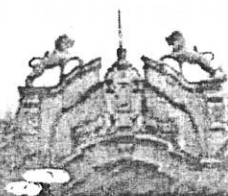


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GRADUATE STUDIES

SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION

DEPARTMENT OF ACCOUNTING AND FINANCE

Performance Measurement Practices of Nonprofit
Organizations: the case of selected Nonprofit
Organizations in Addis Ababa in Ethiopia

By

Abdeta Debela

March 2012

ADDIS ABABA UNIVERSITY

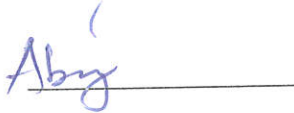
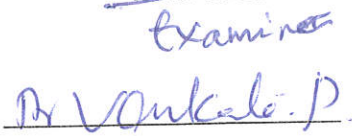
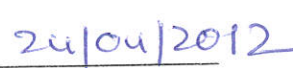
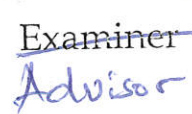
GRADUATE STUDIES

SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION

DEPARTMENT OF ACCOUNTING AND FINANCE

A Thesis Submitted to the School of Graduate Studies of
Addis Ababa University in Partial Fulfillment of the
Requirement for Master's Degree in Accounting and Finance

Approved by:

 Advisor	 Signature	 Date
 Examiner	 Signature	 Date
 Examiner		
 Advisor		

Declaration

I the undersigned, declare that this thesis is my original work which has not been presented for a degree in any other university and that all sources of material used for the thesis have been dully acknowledged.

Declared by

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Student

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Confirmed by

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Advisor

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TABLE OF CONTENTS

Title	Pages
ACKNOWLEDGEMENTS.....	1
TABLE OF CONTENTS.....	1
LIST OF TABLES	1
ACRONYMS.....	1
ABSTRACT.....	1
CHAPTER ONE.....	1
1. Introduction.....	1
1.1 Background of the Study	1
1.2. Statement of the Problem	4
1.3 Objectives of the Study.....	6
1.4 Scope and Limitation of the Study.....	7
1.5 Organization of the Paper	9
CHAPTER TWO	10
2. Literatures Review	10
2.1 Performance Measurement: Theoretical Perspectives	10
2.1.1 Historical Development of Performance Measurement.....	11
2.1.2 Performance Measurement in Business Sector	12
2.1.3 Performance Measurement in Nonprofit Organizations	13

2.1.4 Difference between For Profit and Nonprofit Organizations.....	14
2.1.5 Reason for Measuring Performance in Nonprofit Organizations	17
2.1.6 Types of Performance Measures	19
2.1.7 Types of Data Collected For Performance Measurement	23
2.2. Empirical Studies on Performance Measurement System.....	24
2.3 Conclusion and Gap in Literature.....	31
2.4 Definition of terms.....	32
CHAPTER THREE.....	42
3. Research Methodology.....	34
3.1 Research Approach	34
3.2 Quantitative feature of Mixed Method.....	37
3.2.1 Survey Design.....	37
3.2.2 Sample Design	38
3.2.3 Survey Instrument.....	40
3.2.4 Data Analysis	41
3.3 Qualitative feature of Mixed Method	42
3.4 Research Method Adopted.....	43
CHAPTER FOUR	44
4. Result and Analysis.....	44
4.1. Results and Analysis	44

4.1.1. Respondents’ profile44

4.1.2 Performance Measurement in Nonprofit Organizations46

4.1.4 Reason for Measuring Performance in Nonprofit Organizations51

 4.1.4.1 External Reason for Measuring Performance55

 4.1.4.2 Internal Reason for Measuring Performance59

4.2. Results and Analysis: Qualitative feature of Mixed Method62

 4.2.1 Outcome Performance Measurement System64

CHAPTER FIVE.....66

5. Conclusions and Recommendations66

 5.1 Conclusions66

 5.2 Recommendations67

References70

Appendix 1: Survey instrument.....77

LIST OF TABLES

Title	Pages
Table 2.1: Summary of performance Indicators	23
Table 4.1: Survey of respondents by educational level	45
Table 4.2: Survey of respondents by type of organizations	45
Table 4.3: Survey of Organizations source of fund.....	46
Table 4.4: Survey of Organizations conducting evaluation along with types of performance measures used	47
Table 4.5: Survey of the Most Challenging Performance Measurement	49
Table 4.6: Survey of the demand of Funder to measure outcome	50
Table 4.7: Survey of Types of Data Collected	51
Table 4.8: Reason for measuring performance rank	53
Table 4.9: External Reason for Measuring Performance	58
Table 4.10: Internal Reason for Measuring Performance	61

ACRONYMS

ABC: Local Nongovernmental Organizations (Anonymous)

Chs: Charities and societies

CFO: Cash Flow from Operations

CED: International Organizations (Anonymous)

EC: Ethiopian Calendar

EVA: Economic value added measures

EP: External Pressure

FDRE: Federal Democratic Republic of Ethiopia

IP: Internal Pressure

ITS: Information Technology Services

NGO: Nongovernmental Organizations

NPO: Nonprofit organizations

ROI: Return on Investment

ABSTRACT

Nonprofit organizations are under pressure to demonstrate their achievements. As a result, nonprofit Organizations performance measurement is receiving increasing academic and practitioner attention. Despite this fact, there are many challenges that exist when measuring the performance of nonprofit organizations. For instance, intangibility of service offered, immeasurability of their missions, and differing interests of different stakeholders are few of them and have been addressed in the literature.

To address the objectives of study, mixed method research design was adopted. Data was collected from forty Nongovernmental organizations operating in Addis Ababa through survey in the first phase and in the second phase; interviews were held with two interviewees to better understand the result obtained in the first phase. The techniques of analysis used in this study were descriptive (frequency, percentage and mean) and inferential analysis (chi-square test).

Result indicate that external reason mainly the requirement from funder and government were the main reason for measuring performance as compared to the internal reason. Besides, out of eight reasons for measuring performance included in the survey instrument, more than fifty percent of respondents showed a higher degree of agreement to four items as the most reason for measuring their performance. Result also showed the dominance of output performance measurement whereas outcome measures were the lowest areas of activities. Furthermore, result in the second phase of shows lack of resource and staff skill in conducting outcome measurement as the main barriers towards the low implementation of outcome performance measures.

Key words: performance measurement; nonprofit organizations; profit oriented organizations.

CHAPTER ONE

1. Introduction

1.1 Background of the Study

It is undeniable fact that the nonprofit sector influences our lives in so many ways through its impacts on the economy, on communities, and on us as citizens and individuals. These organizations play a variety of social, economic and political roles in society.

For instance, Boris and Steuerle (2006) defined the nonprofit sector, as those entities that are organized for public purpose, are self-governed, and do not distribute surplus revenues as profits. Nonprofit organizations (NPO) are also independent of government and business, although they may be closely related to both.

The third sector, also named nonprofit sector, is extremely diverse. It includes religious, homeless shelters, civil rights groups, labor unions, political parties, and environmental organizations are few of them (Campos et al., 2010). The authors added, the third sector organizations, especially nongovernmental organizations (NGO), have been increasing in number and size during the last decades. For these reasons, they have gradually become present in the agenda of discussion in private and governmental companies

Non-profit organizations have historically focused their efforts on serving the needs of the poor and underserved without being too concerned with documenting and measuring the specific outcomes of their efforts. However, in the past two decades, there has been a significant change from a "trust me" to a "show me" culture within the non-profit sector (Kanter and Summers, 1987). In connection with this, Wainwright (2003) added, Non-profit organizations are increasingly forced to demonstrate how they perform; and whether they are efficiently and effectively managed. In order to respond to these requirements, Greiling (2009) stated, Performance measurement systems are

advocated not only to promote accountability but also as a management accounting technique for decision-facilitating and decision-influencing purposes.

There are many reasons that led in to shift in measuring performance in nonprofit organization including internal and external reasons. For instance, desire for accountability, unprecedented growth and competition, Quality prizes and pressure from funders are few of examples for this development (Hall et al., 2003; Wainwright, 2003; Broeckling, 2010).

Several authors have defined Performance measurement at different time. For instance, Neely et al., (2005) defined Performance measurement as the process of quantifying the efficiency and effectiveness of action. They added, Effectiveness is defined as the extent which customer requirements are met, while the efficiency is the measure of how economically the resources are utilized when providing a given level of effectiveness. Performance measure indicators are inputs, output, throughput, outcome and impact. These indicators drive from the private sector but are applicable and used by nonprofit as well (Forbes, 1998; Sola and Diego, 2001).

According to Cairns et al., (2005), Performance measurement was foremost intended for the business sector but since the gap between business sector and nonprofit sector has narrowed considerably the last decade, the interest in performance measurement in the nonprofit sector has increased among researchers and patricians. In connection to this, Zimmerman and Stevens (2006) stated Especially in U.K. and North America, the subject has been highly topical recent in years.

Given the distinctive characteristics of for-profit and nonprofit organizations, performance measurement systems for these organizations are unique as well.

For instance, (Anthony and David, 1998; Robert and David, 2008) stated that, performance measurement in the private sector is more straightforward since financial metrics are relatively clear and accessible indicators of performance. However, nonprofit organizations face a big challenge since there is no single measure that is

common to all nonprofit organizations (Kanter and Summers, 1987; Forbes, 1998; Sawhill and Williamson, 2001; Greiling, 2009).

Moreover, Kanter and summers (1987) have explained the complexity of performance measurements in nonprofit organizations saying even though performance measurement can be challenging for any kind of organization. However, challenges exist when measuring the performance of nonprofit organizations. According to the authors, the challenges identified for performance measurement in the nonprofit sector include the intangibility of the services offered, immeasurability of the missions, unknowable outcomes, and the variety, interests, and heterogeneous stakeholders. Similarly, Greiling (2009) stressed on the complexity of performance measurement in nonprofits not at least due to multiple and sometimes contradictory stakeholders demand, but also the fact that for legitimacy nonprofits also have to demonstrate their contributions to the society (community) as a whole.

Despite these challenges, performance measurement is critical in the nonprofit sector. That is why Medina- Borja and Triantis (2007) claimed the requirements of measuring performance in nonprofit organizations saying the survivability of non-profit social service organizations is contingent upon their capability of measuring and evaluating performance.

With this logic in mind, this study attempts to explore how and why Nongovernmental organizations operating in Ethiopia particularly those Nongovernmental organizations operating in Addis Ababa measure their performance. The study also looks in to the types of data collected for measuring their performance .Thus; the findings turn out to be relevant to add knowledge to the existing literature.

A growing body of evidences indicates that the participation of charities and civil-society's in Ethiopia dates back to some fifty years ago. Ethiopia's long history as a feudal monarchy and its subjugation by a brutal and doctrinaire Marxist regime have left most structures of civil society stunted. By any measurement, the progress realized

since 1991 is impressive. Civil society is increasingly vibrant and relevant to the nation's political and economic revitalization (Clark, 2000).

For instance, based on the annual report of the Agency; as of the end of December 31, 2004 E.C, there were more than five thousand charities and societies that operate throughout the country. Out of this, majority of the charities and societies i.e. more than one thousand operates in Addis Ababa. For this particular study, the researcher selects those Nongovernmental organizations that are currently operating within the Addis Ababa city administration. Due to the shortage of time and limited resources and furthermore, due to the proximity or accessibility of these organizations to the researcher, study was only limited to those Nongovernmental organizations operating in Addis Ababa.

1.2. Statement of the Problem

The overriding goal for private sector companies is to make profits and provide satisfactory financial returns to shareholder interests (Boland and Fowler, 2000). On the other hand, generating profits is not the goal for nonprofit organizations; rather, each organization strives to achieve its social purpose and mission (Moore, 2000).

In connection to this, Anthony and David (1998) stated, nonprofit organizations and for-profit organizations exist for different reasons. They go on explaining that, in profit oriented organizations, financial measures of performance such as profit provides a common denominator that permits the amount of individual resources and outcomes to be combined and measured and provides comprehensible measures of success or failure. On the other hand, non-profit organizations do not endeavor to profit and primarily exist to fulfill different needs in the society. In non-profit organizations, outputs of operations are services, and services cannot be expressed or measured in monetary terms. Therefore, evaluating performance results is problematic as non-financial aspects of performance that need to be measured are difficult to quantify (Anthony and David, 1998).

Furthermore, Kanter and Summers (1987) have explained the complexity of performance measurements in nonprofit organizations. The authors stated, given the distinctive characteristics of for-profit and nonprofit organizations, performance metrics and measurement systems for these organizations are unique as well. Although performance measurement can be challenging for any kind of organization, additional challenges exist when measuring the performance of nonprofit organizations. The challenges identified for performance measurement in the nonprofit sector include the intangibility of the services offered, immeasurability of the missions, unknowable outcomes, and the variety, interests, and heterogeneous stakeholders. Further, this leads to a fundamental difference regarding decision-making. In for profits, decisions are foremost based on profitability and in mission driven non-profits; decisions are foremost based on creating as much societal impact as possible (Kanter and Summers, 1987).

Not surprisingly different from the above authors, Sawhill and Williamson (2001) stressed the difficulty of performance measurement that prevails in nonprofit organizations by asking this question. "Imagine an organization whose mission is to alleviate human suffering. How can you measure such an abstract notion? How can an organization meaningfully assess its direct contribution to such a broadly stated mission? And by whose criteria should success be measured?"

Despite the challenges, performance measurement is critical in the nonprofit sector, due to increasing competition from a proliferating number of agencies, all competing for scarce donor funding and increased demands for accountability of donors, the media, and the public in general (Kaplan, 2001). Similarly, Medina- Borja and Triantis (2007) claimed the requirements of measuring performance in nonprofit organizations saying the survivability of non-profit social service organizations is contingent upon their capability of measuring and evaluating performance. In response to these requirements, many nonprofit managers have adopted the managerial techniques and systems of the for-profit organizations as a way to improve their operations (Oster, 1995).

Therefore, this study attempts to explore how and why nonprofit organizations particularly those of Nongovernmental organizations operating in Ethiopia particularly in Addis Ababa measure their performance.

To achieve the intended purpose as well as the research problem, the researcher has designed the following research questions.

- How nonprofit organizations measure their performance?
- Why nonprofit organizations measure their performance?
- What types of data are being used to measure their performance?

1.3 Objectives of the Study

As many authors suggest, Performance measurement is challenging for any kind of organization. However, additional challenges exist when measuring the performance of nonprofit organizations. For instance, outputs of operations are services, and services cannot be expressed or measured in monetary terms. On the other hand, missions in these organizations are immeasurable. Despite these challenges, many authors agree on importance of Performance measurement for these kinds of organizations. Being one component of nonprofit organizations, the complexity of performance measurements in nonprofit organizations raised above also concerns those of organizations that provide social service to the larger community or charities.

The main aim of this study was to identify different performance measures available to and employed in nonprofit organizations using a mixed research method. Qualitative interview research questions were used to explore why Nongovernmental organizations' operating with in Addis Ababa measures their performance and furthermore using Qualitative interview, barriers to outcome performance measurement in Nongovernmental organizations operating with in Addis Ababa are explored. In keeping with the above-mentioned basic research questions, this study has the following specific objectives:

- To identify performance measurement system available and employed in nonprofit organizations
- To examine the initial motivation for measuring performance in nonprofit organizations
- To identify the type of data used for measuring their performance

1.4 Scope and Limitation of the Study

Researches in the area of performance measurements in the case of profit oriented organizations are enormous, though they are limited in nonprofit organization. Thus, this study puts main emphasis on explaining the performance measurements in nonprofit organizations particularly those of charities that operating in Addis Ababa.

A growing body of evidences indicates that the participation of charities and civil-society's in Ethiopia dates back some fifty years ago. Ethiopia's long history as a feudal monarchy and its subjugation by a brutal and doctrinaire Marxist regime have left most structures of civil society stunted. . By any measurement, the progress realized since 1991 is impressive. Civil society is increasingly vibrant and relevant to the nation's political and economic revitalization (Clark, 2000).

Evidences obtained from Agency of charities and societies of Ethiopia indicate that, during the Derg regime, there were little native and foreign-based charities or civil society's organizations that were formally registered and carried out their activities in the country. This was due to the ban for freedom of association. In the late 1980s, however, the regime gave recognition to some foreign aid organizations such as Oxfam UK and Care Ethiopia to operate in the country in order to curbing the then pervasive famine in many parts of the country. However, the commission was not entitled to register societies by law.

Since 1991, however, both the Charter of the Transition Government and the FDRE Constitution with its provision on article 31, a great deal of charities and societies registered and licensed to carry out their activities. Due to that, many Ethiopians

organized Charities and societies and have become beneficiary. Several foreign charities have used the opportunity to carry out their activities in the country as well. By any measurement, the progress realized since 1991 is impressive (Chs, 2004).

Currently, Agency of charities and societies is established to license, register and supervise charities and societies that operate in the country based on proclamation 621/2001, which was issued by the House of People Representatives. Following the ratification of the proclamation, the Agency has started its function as of February 13, 2009. Thus, the new proclamation calls for all charities and societies to be registered with the Agency. The agency registers charities and societies by classifying them in to seven categories as Ethiopian charities, Ethiopian societies, Ethiopian resident charities, Ethiopian resident societies, foreign charities, Consortium and adoption Agencies (Chs, 2004).

Due to the shortage of time and limited resources, the study was only limited to include Ethiopian resident charities and foreign charities. Since the researcher wants different angles to appear, inclusion of both local and foreign charities was made. Furthermore, charity organizations have been incorporated in the study in which societies are left out of the study. As a result, the findings of these studies cannot be generalized to all nonprofit organization that operates throughout the country.

Based on the annual report of the Agency, as of the end of December 31, 2004 E.C, there were more than five thousand charities and societies that operate throughout the country. Out of this, majority of the charities and societies i.e. more than one thousand operates in Addis Ababa. For the purpose of this study, the researcher selects those Nongovernmental organizations that are currently operating within the Addis Ababa city administration. The decision in this regard has been made based on the following justifications:

- With respect to number of Nongovernmental organizations that operates throughout the country, Addis Ababa takes large amount of nongovernmental Organizations.

- The proximity or accessibility of these organizations to the researcher
- The prevalence of ample opportunity to obtain sufficient information and data of best quality on the issue at hand

The primary focus of the study is performance measurement in nonprofit organizations particularly those charity organizations operating in Ethiopia. Therefore, it is to be noted that the entire study is confined to see how NGO organizations measure their performance. Researches in the area of performance measurements in the case of profit oriented organizations are enormous, though they are limited in nonprofit organization. The nonprofit sector has been rather neglected. Therefore, collecting information and drawing conclusions in this thesis, the emphasis is put on the nonprofit sector that can more or less be considered as uncharted waters.

The nonprofit sector is diverse and each different type of nonprofit has their own characteristics, which imply that results can be misleading if it is generalized to all nonprofit organizations in this particular context. The cultural differences between the nonprofit sectors in the different countries cannot be overlooked and the results from these studies are thus limited in its application to Nongovernmental organizations particularly to those charity organizations operating in Addis Ababa, Ethiopia.

1.5 Organization of the Paper

The remaining chapters of this paper are organized as follows: the next chapter i.e. Chapter Two presents literature review related to the theoretical perspective and empirical studies on performance measurement in nonprofit organizations. Chapter three provides the research design part of the study, in which it encumbrances the main principles of research methodology and the adopted research design for the study. Chapter four presents data analysis and discussion. Finally, the fifth chapter presents the Conclusions and recommendations that derived from the result.

CHAPTER TWO

2. Literatures Review

The previous chapter provided the background and problem discussion of the area of this study, leading down to the specific research questions. In this chapter, attempt has been made to present the theoretical and empirical background in the area of performance measurement. How performance measurement has historically developed and the transformation it has undergone over the past decades since its introduction to nonprofit organizations. At the same time, review of earlier studies conducted in the area of performance measurement in nonprofit organizations has been made. These in turn, helped to highlight gap in the literature and forward a general research question for the study. In addition, it helped to develop survey instrument for the first phase of research method adopted in this thesis.

The review part has four sections. The first section presents reviews regarding to the theoretical perspectives of Performance measurement system, then, section 2 presents prior empirical studies on Performance measurement system in nonprofit organizations. Section 3 presents conclusions and gap in literature. Finally, definition of terms presented in section 4.

2.1 Performance Measurement: Theoretical Perspectives

For instance, Euske (2003) defined Performance measurement as the process of assessing progress toward achieving predetermined goals, including information on the efficiency with which resources are transformed into goods and services (outputs). The quality of those outputs (how well they are delivered to clients and the extent to which clients are satisfied) and outcomes (the results of a program activity compared to its intended purpose), and the effectiveness of companies' operations in terms of their specific contributions to program objectives. Generally, Performance measurement is

the process of systematically and regularly collecting data on the outputs and outcomes for program beneficiaries.

Similarly, Neely et al. (2005) defined Performance measurement as the process of quantifying the efficiency and effectiveness of action. Effectiveness is defined as the extent which customer requirements are met, while the efficiency is the measure of how economically the resources are utilized when providing a given level of effectiveness. On the other hand, a performance measure can be defined as a metric used to quantify the efficiency and/or effectiveness of action. A performance measurement system can be defined as the set of metrics used to quantify both the efficiency and effectiveness of actions. Neely et al. (2005) added performance measurement is a tool for evaluating whether goals and objectives are being achieved or not.

2.1.1 Historical Development of Performance Measurement

According to Anderson and Kaplan (2001), the history of performance measurement in the business sector can be traced back to the transition from handicraft to industrial production in the 19th century under the concept of productivity measurement. The focus on productivity and financial measures continued long after the end of the Second World War but a change in the business environment was followed by a need to adapt business systems to new conditions. In the 1980's the concept of productivity was replaced with the concept of performance.

Franco- Santos et al., (2007) stated, the industrial revolution in the nineteenth century led to the creation of more comprehensive financial measurement systems to meet the requirement of enterprises. Moreover, in the information age environment, the early twentieth century, enterprises understood the importance of reporting and evaluating of business unit performances, in order to find new capabilities for competitive success.

Neely (1995) claimed Performance measurement has become very topical since the late 1980s. The increasing interest has been driven by the increased rate of change in the business environment in both the private and public sectors. This rapid change has led

to general dissatisfaction with traditional issues of performance measurement systems, identifying their shortcomings and arguing for change.

Cairns et.al (2005) revealed Performance measurement was foremost intended for the business sector but since the gap between business sector and nonprofit sector has narrowed considerably the last decade, the interest in performance measurement in the nonprofit sector has increased among researchers and practitioners. The interest in performance measurement in nonprofits is also due to the evolving pressure on showing effectiveness, which is experienced by nonprofit managers. In connection to this, Zimmerman and Stevens (2006) stated Especially in U.K. and North America, the subject has been highly topical recent in years. In a study of the use of performance measurement in South Carolina nonprofits made by Zimmerman and Stevens, two-thirds of the organizations participating responded that they use performance measurement.

2.1.2 Performance Measurement in Business Sector

Kennerley and Neely (2000) stated before the 1980's, the organizational performance measurement process was characterized by a cost accounting orientation, which emphasized selective financial indicators such as profit and return on investment. The authors further stated that, this approach received considerable criticisms due to focusing only on financial indicators. Critics argued that stressing on financial indicators only might lead to promoting short-term thinking.

Despite these critics, the most common financial measures of performance in profit-oriented organizations as per Anthony and David (1998) are: Profit, Return on Investment (ROI), Economic value added measures (EVA) and Cash Flow from Operations (CFO). The authors also added financial measures of performance such as profit and revenues provide comprehensible measures of success or failure in profit-oriented organizations. In connection with this, Robert and David (2008) also stated, the share price (Return on investment or other financial bottom line measures) is a

meaningful measure across all business firms regardless of multiple differences among firms.

However, many researchers stated that only focusing on the financial performance measurement system alone is not sufficient for measuring performance in business sectors. For instance, a study conducted by Moore (2000) found that financial performance measurement alone is not enough for the new reality of organizations (e.g. accelerated changes in technology, needs for innovation and flexibility, shortened product life cycles). The crucial importances of non-financial indicators, which are based on organizational strategy, include key measures of success. Supporting this, Neely et al., (2001) also stated financial measures are not sufficient on their own to steer a company through difficult times. In this regard, consideration must be given to other important non-financial measures such as investors, customers, employees and suppliers; all of which are integrated into the balanced approaches or variants of it.

2.1.3 Performance Measurement in Nonprofit Organizations

Nonprofits have less use of financial measures because they do not endeavor to profit but since there are other aspects to measure nonprofits evidently are capable and have an interest in measuring performance (Medina- Borja and Triantis, 2007). Moreover, the authors claimed the requirements of measuring performance in non-profit organizations saying that the survivability of non-profit social service organizations is contingent upon their capability of measuring and evaluating performance. In connection with this, Wainwright (2003) stated The National Council for Voluntary Organizations has produced a number of studies on performance measurement in voluntary sector in U.K. In one of those studies, Wainwright concludes that wide ranges of tools to measure impact are available for voluntary organizations.

Many authors (Oster, 1995; Forbes 1998; Sola and Diego, 2001) stated that Performance measurement systems from private sector have been adopted to fit nonprofit organizations. However, according to (Kanter and Summers, 1987; Forbes 1998) one

major difference between nonprofits and for-profits is that nonprofits have goals and services, which are intangible and harder to define, and thus measuring performance provides a greater challenge for nonprofits.

2.1.4 Difference between For Profit and Nonprofit Organizations

In this section, the paper describes the distinctive features of nonprofit and for-profit organizations in terms of their revenue sources, goals, stakeholders, and performance measurement.

Revenue sources - Moore (2000) stated the source of revenue as being one of the important differences between nonprofit and for-profit organizations. He added, source of revenue to nonprofit organizations is government funding, charitable donations from individuals and corporations, and in-kind donations (non-monetary contributions such as goods and commodities), whereas the defining source of revenue to for-profit organizations is the revenues earned from the sale of products and services to customers. In other words, as per Moore (2000) for-profit organizations' revenue sources are customers who pay for goods and services for their own benefit; however, nonprofit organizations secure their revenues from people and organizations that expect no economic benefits in return.

Nonprofits may also raise revenues through fundraising and the sale of goods and services. However, nonprofits are subject to governmental limitations on how their earned revenues can be used (in part, as a consequence of the tax relief provided to these organizations); any financial surplus that may result from operations cannot be distributed to those in control, staff, or members (Oster, 1995).

Goals- The overriding goal for private sector companies is to make profits and provide satisfactory financial returns to shareholder interests (Boland and Fowler, 2000). On the other hand, generating profits is not the goal for nonprofit organizations; rather, each organization strives to achieve its social purpose and mission (Moore, 2000).

Stakeholders- Oster (1995) defines Stakeholders as any group or individual who is affected by the achievement of an organization's objectives. Speckbacher (2003) argued For-profit and nonprofit organizations are distinguishable in terms of their stakeholder characteristics. According to the author, all business enterprises share the characteristic of having one privileged interest group clearly defined, homogenous with respect to interests; that is, the interests of the owners of a firm guide the firm's policy. On the other hand, nonprofits serve a multitude of constituencies, whose goals and needs may be heterogeneous. Speckbacher (2003) stated financial donors, recipients of services, staff and volunteers are all stakeholders for a nonprofit organization. In connection to this, Moore (2000) stated measuring performance in nonprofit organizations is difficult because the multitude constituencies need different criteria as to whether the missions of the organizations are achieved or not. Moore (2000) added, Stakeholders for for-profit firms do not consist only of shareholders; for-profit organizations have multiple stakeholders, such as customers, employees, retailers, and suppliers, whose expectations and demands must be considered. Having multiple stakeholders may require tradeoffs to be made; however, meeting the needs of different stakeholders in for-profit companies does not generally conflict with company's long-term goals. After all, shareholder wealth is maximized over the long run by developing customer loyalty and by engaging suppliers and employees in the work of the firm. According to the author, managing tradeoffs may be more complicated in nonprofit organizations due to the conflicting interests of multitude constituencies.

Performance measurement- According to for Kanter and Summers (1987), although performance measurement can be challenging for any kind of organization, additional challenges exist when measuring the performance of nonprofit organizations. Given the distinctive characteristics of for-profit and nonprofit organizations, performance measurement systems for these organizations are unique as well.

For instance, (Anthony and David, 1998; Robert and David, 2008) stated that, performance measurement in the private sector is more straightforward since financial

metrics are relatively clear and accessible indicators of performance. However, according to (Kanter and Summers, 1987; Forbes, 1998; Sawhill and Williamson, 2001; Greiling, 2009), nonprofit organizations face a big challenge in the area of performance measurements. According to the authors, these challenges are due to many reasons.

Kanter and summers (1987) stated, Profits are measured easily and they are a good test of market-need satisfaction and an organization's ability to operate efficiently. However, challenges exist when measuring the performance of nonprofit organizations. The challenges identified for performance measurement in the nonprofit sector include the intangibility of the services offered, immeasurability of the missions, unknowable outcomes, and the variety, interests, and standards of stakeholders.

Similarly, Greiling (2009) stressed on the complexity of performance measurement in nonprofits saying performance measurement in nonprofits is more complex than in profit oriented organizations not at least due to multiple and sometimes contradictory stakeholders demand, complex missions but also the fact that for legitimacy nonprofits also have to demonstrate their contributions to the society (community) as a whole.

Moreover, Robert and David (2008) stated the share price (Return on investment or other financial bottom line measures) is a meaningful measure across all business firms regardless of multiple differences among firms. However, there is no possibility of developing a similar measure for nonprofit organizations. The fundamental reason why a single measure of nonprofit organizations effectiveness is impossibility is that as per the authors, the crucial exchange that nonprofit organizations help to enact is one measured in moral or value terms. The authors further stated nonprofit organizations effectiveness should be evaluated not in monetary terms but in moral terms, in terms of the extent to which nonprofit organizations respond to the moral values that motivate donors and recipients.

Finally, yet importantly, Sawhill and Williamson (2001) also explained the difficulty of performance measurement in nonprofit organizations saying, "Imagine an organization

whose mission is to alleviate human suffering. How can you measure such an abstract notion? How can an organization meaningfully assess its direct contribution to such a broadly stated mission? And by whose criteria should success be measured?"

Despite the challenges, performance measurement is critical in the nonprofit sector, due to increasing competition from a proliferating number of agencies, all competing for scarce donor funding and increased demands for accountability of donors, the media, and the public in general (Kaplan, 2001). As a result, many nonprofit managers have adopted the managerial techniques and systems of the for-profit organizations as a way to improve their operations (Oster, 1995).

2.1.5 Reason for Measuring Performance in Nonprofit Organizations

Performance measurement as a means of whether goals and objectives are being achieved is crucial to any organizations whether it is a profit oriented, public or nonprofit organizations. However, Wainwright (2003) stated, Pressure to measure performance is being placed on nonprofits by a range of stakeholders, including government and non-government funders, donors, volunteers, employees, users and beneficiaries. Wainwright, (2003) added, Pressure from funder is becoming more significant as nonprofits progressively engage in the provision of services. Nonprofits are under pressure to measure performance. In connection to these, Hall et al. (2003) also stated Voluntary organizations are facing increasing demands for evaluation from their funders. Not different from the above authors, study by Yates (2004) found that nonprofits were often particularly keen to be able to demonstrate their performance because they recognized that it had an important role to play in sustaining public trust and confidence in their work.

Different authors (Hall et al., 2003; Broeckling, 2010) agreed that there are many factors that led to the shift in the nonprofit sector performance measurement including both Internal and external Pressure.

According to Hall et al. (2003), many of the reasons for today's push towards performance measurement have **internal roots**. Even though Voluntary organizations are facing increasing demands for evaluation from their funders, Use of performance measurement for internal purpose is also given a great emphasis among nonprofit organizations. In connection with this, Medina-Borja and Triantis (2007) stated, Performance measurement gives an overview of organizational deficiencies and thereby there is a greater chance to discover the relevant areas where improvements are needed and where rationalizations are most urgent.

Similarly, Speckbacher (2003) stated, pressures are increasing from nonprofit organizations themselves to measure performance of their activity for internal purpose not only as a response to the external demand. The author added, the number of nonprofit organizations has grown substantially over the last two decades. The huge influx of organizations did not accompany an increase in funding for the sector. Individual giving has remained largely stable; the increased competition for funding drives the need for organizations to differentiate themselves particularly by giving emphasis on their internal activities too. Study conducted by Sawhill and Williamson (2001) also presents a number of reasons why nonprofits should measure performance. Nonprofits can use performance measurement to obtain control of local office efforts and to get the whole organization to work towards the same mission and goals. Managerial skills are needed in order to be able to incorporate these benefits.

Broeckling (2010) stated, the nonprofit sector also faces increasing pressure from **outside sources**. The funding community has a significant impact on how the sector operates, and more and more this community demands comparative data for its own decision-making. Funders are leveraging their power to an ever-greater extent. Similarly, Moore (2000) revealed because so many nonprofit organizations contract with the government at all levels, they now find themselves facing the same regulations from government. The government's interest in accountability extends to nonprofit agencies in a more direct fashion as well. Moxham (2010) point out, those voluntary community

organizations in the United Kingdom under service contracts with government are being held accountable to the public for their outcomes, often with externally created performance targets.

Generally, Broeckling (2010) concludes that, even though attention is given to the internal activity, the external pressure mainly from funder was the most frequently raised reason for measuring performance in nonprofit organizations. The conclusion of Broeckling (2010) agrees with the study of Zimmerman and Stevens (2006), Jean and Joan (2008), Campos et al., (2003) and diverts from the study of Hall et al. (2003), Greiling (2009) and Salamon et al., (2010).

2.1.6 Types of Performance Measures

According to Neely et al. (2005), performance measure can be defined as a metric used to quantify the efficiency and effectiveness of action. Sola and Diego (2001) stated researchers have identified that there are reasons for implementing performance measurement even in nonprofits; the question now is what to measure? They added, Performance indicators are inputs, outputs, throughputs (productivity), outcomes and impact. These indicators derived from the private sector but are applicable and used by nonprofits as well (Oster, 1995; Forbes, 1998; Sola and Diego, 2001).

Inputs are the monetary, physical and intellectual resources used to produce outputs and include things such as staff levels, office and knowledge. Inputs are everything that is needed to carry out a mission or a certain project, such as staff, volunteers, physical capital, material, etc. It is of great interest for nonprofits to optimize all inputs (Hatry, 1999).

On the other hand, Hatry (1999) defined **Output** as the quantity of work performed or delivered services. Units of services provided or completions of a standardized program are easy to measure but say nothing about actual changes in a client. Examples of output measures are number of people attending workshops or training classes and numbers of shelters provided during a disaster (Hatry, 1999).

Moreover, Elaine et al. (2001) explained about output saying nonprofit organizations are more often familiar with monitoring and reporting such information as the number of clients served, the quantity of service, programs, or other activities provided, the number of volunteers or volunteer hours contributed, and the amounts of donations received.

According to Poister (2003), Throughputs include both efficiency and effectiveness measures and they are linked to the organizations' activities. The reason for measuring different activities and a process within the organization are to make it possible to evaluate organizational capacity. For example, how well they perform during a disaster (short-term). Hatry (1999) defines efficiency measures (also called inputs) as the relationship between the amount of input and the amount of output or outcome of an activity or program and these measures are often used to reflect the resource required to provide service. On the other hand, Poister (2003) stated Effectiveness measures (also called outcome measures) describes the degree to which performance objectives are being met or otherwise reflect the quality or the performance of the activity. Is the program producing the intended results over the short, medium, and long term?

According to Hatry (1999), Outcomes are the events, occurrences or changes in conditions, behavior or attitude that indicate progress towards achievements of the mission and objective of the program and outcome measures describe the degree to which performance objectives are being met or otherwise reflect the quality or the performance of services.

Similarly, Medina-Borja and Triantis (2007) stated Outcomes measure change in a client's quality of life, such as obtaining a job or housing. Client satisfaction is sometimes used as an indicator, but it is not often related to client outcomes. Outcome Evaluate the expected, desired, or actual result(s) to which the outputs of the activities of a service or organization have an intended effect. According to the authors, Outcomes are very closely related to the organization's mission. Measuring outcomes

and evaluating effectiveness make it possible to see to what degree the organization achieve its mission and goals.

Buckmaster (1999) stated, outcome measurement involves the identification of outcomes, development of outcome indicators and data collection procedures, data analysis to better understand organizations achievements and user friendly and regular reporting of findings. He also added, when designing, using or reporting, it is important to be clear on whether the outcome measures are intermediate (measured at the time of service) or ultimate or long range (measured at some point in time after the service is completed.)

For instance, Bucmaster (1999) stated Outcome measurement systems are considered to serve many purposes for program management: satisfy accountability imposed on them by funders and produce information that can assist them in improving performance. However, Robson (2004) claimed, implementation of Performance measurement can be costly and consume a lot of time and resources, making performance measurement difficult to motivate sometimes since resources often are scarce in nonprofits. Hence implementing performance measurement can have the opposite effect, which is decreasing instead of improving performance. Further, it is hard to motivate performance measurement if one is not sure that it will improve performance. Similarly, Weiss (1972; cited in Ortega, 2006) revealed that, establishing performance frameworks within organizations is not easy. It takes time to build measurement capacity and there is a learning curve regarding the use of measurement data. He added the approach is iterative, ongoing and nonlinear; which makes it difficult for some program staff to grasp. Similarly, Kates (2001) stated agreement on program purpose(s) may be difficult and requires significant up-front investment and staff time.

Elaine et al. (2001) stated, nonprofit organizations are increasingly being pressed to measure and report their outcomes regularly to funders and other constituents. Despite this, Outcome measurement is new to most nonprofit organizations. A study by Allison

et al. (2000) found that the measurement of outcome was relatively a recent activity in 140 nonprofit organizations studied in America.

As an alternative to measure the outcome, several researchers suggest measuring impact on mission (Wainwright, 2003). As per Wainwright (2003), **Impact** - Measure the direct or indirect effects or a consequence resulting from achieving program goals. It is an intended or unintended impact on the wider community as a result of organizations' activities. The measured impact can be long-term or, short-term as well as positive or negative. For instance, Zimmerman and Stevens (2006) present numerous ways of measuring outcomes, for example Community benefit due to integration reducing pollution and increasing environmental protection, measuring participant satisfaction or changing attitudes and behavior among participants, How well the organization has reduced homelessness after a disaster are some examples. In their study of performance evaluation in the case of four Brazilian nonprofit organizations, Campos et al. (2010) found that, out of four organizations one organizations focus on impact evaluation.

In their study, Sawhill and Williamson (2001) argued that measuring impact on mission is difficult. More complex mission means more complex measurement; indicating that nonprofits perhaps need to simplify their missions to be capable to measure impact. Instead of trying to measure the impact of their mission, nonprofits are better off identifying certain goals within their mission and put emphasis on measuring how well they achieve these identified goals. Zimmermann and Stevens (2006) also agree with Sawhill and Williamson (2001) that there is a point by breaking up the mission into several objectives.

Table 2.1: Summary of performance Indicators

Indicators	Definition	Example
Inputs	Everything that is needed to carry out a mission or a certain project	Staff, material
Outputs	Quantity of work performed	The amount of shelters provided during a disaster
The relationship between outputs and inputs = <i>efficiency</i>		
Throughputs	All activity measures, the capacity of the organization	How well they perform during a disaster (short-term), inputs relative to outputs
Outcome	To what degree an organization achieves its missions, both long-term and short-term measures	Participant satisfaction
Impact	All, even unintended, changes that results from organizations' activities. Negative as well as Positive	Effects in the society Caused by a law change. E.g. changes in living conditions
To what degree the organizations achieves its missions = <i>effectiveness</i>		

Source: Adopted from Jean and jenny (2008)

2.1.7 Types of Data Collected For Performance Measurement

Campos et al. (2010) stated, there is still a quite discussion in the area of performance measurement in nonprofit organization as far as the type of data and method to be used: quantitative and qualitative. Similarly, Cutt (2004) also revealed saying performance metrics distinguishes between quantitative and qualitative indicators.

According to Cutt (2004), there are numerous examples of quantitative indicators that are frequently utilized at a managerial and staff level: funds raised, number of members or volunteers, number of direct and indirect beneficiaries, users or grantees, percentage

of administrative or overhead expenses over total expenditures, number of programs or projects managed, cost per user, value of media coverage, promotion costs per media impact, etc. On the other hand, Qualitative indicators arise from the effort to answer effectiveness- and social footprint-related questions such as: Is our mission clear and focused enough? Are our programs and projects aligned with that mission? Are we positioned where we want to be? Are we learning as an organization? Which is our potential as a nonprofit? These tough, time consuming questions should be answered from all organizational levels in an ongoing debate launched by the top ruling board of the nonprofit and supported (Cutt, 2004).

According to Campos et al. (2010), up to the 1960's, the supporters of quantitative performance measurement program prevailed especially in educational program. Since then, a disputed between the group defending the importance of quantitative method and the ones, the opposite group, defending the qualitative method started. Fortunately, in 1970, the dialogue started to overcome these debates, as many analysts presented in their studies the benefit of integrating both approaches in the evaluation method. In their study of performance evaluation in Brazilian nonprofit organizations, Campos et al. (2010) found the homogeneity in all studied organizations. As per them, all of organizations use quantitative and qualitative data type.

2.2. Empirical Studies on Performance Measurement System

The following section tries to summarize the findings of empirical evidence related to Performance Measurement System in nonprofit organizations. Furthermore, rationale behind measurement of performance, tools available to measure their performance, types of data collected and barriers related to performance measurement in nonprofit organizations are reviewed. Thus, in order to highlight literature gaps, this section first reviewed selected empirical studies on Performance Measurement System in nonprofit organizations and then empirical studies conducted in Ethiopian context (if any) reviewed.

One of the studies on determining non-profit effectiveness was completed by Taylor and Sumariwalla (1993). Their investigation focused on program evaluation as practiced by major national philanthropic organizations funded by United Way of America. Through survey administered to over 90 organizations, they determined the major evaluation activity in the non-profit sector is measuring the volume of program delivery and compliance with standards. The lowest areas of activity were assessment of program outcomes/results and participant satisfaction. The researchers, in further discussion with funders, found that the greatest amount of assistance available to members is in assessing management practices, compliance standards, volume of program delivery and participant satisfaction and not outcome measurement. Respondents perceived the barriers to evaluating program results to be a lack of funding to support outcome measurement and the lack of skills among staff in conducting outcome measurement.

Respondents stated to offset these barriers, they would need increased financing to support outcome measurement and additional staff training to build outcome based evaluation capacity.

The study conducted by Hall et al. (2003) attempt to identify performance measurement and evaluation practice from the perspectives of Canada's voluntary sector. As the authors indicated, their research empirically sought to explore the evaluation practices of Canadian voluntary organizations and of funders of voluntary organizations. To carry out this study, they have asked participants to report on variety of the aspect of evaluation their evaluation practices, changing expectations for evaluation information, satisfaction with evaluation, and perceived problems and needs for assistance. Moreover, for the purpose of their research, they have defined to include activities such as program evaluation, client or member satisfaction studies, impact analysis, outcome measurement, organizational assessment, and any other activities that help funders and voluntary organizations assess performance. Then, the authors used all of this in survey

instrument to generate responses from a total of 1965 voluntary organizations and 322 funders by a telephone (telephone survey).

Hall et al. (2003) analysis of the result showed Voluntary organizations are facing increasing demands for evaluation from their funders. Almost half of the voluntary organizations surveyed reported that funder expectations had increased over the previous years. The survey of funders reveals that nearly half require the organizations they fund to do evaluations. The result of the study also shows more than three quarters of voluntary Organizations reported that they had done some type of evaluation in the previous year and Close to three quarters said they evaluated as a matter of routine and not merely in response to funder demands. The findings revealed that many organizations collect several different types of information. Seventy six (76%) reported collecting evaluation information on a project, program activities or outputs; 66% reported collecting outcome or impact information, 65% reported collecting information on client or user satisfaction and 54% reported collecting information on financial costs. Most voluntary organizations reported having problems in a number of areas. They point to the lack of internal capacity, such as staff or time, and a lack of money as being particularly big problems. Unclear direction from funders about what is expected in an evaluation and lack of skills and knowledge in conducting evaluations are also frequently reported problem areas. Voluntary organizations have forwarded recommendations for improving evaluation within voluntary organizations. The top ranked recommendations were more financial resources to allow voluntary organizations to do evaluation, Greater access to technology that could allow voluntary organizations to use software to compile and analyze evaluation information, Access to training and education on evaluation for voluntary organizations and funders, especially on outcome evaluation.

Zimmermann and Stevens (2006) investigated the use of performance measurement in 149 South Carolina nonprofit organizations, which came from various areas of the nonprofit sector including human services providers, educational services, health care,

environmental and animals, culture and humanities, public benefit and religion related. The highest percentage was from human services providers followed by educational service providers. Their research was sought to explore a general understanding of the initial motivation for incorporating performance measures, whether they would recommend the performance measures to other nonprofit organizations and operational changes that agencies may have made as a result of information gained by using the measures. The authors used quantitative method to gather data using E- mail Survey. They have also used Correlation and cross tabulation to confirm relationships between variables of interest.

The result of the studies of Zimmermann and Stevens (2006) showed One hundred twenty-seven (85 percent) of the organizations reported that they conduct evaluations of their programs and services. Of the agencies conducting evaluations, seventy five percent (75%) indicated that they use performance or outcome measures as a part of the evaluation process. The high use of outcome measures comes as a surprise. The requirement from external stakeholders was the most frequent motivator and reason for measuring performance. Slightly, more than half (52.6%) of the agencies reported that the initial motivation for using performance measurement was to meet the requirements of grants while 23.6 percent listed accountability or effectiveness as a primary motivation. The third most frequent motivator was to get more funding followed by those that responded use performance measure to improve services. Only 6% voted for improving services as their primary motivation. The possible use of performance measurement for internal purposes ranked as a low priority. With only 6%, which want to use performance measurement for service improving; the potential of performance measurement as an instrument to support organizational learning is very low. Three quarters of the 96 organizations, which used performance measurement, reported to have made internal changes in their operations as a result of performance measurement. The most changes were made at the program level. Ninety (90%) of the performance measurement implementer would recommend it to others. An

interesting side-result was that performance measurement is an instrument, which is more frequently found in larger nonprofit organizations.

Jean and Joan (2008) studied five nonprofit organizations in Sweden to explore the performance measurement technique employed. The study used a qualitative method based on open-ended interviews with the top managers of selected organization. The findings highlight that organization measure performance to guarantee quality to different stakeholders, for instance their donors, to demonstrate performance in order to influence public attitudes. Most of the organizations reported that they combine quantitative and qualitative data measures. The reason for focusing on quantitative measures as reported by the organization was that there are not enough resources to measure outcomes since they require more time and resources. Moreover, there was little focus on internal measures. However, two of the respondents reported seeing no problem with nonprofits measuring internal capacity as well.

Geiling (2009) conducted a study in the area of performance measurement system in German nonprofit organization. As the authors indicated, the objective of the research was to explore how German non-profits use performance measurement systems, the reactions of German non-profit organizations to introduce performance measurement systems. To conduct this study, the researcher used mixed approach, which included 345 nonprofit social service organizations to generate response using survey instrument. The quantitative empirical study is based on questionnaires on the state of the art of performance measurement in German health care and social non-profit organizations. The findings of the research revealed that, in the non-profit sector studied, there was an increase in institutional pressure to introduce performance measurement systems. Only 12% of the participating nonprofit organizations did not have a performance measurement system. The remaining 88% have different technique of performance measurement system. The answers showed a strong tendency to a do it yourself approach or self-developed performance measurement system. The findings also showed that the dominance of Quantitative output performance measure. Taking

into account that funders often require detailed accountability statements, the low scores for external accountability obligations came as a surprise. Low ranking of performance measurement for external accountability obligations was seen in nonprofit organizations studied. Last, the result also revealed that commitment of the board managers and employees; budget or sufficient fund and necessity of computer system were some of the top ranked enabling factors for the implementation of the performance measurement system.

Salamon et al. (2010) uses a large-scale quantitative survey with 417 participating nonprofits of child and family services, elderly housing and services, community and economic development and the arts aspects. A key finding of the study is that 85% of the respondents reported measuring the effectiveness of portions of their programs/services. The most frequently uses forms of performance measurement were program output measures (81%) and client/customer/patron satisfaction surveys or focus groups (74%). Close to 60 percent of responding organizations reported using outcome measures to evaluate the effectiveness of their programs or services. Survey respondents identified a number of important positive effects of performance measurement. Prominent among these were, Focus on your program/services' long-term goals(72 percent of respondents) enhancing the organization's reputation in the community (68 percent of respondents), regularly improving programs and services (68 percent), and motivating staff and volunteers (60 percent). Relatively few nonprofit organizations cited external pressures such as consultant recommendations, funder requirements, or cost as the motivating factor for their choice of performance measurement technique. Rather, they tended to cite internal factors such as staff interest (51 percent) and ethical or good ethical practices (52 percent) and cost effectiveness (39percent), Required by funder(37%). Resource constraints in form of lack of staff time, high costs of good evaluation and lack of staff skills and expertise; and multiple funders equals multiple interests headed the hit list of barriers to measurement the effectiveness of programs and services. Salamon et al. (2010) also asked what is needed to improve

performance measurement in nonprofit organizations. Here the list was headed by tools able to measure qualitative outcomes and impacts (82%), followed by less time-consuming measurement tools (81%) and resources to support research and measurement (79%). Salomon et al. (2010) conclude that the mantra of performance measurement is firmly embedded in nonprofit organizations. On a general level, their study shows a high implementation rate of performance measurement techniques on the program level.

Campos et al. (2010) examined the state of the art of performance evaluation in Brazilian non-profit organizations. The focus of that research is on program or project evaluation and not on the measurement of the organizational performances. They used the performance evaluation approaches of four big funders. The study examined whether performance was evaluated at all, who conducted the evaluation, the timing of the evaluation and the role of the evaluation during the project. The research concludes that an increased competition among non-profits for external resources and the necessity of Brazilian non-profits to enhance their credibility was the main force behind the effort to introduce performance evaluation. They also found that performance measurement is seen as an instrument responding to external obligations and neither as a tool for improving internal processes nor as an instrument for communicating the value non-profits create.

Moxham (2010) conducted a case study in six British nonprofit organizations using a qualitative method to investigate the use of performance measurement in the case organizations. The main findings of the study were that the requirements of accountability were that the main motives of measuring performance in the studied organizations. The design of performance measurement was modeled to meet the specific requirement of institutional donors with little attention to other aspects of performance measurement. Another finding of the study was that three of the organizations responded that performance measurement criteria was developed by nonprofit organizations themselves and the remaining three each of them responded

that it was developed by funding organizations, stipulated by the regulator and derived from government organizations.

To this point, empirical studies on performance measurement in nonprofit organizations are reviewed. Few researchers have been engaged to study monitoring and evaluation in the case of international NGO experiences in Ethiopia. For instance, Mebrahtu (2002) studied Perceptions and practices of monitoring and evaluation in the case of international NGO experiences in Ethiopia. However, based on the researcher knowledge, there was no empirical study conducted on performance measurement system in both local and foreign Nongovernmental organization Ethiopian. Hereunder, the aforementioned empirical studies conducted case is reviewed.

For instance, Mebrahtu (2002) studied Perceptions and practices of monitoring and evaluation in the case of international NGO experiences in Ethiopia The study explores attempts by eight UK-based international NGOs currently engaged in rural development interventions in Ethiopia to employ monitoring and evaluation systems as a means of strengthening accountability and institutional learning. It further explores how respondents in head offices, Addis Ababa, and field offices perceive and practice monitoring and evaluation. The study revealed, perceptions of monitoring and evaluation vary considerably between hierarchical levels and can have a significant impact on practice. Perceptions are also framed by individual interests; and frequently fail to reflect the reality of monitoring and evaluation practice.

2.3 Conclusion and Gap in Literature

As per the researcher knowledge, there is no comprehensive study on performance measurement system in nonprofit organizations in Ethiopian context, specifically, from Nongovernmental Organizations stands. Thus, this gap leads to originate the following general research question and a need to study on measure of success available or performance measurement technique system in both Local and foreign Nongovernmental Organizations operating in Ethiopia.

What are the various motivations for measuring performance in Nongovernmental Organizations that operate in Ethiopia?

Which performance measurement techniques are available to measure success in these organizations?

What types of data are being used to their performance measure?

2.4 Definition of terms

Nongovernmental Organizations: are voluntary associations independent of government control that seeks to provide humanitarian assistance according to need (Campos et al., 2010).

Charities and Societies Agency of Ethiopia defined Nongovernmental Organizations as any organization that does not include any government or government appointed representatives in their membership.

Ethiopian Charities or Ethiopian Societies: shall mean those Charities or Societies that are formed under the laws of Ethiopia, all of whose members are Ethiopians, generate income from Ethiopia and wholly controlled by Ethiopians. However, they may be deemed as Ethiopian Charities or Ethiopian Societies if they use not more than ten percent of their funds which is received from foreign country sources (FDRE Proclamation, 621/2001).

Ethiopian Residents Charities or Ethiopian Residents Societies: shall mean those Charities or Societies that are formed under the laws of Ethiopia and which consist of members whom all dwell in Ethiopia and who receive more than 10% of their funds from foreign country sources (FDRE Proclamation, 621/2001).

Foreign Charities: shall mean those Charities that are formed under the laws of foreign countries or which consist of members who are foreign nationals or are controlled by

foreign nationals or receive funds from foreign country sources (FDRE Proclamation, 621/2001).

CHAPTER THREE

3. Research Methodology

The preceding chapter presented reviews of literature on performance measurement with respect to the theoretical perspectives and prior empirical studies. The literature review confirms that there was no study conducted on both local and foreign NGO's operating in Ethiopia. The purpose of this chapter is to present the main principles of research methodology and the adopted research method for this study. Thus, this chapter discusses aspects of the research methodology including research design, data collection and data analysis methods. The objectives of this chapter are:

- To justify the study's research methodology,
- To explain the research methodology used in the study and
- To demonstrate how data collection and analysis is utilized in this study to answer and meet the research objectives.

3.1 Research Approach

There are three types of research design: quantitative, qualitative and mixed methods. Quantitative research is a means for testing objective theories by examining the relationship among variables. On the other hand, qualitative research is a means for exploring and understanding the meaning individuals or groups cause to a social or human problem. Between the two strands, mixed methods research is an approach that combines or associates both quantitative and qualitative designs to inquire an issue (Creswell 2009). However, the author noted that the selection of a research design involves the considerations of the worldview assumptions the research brings to study, the nature of research problem, procedures of inquiry, the researcher's experience, audiences for the study, and data collection methods, analysis and interpretation. Similarly, Yesegat (2009) also stated depending on the nature of the research problem

and the research perspective, a research method could be based on the philosophy of quantitative or qualitative or a combination of these two approaches.

As tried to indicate the types of research design and their meaning previously, quantitative and qualitative designs have distinct characters, while mixed methods design shares the characters of both designs. The research design involves the interactions of philosophical worldview, strategies of inquiry, and specific methods for the quantitative, qualitative and mixed methods design (Creswell, 2009). The following sections reviewed the aforementioned characters for each type of research designs in which it helped to adopt the fitted research method for this study.

Quantitative research design possesses the post positivist worldview assumption that encompasses 'deterministic philosophy' in which causes probably determine the effect, and 'reductionist philosophy' to reduce the ideas into a small, discrete set of ideas to test variables that comprise hypotheses and research questions. Post positivism develops knowledge based on objective observation and measurement as well as verifies theories that govern the world (Swanson and Holton, 2005). Quantitative design employs strategies of inquiry such as survey and experiment, and collect data through standardized instruments that are close-ended question and numeric data. Using statistical method, it generalizes about the population from the sample (Swanson and Holton, 2005).

Qualitative research design possesses social constructivism worldview assumptions that holds individuals seek to understand the world in which they live and work. The participant views relied on participants to construct meanings and the researcher inductively develops theory or pattern of subjective meaning (Creswell, 2009). Qualitative research design tries to assess experiences and events contextually within the participants' natural setting. It employs strategies of inquiry like ethnographies, grounded theory, case study, phenomenological research and narrative research and collect data through observation, interviews, text and image data that are open-ended

and emerging. The findings are subjective that the inquirer inductively generates meanings from the data collected in the field (Creswell, 2009).

Mixed methods design possesses the pragmatic worldview that focused on the research problem for the consequence of actions. Pragmatic worldview uses pluralistic approach to drive knowledge about the problem. Accordingly, researchers have a freedom to choose the methods, techniques, and procedures of research that best suits the purposes of the study. Thus, mixed method design involves philosophical assumptions to use the mix of quantitative and qualitative designs (Nagy, 2010). It employs strategies of inquiry such as sequential, concurrent and transformative mixed method and both close and open ended, standardized and emerging, quantitative and qualitative data collected.

In general, quantitative and qualitative designs have their own inherent advantages and disadvantages. Although the advantages and disadvantages of them not discussed here, mixed methods design emanated to utilize the advantages and to tackle the disadvantages of the two designs. As cited in Creswell (2009), the concept of mixing different methods originated in 1959, when Campbell and Fisk used multi-methods to study validity of psychological traits.

The reasons for mixing methods is triangulate data source for the sake of convergence across quantitative and qualitative methods; to integrate or combine the quantitative and qualitative data to identify participants or questions to ask for the other method or to reinforce each other; or transformative to advocate marginalized groups (Nagy, 2010).

Having the above summarized reviews of research designs, several studies on performance measurement in nonprofit organizations in terms of research design, used quantitative and qualitative designs. In the case of performance measurement in nonprofit organizations, researchers like Jean and Joan, 2008; Mebrahtu, 2002; Campos

et al., 2010; Moxham, 2010 used qualitative research design. On the other hand, researchers like Taylor and Sumariwalla, 1993; Hall et al., 2003 ; Zimmermann and Stevens, 2006 ; Greiling, 2009 ; Salamon et al., 2010 ; used quantitative research design. These practices suggest that both types of research designs could be applicable to study performance measurement in nonprofit organizations. Thus, this study adopted mixed methods design to get the benefits of mixed methods design.

3.2 Quantitative feature of Mixed Method

In a first phase, the quantitative research design helped to identify the measures of success employed and the initial motivations for measuring performance in charities organizations. The quantitative features of research design, namely the strategy of inquiry; sampling design; survey instrument; research questions and items on a survey instrument; and data analysis and interpretation presented hereunder.

3.2.1 Survey Design

As Swanson and Holton (2005) claimed, the purpose of survey research in organizations is to collect information from one or more people on some set of organizationally relevant constructs. Thus, to gather data relevant for the identification the measures of success employed and the initial reason for measuring performance in charities organizations, the study employed survey strategy to gather data from Ethiopian resident charities and foreign charities (justified latter). In addition, data were collected one point in time (cross sectional) from the respondents. The rationales to adopt survey strategy were the economy of the design and the rapid turnaround in data collection. Particularly, the later one fitted the samples that were selected from foreign charities; where the researcher found difficulty of administering questioners in face-to-face, organizations were surveyed using e-mail survey instrument. Thus in doing so, respective address of the organizations was acquired from their website.

3.2.2 Sample Design

There are many literatures that show diversity of nonprofit organizations. Similarly, in Ethiopia, there are many nonprofit organizations that are operating having different objective and goals. This was the main difficulties that a researcher faced when selecting a sample nonprofit organizations for the study. However, the researcher tried to solve the problem by using different criteria's.

How well a sample represents a population depends on the sample frame, the sample size and the specific techniques of selecting potential respondents (Yesegat 2009).

In respect of sample frame, the importance of sampling frame during the data collection process is vital. In a study with the intent of statistically generalizing about a population, the sample frame from which potential respondents are to be chosen ought to be representative of the population (i.e., the sample frame should be comprehensive enough).

According to Churchill (1992; cited in Nguyen and Ramachandran 2006), the perfect correspondence between the sampling frame and the target population is rare. Therefore, the sampling frame may not correspond perfectly to the population, but it does represent the target population.

In this study, a list of Nongovernmental organizations available from Agency of Ethiopian Charities and societies has served as a sampling frame because it is acknowledged that this city embraces large number of Charities and societies.

According to data obtained from Agency of charities and societies of Ethiopia, as of December 2004 E.C, there are about 1157 charities and societies operating in Addis Ababa city administration. This amount is large as compared to other regions including Dire Dawa city administration. Out of this amount, Ethiopian societies and Ethiopian resident Societies comprised of 261 and 60 respectively. Thus, they are excluded since they are

not the subject of this study. Therefore, the remaining amount i.e. 836 is the amount of charities operating in Addis Ababa as of the end of December, 2004 E.C.

The other consideration in sample design is the sample size. The choice of a sample size is relevant to the reliability of a study. According to Sarantakos (2005; cited in Yesegat 2009), however, large samples do not always guarantee a high degree of precision, validity and success in general.

For the choice of the desired sample size, Fowler (1984; cited in Yesegat, 2009) noted that although there is no a single right way for the determination of sample size. A sample of 150 people will describe a population of 15,000 or 15 million with virtually the same degree of accuracy, assuming all other aspects of the sample design and sampling procedures are the same. In this light and taking the available resource and time in to consideration, the researcher selected 20 Ethiopian resident charities and 20 foreign charities operating in Addis Ababa city.

Regarding the specific techniques used to select potential respondents, to let all target population groups to be represented in the final sample, the population was stratified into sector categories. According to John (2008), stratified sampling is where researcher breakdown the target population in to identifiable group (strata) and then takes sample from each of the group. Based on this, the researcher used the criteria that charities and societies Agency used to classify the Nongovernmental organizations. Charities and societies Agency classify Nongovernmental organizations in to two broad categories namely as Charities and societies. Moreover, the agency has identified seven sub-sectors: Ethiopian charities, Ethiopian societies, Ethiopian resident charities, Ethiopian resident societies, foreign charities, consortium and adoption Agencies.

On the merits of stratified sampling, Sarantakos (2005; cited in Yesegat, 2009) noted that such samples are employed when there is a need to represent all groups of the target population in the sample, and when the researcher has a special interest in certain strata. In this sense, the method is very economical, and offers a high degree of

representativeness. Then, a purposive sampling technique was made to draw a sample of 40 charities, i.e., 20 from Ethiopian resident charities, and 20 from foreign charities. Ethiopian resident charities and foreign charities are chosen because these two are large in number as compared to the remaining sub-sectors identified above. In deciding which organizations to select, the committee of seven forums, which is organized by Consortium of Christian Relief and Development Agency of Ethiopia, is used as criteria. Each of these seven forums has committees comprising of seven member Nongovernmental organizations. Accordingly, six committee Nongovernmental organizations from each of the seven forums i.e., a total of 42 charity organizations were selected at first and then two of them are ignored. Then, the final sample was only 40 Nongovernmental Organizations. When selecting organizations among the member of the committees, organizations which are not a charity, charity that do not operate in Addis Ababa, and charities that are not reregistered with the agency as per proclamation 621/2001 are automatically ignored. On the merits of purposeful sampling, Creswell (2003) noted that it helps to select participants or sites that best help the researcher to understand the issues under study.

3.2.3 Survey Instrument

The survey instrument developed based on the literature review, most of the items in the instrument adapted from the work of Hall et al. ,2003 ; Zimmermann and Stevens ,2006 and Salmon et al. , 2010. All items in the instrument were close-ended questions. In addition, items in the survey instrument categorized in to three parts (see appendix 1).

Part 1 of the survey instrument sought to get respondent's profile. Part 2 dealt about identifying measure of success available and employed in nonprofit organizations and type of data used for measuring their performance Part 3 tried to get responses in the areas of reason for measuring performance in nonprofit organizations. These reasons are categorized in to two sections. Section 'A' deals about External reason for measuring

performance; and section B deals about internal reason for measuring performance. Thus, to get the perceived level of external and internal pressure, all items in this part were developed using five-point Likert-type scales ('strongly agree' to 'strongly disagree').

Besides, to make clear about the study, the cover page of the instrument indicated study's objectives, importance of their responses to the study along with confidentiality matter. Moreover, to ensure highest response rate, respondents were asked their willingness to participate in the study before the questionnaire distributed. After getting their willingness, the researcher personally distributed the instrument, while to those respondents who were difficult to distribute questioner like for example some of foreign NGOs, the instrument was forwarded through their email address.

3.2.4 Data Analysis

Data obtained from the survey instrument were analyzed using quantitative data techniques. To analyze data obtained from the survey instrument, descriptive statistics such as frequency, percentage, mean, and standard deviation were used. Specifically, to rank the relative severity of internal versus external reason for measuring performance incorporated in the part 3 of the instrument, respondents rated scale percentage used. In addition, to analyze data obtained from part 3 of the survey instrument, inferential statistic (i.e., Chi-square with significance level) used to refine the relative severity of various reasons among Nongovernmental Organization type, i.e., Local and Foreign group.

In order to give a clear view of the finding, tables and graphs were used. In general, the survey instrument responses keyed into Statistical Package for Social Science (SPSS) (version 19), to generate quantitative data output.

3.3 Qualitative feature of Mixed Method

As earlier mentioned, this study employed two phase- sequential explanatory strategy. In a first phase, quantitative data were gathered through survey instrument and results further used in a second phase of qualitative research. Accordingly, the connection or mixing occurred between quantitative data analysis and the data collection of second phase research. The analysis of quantitative data and its results helped to prepare qualitative interview questions. Thus, the identified reasons that motivate performance measurement further used to better understand the reasons for measuring performance in Ethiopian Nongovernmental Organizations.

To gather data for the second phase, face-to-face interviews with selected Nongovernmental Organizations were held. Hence, in qualitative design, the sampling design is purposeful sampling design, two interviews were held with respondents one from ABC (anonymous) local NGO and other from CED (anonymous) Foreign NGO.

It was believed that interviewees have had better knowledge about performance measurement in nonprofit organizations. Thus, the researcher interviewed two interviewees on issues based on the results of the first phase. Interview questions were prepared prior to conducting the interviews, while emerging questions also rose during the interview. In addition, before conducting the interviews, respondents' willingness asked first. After getting their willingness and schedules, the researcher interviewed the respondents using interview protocol and by making handwriting notes.

Qualitative data collected from interviewees were noticed in to appropriate contexts, written down, and thematically analysed. Potentially, the themes helped to analyse qualitative data for the second phase of the study.

3.4 Research Method Adopted

As indicated earlier, to get a brief understanding of the research problem and to benefit from the method adopted, mixed method design used to study performance measurement system in charity organizations in Ethiopia. Besides, sequential explanatory strategy used in the method adopted. This strategy characterized by the collection and analysis of quantitative data in the first phase of research followed by the collection and analysis of qualitative data in the second phase that builds on the result of the initial quantitative results (Swanson and Holton, 2005).

In the first phase of the study, survey was conducted to identify the measures of success employed and the initial motivations for measuring performance in these organizations are investigated. In the second phase, based on results of the first phase, interviews were held to better understand the reason for measuring performance and barriers to outcome performance measurement in detail.

CHAPTER FOUR

4 Result and Analysis

The preceding chapter presented some principles of research methodology and the adopted research method for the study along with its rationale. This chapter presents the results and analysis of findings for the adopted sequential explanatory mixed method design in two sections. The first section presents the results and analysis of findings for the quantitative feature of mixed method. Then, section two presents the results and analysis of findings for the qualitative feature of mixed method.

4.1. Results and Analysis

The first phase (quantitative) of this study objective was to identify how and why nonprofit organizations measure their performance and in connection with this, types of data collected are also explored. As indicated in chapter three, this study selected forty Nongovernmental organizations operating in Addis Ababa. Namely: twenty local and twenty foreign Nongovernmental organizations. Henceforth, to present the results and analysis of findings for the selected Nongovernmental organizations, a general term, that is 'nonprofit organizations' used unless indicated.

To achieve the first phase of research objective, survey was conducted on forty Nongovernmental organizations operating in Addis Ababa. Hereunder, results for the first phase of the study presented.

4.1.1. Respondents' profile

Part 1 of the survey instrument attempted to acquire respondents' profile with respect to their current educational level. Of the forty respondents, about 20 percent were postgraduate and 72.5 percent were undergraduate (see Table 4.1). While only three

respondents were PhD holder and no one accounted to the diploma or certificate educational level choice of item one in the survey instrument.

Table 4.1: Survey of respondents by educational level

Educational level	Frequency	Percent
Undergraduate	29	72.5
Postgraduate	8	20.0
PhD or above	3	7.5
Total	40	100.0

Table 4.1 shows that most of respondents for this study had Degree holders whereas only three respondents were PhD holder, which is above the needed qualification.

As table 4.2 shows, of forty respondents, 50 percent were local NGOs where as the remaining 50 percent were Foreign NGOs.

Table 4.2: Survey of respondents by type of organizations

Type of organization	Frequency	Percent
Local NGO	20	50.0
Foreign NGO	20	50.0
Total	40	100.0

The respondents were asked to specify from where their organization generate fund. In terms of this, the result shows that all of local NGOs generate fund from both internal and external; while all foreign NGOs responded that they generate fund from external source only. Whereas, no respondents accounted as only generate fund from internal source (see table 4.3)

Table 4.3: Survey of Organizations source of fund along with the type of organization

Type of organization	Source of fund	Frequency	Percent
Local NGO	Both Internal & External	20	50.0
Foreign NGO	External	20	50.0
Total		40	100.0

4.1.2 Performance Measurement in Nonprofit Organization

For instance, (Anthony and David, 1998; Robert and David, 2008) stated that performance measurement in private sector is more straight forward since financial metrics are relatively clear and accessible indicator of performance. However, nonprofit organization face a big challenge since there is no single measures that is common to all nonprofit organizations (Kanter and Summers, 1987; Sawhill and Williamson, 2001; and Greiling, 2009).

According to the authors, the challenges indentified for performance measurement in nonprofit sector include intangibility of service offered, immeasurability of their mission, conflicting needs of the stakeholders. Despite these challenges, the author’s further stated that performance measurement is critical in nonprofit sector.

As a result, many nonprofit organizations have adopted the managerial techniques and systems of the for profit organization as a ways to measure their performance (Oster, 1995; Forbes, 1998; Sola and Diego, 2001). The authors added, performance indicators are inputs, outputs, throughputs (productivity), outcome and impact. This indicators drive from the private sector but are applicable and used by non profit as well.

The objective of the study was to explore how nonprofit organization measures their performance. To address this objective and to answer research question 1, two items in part two of the survey instrument developed from various literatures.

Given the above five indicators of performance measurement namely input, output, throughputs, outcome and impact; the researcher decided to take only two of them i.e. output and outcome. The rationale and justification in doing this was, many findings of several researchers indicate that the dominance of output and outcome measure in nonprofit organizations studied. Thus, the researcher included them to check whether the findings in other countries are the same for Nongovernmental Organizations operating in Ethiopia.

Thus, in order to identify how responding organizations measure their performance, respondents were asked whether their organization had conducted any type of evaluation in the past and further asked them to specify information they had collected. This helped the researcher to infer about measure of success available for these organizations. Hereunder, results and analysis of findings related to measurement of performance in Ethiopian Nongovernmental Organizations are presented.

As table 4.4 shows, almost all of the organizations reported that they conduct evaluation of their programs and services. Of organizations conducting evaluations, 82.5 percent of the respondents indicated that they use output measures as a part of evaluation process. The lowest areas of activity were assessment of program outcomes which was responded by only 17.5 percent of respondents. (See table 4.4)

Table 4.4: Survey of Organizations conducting evaluation along with types of performance measures used

Items (n=40)	Yes		No	
	Frequency	Percent	Frequency	Percent
Conduct Evaluation	40	100.0	0	0.0
Output Measure	33	82.5	7	17.5
Outcome Measure	7	17.5	33	82.5

In line with this finding, Taylor and Sumariwalla (1993) finding indicated the low scores for outcome performance measure in nonprofit organizations studied. In addition, Hall et.al, (2003) and Salamon et.al, (2010) finding of the study indicated high use of output performance measurement. Similarly, the present study also found the dominance of output performance measure in both local and Foreign Nongovernmental organizations studied. This finding concurs with what the literature state.

The result shows the dominance of output performance measure. In line with this finding, Taylor and Sumariwal, 1993; Hall et al., 2003; Greiling, 2009; and Salamon et al., 2010 finding also revealed most nonprofit organizations that were studied use output performance measure.

In line with this, the result is not surprising because the literature justify about the dominance of output measure in most nonprofit organizations. For instance, Elaine et al., (2010) stated, nonprofit organizations are more often familiar with monitoring and reporting such information as the number of client served, the quantity of service or other activities and the amounts of donations received which is more of output activities. However, outcome measure is new to most nonprofit organizations (Allison et al., 2000 and Elaine et al., 2010).

In attempt to understand which types of performance measurement i.e. output measure or outcome measure is the most challenging, respondents were asked to specify between the two. As indicated in table 4.5, majority about 90 percent of the responding organizations indicated that outcome measures are difficult to measure as compared with output measure. In connection with this, Hatry (1999) stated program outputs are easy to measure but say nothing about actual changes in client. Similarly, in their study Sawhill and Williamson (2001) argued that, measuring outcome is difficult. They added, more complex mission means more complex measurement; indicating that non profits perhaps need to simplify their missions to be capable to measure impact. Similarly, the

present study also finds the difficulty of outcome measure in those studied organizations.

Table 4.5: Survey of the Most Challenging Performance Measurement

Type of performance measure (n=40)	Frequency	Percent
Output measure	4	10
Outcome measure	36	90

Even though outcome measure is relatively a recent activity in most nonprofit organizations, nonprofit organizations are being pressed to measure and report their outcomes regularly to funder and other constituents (Elaine et al., 2010).

Respondents were also specifically asked to indicate whether demand of funder to measure and provide outcome information has increased. The respondents were asked to rate a five-point scale (strongly agree to 'strongly disagree).

As shown in Table 4.6, of the forty respondents, 65 percent of respondents claimed the census with '*demand of funders to measure outcome has increased*', while 10 percent of respondents were undecided about the demand and 25 of the respondent denied the consensus i.e. they either Strongly disagree or Disagree with the item which say '*demand of funders to measure outcome has increased*'. However, taking the frequency mean i.e. 3.55, the responses inclined to the agreement scale (i.e. more than 3). In this case, the demand of funder to measure and provide outcome measure has increased. This result concur with the findings of Zimmermann and Stevens (2006) which indicated more than half of organizations responded they use outcome measure because an outside pressure especially funder require them to do.

Table 4.6: Survey of the demand of Funder to measure outcome

		Frequency	Percent
The Demand of Funder to measure and report on Outcome has increased (n=40)	Strongly disagree	2	5.0
	Disagree	8	20.0
	Neutral	4	10.0
	Agree	18	45.0
	Strongly agree	8	20.0
Mean		3.55	

Type of Data collected for Performance Measurement

As Cutt (2004) noted, performance measurement metrics distinguishes between quantitative and qualitative type of data used. In connection with this, Campos et al., (2010) stated, Even though there is a quite discussion in the area of performance measurement in nonprofit organizations as far as the type and method used: quantitative and qualitative, many analysts such as Howe (1999; Kidder and Fine 1987; cited in Campos et al., 2010) presented in their study the benefit of integrating both approach in performance measurement.

Table 4.7 Present the result of the type of data collected for measuring performance. In order to explore the type of data collected for measuring performance, respondents were asked to specify whether quantitative or qualitative or mixed quantitative and qualitative data were collected. By considering the percentage score for each item, there is somewhat homogeneity among the responding organizations. Almost more than fifty percent i.e. about 65 percent of the organizations responded that they use, in some way, quantitative and qualitative data or mixed quantitative and qualitative data. This

information shows there are benefits in the use of the two methods, as Howe (1988; Kidder and Fine, 1987; cited in Campos et.al, 2010) presented in their study.

Table 4.7: Survey of Types of Data Collected

Type of data (n= 40)	Frequency	Percent
Quantitative	11	27.5
Qualitative	3	7.5
Mixed quantitative and qualitative	26	65.0
Total	40	100.0

4.1.4 Reason for Measuring Performance in Nonprofit Organizations

The literature reveals that Performance measurement as a means of whether goals and objectives are being achieved is crucial to any organizations whether it is a profit oriented, public or nonprofit organizations. However, Wainwright (2003) stated, Pressure to measure performance is being placed on nonprofits by a range of stakeholders, including government and non-government funders, donors, volunteers, employees, users and beneficiaries. Wainwright, (2003) added, Pressure from funder is becoming more significant as nonprofits progressively engage in the provision of services. In connection to these, Hall et al. (2003) also stated Voluntary organizations are facing increasing demands for evaluation from their funders.

For instance, Hall et al., (2003) and Broeckling (2010) stated that there are many factors that led to the shift in the nonprofit sector performance measurement including both Internal and external Pressure.

According to Hall et al. (2003), many of the reasons for today’s push towards performance measurement have internal roots. Broeckling (2010) also revealed that nonprofit sector also faces increasing pressure from outside sources. The funding

community has a significant impact on how the sector operates, and more and more this community demands comparative data for its own decision-making.

The second objective of this thesis was to identify reason for measuring performance in nonprofit organizations particularly in the case of Ethiopian Nongovernmental Organizations. Thus, to address this objective , eight items in part three of the survey instrument was developed from the literature mostly from that of Zimmermann and Stevens (2006) and Hall et al ., (2003) using five -point likert scales (strongly agree or agree i.e. 5 Or 4 on a five point scales). Using this method, Hall et al., (2003) and salamon et al., (2010) also ranked them.

As table 4.8 shows, 65 percent of percent of respondents considered '*pressure from funder*' as the first factor for the implementation of performance measurement. As rated by 62.5 percent of respondents, the next reason for measuring their performance was '*it was required by the government*'. As s rated by 60 percent of the respondents the third pressure for measuring performance was the requirement by the staff or board.

Table 4.8: Reason for measuring performance rank

Rank*	Category**	Reason for Measuring Performance	Percent***
1	EP	It was required by a funder	65.00
2	EP	It was required by a government	62.50
3	IP	It was required by staff or board	60.00
4	IP	To plan future program	57.50
5	EP	To comply with new funding requirement	52.50
6	EP	For Accreditation purpose	27.50
7	IP	To improve service	22.50
8	IP	To assign and reassign Staff	17.50

* Items in order of their Rank

** EP= External Pressure; IP= Internal Pressure

*** Percentage of respondents who were either strongly agreed or agreed with the reason for measuring performance

Table 4.8 shows that, of top four reasons for measuring performance, two of them belong to external reason category. More than 62.50 percent of the respondents showed a higher degree of agreement with these pressures for the reason of using performance measurement. For instance, Zimmerman and Stevens (2006) study also found that the requirement from the external stakeholders was the main reason for measuring performance in nonprofit organizations studied. Not surprisingly, this was the primary reason for measuring performance in the studied organizations. This study finding also showed that the main reason for measuring performance was to fulfill the requirements of external stake holders especially that of funders and governments. In addition, over

50 percent of respondents either strongly agreed or agreed with the reason '*to comply with new funding requirement*' except the reason of '*for Accreditation purpose*'.

With respect to internal reason category, over 57.5 percent of respondents also showed a higher degree of agreement with two reasons (see Table 4.8). Namely, '*it was required by staff or board*' and '*to plan future program*', except reason for '*to improve service*' and '*to assign and reassign staff*'. Confirming this, The Study of Zimmerman and Stevens (2006) in South Carolina nonprofits organizations found that , the possible use of performance measurement for internal purpose was ranked low priority (6 percent only). This study also found that reason for measuring performance for internal purpose particularly to improve service and to assign and reassign staff ranked a low priority in studied organizations.

To comprehend the relative reasons for measuring performance, average values calculated for each two-category of reason for measuring performance based on the percentage value in column four of Table 4.8. The percentage value was calculated based on the respondents' degree of agreement, i.e., either strongly agree or agree (5 or 4 in 5 point scale). The percentage average values of the two-category reasons in descending order are: 1) External Pressure (51.8); 2) and Internal Pressure (39.3).

It is noticeable from the above average values that three items of external pressure for measuring performance ranked top and only one item ranked bottom. Whereas, two of the internal reason for measuring performance ranked top and two of them ranked bottom.

So far, results and analysis related to various reasons for measuring performance presented. The finding suggests that performance measurements in nonprofit organizations are initiated by many external and internal reasons or pressures. As Table 4.8 shows, among eight reasons five of them were rated by more than 50 percent of respondents. Whereas reason related to external reasons are the two top ranked items by the respondents. Thus, the research question 2 answered in these regards. The

following subsection also attempted to refine those reasons by type of organizations i.e. Local and Foreign Nongovernmental organizations.

This subsection attempted to refine various reasons for measuring performance based on the type of organizations. As indicated in methodology chapter, forty Nongovernmental organizations were selected for this study i.e. twenty from Local NGO and twenty from Foreign NGO. Thus, to further refine various reasons for measuring performance, respondents were dichotomized, i.e., Local NGO and Foreign NGO.

To compare and analyze the groups' responses for the items in part 3 of the survey instrument, mean values were calculated based on the scores on a five-point scale (Likert scale). In addition, chi-square statistic along with significance level was used to see if both groups' respondents were responded different from each other. Since Likert-scale questions have a range of answers that is discrete, not continuous, it was appropriate to use chi-square statistic, because it assumes a discrete distribution rather than a normal distribution (ITS, 2011). Hereunder, results and analysis of findings presented based on the two categories of reason for measuring performance in nonprofit Organizations heading.

4.1.4.1 External Reason for Measuring Performance

The literature reveals that many factors including both internal and external pressure led into shift in nonprofit sector performance measurement.

According to Broeckling (2010), nonprofit sector faces increasing pressure from outside sources. As the author further noticed, funders are leveraging their power to an over greater extent. Similarly, Moore (2000) revealed, because so many nonprofit organizations contract with the government at all levels, they now find themselves facing the same regulations from government. In connection with this, table 4.9 present the rated responses for items related to external pressures for measuring performance.

As the mean value of table 4.6 shows, except the factor of '*Accreditation purpose*', most of the respondents from each group maintained a higher degree of agreement to all reason for measuring performance. That is, three external reasons for measuring performance on average rated above three, while performance measurement for accreditation on average rated at 2.55 and 2.8 by local NGO and foreign NGO respondents respectively. These indicate that, the external reason for measuring performance in nonprofit organizations are mainly related to the three items namely, funder requirement, government requirement and to comply with new fund not to accreditation purpose.

Both groups' respondents were responded in a similar pattern to the items, i.e. there were insignificance differences in the pattern of responses between both groups. Thus, for both groups each reason for measuring performance had similar impact (see table 4.9 significance column).

Among the four external pressures (reason) for measuring performance, the pattern of response for the item '*It was required by funder*' is in significant between the respondents and scored high mean value (see table 4.9). In line with this finding, Zimmermann and Stevens (2006) finding also claimed the requirements from external stakeholder mainly from funders was the main reason for measuring performance in studied nonprofit organizations.

In contrast to this, Hall et al. (2003) study findings indicated that the most reason for measurement of performance was appears to be internally driven i.e. external pressure (reason) for measuring performance ranked small percentage. Among those external pressures that have ranked small percentage, reason for accreditation purpose ranked the lowest percentage i.e. only 4 percentages of respondents agreed that the reason for measuring performance was for accreditation purpose. In line with this, the present study also finds the main reason for measuring performance was related to other external reason not to accreditation reason.

Generally, table 4.9 evidenced that external reason mainly the requirement from funders, requirement from government and reason for complying with new funding requirement were the main reasons for measuring performance in the studied organizations Whereas, reason for accreditation purpose not contributed to the reason for measuring performance in the studied organizations.

Table 4.9: External Reason for Measuring Performance

Reasons	Type of Organizations	Percent (Local n=20, Foreign n=20)					Mean	Chi-square	Sig.
		Strongly disagree	Disagree	Neutral	Agree	Strongly agree			
It was required by a funder	Local NGO	0	20	25	45	10	3.45	4.003	.261
	Foreign NGO	0	10	15	40	35	4		
It was required by a government	Local NGO	0	35	10	45	10	3.30	1.22	0.75
	Foreign NGO	0	20	10	55	15	3.65		
To comply with new funding requirement	Local NGO	10	10	20	35	25	3.55	1.355	.852
	Foreign NGO	10	20	25	30	15	3.2		
For Accreditation purpose	Local NGO	20	40	15	15	10	2.55	2.668	.615
	Foreign NGO	15	25	30	25	5	2.80		

4.1.4.2 Internal Reason for Measuring Performance

According to Hall et al., (2003), many of the reasons for today's push towards performance measurement have internal roots. Similarly, Medina-Borja and Triantis (2007) highlighted that, performance measurement gives an overview of organizational deficiencies and thereby there is a greater chance to discover the relevant areas where improvements are needed and rationalizations are most urgent. Sawhill and Williamson (2001) also indicated, nonprofit can use performance measurement to obtain control of local office efforts and to get the whole organizations to work towards the same mission and goals.

With this logic in mind, table 4.10 presents the results related to internal reason for measuring performance for both Local and Foreign NGO's. As table shows, most of both organizations respondents showed a higher degree of agreement with two of item namely, *'It was required by staff or board'* and *'to plan future program'*. However, most of the respondents from both groups were either strongly disagree or disagree with the reason for measuring performance to *'improve service'* and *'to train or reassign staff'* (between the mean values of 2.75 and 2.3, see table 4.10). This indicates that, the internal reasons for measuring performance in the studied organizations are mainly related to two items namely, *'requirement from staff or board'* and *'to plan future program'*. In other words, internal reasons for measuring performance are not mainly related to *'improvements of service'* and *'assignment or reassignment of staff'*. In line with this findings of Zimmermann and Stevens (2006) also indicated that the internal reason mainly measuring performance to improve service was ranked low.

In addition, Allison et al., (2000) study finding also showed low ranking for internal reason for measuring performance specifically for the item which say *'to train or reassign staff.'* The something also found in this study. That is the internal reasons mainly *'to improve service'* and *'to train or reassign staff'* were not the main reason for measuring their performance in the studied organizations.

Generally, the above finding suggests that most of the reason for measuring performance were common to both local and foreign NGO's. Specifically external reasons except '*accreditation purpose*' were common reasons for measuring performance in both local foreign NGO's. In the internal category reason for measuring performance, except reason '*to improve service*' and '*to train or reassign staffs*' all reasons were common to both organizations.

Table 4.10: Internal Reason for Measuring Performance

Reasons	Type of Organizations	Percent (Local n=20, Foreign n=20)					Mean	Chi-square	Sig.
		Strongly disagree	Disagree	Neutral	Agree	Strongly agree			
It was required by staff or board	Local NGO	10	20	20	40	10	3.2	3.175	.529
	Foreign NGO	0	15	15	50	20	3.75		
To plan future program	Local NGO	15	15	20	40	10	3.15	3.725	.444
	Foreign NGO	0	15	20	45	20	3.7		
To improve service	Local NGO	5	45	35	15	0	2.60	5.419	.247
	Foreign NGO	20	25	25	20	10	2.75		
To assign and reassign staff	Local NGO	20	45	20	15	0	2.30	.286	.963
	Foreign NGO	15	45	20	20	0	2.45		

4.2. Results and Analysis: Qualitative feature of Mixed Method

The preceding section has presented the results and analysis of findings for the first phase (quantitative) of the study. The objective of this second phase of the study was to better understand in detail the identified reason for measuring performance and to further explore the barriers to Outcome performance measurement. To address these objectives, interviews were held with individual whom the idea concerns from two ABC (anonymous) Local NGO and CED (anonymous) Foreign NGO. These respondents were selected purposefully, because it was believed that they have had better knowledge about performance measurement in their respective Organizations. Thus, the researcher interviewed two interviewees on the issues related to barriers in outcome performance measurement and their rationales and justifications for measuring performance in their respective Organizations.

As it was indicated in the first phase, most of the reasons for measuring performance in the studied Organizations were seen from two aspects i.e. External reason and Internal reason. Thus, the results and analysis of findings for the second phase of the study are presented hereunder.

The researcher asked the respondents why performance measurement is used in general and why it is used in their organizations in order to be able to identify more in detail the result obtained in the first phase of the study i.e. both external and internal factors that have been the driving forces for implementing performance measurement.

For instance, the Agency of Charities and Societies which was represented by government requires that their framework organizations evaluate their projects and report back to them. Due to this, performance measurement is used to some extent in all organizations and is the most obvious reasons for measuring. One respondent states that these requirements from outside are good.

What also is understood from the interviews is that there is a willingness among the organizations to be able to show what has been accomplished to donors and members etc.

One of the respondents compares the donors with businesses' customers and the fact that they also demand value for their money. Moreover, it is seen as important to report back to partners and local organizations in order to be able to evaluate and improve their co operations and projects.

Except for the above mentioned reasons for using performance measurement, the organizations also have their specific reasons. For instance, as one interviewee commented:

"by measuring our performance, we see if we are on the right track or if we are not and need to adjust and make changes in our plans and focus"

The other interviewee has a similar line of reasoning. Performance measurement is used as a tool to reach a better understanding of the organization, what have succeeded and what have failed.

Generally, many of the reasons that are mentioned during the interviews indicate that performance measurement mainly is used to fulfill external demands. The respondent in CED (anonymous) expresses a concern that there will be too much focus on the external demands and other stakeholders and that there is a risk that the need of their target groups will be neglected. In line with this, Zimmermann and Stevens' study on nonprofits in South Carolina shows that the most frequent reason for measuring performance is requirements from external stakeholders. Similarly, Campos et al., (2010) study on nonprofit organizations in Brazil revealed that performance measurement is seen as an instrument responding to external obligations and not so much as a tool for improving internal process. Not surprisingly, this was the primary reason for measuring performance in our studied organizations as well. Evidently there

is a need to present what has been accomplished to those having an interest in the organization's success and failures even here in Ethiopia.

4.2.1 Outcome Performance Measurement System

The finding in the first phase of the study showed that the demand of funders to measure outcome was increased. However, there was a low implementation of outcome measures in the studied organizations. The result further revealed that, outcome measurement is difficult as compared to that of output measurement as indicated by the respondents. Thus, this finding in the first phase of the study was used as a stepping stone to further explore why outcome measures was not often used as measurement of performance in the studied Nongovernmental organization.

Thus, the researcher asked why performance measurement particularly that of outcome performance measures is difficult to implement in most nonprofit organizations. The respondents believe that it is difficult to measure the impact of their projects or activities. As one interviewee states, the outcome measures requires a lot of resources in the form of time and money. Furthermore, as the interviewee commented:

"We are not yet ready to introduce outcome measurement system; it requires introduction and education it has to be developed further in order to work."

The other interviewee agreed with the above comment. Hence, the interviewee argued that they do not have enough resources to go back and measure outcomes and impact, instead they are concentrating on the new projects. Another reason for not measuring outcome performance is that it is seen as more important to invest the money in helping the target group. In connection with this, Robson (2004) stated, implementation of performance measurement can be costly and consume a lot of time and resources, making performance measurement difficult to motivate sometimes since resources often are scarce in non profits. Similarly, Weiss (1972; cited in Ortega, 2006) revealed that establishing performance frameworks within organization is not easy. It takes time

to build measurement capacity and there is a learning curve regarding the use of measurement data.

The study made by (Taylor and Sumariwalla, 1993; Hall et al., 2003 and Salamon et al., 2010) indicated that many of nonprofit organizations that are investigated responded that, lack of resource and staff skills in conducting outcome measurement were among the leading barriers in failure to introduce outcome performance measurement. In light of this, the present study also found lack of resource and staff skills as major constraints towards the implementation of outcome performance measurement.

To sum up the findings, the result in the second phase showed the same finding with the first phase of the study with respect to reason for measuring performance in Ethiopian Nongovernmental organizations i.e. the dominance of external pressure was the main reason for using performance measurement in the studied Nongovernmental organizations. However, the result of the second phase of the study revealed that lack of resource and staff skills in conducting outcome measure as the main barriers towards the implementation of outcome performance measurement.

CHAPTER FIVE

5. Conclusions and Recommendations

So far, results and analysis of findings presented for the first phase (i.e., quantitative) and second phase (qualitative) of this study. The purpose of this last chapter is to present concluding remarks and recommendation of the study and to highlight future research directions on the topic. Thus, the first section presents the study's Conclusion and the second section presents Recommendations. Finally, section three presents the study's significance and delimitation along with its contribution to the literature and future research directions.

5.1 Conclusions

Performance measurement is important to any types of organizations including profit oriented, governmental and nonprofit organizations because it enable to see whether goals and objectives are achieved or not. Moreover, it is very important for nonprofit organizations since they are surrounded by many complexities like immensurability of their missions, goals and different stakeholders with different needs as many authors stated.

The literature highlighted performance measurement in private sector is more straightforward since financial metrics are relatively clear and accessible indicator of performance. However, as many authors stated, nonprofit organizations face a big challenge since there is no single measures that is common to all nonprofit organizations.

Thus with this logic in mind, the objectives of this study were to identify how Nongovernmental organizations in Ethiopia particularly those operating in Addis Ababa measure their performance , types of data's they collect to measure their performance and their rationales and justifications for measuring their performance. To

achieve this objective, survey was conducted in forty Nongovernmental organizations operating in Addis Ababa. On the other hand, interviews were held with two interviewees from local and foreign Nongovernmental organizations.

In relation to research question 1, finding in the first phase of the study indicated the dominance of output performance measure as a measure of success employed while little attentions was given to the measurement of outcome measures. In relation to low implementation of outcome measures, result from interviews revealed that lack of resource and staff skills as a major constraint towards the implementation of outcome measurement.

With respect to research question 2, the result from survey finding indicated that external reasons or pressures mainly the requirement from funders and government were the main reasons for measuring performance in the studied organizations. Whereas, the internal reason particularly requirement from staff or board and for planning future program were also the reason mentioned for using performance measure. However, external reason pressures outweigh that of internal reason pressure as responded by many organizations.

In addition, in relation to research question 3, the result of the study revealed that most of those organizations responded that they use mixed quantitative and qualitative types of data as collection method to measure the performance of their activities.

5.2 Recommendations

Based on the analysis of results in the preceding chapter, this study suggests the following things to be taken in to account. Thus, the following points are suggested to ensure successful implementation of performance measurements in nongovernmental organization operating in Ethiopia.

- With respect to reason for measuring performance, several researchers stated that the reason for today's implementation of performance measures in most

nonprofit organizations are a reason to respond to external requirement or demand. Similarly, result of the analysis in the previous chapter indicated that the main reason for measuring performance in the studied organizations was to fulfill the requirements imposed on them from external stakeholders mainly from funders and government. The little use of performance measure for internal purpose was responded by many organizations. From this, researcher draws the conclusion that only reason for measuring performance should not only be to satisfy external stakeholders. But one should also be assure that it is beneficial for the receivers of the services as well. Performance measurement must make sense to the different actors involved in the organizations, especially to the members and the users of the organizations, who in most cases are the least benefit. Only fulfilling external demands cannot contribute to performance improvement within the organizations. Thus, the organizations seem to be aware of the fact that performance measures are useful to improve the organization by increasing efficiency and effectiveness. Therefore, it is believed that it is important among these organizations to optimize their internal capacity. As many authors stated, output are easy to measure but say nothing about actual changes in a client. In contrary, measuring outcome enable the organization to see to what degree they achieve their goals and mission.

- The result of analysis in the previous chapter showed that the dominance of output performance measure in most organizations. The result from interview also revealed that, lack of resource and staff skill as main barriers for low use of outcome performance measure. Thus, to offset these barriers, it is suggested that appropriate trainee should be given to staff in order to specialize them in conducting outcome performance measure and funds or resources for conducting outcome performance measure which are not 'ear marked' for other purpose like for example helping the poor should be

assigned for conducting outcome performance measure since this activity requires significant up-front investment as indicated by many authors.

- As far as the type of data collected for measuring performance is concerned, the result of this study indicated that the dominance of mixed quantitative and qualitative data for measuring performance. Thus, this result should be appreciated because using only either pure quantitative or pure qualitative have its own disadvantage. However, the mix of both quantitative and qualitative can offset the disadvantage that could result from using only either of them. Thus, it is believed that, the organizations are on the right track based on the opinion of the researcher. Therefore, it is better if they keep on doing so in future.

These recommendations, if implemented, will help to ensure that Nongovernmental Organizations have the capacity to properly design and deliver the many important services and programs Ethiopian have come to rely on.

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Appendix 1: Survey instrument

The study is entitled “performance measurement Practice of Nonprofit Organizations: the case of selected nonprofit Organizations in Addis Ababa Ethiopia”. The researcher is Abdeta Debela, who is currently postgraduate student of Accounting and Finance at Addis Ababa University, Addis Ababa, Ethiopia.

The objective of the study is to identify how and why nonprofit organizations measure their performance. To carry out this study, sample of about forty organizations including both local and foreign NGOs are selected. Thus, the study needs your participation to respond for the questionnaire and the results obtain from the questionnaire will be further studied to better understand measure of success available and furthermore, the reason for measuring performance in NGOs are explored in detail.

The questionnaire responses will be analyzed anonymously in order to preserve confidentiality. Thus, respondents' name will not be included in the study report. At the end of the study, the summery of findings will be forwarded if you deserve it through your e-mail address.

Thank you in advance

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Respondent's profile (please mark the box that best describes your response)

1. Which of the following best describes your current educational level?
 - ☐ Diploma or certificate
 - ☐ Undergraduate
 - ☐ Postgraduate
2. In which one of the following type organizations you include of yours?
 - ☐ Local NGO
 - ☐ Foreign NGO
3. From where your organization generate fund(Source Of Fund)
 - ☐ Internal
 - ☐ External
 - ☐ Both Internal and External
 - ☐ Don't Know/No response

Part 2: Performance Measurement Related item (please mark the box that best describes your response)

4. Have You Conducted any Evaluation in the Past?
 - ☐ Yes
 - ☐ NO
5. If you conducted any evaluation in the past, have you collected information on a project, program activities or outputs?
 - ☐ Yes
 - ☐ NO
6. If you conducted any evaluation in the past, have you collected information on the Outcome or impact information?
 - ☐ Yes
 - ☐ NO
7. Which item of information you collected for your most recent performance measurement do you suppose as the most challenging?
 - ☐ Collecting evaluation information on a project, program activities or outputs
 - ☐ Collecting outcome or impact information

Please indicate to what extent you agree with the demand of funders in measuring outcome

8. The demand of funder to measure and provide outcome information has increased

☐ Strongly agree	☐ Agree	☐ Neutral	☐ Disagree	☐ Strongly disagree
---	--------------------------------	----------------------------------	-----------------------------------	--

9. What types of data are collected for measuring the performance of your organization?

- ☐ Quantitative
- ☐ Qualitative
- ☐ Both Quantitative and Qualitative
- ☐ Don't Know/ no response

Part 3: Internal versus External reason measuring performance (please mark box that best describes your response the extent you agree with the reason for measuring the performance of your Organizations)

Section A: Internal Reason

10. It was Required by our Staff or Board:

☐ Strongly agree	☐ Agree	☐ Neutral	☐ Disagree	☐ Strongly disagree
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11. To improve Services:

☐ Strongly agree	☐ Agree	☐ Neutral	☐ Disagree	☐ Strongly disagree
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12. To plan Future Program

☐ Strongly agree	☐ Agree	☐ Neutral	☐ Disagree	☐ Strongly disagree
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13. To train or Reassign Staff:

☐ Strongly agree	☐ Agree	☐ Neutral	☐ Disagree	☐ Strongly disagree
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Section B: External Reason

14. It Was Required by a Funder

☐ Strongly agree	☐ Agree	☐ Neutral	☐ Disagree	☐ Strongly disagree
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15. For Accreditation Purpose

☐ Strongly agree	☐ Agree	☐ Neutral	☐ Disagree	☐ Strongly disagree
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16. It was Required by a Government

☐ Strongly agree	☐ Agree	☐ Neutral	☐ Disagree	☐ Strongly disagree
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17. To comply With New Funding Requirements:

☐ Strongly agree	☐ Agree	☐ Neutral	☐ Disagree	☐ Strongly disagree
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Note: If you deserve to have study's summery report at the completion of the study, please provide you email address in the space provided (your address will be confidentially handled):

Thank You