 2005). A nonprofit organization now needs to demonstrate the capability of providing high quality public services and compete with other organizations in the nonprofit sector as well as with commercial health care providers for government contracts. A consequence of this development is the increased professionalism in the management of Swedish nonprofit organizations. Wijkström & Einarsson (2006) do, however, make the distinction between amateurism and amateurish behaviour. Even though the organizations now to larger degree hire staff than use volunteer, it does not automatically imply that the models for planning, evaluation and decision making have improved enough to meet the challenges of the nonprofit sector.

The two main types of nonprofit organizations in Sweden are the foundation (Stiftelse) and the nonprofit association (Ideell förening). Foundations are independent legal entities created through a bequest of funds towards a specific cause. The governing body of the foundation is the board that distributes the funds in accordance with the terms of the donation (Lundström & Wijkström 1995). Foundations exist in many different parts of Swedish society with different designated purposes and levels of activity. The association is a group of individuals, or other subjects, who join together toward a common objective (Hemström 2007). Membership of associations is very common and a large portion of the Swedish population holds membership in at least one such organization. Sweden has also a well established tradition of volunteering work with 28 percent of the population actively involved in giving time to nonprofit organizations, as reported by a 2004 survey made by the Johns Hopkins Comparative Non-Profit Sector Project (The Centre for civil studies at the Johns Hopkins institute for policy studies <http://www.ccss.jhu.edu>). This volunteering work is valued at 10,206.1 Million USD and is well above the 15 percent volunteering average for developed nations.

Within the nonprofit sector there are today numerous active charities in Sweden that focus on a variety of different causes and with different types of operations. They are however only a small part of the non-profit sector as only 7 percent of responding organizations in a large survey by Lundström & Wijkström (1995) identified themselves as charities. According to Lundström & Wijkström, this may be because of the semantic meaning of the Swedish word for charity (välgörenhet), which is narrower and can be perceived as a rather condescending donation of basic foods and services to the socially underprivileged. As many nonprofit organizations want to describe their missions in a more expansive way, the proportion of charities in the Swedish nonprofit sector is not directly comparable to that of other developed nations. Consequently, many organizations whose activities would be described as charitable in other parts of the world prefer to describe themselves as popular mass movements.

An organization called SFI (Svensk Insamlingkontroll) exists with the specific purpose to examine Swedish charities in order to guarantee an absence of foul play, competent management and that no more than 25 percent of funds raised are spent on administration. If the charity passes

the inspection, it is given a 90-account, within either of the Swedish transaction systems BankGiro or PlusGiro, as a stamp of approval. SFI does, however, only guarantee a minimum level of accountability and does not evaluate the individual organization's efficiency and effectiveness (Svensk Insamlingskontroll, www.insamlingskontroll.se). Other organizations that work with similar tasks in setting quality standards and evaluating charities are: FRIL (Frivilligorganisationernas Insamlingsråd) and Charity Rating. All of these organizations aim to set a high standard for quality and examines such measures as administrative costs and fundraising costs as a part of total costs respectively.

3.2 Design of performance measures

3.2.1 Effectiveness and efficiency

Since no universal definition of effectiveness and efficiency exists, there is a risk of confusing the different concepts. There is also incongruence between the English and Swedish terminologies; the English word effectiveness corresponds to the Swedish expression that translates into outer effectiveness, while efficiency corresponds to internal effectiveness. (Frenckner 1989, Butt & Palmer 1985). Combined together, effectiveness and efficiency constitute what is known as total effectiveness (Eliasson & Samuelson 1991).

Effectiveness, in the traditional sense of the word, describes to what degree actual output corresponds to the goals and objectives of an organization. This is also commonly expressed as "doing the right things" (Frenckner 1989, Eliasson & Samuelson 1991). Such a definition implies that effectiveness, when properly defined, can be used to determine whether an organization is performing well or not. Consequently, a higher effectiveness, per definition, must be preferred to a lower one. Effectiveness is not always expressed as a ratio between actual performance and the goals of an organization; it can also be designed as an absolute value. For example, if an organization aims to hold two hundred lectures during a year, effectiveness could be measured both as whether two hundred lectures have been held or not and the number of lectures held divided by two hundred.

It should be noted that since effectiveness is a measure of the extent to which an organizations goals are being met, it can be affected by simply changing the actual goals. An organization that lowers its ambitions for any given year, will display a higher effectiveness than last year even though the actual performance remains constant (Ax et al. 2009). This questions the idea of effectiveness as an objective, absolute measure of performance; the effectiveness of an organization could rather be described as a social construction (Herman & Renz 1999). Acceptance of such a definition of effectiveness does not mean that effectiveness is unimportant or arbitrary, on the contrary; the stakeholders of an organization are often aware that effectiveness is no absolute truth and still they use it as a way to evaluate the performance of the organization. Effectiveness as a social construction is determined by the actual performance of an organization as well as the interaction between management and stakeholders in the process of establishing goals and objectives.

While effectiveness is a measure of how well actions contribute to the goals and purposes of an organization, *efficiency* indicate how well those actions are performed - i.e. "doing things right" (Frenckner 1989, Eliasson & Samuelson 1991). Efficiency expressed in physical rather than financial terms is sometimes called *productivity*. Productivity is expressed as output divided by input, a measure that does not provide any useful information unless it is put into relation to productivity from another period or subunit. Due to the special characteristics of nonprofit organizations, both efficiency and productivity are often used synonymously in order to assess how well operations and activities are performed in the organization. Furthermore, measures of

effectiveness and efficiency need not be designed as ratios; nonprofit organizations in particular often measure efficiency as absolute values (Frenckner 1989).

3.2.2 Effectiveness and efficiency in the nonprofit context

There is a difference between how effectiveness and efficiency are measured in for-profit organizations and nonprofit organizations respectively. In for-profit organizations, measures such as profitability, return on equity, solidity and liquidity are commonly used. However, such measures are of limited relevance when evaluating nonprofit organizations as the amount of invested capital in those organizations is small compared to personnel costs and what is known as knowledge capital (Frenckner 1989). Furthermore, the non-distribution constraint implies that measures such as profitability and return on investment are unsuitable when estimating the overall performance of a nonprofit organization.

The goals in nonprofit organizations are not only different from those in for-profit organizations; they are also often widely expressed and more numerous in order to describe all essential aspects of the organization apart from economic profits. The actual measurement of such goals can also provide a challenge as nonfinancial performance typically is harder to evaluate (Frenckner 1989, Merchant & Van der Stede 2007). Compared to for-profit organizations, nonprofit organizations usually have greater difficulties measuring input and output in financial terms (Anthony & Young 2003). As a result, incomes and costs need to be linked to other kinds of measures, such as cost per hour or number of persons helped during a day, given certain maximum costs (Frenckner 1989). Effectiveness and efficiency can thus be measured in nonprofit organizations, although it is done differently than in for-profit organizations. DiMaggio (2002) finds many of the measures developed for use in a nonprofit sector to be weak and susceptible to so called gaming, which means that it is possible to improve the measures without any actual change taking place in the organizations operations.

When analyzing an organization, external as well as internal stakeholders often find the Du Pont approach useful. The approach consists of incremental breakup of return on assets, splitting this measure of profitability into more specific sub-ratios in order to create a view of different aspects of the organization and their causal relation to each other (Anthony & Jerome 1965). While for-profit organizations can use the Du Pont approach for analysis as well as the management of corporate operations, nonprofit counterparts do not have this possibility because of the limited importance of return on assets in those organizations. As a result, nonprofit organizations lack this universal and distinct method to evaluate and control operations; instead similar models describing cause and effect have to be specifically designed for each individual organization, a process that is not always easily performed (Frenckner 1989).

The fact that nonprofit organizations lack a single, universal measure of performance, like return on equity used in for-profit organizations, raises demand for substitute measures of performance. Robert Anthony and David Young (2003) identify three categories of substitutes for measuring performance in nonprofit organizations (Anthony & Young 2003). First, *social indicators* describe how the work of an organization affects society at large. Examples of this dimension could be improvement in living standards, literacy or infant mortality rates. Such indicators are inherently diffuse in their definitions, difficult to collect and often of limited cause-and-effect relation to an organization's actions. However, the wide scope of social indicators can be useful when deciding on the overall direction of an organization. Secondly, *results measures* relate output to the goals and objectives of an organization. Such a process is usually complicated in a nonprofit organization as neither output nor goals and objectives can be formulated in measurable terms. In that case, results measures may provide an opportunity to specify output and objectives as accurately as possible. Finally, *process measures* describe how well a certain activity in an organization is carried out; i.e. the efficiency/productivity of the

process. Consequently, the overall performance of a nonprofit organization cannot be described by process measures alone; in order to also estimate the effectiveness of the organization, social indicators and/or results measures have to be used.

Process measurement is performed at the operational levels in an organization and consists of different measures of efficiency. By connecting measurement with the goals of an organization, results measures describe effectiveness on the organizational level. To describe the impact on the highest level – that of society at large – social indicators are theoretically used, even though such measurement rarely can be performed properly according to the literature (Anthony & Young 2003).

3.3 Uses of performance measures

To simply design a measure without using it is a waste of the resources in an organization. In order to benefit from the use of a measure, the purpose of such use has to be clearly defined. Accordingly, measures are ideally designed with a specific use and purpose in mind. As the overall purpose of any enterprise is to achieve its goals, performance measures are frequently used to implement those strategies that will help the company to achieve its goals – short-term as well as long-term (Poister 2003).

The distinction between the use and purpose of a measure is not always clear; Mossberg (1977) recognizes control, planning, evaluation, benchmarking, attention direction and accumulation of experience as valid purposes for measures. Such definitions are similar to the different uses for performance measures proposed by the literature mentioned below, which indicates that the purpose of measures their use.

Several researchers have studied the area of uses for accounting information and categorized those uses in different ways. Thorén (1995) identifies five uses for accounting information and performance measures: performance evaluation of managers, decision making, learning, negotiation and creation of meaning. The use of performance measures is also fundamental in the process of planning and evaluating an action, especially in a strategic context (Drury 2008, Poister 2003). Furthermore, Lind (1996) points to attention direction as an important use for accounting information. Another use for performance measures is internal and external benchmarking, which allows the organization to compare operations internally as well as with other organizations in its peer group. (Poister 2003). Mellemvik et al. (1988) stress the importance of external communication as a use for accounting information and identify special projects and ad hoc initiatives as further valid uses. The uses below have been placed into nine categories in order to accommodate for all potential uses and the differing definitions presented by previous research.

Performance evaluation of managers

Standardized reports and performance measures are used to evaluate managers' performance and often serve as a base for different kinds of rewards (Thorén 1995). It is, however, important to assess to what extent the individual manager can be credited for the positive outcome, as measured by the performance measure. If it is not clear that there is a causal link between the manager's actions and the measured outcome, then the measure loses its importance as a means of evaluating the manager. Quantitative measures are often used only as a part of the performance evaluation of a manager along with "softer" measures such as personal observations, social contacts and worker satisfaction. Members of higher level management are, however, frequently evaluated by summary accounting measures as they constitute a relatively low cost summary of the results of the many actions taken by the managers. The performance

measures are also used to minimize sub-optimization and myopic behaviour, both symptoms of managerial behaviour influenced by personal interest that take precedence over the interests of the organization (Merchant & Van der Stede 2007).

Operative and strategic decision making

In decision making theory, the use of reports and other qualified information reduces the uncertainty associated with the outcome of a decision (Thorén 1995). It is therefore implied that good and relevant information will raise the quality of decisions made by managers. The specific situation and type of decision faced by managers is vital for the use of performance measures. One such distinction between decision making situations is that between routine decisions and strategic decisions. Performance information is not only used in decision making related to strategic planning and the budget process, but also as a basis for making decisions related to changes in the organization's processes and in changes regarding properties of produced goods and services (Lind 1996, Poister 2003). The use of performance measures and other accounting information is also relevant in order to break down the results from long-term strategic planning into shorter term operative plans.

Learning

There are different kinds of learning associated with the use of performance reports. First, there is the automatic learning that occurs when a manager adapts, without too much deliberation, to the circumstances indicated by the performance measure. The other kind of learning, reflective learning, occurs when a manager actively reflects on how to make the operations run more smoothly or more efficiently based on the information in the report (Thorén 1995). These two types of learning are also known as single- and double loop learning (Argyris & Schon 1978). As a consequence of the increased use of performance evaluation in nonprofit organizations, one important benefit has been the single- and double loop learning that takes place when the outcome of an activity is measured at various stages. For successful learning, it is important that information in reports is relevant and without distortion (Buckmaster 1999).

Negotiation

In most organizations there are constant negotiations between internal parties as well as with external partners. Mellempvik et al. (1988) describe how performance measures and accounting information can be both a source of power and a cause for conflict. A common arena for negotiation is the annual budget process when different units compete for resources. Performance measures and reports are used in this process, more or less subtly, to attempt to demonstrate why a certain unit can use available resources more efficiently than another and therefore should receive additional resources or avoid a reduction in the current amount (Thorén 1995). Other arenas for negotiations are intra-organizational negotiations relating to the planning processes of different projects or in discussions on overall priorities. A final use for performance and result measures are negotiations with external parties such as customers and suppliers. Arguments from performance reports are used to reinforce negotiation positions in sales or purchasing, phrased for example: "we cannot offer a better price on this product since it would eliminate our operating margin".

Creation of meaning

When an organization is achieving its goals there is usually a reinforcement of purpose resulting in stronger organizational culture and motivational effects (Thorén 1995). An individual manager or organizational unit may derive a strong motivational effect by being allowed to present a

measure of performance to peers and superiors. By analyzing performance, management is looking forward as well as backwards, putting the present situation in a wider context.

Attention direction

Performance measures can be used to direct attention to deviations from the budget and developments that do not follow the laid operational plans. Such an alarm signal directs attention to areas of operations that are performing below expectations and that require addressing. Exceptional performance can also be identified in a similar way. This can be based on financial reports, but also on nonfinancial measures of performance. An increased level of detail in reports improves attention directing to specific aspects of operations (Lind 1996). Financial and nonfinancial performance measures can also be used by entrepreneurs in the exploitation phase of development of a new business in order to identify areas of opportunities and weaknesses (Dergård 2006).

Internal and external benchmarking

Performance measures can be used to compare operations internally as well as for comparison between organizations on different variables. For-profit organizations often attempt to identify best practice within the sector and perform site visits to analyze successful strategies and processes. They also use financial information to compare their performance to those of the industry leaders. This is not as common in public and nonprofit organizations, which instead use available measures to compare performance with similar entities in a peer group comparison (Poister 2003). It may, however, be difficult to develop a valid, universal measure to be used for inter-organizational comparison of performance.

External communication

Performance measures by an organization to communicate performance to the public. As the trend towards increased accountability has required organizations to publicly display results, some public agencies produce "report cards" as a tool for communication with the public (Poister 2003). The performance information produced by an organization is also used in a process known as legitimization where organizations need to provide the external environment with a legitimate justification of existence in order to obtain resources for its operations. In such a situation the accounting information generated by the organization will provide proof of completed actions and thus legitimize the organization. (Brunsson 1986, as discussed in Mellemvik et al. 1988)

Special and ad hoc initiatives

Measures of performance can be used for evaluation of a specific limited duration project as well as for ad hoc analysis of a process within an organization. Even though accounting information is gathered regularly, specific information can be used for a specific purpose in a certain situation. Problem solving is also a specific task that is apart from regular operations and uses accounting and performance information during a limited period of time to analyze and address a specific issue (Simon 1954, as discussed in Mellemvik et al. 1988).

4 EMPIRICAL FINDINGS

4.1 Göteborgs Kyrkliga Stadsmission

Interviewees: Mats Bäckman, *Chief financial officer* & Olof Jacobson, *Strategic development*

Date of interview: 05-10-2010

4.1.1 The organization

Göteborgs Kyrkliga Stadsmission (the Gothenburg City Mission, below referred to as Stadsmissionen) was founded in 1952 by Ebbe Hagard and Isaac Béen. The organization was created in response to the dire needs of the poor and disadvantaged experienced by the founders in contemporary Gothenburg. Over the course of the following 50 years, the organization grew in size as well as in the number of active operations. The mission of the organization is to help addicts, their relatives, the homeless, the mentally ill and the socially disadvantaged. Stadsmissionen is built on Christian values, something that is an important part of the organizational culture but has limited influence on the individual activities performed by the organization.

Stadsmissionen is involved in many types of activities within social and medical care, some of which are: housing and treatment of drug-addicts and the homeless, geriatric care, summer camps for underprivileged children and self-help programmes.

The operations are organized in several different units, each with its own legal status and function, under the umbrella of a foundation. The foundation is also the centre of operations for various charitable activities and fundraising. The limited company is owned by the foundation and was created to manage the organization's commercial operations as a sub-contractor for public services to the City of Gothenburg. The Ingsered Foundation is a separate foundation that manages the short term residence/half way house establishment Ingsered for mentally ill persons and addicts between the ages of 20 and 65. In addition to the above mentioned entities there is also an association created to administer the second hand operations and a real estate holding company. Stadsmissionen is a member of FAMNA, an umbrella organization for Swedish nonprofit health care providers.

(Sources: Stadsmissionens official website www.stadsmissionen.org,
Annual report 2009, Göteborgs Kyrkliga Stadsmission)

4.1.2 Current measures and their uses

“Stadsmissionen's overall goal is to provide help to as many people as possibly given the resources available”.

Mats Bäckman (translated from Swedish, see appendix II)

Stadsmissionen uses different measures of effectiveness and efficiency depending on the different operations in the organization. The organization's overall objectives are deliberately expressed in a broad way in order to enable Stadsmissionen to direct resources to those areas in society where it is perceived such contributions are needed. It can thus be done without the prospective activity falling beyond the scope of the organization's formal goals.

Measure	Composition	Use
Occupancy (SM1)	Number of persons treated by a unit/maximum capacity of the unit	Operative and strategic decision making
Abscondment (SM2)	Number of Abscondment/number of persons treated	Attention direction
Density of personnel (SM3)	Number of personnel/number of persons treated	Operative and strategic decision making, negotiation
Waiting time (SM4)	Average time between seeking and receiving help	Learning
Cost per attendant (Summer Camp) (SM5)	Total costs for summer camp/number of attendants	Learning, operative and strategic decision making
Quality (SM6)	Questionnaires	External communication, learning
Fundraising efficiency (SM7)	Fundraising costs/funds raised	Learning
Administrative costs (SM8)	Administrative costs/total revenues	External communication

Figure 4.1. – Measures of effectiveness and efficiency and their uses in Göteborgs Kyrkliga Stadsmission

SM1 - Occupancy. This measure is used in the different treating units operated by Stadsmissionen in order to assess the efficiency of the individual units. Constantly low occupancy rates for a unit indicate that the maximum capacity of the unit needs to be decreased in order to ensure an efficient use of resources in the organization. Consequently occupancy is used in order to support decision making during the planning process.

SM2 – Abscondment. The proportion of persons treated who prematurely leave the treatment, is used as a measure of the efficiency for treating units, even though the measure technically is one of productivity. A low ratio implies that the majority of persons who are registered for treatment complete the whole program, while a high ratio means that a large share of the participants do not complete the program. Because of the nature of this measure, Stadsmissionen uses it in order to identify problems and make appropriate adjustments.

SM3 – Density of personnel. By relating the number of employees to the number of persons treated at a unit, an expression of the unit's ability to tend to those who need help is established. The measure is primarily used for short-term operative decision making and longer-term strategic planning and resource allocation. Furthermore, as a high density of personnel per treated person can be viewed as a sign of quality, density of personnel is used in negotiations with the City of Gothenburg for public contracts.

SM4 – Waiting time. Average waiting time for persons who seek help at the housing units as well as the organization's spiritual and counselling activities. As it is important for Stadsmissionen to help those in need as quickly as possible, this measure is used as an indicator in order to improve the speed as well as quality of handling clients.

SM5 – Cost per attendant (summer camp) Cost per attendant at the organization's summer camp describes the cost-efficiency of this activity. By comparing the actual ratio with those of previous years, it can be evaluated how efficiently money is used for the summer camps in both absolute and relative terms and allow for proper actions to improve in the future. Since the summer camp activities are growing in size, the measure has also become a useful tool for planning and decision making purposes.

SM6 – Quality. When bidding for public contracts, Stadsmissionen competes in terms of quality, not price, as excessive minimization of costs is considered incompatible with the organization's standards. Since quality of service aimed at the organizations users is measured, and Stadsmissionen aims to provide help to those persons who need it, quality is viewed as a measure of effectiveness. In order to assess the quality within different operations, Stadsmissionen uses questionnaires, which measure the attitudes of service users as well as employees. Quality measures are primarily used for internal improvement of operations by learning. The measures are also used when the performance of Stadsmissionen is evaluated by external constituents such as the City of Gothenburg in connection with public contracts.

SM7 – Fundraising efficiency. The costs per SEK raised measures the efficiency of Stadsmissionen's fundraising activities. Causality between expenses and funds raised differ depending on whether the donor is the general public, corporations or distributing foundations, which requires Stadsmissionen to take this into consideration during evaluation. Learning is the most important use for fundraising efficiency as the effects of different fundraising methods provide information of which methods that result in the greatest revenues.

SM8 – Administrative costs. Stadsmissionen uses a 90-account for fundraising, and is consequently required by SFI to meet the demands for administrative costs. Such external scrutiny is the main use for the measure, but it is also of interest to potential donors who wish to evaluate the organization.

Besides the measures mentioned above, a Balanced Scorecard is used to evaluate performance when Stadsmissionen provides geriatric care on behalf of the City of Gothenburg. The dimensions economic performance, customers, employees and processes are evaluated. It should be noted, however, that the use of the Balanced Scorecard is on the initiative of the City of Gothenburg, as part of a harmonization project called Balansen, and the approach is not used by Stadsmissionen in other operations.

4.1.3 Views on the measurement process

The Swedish church, although being principal for Stadsmissionen, imposes limited demands regarding the measurement as well as the actual measures of effectiveness and efficiency. It was suggested that an increased clarity in the demands and expectations of the Swedish church would provide incentives for developing the existing measurement further.

Mats and Olof both agree that qualitative dimensions are most valuable when evaluating whether Stadsmissionen is achieving its goals or not. However, since quality is inherently difficult to measure objectively, there is a tendency to focus on the measurement of quantitative performance, which is easier to measure but not always as relevant as quality.

The value of Stadsmissionen's total activities expressed in financial terms is a performance measure that the interviewees believed would be of great benefit if it could be assessed, but of practical reasons this is presently not possible. Another desired measure would be if the performance of a given unit could be summarized into one number or ratio, which would allow for better comparison within the organization and improved resource allocation. Such a

measure is, however, unlikely to be created since the operations in Stadsmissionen vary greatly in their respective activities, purposes, financing and scope. As the opinions of persons treated at Stadsmissionen are used to establish an idea of the quality in the activities of the organization, a method to measure such opinions for a longer period of time after the treatment has been completed would be valuable. By doing this, the long term effects of Stadsmissionen's operations could be evaluated, which would further enable the organization to review to what extent its long term goals are being achieved. Despite the desire to improve the measurement of some parameters, there is no ambition to measure every aspect of the operations, as Stadsmissionen's operations main focus to help people, something that is said cannot be evaluated solely based on ratios and numbers.

“Can everything be measured? Should everything be measured?”

Mats Bäckman

For practical reasons, the religious dimension of the organization is difficult to measure satisfactorily. Since nothing is measured, no indicators of performance are used to determine how well Christian values are being dispersed through the organization's efforts. Even though the core values of the organization are important, evaluation in this area is based only on subjective assessments.

The increased number of public procurement contracts over the last 10-15 years has resulted in the need for Stadsmissionen to become more professional, in general management control as well as the measurement process. Such increased professionalism that has followed upon the augmented size of the contractually financed part of the organization's operations has also benefited the units financed by donations. Evidence of this development are the implementation of a standardized terminology for different performance dimensions and the adoption of an organization-wide IT-solution which facilitates continuous measurement of performance.

For the time being, evaluation is performed mainly in connection to the budget and planning processes once a year. However, the ambition is to develop a more continuous procedure for evaluation. Even though the current use of measures to facilitate learning is limited, a strong intention exists to improve in this area. Likewise, the desire to benchmark against other comparable nonprofit organizations within the FAMNA-network was expressed, something that is currently nonexistent.

4.2 Göteborgs Räddningsmission

Interviewee: Carolina Malmberg, *Chief financial officer*

Date of interview: 12-05-2010

4.2.1 The organization

Even though Göteborgs Räddningsmission (hereafter referred to as Räddningsmissionen) was officially founded in 1952, the organization traces its origin to the early 20th century emigrant mission. The emigrant mission helped poor and hungry emigrants waiting for passage to America in and around the Gothenburg harbour and slum districts. As times changed and the number of emigrants decreased, the organization changed its focus to help destitute and homeless individuals in the poorer neighbourhoods of Gothenburg. As some of these areas today have become gentrified, the work of the organization has changed again and is now focused to a great extent on individuals suffering from addiction and mental illnesses. Other

areas of work for the organization includes assisting the homeless, criminal rehabilitation, psychiatric residences, work training, projects for children and youths at risk and integration efforts aimed at immigrant women. In total, there are 20 separate units with different operations within the organization. A number of non-conformist church congregations in Gothenburg area are the principals of Rådningssmissionen and the organization's legal form is that of an association.

Rådningssmissionen differs ideologically from Stadsmissionen in that the principals of the former are non-conformist while the principal of the latter is the traditional protestant Swedish Church. Apart from this, the organizations are similar in terms of operations, geographic area and scope, and both organizations are members of the FAMNA-network.

(Sources: Göteborgs Rådningssmission's official website www.raddningsmissionen.org, Annual report 2009, Göteborgs Rådningssmission)

4.2.2 Current measures and their uses

Rådningssmissionen uses several measures in its management control package for the various operations, of which a few are measures of effectiveness and efficiency. Differences in measuring performance between the operations financed by donations and the operations financed by contracts for services are limited but do exist. Some of the contractually financed units have an imperative to generate a profit while other units need only to generate enough revenues to survive and in exceptional cases are allowed to run at a net loss. The operations entirely financed by donations are also expected to generate a small surplus in order to survive. In the long run, Rådningssmissionen attempts to separate operations with different financing, something that also affects the process of measuring performance.

Measurement of effectiveness and efficiency is generally performed internally. However, when Rådningssmissionen operates projects partly financed by the European Commission, extensive reviews are made by external specialist organizations. This kind of auditing is required by the European Commission before granting funds to the project in question.

Measure	Composition	Use
Occupancy (RM1)	Number of persons treated in a unit/maximum capacity of the unit	Operative and strategic decision making
Completion rate (RM2)	Number of persons that complete a program/number of persons enrolled in the program	Internal and external benchmarking
Quality (RM3)	Richter Scale (surveys measuring the individual progress of individuals in different programs)	Attention direction
Fundraising efficiency (RM4)	Fundraising costs/funds raised	Learning
Administrative costs (RM5)	Administrative costs/total revenues	External communication, learning

Figure 4.2. Measures of effectiveness and efficiency and their uses in Göteborgs Rådningssmission

RM1 – Occupancy. Occupancy is an important measure for assessing the efficiency in those units of Råddningsmissionen that have treatment or housing operations. The main use for this measure is to identify the resource requirement of individual units during the strategic planning process, thus enabling good resource allocation within the organization.

RM2 – Completion rate. Since the goal for treatments and programs is that those who are enrolled complete the whole treatment or program, the proportion of those who do complete is used as an indicator of effectiveness. Completion rate is used in order to make comparisons between units within the organizations as well as with units of other organizations to identify best practices. Such external benchmarking is performed against organizations that are comparable to Råddningsmissionen, for example the Stockholm City Mission (Stockholms Stadsmission). Furthermore, when Råddningsmissionen operates on behalf of external parties such as the City of Gothenburg or the European Union, this measure is used for negotiations.

RM3 – Quality. A method called the Richter Scale is used in treatment and housing operations in order to describe the progress of individuals. An example of the use of the Richter Scale is the work training program organized for the benefit of disadvantaged youths in Gothenburg. The participants are asked to evaluate their personal development during the program and to what extent their self esteem, attendance in school, employment situation and participation in society has improved. Besides being used as a part of the treatment, the results of those surveys are in exceptional cases also used to direct attention within the organization. Råddningsmissionen chooses not to perform surveys among some of the users of the services as many have mental illnesses, making this kind of measurement unsuitable.

RM4 – Fundraising efficiency. This measure enables Råddningsmissionen to assess the efficiency of their fundraising operations. Fundraising efficiency is primarily used by the organization to learn what fundraising activities result in the greatest amount of funds raised, i.e. to identify best practices. According to Carolina, the fact that it is more difficult to raise funds for some causes than others needs to be taken into account when assessing this measure. An example mentioned during the interview was the fact that it is generally easier to raise funds in aid of disadvantaged children than is the case for immigrant women who are victims of honour related violence.

RM5 – Administrative costs. This is a measure of efficiency related to supporting and fundraising activities and is constituted by the proportion of revenues that is used to pay for administration. One aspect that was noted during the interview is that the cost of administration for Råddningsmissionen does not increase linearly with revenues, but rather in a step-by-step fashion. Besides from being used internally for identifying potential needs for improvement, this ratio is also important to donors as a low ratio implies that the majority of the donation will go directly to field work and people in need. As Råddningsmissionen uses a 90-account, the organization is also required to meet the 25% maximum demand set up by SFI for this measure.

A Balanced Scorecard approach, though not purely measuring effectiveness and efficiency, is used by all units in order to compile the multi-faceted dimensions of performance at Råddningsmissionen. The dimensions used vary between different units, but some of the most important overall parameters are economic performance, branding, leadership performance and satisfaction among employees. Management uses an overhead scorecard, from which many variables are broken down and applied to both units and individual employees.

Creation of meaning is a general use for the performance measures in Råddningsmissionen but is not linked to any individual measure. Meaning is created this way primarily in connection with

strong performance that exceeds the expectations in the organization, as employees develop a sense of personal and organizational achievement in such situations.

4.2.3 Views on the measurement process

Measures in the contractually financed part of Råddningsmissionen's operations have to some extent been designed in order to accommodate for the Swedish process of public procurement of services. The current system operates with a long list of specific criteria that needs to be met in order to be a contender for a contract for a service. It is obviously important to meet these criteria but above the specified level, there is a very small premium on additional quality and therefore, the organization needs to focus on cost reduction in order to offer a competitive price. An example of the result of this process is the bottom line financial result demands that exists for the all units operated by Råddningsmissionen as sub-contractors for the City of Gothenburg. If they are not competitive and cannot maintain a low price, Råddningsmissionen will not have a competitive position in the next renegotiation round.

Råddningsmissionen was created by, and is to a large extent financed by a group of non-conformist Christian congregations. At the annual general members meeting, the churches are present and demand accountability from the organization's management for financial as well as other aspects of the operations. There is, however, a tendency for the churches not to get too involved in the short-term management, affecting what information is presented to the organization's principals. Råddningsmissionen's leadership would like them to get more involved and follow the organization's operations more closely.

If there is some part of the operations that the organization would like to be able to measure, it is how the effectiveness of the various operations and activities are experienced by the users of the service, i.e. if a program, residence or shelter actually provide help to the people for which it is intended. Carolina admitted that the organization is very keen on producing ambitious strategic goals in different areas of society, but sometimes finds it difficult to break down these broad goals into more measurable sub-goals.

Råddningsmissionen has experienced an increased level of professionalism during the last 10-15 years. This development has been necessary, not just for achieving an increased level of efficiency and effectiveness but even for the reason of mere survival. It is also considered important to have an adaptable and well-run operation in order to adjust to the quick changes within the sector, as revenues from donations and the number of available government contracts varies over time. The Swedish nonprofit sector is said to have moved toward a level of common standardization but the apparent measuring problems related to comparing radically different organizations and activities remain. Carolina believes that the organization has efficient planning and control processes and that the performance measures in use reflect the organization in a good way.

The process of introducing the Balanced Scorecard in the early 2000s was difficult as the organization had problems finding relevant measures and dispersing the use understanding of the model throughout the organization. Råddningsmissionen does, however, feel that the Balanced Scorecard is functioning very well today. It is adapted in various ways at different levels of the organization to analyze projects, measure progress and direct operations. This is just one of the ways in which the organization aims to become more businesslike in a more and more competitive economic environment.

4.3 IOGT-NTO

Interviewee: Per-Åke Lundin, *Strategic Development*

Date of interview: 10-05-2010 (Telephone interview)

4.3.1 The organization

IOGT-NTO was founded 1970, currently have 40 000 members and is part of the Swedish temperance movement, promoting abstinence from alcoholic beverages. The temperance movement had its prime in the late 19th and early 20th century, following the public outcry in the face of the massive social problems caused by excessive drinking in Sweden during the entire 19th century. The name comes from the consolidation of three separate orders called the International Order of Good Templars (founded in America in 1851) and the two Swedish orders Nationalgodtemplarorden and Templarorden. All rituals and the degree system were abolished early on and the organization has during the last decades focused on social work related to alcohol and the negative effects of abuse and addiction. Despite the loss of importance for the temperance movement, the organization has continued to grow and is today well known and a firmly established part of the Swedish nonprofit sector.

The structure of the organization is that of an association constituted by the numerous local IOGT-NTO groups. The local groups send representatives to the highest decision making authority, the congress. The congress appoints the board that manages the organization's central activities as well as supports the local groups through the 23 administrative regions.

The organization has three main missions; Influence the general public in order to reduce the demand for and consumption of alcohol, exert influence on local and national government to create regulation on different levels to counter the negative effects of alcohol and to provide social aid to those affected by alcohol, either as addicts or as dependents of addicts. Apart from the extensive operations in the various local chapters of the organization, IOGT-NTO also owns and runs the rehabilitation facility Dagöholm as well as two Folk High Schools (Folkhögskolor).

The organization also owns a very successful and profitable lottery, Miljonlotteriet, which helps finance the operations. IOGT-NTO also owns an own publisher that produces material in field of alcohol and drug abuse. The lottery together with member fees and other revenues makes the organization almost completely self sufficient and receives very limited support from the government.

(Source: IOGT-NTO official website www.iogt.org,
Annual report 2007, IOGT-NTO)

4.3.2 Current measures and their uses

Per-Åke stated that IOGT-NTO rarely uses formal measures of effectiveness and efficiency. As the organization uses a model of evaluation based on personal experiences and professional opinions, the assessment of effectiveness is not absent, only the formal numerical measures. This approach is also present in the process of measuring goal completion. The organization has a long term plan that has been disaggregated into shorter term plans that are frequently evaluated. This evaluation is, however, based on a relatively subjective analysis of performance. Projects and activities are evaluated on the basis of budget performance as well as goal attainment. Such short term evaluation is performed in order to assess if restructuring or additional resources would be necessary for the project or activity.

Measure	Composition	Use
Administrative costs (IN1)	Administrative costs/total revenues	External communication

Figure 4.3. Measures of effectiveness and efficiency and their uses in IOGT-NTO

IN1 – Administrative costs. IOGT-NTO is required by SFI to present this measure as a 90-account is used in the organization. As the distinction between administration and operational work sometimes is unclear in IOGT-NTO, it is at times difficult to calculate this ratio exactly.

Though not measurement in the narrow definition of the word, two times a year, IOGT-NTO performs subjective evaluations regarding the completion of the organization's goals. In this process, the completion of every goal is described as a percentage rate, which could be seen as a method to assess the effectiveness of the organization. Those measures are then used in order to enable improvement within the organization by learning from past experiences.

4.3.3 Views on the measurement process

IOGT-NTO is experiencing a process towards a more long term planning and evaluation procedure and a more formal structure for evaluation. In this process, the organization has involved economists from the Stockholm School of Economics and the University of Örebro, as well as private sector consultants and is striving towards a better and more measurable process for planning and feedback. Special focus groups have also been used to assess the general public's knowledge and impression of IOGT-NTO. After the decline of the Swedish temperance movement during the latter part of the 20th century, IOGT-NTO has gone through a process returning the organization to its core values and processes, something that is also reflected in the organization's long term goals. This is a change from the 1990s, when the organization communicated its purpose as "among other things concerned with alcohol's damaging effects on public health".

One weakness in the current process of formulating goals is the tendency to produce goals that are more a description of an activity than an actual measurable goal. An example of this could be, according to Per-Åke, the difference between the goal to arrange courses on the negative effects of alcohol and the aim to raise the general level of knowledge on the subject area among the general public.

"Soft goals result in soft answers."

Per-Åke Lundin

As the organization is almost completely self sufficient, no external pressure regarding measurement of performance exists. This limits the influence that is often exerted by external parties on other nonprofit organizations that are more dependent on external funding. Another important structural issue that influences the central management's planning and evaluation process is the fact that the individual districts that comprise IOGT-NTO are independent and do not answer to a formal hierarchy. The districts comprise the highest decision making authority, the congress, which decides the organization's strategic direction. Central management has only one main tool for influencing the districts, the allocation of funds from the organization's lottery, and therefore does not have the authority to evaluate individual districts and demand accountability. This relationship is, however, not always this dramatic and is a prevalent condition throughout the Swedish nonprofit sector.

One area IOGT-NTO would wish to measure is the impact of lobbying the public sector and the participation in the public discourse on alcohol. If there was a way to measure whether the organization's efforts in writing articles, books and appearing on television are effective, it would be of great use. The organization also attempts to exert influence on various levels of government and would wish to have a measure that communicates if the end result, the Swedes using less alcohol, is actually being achieved.

"We have become better at formulating goals, but we still have considerable problems in putting goals in relation to the depletion of resources."

Per-Åke Lundin

Another example of an area where the measurement of effectiveness would be useful is in the development of new methods for the prevention of alcohol addiction. The development of new methods is very costly but often do not lead to any actual activities. This waste of resources would be avoided if a usable measure of effectiveness existed for the method as a means of reaching the overall goal of prevention of alcohol damages on individuals and on society.

Overhead goals are considered important but rather difficult, time consuming and costly to measure and Per-Åke considers it unsure if the marginal benefit from better information would outweigh the large costs.

A development in the nonprofit sector during the last 10-15 years has been the increased cooperation within the nonprofit sector with common interest organizations, such as FAMNA, formed to promote standardization and identification of best practice in different fields. IOGT-NTO has been an active participant in this cooperation which has included discussions on learning, leadership and organizational structure.

4.4 The Swedish Red Cross

Interviewee: Ingela Höij, *Controller Western Sweden*

Date of interview: 20-10-2010

4.4.1 The organization

The Red Cross is one of the world's oldest and largest nonprofit organizations, founded by Henry Dunant after the devastating battle of Solferino between Austrian and Franco-Sardinian forces in 1859. During the organization's 151 years of existence, it has grown substantially and is today present in all parts of the world with more than 100 million members of the Red Cross/Red Crescent movement in 187 countries.

The Red Cross has been present in Sweden since 1865 and has dedicated itself to domestic and international charitable and humanitarian work. The organization's headquarters is located in Stockholm and regional offices are established in several parts of Sweden with activities ranging from fundraising for international missions to locally holding first aid courses and performing social efforts to groups such as refugees, the elderly and the recently widowed. The Red Cross is one of the largest Swedish nonprofit organizations with revenues second only to the Swedish Church, whose operations are not directly comparable.

The national members congress (Riksstämman), which is composed of the organization's local members associations, is the principal of the Swedish Red Cross. Since this instance gathers only every 3rd year, the day-to-day management is handled by the central organization. The central organization has established a number of regional offices, which are responsible for the coordination of operations in their respective regions. The core of the operations are the more

than 1200 local associations that make up the National members congress and are supported by the staff employed at the national headquarters and in the regional Red Cross offices.

The organization has recently been very visible in the media following the trial of the former director of communications Johan af Donner who has been accused of embezzlement and the resignation of the organization's CEO Christer Zetterqvist who recently made public his intentions to leave the organization and go to work for the Swedish migration board. The organization has been questioned by some of the large donors and is currently going through a review process to analyze what has happened and how it can be avoided in the future.

According to the Swedish Red Cross annual report 2009, the organization aims to create an appropriate and effective operational structure. The internal control structure is based on an approach known as the COSO-model and consists of five areas: risk assessment, monitoring, organizational control environment, control activities and internal and external communication (The Committee of Sponsoring Organizations of the Treadway Commission, www.coso.com).

(Sources: the Swedish Red Cross official website www.redcross.se, Annual report 2009, the Swedish Red Cross)

4.4.2 Current measures and their uses

During the budget process, the central organization allocates resources to the regional offices. This allocation has major implications for the regional offices' operations in the coming year as the maximum costs for personnel are defined. The amount of resources given to a certain regional office is primarily dependant on the perceived need of that office; i.e. volume is the major parameter for such decisions.

The fact that a large part of the organization's work is carried out on a voluntary basis imposes certain limitations on the collection of performance data for effectiveness and efficiency. Since voluntary workers often are very busy with the day-to-day operations, in addition to not being paid, it is not possible to introduce new variables without consideration.

Measure	Composition	Use
Efficiency of refugee operations (RC1)	Costs of personnel /number of processed cases	Learning, operative and strategic decision making
Cost per person treated (RC2)	Costs for treatment at a unit/number of persons treated at the unit	Operative and strategic decision making, negotiation
Quality (RC3)	Questionnaires	Learning
Fundraising efficiency (RC4)	Fundraising costs/funds raised	Internal benchmarking, learning
Administrative costs (RC5)	Administrative costs/total revenues	External communication, learning

Figure 4.4. Measures of effectiveness and efficiency and their uses in the Swedish Red Cross

RC1 – Efficiency of refugee operations. This is a measure of the cost-efficiency in individual units. A higher ratio is not always better though, as there is a trade-off between the number of processed cases and the quality of the service provided. Consequently, certain judgment has to be used when assessing this measure, which main uses are to enable learning and improve decision making.

RC2 – Cost per person treated. This measure is used by some local treatment centres in order to assess the efficiency of their operations. Besides being used for strategic decision making, this ratio is sometimes also used for negotiation with external parties. For example, the torture victim recovery centre in Skövde, uses cost per person treated to improve its position in negotiations for funds with the County Administrative Board.

RC3 – Quality. The quality of activities aimed at disadvantaged and vulnerable persons in general is described as vital for the operations of the Swedish Red Cross. Quality is measured irregularly using questionnaires. When such measures are, they are primarily used by the organization to learn what areas of operations need to be improved.

RC4 – Fundraising efficiency. By relating the result of different kinds of fundraising activities with the costs of those activities, the efficiency of different fundraising activities can be assessed. This measure is used for internal benchmarking in that the fundraising efficiencies of units in different regions are compared in order to identify best practices.

RC5 – Administrative costs. This measure provides information on how efficiently the Swedish Red Cross uses revenues for the organization's core operations. A low ratio means that a large portion of revenues is distributed to those operations. Since the implications of this measure can be understood by most people, its main use is primarily *external promotion*, in contrast to fundraising efficiency that is used internally. Furthermore, as the Swedish Red Cross benefits from the use of a 90-account for fundraising, the organization is required to meet the demands imposed by SFI concerning this measure.

There is a perceived problem regarding the measurement of performance for different regional offices. Increased standardization is desired as, for example, it may vary between regions if only face-to-face meetings are to be considered processed cases or if counselling by phone is also to be considered as processed cases. The resulting effect is that even though comparison between regions is performed, the results are not always useful because of differences in the collection of data.

“We need to know what to measure and have standardized definitions for that which is measured”

Ingela Höij

In addition to the uses already mentioned, the Red Cross Sweden generally uses measures of effectiveness and efficiency for learning and creation of meaning. Learning is achieved by identifying best practices when regional offices are compared to each other, as the ambition is to duplicate features of effective and efficient operations in the rest of the organization. According to Ingela, meaning is created primarily when actual outcome exceeds expectations. In those cases, people with access to performance reports receive a motivational effect and develop a sense of doing something meaningful.

At present, measures are not used for external benchmarking since few Swedish organizations of comparable size and operations exist. However, there is an ambition to improve on this area

in the near future in order to adopt best practices not only internally but also from other charities and nonprofit organizations.

Measures of effectiveness and efficiency are also of interest to external contributors and principals, such as the Swedish International Development Cooperation Agency (SIDA), municipalities and the different regions/county councils. SIDA, for example, makes an extensive evaluation of the organization and the proposed project before deciding to participate and grant funds to the Swedish Red Cross. The general public is also interested in some of the more general measures in order to evaluate the organization. In both of these cases, the headquarters compiles data from all regions and presents them externally.

4.4.3 Views on the measurement process

One factor that was said to influence the design and use of measures in the Swedish Red Cross is the organizational structure. The core of the operations is the numerous local associations and the main purpose of administrative staff is to support local activities. This means that it can be difficult to impose demands on local volunteers for data collection in relation to new measures, something that limits measuring. The development during recent years towards a more advanced evaluation process and more extensive data collections has included the hiring in 2005 of a planning coordinator placed at the national headquarters. One important result of this process, and the new hire, has been the enhanced internal comparison between units on different dimensions. There is, however, still room for improvements; Ingela expressed a desire to improve the tools used to follow trends, regionally as well as centrally. As the case is now, reports do not contain information about how effectiveness and efficiency have improved over shorter periods of time, but rather focus on an annual performance perspective.

The Swedish Red Cross views an effective and efficient organization as one with a structure that is suitable to the purpose of the organization. Consequently, actual measures are not always used to evaluate performance – sometimes action control and standardized resource allocation are used as indicators of effectiveness and efficiency. One example is the specified personnel allocation to a specific volume of service. Even though this yearly allocation of resources clearly is not a numerical measure of efficiency, the activity ensures some degree of efficiency in the utilization of the organization's resources.

The current crisis of confidence that the Swedish Red Cross is going through, with both internal and external factors putting pressure on organizational review and improvements, can be viewed as an opportunity to increase organizational effectiveness. This because the expected decrease in revenue will put pressure on either less operations or improvements in existing ones, i.e. doing the right things and doing them right.

Ingela stresses the importance of measuring different aspects of the organization, because of the lack of equivalents to the result or profitability measures of for-profit organizations. Even though it is not used formally, a process similar to the balanced scorecard is said to be used in order to measure those different aspects. If quantity and perceived quality could be combined into a single, comprehensive measure, it would be of great use for the Red Cross both with regards to evaluation and internal comparison. Simplicity in production as well as interpretation of the measure would make it valuable to internal as external users.

“To simply measure something is not enough; the measures must also be put into context.”

Ingela Höij

5 ANALYSIS OF EMPIRICAL FINDINGS

The disposition of the analysis of collected empirical data will be as follows:

1. A summary of the measures used in the studied organizations will be presented.
2. The design and use of measures for effectiveness and efficiency will be analyzed comparatively and with regards to theory on the field. The main feature of the analysis will, however, be comparative as relevant literature on the field is limited, especially in a Swedish context.

Comments to table 5.1.

The table consists of the organizations in the study and the measures they have chosen to use for effectiveness and efficiency. The measures are categorized as *Process measures*, *Results measures* and *Social indicators* in accordance with Anthony & Young (2003). The table also contains information on what the chosen measures for effectiveness and efficiency are used for in the individual organizations.

The measure labelled *cost per attendant* is constituted by several, more specific, measures adapted to specific operations in the different organizations. One example is the cost per attendant at the summer camps organized by Stadsmissionen. Even though the measures are adapted to specific situations, they are constructed in a similar way and have therefore been placed under the same label.

Treatment completion consists of both abscondment and completed treatments. The measures have different practical significances, but both concern whether treatment is completed or interrupted and have therefore been placed under the same label to facilitate comparison.

The measures labelled *quality* are different specific measures such as forms and interviews used to evaluate quality of a certain activity or unit.

Measure \ Organization and use	Stadsmissionen	Räddningsmissionen	IOGT-NTO	The Swedish Red Cross
Process measures				
Administrative costs	External communication	External communication, learning	External communication	External communication, learning
Cost per attendant*	Learning, operative and strategic decision making	–	–	Learning ,operative and strategic decision making, negotiation
Density of personnel	Operative and strategic decision making, negotiation	–	–	–
Fundraising efficiency	Learning	Learning	–	Internal benchmarking, learning
Occupancy	Operative and strategic decision making	Operative and strategic decision making	–	–
Waiting time	Learning	–	–	–
Results measures				
Quality	External communication, negotiation	Attention direction	–	Learning
Treatment completion**	Attention direction	Internal and external benchmarking	–	–
Social indicators				

Table 5.1. Summary of empirical findings on measures and their use.

*Included cost per attendant in activities such as summer camp (Stadsmissionen), treatments and refugee operations (both used in the Swedish Red Cross).

** Includes completion rate (Räddningsmissionen) and abscondment (Stadsmissionen).

5.1 Design of measures

The measures of effectiveness and efficiency in the studied organizations have been categorized according to the three types of measures presented by Anthony & Young (2003). *Process measures* describe certain aspects of the operations in an organization and can be viewed as means rather than ends. *Results measures* are desired goals by themselves with outcomes such as completed treatments or quality of service. *Social indicators* are generally the most difficult to measure; as such measures aim to describe an organization's impact on its surroundings.

Most measures in the organizations fall under the category of process measures and tend to focus on very specific activities and operations within the organizations. Occasionally, results measures are designed in order for the organizations to assess their respective effectiveness. Social indicators are difficult to measure according to literature, which might explain why none of the studied organizations use formal measures for such indicators (Anthony & Young 2003).

Even though input often is specified in financial terms, most commonly as costs, output is rarely assigned monetary values in the studied organizations. The exceptions are contractually set prices with external parties and raised funds, where the value of output can easily be determined. Output is, however, often specified in a non-financial manner, such as persons treated, quality of operations and number of absentees. The fact that input is expressed in financial terms more often than output may be because value of input can often be more easily retrieved from financial reports (Frenckner 1989).

5.1.1 Common measures

Efficiency

Administrative costs is one of the most important measures for charities and is used by all of the studied organizations, which in part is explained by the fact that all of the organizations use 90-accounts and consequently are required to meet the demands set up by SFI. This is particularly obvious in the case of IOGT-NTO that does not use any other formal measures of effectiveness and efficiency. An important design feature of this measure is that it can be improved either by reducing costs or increasing revenues. DiMaggio (2002) points to the fact that the definition of what constitutes administrative costs and what are costs related to field work is at times unclear, thus allowing managers to influence the measure in a process called gaming. The studied organizations did not recognize this as a current problem but explained that it can be potentially problematic if an unambiguous definition of administration is not established.

Both Stadsmissionen and the Swedish Red Cross measure *cost per attendant* to describe the cost-efficiency of their housing, refugee and treatment operations. Being a process measure, low costs per attendants in itself is not an overall goal for an organization, but rather an indicator of an organization's ability to successfully pursue its goals. A measure similar to cost per attendant is that of *density of personnel*, which is applied by Stadsmissionen. The measure also describes the efficiency within an operative unit and is constructed on the premise that a high density of personnel implies a high quality of service. Since cost of personnel usually is the largest expense for nonprofit organizations, the prevalence of measures such as cost per attendant and density of personnel is understandable. These measures are, however, not used by all organizations, something that partly can be explained by type of operations.

Fundraising efficiency is a measure of special importance for the studied organizations as fundraising activities are exclusive to the nonprofit sector. Consequently, it is used by all of the

studied organizations except IOGT-NTO, which is financed differently than the rest of the organizations. The process measure of fundraising efficiency is designed in order to provide information on what fundraising activities are most efficient.

Occupancy is used by Stadsmissionen and Räddningsmissionen, which both operate residential units. The measure is constructed in order to maintain efficiency and to avoid wasting resources. This may be because of the relative ease to measure persons treated in relation to maximum capacity, but it may also be because each bed in a residence carries with it high costs that need to be covered by the contracting partner (often the municipality). Since services cannot be stored, it is imperative to make use of the resource in the moment.

Waiting time is used by only one organization, Stadsmissionen, since it is closely connected to and viewed as a suitable measure for its counselling service. This service is unique for the organization, but could, however, be relevant for similar activities in other charities and nonprofit organizations. The measure needs to be put into perspective when analyzed since it may be unclear what a favourable value is. A short waiting time might mean quick access to the service, but a longer waiting time may imply longer and higher quality counselling. The measure is an example of a nonfinancial, non-ratio measure of efficiency.

Effectiveness

Some measures are specific for organizations working with treatment and rehabilitation of addiction and other social, mental and physical problems. Such measures include the completion rate for persons at a certain treatment or program (Räddningsmissionen) as well as the number of persons that abscond from treatment (Stadsmissionen). Both of these organizations have some type of overall goal to provide help to people in need. Consequently, both completion rate and abscondment enable Räddningsmissionen and Stadsmissionen to assess to what degree such goals are being met, i.e. the effectiveness of respective organization. Using Anthony & Young's (2003) terminology, completion rate and abscondment are both results measures.

Quality is a dimension that is measured formally in Stadsmissionen and Räddningsmissionen, using questionnaires and the Richter Scale respectively – two methods that are designed for different purposes. The other two organizations only infrequently used surveys or measured quality in a more subjective analysis. Since high quality service is a goal for all of the organizations in the study, quality is clearly a results measure and describes effectiveness rather than efficiency. All of the studied organizations expressed a desire to develop standardized measures of quality that would enable the organizations to improve their internal as well as external benchmarking.

When asked what the ideal measure for their respective organization would be, the interviewees all had clear ideas of what such measures would look like. In the case of Stadsmissionen and Räddningsmissionen, the ultimate measure would be to quantitatively evaluate the long-term impact on the lives of those who receive help and treatment from the organizations. IOGT-NTO would like to measure what impact on the public opinion their lobbying activities have. Finally, Ingela Höij of the Swedish Red Cross described rather how an ideal measure would be designed and said that the organization would benefit from a measure that not only combined the qualitative and quantitative dimensions in the organizations, but also was easy to produce and interpret. These three desired measures are all closely related to the core operations of the organizations and are measures of social indicators, thus falling under the category of measures that are currently not available in any of the studied organizations.

5.1.2 Factors influencing design

Operations and goals

Process measures, which are the most common type of measures in the studied organizations, depend on the specific characteristics of the operations in the organization and are also relatively easy to design. Consequently, the type of operations influences the design of measures in the studied organizations. Furthermore, difficulties in regards to nonfinancial measurement and the unique features of nonprofit organizations cause organizations to either measure whatever parameters that are available or to avoid measurement at all, as in the case of IOGT-NTO.

There is also a tendency for the organizations in the study to formulate large and ambitious goals that are difficult to break down into more operational goals and even more difficult to measure. These strategic goals at the highest level of the organization are often broadly formulated to accommodate for the different activities and projects performed. This is a typical property of nonprofit organizations that operate radically different activities and do not want to place any worthwhile activity beyond the scope of the organization's aim (Frenckner 1989, Merchant & Van der Stede 2007). The formulation of goals affects measures since effectiveness can be defined as goal attainment and is thus affected by the type of goals an organization chooses. Operational goals can be measured using process measures, but more strategic goals related to impact on society require more advanced social indicators. The measures used in the studied organizations are rarely directly related to the overall goals, something that implies that no DuPont-style models, with causality between goals, measures and financial performance, are available to the studied organizations.

Organizational structure and professionalization

The structure of the organizations is important in influencing the design of measures in several aspects. As effectiveness can be perceived as a social construction it is also important to view the design of measures in the context of the individual organizations' views on effectiveness and efficiency (Hermann & Renz 1999). The Swedish Red Cross views on effectiveness and efficiency can be related to the approach known as organizational effectiveness. Since the Red Cross has specified at a central administrative level how much a specific type of activity is allowed to cost in volume of resources, it can be inferred that an activity that can provide a sufficient service for this amount of resources is in fact also to be considered efficient. This approach to effectiveness is also present, to some degree, in the other studied organizations as they all aim towards well functioning processes in those areas that are perceived to be important drivers of effectiveness.

Wijkström (2006) describes the changes that the nonprofit sector has gone through including a process of professionalization, even though the mere process of employing previously voluntary labour does not implicitly mean that management is performed better. All of the studied organizations do, however, claim to have moved towards a more professional approach to allocation of resources and control of operations. The Swedish Red Cross and IOGT-NTO are both large associations and popular mass movement with thousands of members and numerous local chapters. This means that measures cannot be designed that put too high demands on data collection for local volunteers. This local level independence is common for many of organizations in the nonprofit sector and is something that affects both the Swedish Red Cross and IOGT-NTO. This is a contradiction as the external pressure for evidence of effectiveness and efficiency remain high, while at the same time internal pressure reduces the incentives for producing such evidence. Stadsmissionen and Räddningsmissionen are both centralized

foundations that can more easily implement new models and evaluation processes without having to make concessions to the grass roots in the same way.

External dependency

The design of measures is influenced by the organizations' external dependencies in several ways. In the public procurement process it is important to adapt to the demands of the municipality and provide evidence of such compliance. Adapting to the demands of the City of Gothenburg is especially important for Stadsmissionen and Räddningsmissionen, which both perform various public services on behalf of the city.

Another aspect of external dependency that influences the design of measures is the way in which the organizations are funded. Stadsmissionen, Räddningsmissionen and the Swedish Red Cross are all dependent to a large extent on donations for the activities that are not contractually funded and do therefore need to develop measures that will provide legitimacy for the organizations as well as attract donors. The situation for IOGT-NTO is different as the revenues from lottery operations, membership fees and real estate holdings make the organization virtually self sufficient. Consequently, low external dependency may imply fewer incentives to develop measures of effectiveness and efficiency, particularly such that are designed for external communication. Some events, such as the turbulence currently experienced by the Swedish Red Cross, influence communication of performance measures to the public. External media pressure forces the organization to provide evidence of absence of foul play, effective operations and proof of created benefit. In such a situation, clear and understandable measures may become more relevant and sought after.

5.2 Use of measures

5.2.1 Common uses

The main uses for measures of effectiveness and efficiency in the studied organizations are those of operative and strategic decision making, external communication, learning and negotiation. Internal and external benchmarking and attention direction are less prevalent, while creation of meaning, performance evaluation of managers and special and ad hoc initiatives are not used formally in any of the studied organizations. The uses for measures of effectiveness and efficiency in the studied organizations are primarily internal, with the exceptions of negotiation and external communication that both are directed towards external parties. This study has only found one measure, administrative costs, that is used in a similar way by all organizations.

Operative and strategic decision making is a common use for many measures in the studied organizations. Such decision making is performed in connection to the planning and budgeting process, as the case of Stadsmissionen, or continuously as in Räddningsmissionen and the Swedish Red Cross. All those three organizations use measures to make decisions regarding the allocation of resources within respective organization.

External communication is performed by the studied organizations mainly in connection to the measure for administrative cost. This measure is used externally for several purposes, particularly the reoccurring evaluation performed by organizations such as SFI. This external scrutiny is important for the organizations as the 90-account number is vital for fundraising operations. It is also an established measure among the general public as it is understandable in terms of what percentage of a donation that actually will reach those in need. An example of the importance of the measure of administrative costs is that the Swedish Red Cross has specifically pointed at this ratio to display efficiency in connection to the increased media scrutiny the

organization has been exposed to lately. However, as it can be difficult to identify what is administrative work and what is actual field work, the usability of this measure can at times be limited.

Learning is a common use in the studied organizations, primarily for measures such as cost per attendant and fundraising efficiency, but also for quality in order to improve processes. This use relates to both single and double loop learning, as some measures are used in the studied organizations both for strategic and for more standardized decision making (Argyris & Schon 1978, Buckmaster 1999). All organizations aimed at developing evaluation processes that will provide more information on performance and consequently improve learning.

Some of the measures for effectiveness and efficiency are used in *negotiations* with external parties such as the municipality and the County Administrative Board. Both Stadsmissionen and the Swedish Red Cross use measures closely related to their respective operations in negotiation with external parties. The type of operations performed by IOGT-NTO does not involve contract negotiations to the same extent as that of the other studied organizations and does not use performance measures for this purpose. Finally, Räddningsmissionen uses no formal measures for effectiveness and efficiency for the purpose of negotiation.

Measures of effectiveness and efficiency are used for *internal and external benchmarking* exclusively by Räddningsmissionen and the Swedish Red Cross. Räddningsmissionen compares completion rates internally as well as with other organizations, while the Swedish Red Cross benchmarks the fundraising efficiency of different regional offices to identify best practices. Internal and external benchmarking was described by all organizations as potentially valuable, but the varying operations and the different measures were said to make comparison difficult. Another problem related to benchmarking is that of comparability since both the Swedish Red Cross and IOGT-NTO lack comparable organizations in aspects such as size and scope of operations. *Attention direction* is an explicit use only in Stadsmissionen and Räddningsmissionen, for the measures abscondment and quality respectively. It can, however, be assumed that other measures in all of the organizations might be used to direct attention informally if such measures indicate exceptionally good or bad performance.

Performance evaluation of managers, creation of meaning and special and ad hoc initiatives are not formal uses in any of the studied organizations. Even though managers are evaluated as representatives of their respective projects, neither individual performance evaluation nor performance based compensations is carried out in the organizations using measures for effectiveness and efficiency. Creation of meaning was expressed to be a use for measures in Räddningsmissionen and the Swedish Red Cross, however such use is spontaneous and lack a formal process. Employees tend to be more motivated by outcomes rather than the efficiency of a process, which together with the fact that social indicators and results measures are rare in the studied organizations may explain why creation of meaning is not an important use for measures. Special and ad hoc initiatives were not recognized as current uses for measures of effectiveness and efficiency by any of the studied organizations.

5.2.2 Factors influencing use

Since all four charities have a wide range of different operations and activities, many of the measures are highly specialized and of limited use for comparing dissimilar units. This could imply that the use of measures is highly dependent on the operations of the individual organizations. There are however groups of measures that are used by different organizations with similar operations. Cost per attendant is an example of such a broad category of measures that is used by both Stadsmissionen and the Swedish Red Cross. Those measures are adapted to summer camp activities and refugee operations respectively. Other measures adapted to a

specific type of operations are occupancy and fundraising effectiveness. An additional observation is that the use of measures is related to the design of such measures. This implies that an organization with developed measures of effectiveness and efficiency can be expected to have many different uses for such measures. The opposite could also be true; an organization that has access to few measures of effectiveness and efficiency may also have fewer uses for these measures. This seems to be the case for the studied nonprofit organizations.

The government's role as a contract partner in the process of public procurement has been very important for many of the organizations in the Swedish nonprofit sector. It has led to an increased level of professionalism in the management of the charities over the last 10-15 years. An important way that the public procurement process influences the measurement process is by the way the contracts for public services are awarded. The procurement process starts with the development of a description of the desired service or good. This document is often highly specific with various demands for quality. When the bidding organizations produce their responses, they need to specify how they are going to meet these criteria. If they fulfil the demands of the specification, the organizations will then compete mainly on price, putting a very small premium on measuring additional quality. This means that there is limited use for measures that assess quality above that which is required in the contract, something that carries implications for what measures of effectiveness and efficiency charitable organizations choose to use.

To summarize, as mentioned in section 5.1., measures of effectiveness and efficiency are mainly designed by the organizations in order to assess the efficiency of particular processes. Meanwhile, not all uses for the measures mentioned in the frame of reference have been identified in the studied organizations. Consequently, a relation between the range and complexity regarding the design of measures and for what those measures are used can be distinguished. In order to allow for a wider variety of uses, the measures of effectiveness and efficiency need to better encompass the dimensions of organizational outcome and impact on society.

6 CONCLUSIONS

Measurement of effectiveness and efficiency in nonprofit organizations is difficult with many problems and few solutions. All of the studied organizations have gone through a process with increased needs for more advanced methods of planning and evaluation, but the advances in the field of relevant performance measures for effectiveness and efficiency have not moved quite as quickly. Several measures and uses have been identified by the authors in the studied charities, but administrative costs is the only measure in that is designed and used in a similar way by all organizations.

Design and influencing factors:

The measures used by the organizations in the study seem to mainly be of the process measures category. They also tend to focus on very specific activities and operations within the organizations. Only occasionally did the organizations in the study use results measures to evaluate their respective effectiveness. Social indicators were not formally measured in any of the organizations, reflecting the difficulty to measure an organization's impact on society.

The specific properties of nonprofit organizations are of vital importance in the way effectiveness and efficiency are measured. The dominating cost of personnel has created several related measures and the social treatment operations have its specific goals that need to be measured, ranging from the percentage of completed treatments to personal development for participants in work training programmes. The organizational structure is also important as decentralized popular mass movements may be less susceptible to new initiatives related to measuring effectiveness and efficiency than more centralized foundations and associations. Furthermore, the level of dependency on external funding is also important as the demands of external donors, contract partners as well as media pressure are vital factors in creating incentives for developing performance measures. This applies to the demands by different levels of the Swedish government, the European Union, the general public and private auditing initiatives such as SFI.

Use and influencing factors:

The main uses for measures of effectiveness and efficiency in the studied organizations are those of operative and strategic decision making, external communication, learning and negotiation. Internal and external benchmarking and attention direction are less prevalent, while creation of meaning, performance evaluation of managers and special and ad hoc initiatives are not used formally in any of the studied organizations. The uses for measures of effectiveness and efficiency in the studied organizations are primarily internal, with the exceptions of negotiation and external communication that both are directed towards external parties.

Operations and external dependency have been identified as the primary factors that influence the use of measures in the studied organizations. Most importantly, however, is the fact that uses for measures are closely related to the design of those measures. The failure to design measures that encompass all relevant aspects of the organizations might explain the limited usability for measures of effectiveness and efficiency in areas such as creation of meaning and more extensive external communication.

6.1 Limitations of the study

Since the sample of organizations in the study has been small, it is not possible to make qualified assumptions about the nonprofit sector as a whole. This has, however, not been the purpose of the study as the aim has been to study how a few large charities uses measures of effectiveness and efficiency. Since interviews have only been conducted with one or two senior administrators in the organizations, it has not been possible to study different perspectives on design and use of measures on different organizational levels. Furthermore, the nonprofit sector in the Anglo-Saxon countries has some distinct differences to that of the Scandinavian countries (Wijkström 1997). Consequently, such research may not be completely applicable to a Swedish context. The basic premise of the nonprofit organization is, however, the same even though there are structural differences between the sectors in the different countries. Finally, a more quantitative method could have been used with questionnaires sent out to a large portion of the charities and other third sector organizations in Sweden. It is, however, questionable that such a study would arrive at a conclusive answer to the research questions. This is because the interviews provide added understanding of the underlying reasoning behind the design and use of measures.

6.2 Suggested further research

Since this study has focused on charities, a similar study in other parts of the nonprofit sector such as sports clubs or for measuring the outcome of lobbying, special interest groups, could be of interest. This would provide information on how measurement can be performed by nonprofit organizations in different context.

This study has focused on the organizations within the Swedish nonprofit sector and the special properties of the sector that affect measures in such organizations. A comparative study between nonprofit organizations in Sweden and in one of the Anglo-Saxon countries could be of interest in order to analyze to what extent the institutional background influences the measurement of effectiveness and efficiency.

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Appendix I. Interview Guide

Presentation of the study and its purpose

Presentation of the interviewee and the organization

- Please describe briefly your background, the organization and your role in the organizational structure?

Effectiveness and efficiency. (Before the interviewees were asked the questions in this section, they were provided with the definitions of the two terms in section 2.2.)

- How is effectiveness and efficiency measured in the organization and what specific measures are used?
- How is input and output measured?
- What are the goals of the organization and how are they formulated?
- Are there at times conflicting goals and how are such conflicts resolved?
- One of the basic objectives of the organization is to perform activities in the name of the gospel, is there a way to measure such activities? (This question applies only to Göteborgs Kyrkliga Stadsmission and Räddningsmissionen)

For what purposes are performance measures used? (Before the questions in this section were asked, they interviewees were given the examples of uses for performance measures in section 3.3.)

- For what reason are performance measures developed and by whom are they used?
- Are performance measures an important part in the managing of operations?

Development and evaluation of measures

- Is there some measure the organization would like to use?
- Is there some aspect of the organization you would like to be able to measure?
- How is information about new measures obtained?

Appendix II. Quotations in Swedish

All quotations have been freely translated from Swedish.

Below are the original quotations with the translations used in the presentation of the empirical findings in section 4.

Mats Bäckman, Göteborgs Kyrkliga Stadsmission

Original quote in Swedish: "Stadsmissionens övergripande mål är att hjälpa så många som möjligt förutsatt tillgängliga resurser."

English translation: "Stadsmissionen's overall goal is to provide help to as many people as possibly given the resources available".

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Original quote in Swedish: "Går det att mäta allt? Måste man mäta allt?"

English translation: "Can everything be measured? Should everything be measured?"

Per-Åke Lundin, IOGT-NTO

Original quote in Swedish: "Vi har blivit bättre på att formulera mål, men har fortfarande stora problem att ställa dem i relation till resursförbrukning."

English translation: "We have become better at formulating goals, but we still have considerable problems in putting goals in relation to the depletion of resources."

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Original quote in Swedish: "Mjuka mål ger mjuka svar."

English translation: "Soft goals result in soft answers."

Ingela Höij, the Swedish Red Cross

Original quote in Swedish: "Vi måste veta vad vi mäter och ha standardiserade definitioner för det som mäts."

English translation: "We need to know what to measure and have standardized definitions for that which is measured."

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Original quote in Swedish: "Det räcker inte att enbart mäta något; måtten måste dessutom sättas i ett sammanhang".

English translation: "To simply measure something is not enough; the measures must also be put into context."

“How does the Voluntary Shooting Club measure organizational effectiveness?
By the number of shots fired?”

Filip Wijkström