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Applying Commercial Accounting Regulation on Aid Agencies

- Potential Consequences for Aid Agencies and their Stakeholders**

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SUMMARY

Seminar date	June 1 st 2011
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Key words	Accounting regulation, aid agency, non-profit organization, donations, trust
Purpose	The purpose of this thesis is to study if and how Swedish accounting regulation create misunderstandings between Swedish aid agencies and stakeholders. Further we are going to analyze if there is a need to improve Swedish accounting regulation to increase faith between the agency and its stakeholders.
Methodology	The study is based on a qualitative approach and the primary sources consist of a number of semi-standardized interviews.
Theoretical perspectives	In the frame of references commercial and complementary accounting regulation for aid agencies are included and some difficulties in aid agencies financial statement are presented. The theory includes both legitimacy and agency theory to describe the relationship between aid agencies and stakeholders.
Empirical frame	The primary sources have been collected through personal, telephone and email interviews. Representatives from the Red Cross, Plan Sweden, UNICEF Sweden, SFI, FRII and Charity Rating have been interviewed.

Conclusions

We conclude that misunderstandings can arise between aid agencies and stakeholders when aid agencies service outputs are measured in accordance with commercial accounting practices. A need to improve accounting regulation within the non-profit sector has decreased along with the emergence of complementary regulation.

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Lund May 24th 2011

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DEFINITIONS

CEO	Chief Executive Officer
CFO	Chief Financial Officer
CPA	Certified Public Accountant
FAR SRS	trade organization for the accountancy profession
FN	United Nations
FRII	the Swedish Fundraising Council
KKR	thousand Swedish crowns
LO	a central organization for Swedish workers
SACO	a central organization for Swedish academics
SEB	a Scandinavian bank
SEK	the Swedish currency
SFI	the Swedish Foundation for Fundraising Control
TCO	a central organization for Swedish employees
UNICEF	the United Nations Children's Fund

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1. INTRODUCTION

The opening chapter starts with a description of the background regarding our choice of subject. The background information is followed by a problem discussion leading to our problem definition and the purpose. Finally we present the limitations and the disposition of the thesis.

1.1 Background

The historical context of non-profit organizations was developed during the end of the eighteenth century in Europe. Changing social needs in line with the liberal culture of the time developed charities and mutual organizations which involved areas of social work and health care. Non-profit organizations were established to achieve a beneficial purpose and began to distribute both human and material resources to the community. Since then, the interest for the non-profit sector has steadily increased. (OECD, 2003) Political parties, labor unions and religious organizations are some examples of non-profit organizations (Gustafson, 2006a). Swedish citizens have significant involvement in non-profit organizations through different voluntarily efforts which contributes to social welfare (Thunberg, 2006). This implies that the commitment for non-profit organizations will continue in Sweden.

Different types of non-profit organizations have different purposes with their operation. Aid-agencies are a type of non-profit organization, which in Sweden developed during the 1960s. This organizational type is a charity foundation with purposes to help and support primarily third world counties by raising standards of living for poor people by eliminating hunger, mass poverty and diseases, and overall to build opportunities for decent living conditions. Aid agencies deal largely with transfers of resources such as volunteer work and gifts. (Odén, 2006)

Aid agencies differ from profit-driven organizations in several aspects. A significant difference is that aid agencies lack the purposes of distributing profit. Instead they give more importance to defining social goals, representation of different stakeholders and democratic control. (OECD, 2003) In addition, aid agencies transactions with the outside world are not necessarily monetary. An example of a significant difference between aid agencies and profit driven organizations is that in agencies there is no specific connection between the donators of gifts, those providing with resources and those who finally uses the resources. This

connection can be seen in profit-driven organizations in terms of those contributing with capital usually takes advantages of the results. Utilization of resources in aid agencies is entirely based on trust and financial reporting becomes therefore a fundamental tool of contributing trust to the many different groups of people who have an exchange with the agency and a strong interest in how activities are reported. (Gustafson, 2006a)

There is no central civil regulation specifically for aid agencies and non-profit organizations today. These organizations follow the same accounting regulations as profit-driven organizations, hence commercial accounting regulation. (Hemström, 2010) Accounting regulation in bookkeeping is framed in the Bookkeeping Act (*Bokföringslagen* 1999:1078) and regulation for financial statements is framed in the Annual Accounts Act (*Årsredovisningslagen* 1995:1554). According to the Bookkeeping Act, bookkeeping becomes compulsory when a non-profit organization practice business operations, is a parent company in a corporate group or if total value of assets exceeds 1.5 million SEK. Further accounting regulations are specified by the Accounting Standards Board through BFNAR, 2010:1 which provides recommendations in general advices to both profit- and non-profit organizations. In addition, the Swedish Foundation for Fundraising Control, SFI, is a non-profit control body existing to ensure that funds are used properly (The homepage of SFI: 1) and the Swedish Fundraising Council, FRII, operates for a beneficial climate for non-profit and collecting work. (The homepage of FRII: 1).

Gustafson (2006b) express that accounting practices for profit-driven organizations cannot easily be transferred to aid agencies. For example, the item *profit/loss for the year* in the income statement for profit-driven organizations is defined as the difference between expenses and revenues received during the year and are related to performances. However, in aid agencies there are usually no connection between the donor of a gift and the consumer of the gift, which makes the absence of performances difficult to measure. A loss in the income statement is therefore not necessarily “negative” for aid agencies. Consequently, applying the same accounting regulation for aid agencies as for profit-driven organizations might result in incomprehensive financial reports and mislead stakeholders who have different informational needs in comparison to stakeholders of profit-driven organizations.

Furthermore, there has been great media attention on the non-profit sector due to some scandals concerning some of the largest aid agencies. For example, a former chief at both the Red Cross and the Cancer Foundation has been charged with fraud and accounting violation

and two co-workers has been charged for permitting fake invoices to the Red Cross and the Cancer Foundation. (Röda Korsets chef åtalad för bedrägeri, 2010) Further criticism includes directors' high salary at some aid agencies, which claims to have consisted of a large part of Swedish donors contributions (Boström-Einarsson, 2010). An examination made by Swedbank Robur in January 2011, shows that Swedish citizens have a lower trust in aid agencies in comparison to 2010, due to scandals observed in media which have resulted in lower trust among stakeholders. Stakeholders are specifically interested in knowing how their voluntary contributions are distributed and since agencies turnovers mostly consist of private funds, it should be in their interest to be transparent enough to protect stakeholders' interest Gustafson (2006b).

1.2 Problem discussion

Both the Annual Accounts Act and the Bookkeeping Act were originally framed for profit-driven organizations but they do also regulate accounting and financial reporting for non-profit organizations. The meaning of the income statement which summarizes corporations' transactions with its environment has different meanings for non-profit organizations. Concepts of profit/loss, revenues and costs may differ in importance since the purposes between non-profit and profit-driven operations differ. If contributions as gifts are estimated as revenues in a non-profit organization, it becomes rather difficult to determine whether the transactions require any links to performances. (Gustafson, 2006a) Since there are salient differences between profit- and non-profit driven organizations purposes and ambitions, it affects the form and content of financial statements. This develops considerations of how the financial reporting of aid agencies is affected by the requirements to follow commercial accounting.

There are also other channels of communication besides financial statements that communicates how non-profit organizations resources are distributed, such as observation from media. Along with the many scandals and criticism of the sector there is a threat on the stakeholders trust. (Gustafson, 2006a) Thereof, the need of control of these organizations has increased to make sure that donators' contributions are safe (The homepage of SFI: 1). Despite the fact that there are many options in communication channels, regulated demands in financial statements do not create the same functions for all non-profit organizations because there are many different types of organizations (Gustafson, 2006a). Aid agencies are to a large extent characterized by coping with voluntary gifts and contributions and their relations

to stakeholders becomes extremely important as they have a great interest in knowing how such resources are being managed and reported by the aid agency.

For both profit- and non-profit organizations to follow the same accounting regulations can therefore create misunderstandings as their purposes with the operation differ. Not only problems for the representatives of the aid agencies as the producers of the financial statements, but also for stakeholders as the readers of available accounting information. Control bodies as SFI and FRII contribute with complementary regulation for non-profit organizations with purposes to control members' financial accounting and to help strengthen organizations trust. Despite this confidence-inspiring role which they take, it is interesting for us to study the potential consequences that arise from the complexity of direct and complementary regulation for aid agencies and their stakeholders.

A final discussion area to study is to what extent there is a need to change current accounting regulation for aid agencies in Sweden. As we have acknowledged, applying commercial accounting regulation for aid agencies might be problematic in many different ways for the agencies and can mislead stakeholders. Therefore, it is interesting to study if there are any ways to improve accounting practices, not only for aid agencies, but for the whole non-profit sector.

1.3 Problem definition

In summary we can see that there might be misunderstandings interpreting income statements of aid agencies based on commercial accounting regulation. We have noted that different operational purposes create differences in the disclosures of accounting information. This leads to the following questions:

- In what ways do commercial accounting regulations, which also regulate accounting for aid agencies, create misunderstandings between the agency and their stakeholders?
- Is there a need to improve current accounting regulation for aid agencies?

1.4 Purpose

The purpose of this thesis is to study if and how Swedish accounting regulation create misunderstandings between Swedish aid agencies and stakeholders. Further we are going to analyze if there is a need to improve Swedish accounting regulation to increase faith between the agency and its stakeholders.

1.5 Limitations

Our choice is to study aid agencies that possesses a 90-account and are members of FRII. Hence they have to meet the requirements compulsory for closing their accounts and establishing financial statements. Further, we are only going to include Swedish aid agencies to be able to make good comparisons and a fair analysis, since SFI and FRII operate within the country.

1.6 Disposition

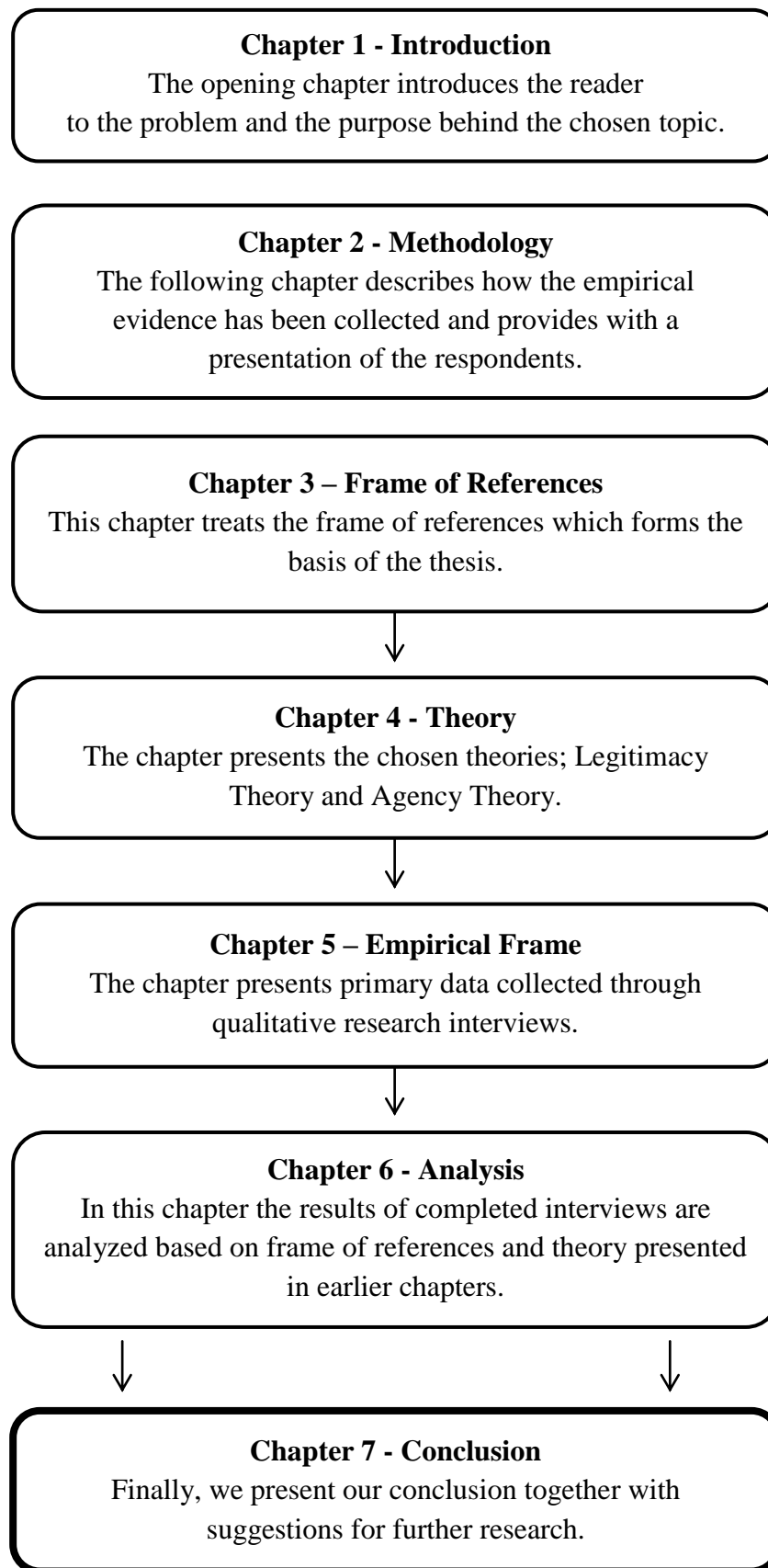


Figure 1: Disposition of the thesis

2. METHODOLOGY

The following chapter defines our choice of subject and the research process of the thesis. Further, the empirical selection and chosen respondents are being described and discussed along with chosen sources.

2.1 Choice of subject

People in today's society have strong interests in helping other people who are in need, for example by contributing voluntary gifts or loans. An increased interest is largely created by media who convey valuable information to stakeholders about various disasters around the world, which both draws attention and creates a need among the public to help out. This attention is also observed through different scandals of frauds and extremely high salaries which have haunted the non-profit sector lately. Aid agencies become an interesting choice to study because their purposes are to help people around the world by transferring voluntary gifts or loans from stakeholders. Our knowledge in accounting practices for non-profit organizations and how it distinguishes from business organizations is in the present situation rather limited, which encourages us to start working on the thesis in order to develop a deeper understanding in this area.

2.2 Research process

2.2.1 Qualitative method

The starting point of our research process is a qualitative method. Bell & Bryman (2005) describe qualitative method as being based on the researcher's perceptions and include approaches of participative observation and interviews with respondents. The focus here is on the meaning of words rather than numbers, as defined in a quantitative research. To be able to analyze the problem of this study in best way possible and to create understanding for the chosen subject, our main focus is to interview respondents from aid agencies, control organs and a representative for the group of stakeholders. Since our problem definition concern how aid agencies are affected by commercial accounting regulation it was a rather obvious choice to interview representatives of some aid agencies. Yet, to investigate if stakeholders experience any consequences due to current accounting regulation we wished to interview someone that could represent "stakeholders". We wanted a representative of an organization who could represent the different stakeholders in best way possible instead of a single stakeholder or donor who only possesses a limited amount of influence on aid agencies. We

therefore contacted the interest organizations Charity Rating who represent the voice of donors and stakeholders and aim to increase the transparency in aid agencies operations. Finally, to investigate if current accounting regulation creates misunderstandings or if there is any need to change the regulation, we also aimed to interview those standing behind complementary accounting regulation. We contacted the Swedish Foundation for Fundraising Control, SFI, which is a control organ that approves fundraising through the use of a 90-account, and the Swedish Fundraising Council, FRII which facilitate accounting and reporting for aid agencies. SFI and FRII with their considerable knowledge and influence on aid agencies and on accounting matters provided us, together with the rest of the respondents, with a wide perspective necessary to analyze the problem definition.

With the use of personal, telephone or email interviews, we have been able to take part of the respondents' answers and views on the asked questions, and also been given opportunities to ask complementary questions. A qualitative method is a good way for us to proceed as it provides us with closeness to the reality we aim to investigate and an overall picture of the respondents.

To gain as much knowledge as possible within our chosen field of research, the thesis has taken the direction of an exploratory investigation, which according to Patel & Davidsson (1991) is commonly done by investigating the problem from several angles and thereby using multiple methods of investigation. Thus, our knowledge within the problem area is rather limited when we first start off which encourage us to search relevant information in multiple ways. The focus of our inquiry therefore starts of broad in order to progressively sharpen and get narrower as the investigation proceeds. With this approach we move toward a clearer understanding of how the problem is to be posed.

2.3 Primary sources: interviews

The primary collection has mainly been shaped through interviews, as according to Langemar (2008) is seen as a good method to use in a qualitative research, in order to receive information which is not available or documented for external parts. By interviewing the respondents we are able to catch their different views and thoughts about the problem area and also contributing with their personal feelings regarding the problem.

2.3.1 Choice of organizations and respondents

Instead of making a random selection of aid agencies we had certain criteria we wished to fulfill in the selection process. The chosen agencies had to possess a 90-account and be members of FRII for us to analyze if current accounting regulation is sufficient or if the accounting should be changed. Smaller agencies were excluded as we considered large agencies to provide us with greater information and comparability in between. After we initially had observed some of the largest and most well known aid agencies through their web sites we chose to contact some of them.

Figure 2 refers to the chosen representatives. We wanted to get an extensive perspective of various respondents who we considered relevant for the thesis. To be able to present an overall picture of various respondents views we found it significant to have a variation of aid agencies, external control organs and as we call it, an appropriate organization representative for the group of stakeholders.



Figure 2: Overall picture of the chosen organizations

Before we contacted respondents we agreed on interviewing three aid agencies, both SFI and FRII and an organization representing the stakeholders, hence in total six appropriate representatives. We believed this selection of respondents to provide with a broad perspective concerning the problem of this study. All respondents were at first contacted through email. We informed them about the aim and the background of the problem and a short description of how the interviews were going to be composed. After the respondents answered and decided to participate in interviews we began the process of interviewing. The participants have been most sympathetic to provide us with answers and relevant information for our

thesis. The selected respondents and the organizations which they represent are presented in the table below:

Table 1: Representative organizations and the respondents' positions

Organization	Respondent	Position
the Red Cross	Eva Rundgren-Forsberg	CFO
UNICEF Sweden	Fredrik Hedberg	CFO
Plan Sweden	Christina Hanze	Finance manager
SFI	Eva Birath	Chief secretary
FRII	Eva Törning	Accounting specialist
Charity Rating	Camilla Backström	CEO

The CFO at the Red Cross, Eva Rundgren-Forsberg, has been working for the agency since 2006. Rundgren-Forsberg has 15 years work experiences as an auditor for the audit firm PWC and as a controller for an anonymous company. The purpose of the Red Cross is to prevent human suffering worldwide and the agency possesses a 90-account and is a member of FRII. The CFO at UNICEF Sweden, Fredrik Hedberg, has only 6 month experience in the non-profit sector since he started to work for UNICEF in November. Hedberg has earlier work experiences as CFO, key account manager and consultant in a variety of businesses. The purpose of UNICEF Sweden is to involve politicians and collect money and other donations to create a better world for children in need. The agency possesses a 90-account and is a member of FRII. The finance manager at Plan Sweden, Christina Hanze, has been working at Plan for two years and her earlier experiences have mostly consisted of working with accounting at SEB for 14 years. Plan Sweden fight for children's rights and are members of FRII and hold a 90-account.

Eva Birath posses valuable knowledge as representative of SFI and has been working for the organization since 2006 in the position of chief secretary. Birath has earlier worked as a district court-law clerk in Stockholm's district court for 30 years. The representative of FRII, Eva Törning, has worked for the organization since 1999 as accounting specialist. Törning have a long professional background within accounting. She has developed the general guidelines of FRII (rules and guidelines when establishing the financial statement) and is included in FARS policy group regarding accounting issues as well as in the development of

the Annual Accounts Act and the Bookkeeping Act. Törning has also work experiences as CPA and CFO. The CEO of Charity Rating, Camilla Backström, has worked for the organizations since August 2011. Earlier work experiences have consisted of 25 year in the commercial business world. Charity Rating is religiously, politically and economically independent and also independent of other non-profit organizations, such as SFI and FRII.

Since all respondents' of the aid agencies work within finance we suspect a resemblance in their viewpoint. In addition, all of them have great experience within accounting and work assignments related to the financial information published by the agencies. We therefore believed that they shouldn't argue for many problems due to current accounting regulation. Yet, our starting position is to investigate accounting regulation and practices and to choose respondents with knowledge within this area is therefore the most obvious choose to make.

2.3.2 Interview method

To be able to answer our problem definition in best way possible we framed questions based on the definition to ask the respondents. The asked question has been framed in accordance with semi-standardized interviews. Lundahl & Skärvad (1999) explains that respondents then are assigned with predetermined questions and that it is allowed to ask complementary questions during the interviews. This has provided the respondents with the possibilities to give their view points on the problem and the complementary questions have given them the opportunities to answer in more detail.

Our primary goal was to perform personal interviews but as the majority of the respondents are located in Stockholm, the geographical distance has limited this opportunity considerable. Only one respondent was located in Helsingborg, which made it possible for us to perform a personal interview. In the other cases, we have performed a mixture between telephone and email interviews. Disadvantages with the latter methods are that the abilities to read body languages disappear and the dialogues become less open (Jacobsen, 2002). Yet, both time and resources have been spared with the latter methods, as well as it has been easier to compile email interviews afterwards.

2.3.3 The interview process

As we determined earlier we have used semi-standardized interviews where each respondent have been assigned with predetermined questions in advance, which can be seen in appendix 1-3. By sending out the questions in advance through email, we gave the respondents the benefits to both reflect upon the questions and to take the time they needed to prepare themselves when answering. The interview questions were divided into three relevant themes to be able to answer the problem definition in best way possible. Even though all questions were related to the problem definition there have been a variety of questions which has differed considering whom we were interviewing. Therefore, we have framed individual interview guides for the aid agencies, SFI/FRII, and finally for Charity Rating.

Though all participative respondents have been asked if they wished to be anonymous or not in the thesis, none of them choose to be anonymous. The purpose of providing them with such a choice was to make sure that the respondents felt safe and able to speak freely during the interviews. The personal and telephone interviews have all been recorded. As Bell & Bryman (2005) argues, recording interviews make it easier for the authors to exclude their own values when the empirical data is written down and to ensure that no information is being lost in the process. We took the opportunities to develop follow-up questions during the interviews to ask the respondents in order to get as much information as we strived for.

When the interviews were performed we sum up the given answers to summarized texts. The summarized texts were then sent back to each respondent in order to give them the opportunity to read through and comment on the text. If the respondent had additional comments to add, we made sure to include the additional information as long as it was relevant in relation to the questions and previous answers.

2.4 Secondary sources

Chosen secondary sources have mostly consisted of literature, articles and web sites. Visited web sites of Charity Rating, SFI and FRII have contributed with relevant information, specifically the two latter ones due to the external control of aid agencies accounting disclosures. Information from the aid agencies web sites have also been gathered, such as the latest published financial statements. The financial statements have been studied in order to obtain a picture of how the aid agencies prepare their financial reports and what kind of information they chose to present to stakeholders. Further, to be able to describe and create

understanding for the reader of how the accounting regulation of aid agencies is structured, regulations of the Annual Accounts Act and the Bookkeeping Act have been studied.

2.5 Reliability and validity

A fundamental question when it comes to research is the reliability of a study. Reliability exists when different and independent measurements of the same phenomena results in the same or approximately the same results (Bell, 2000). The main factor that may have affected the reliability of this thesis is the selection of aid agencies and respondents to interview. One possible way to measure the reliability would be if someone else performs an interview with the same respondent and with the same questions to see if the gathered answers equal the previous answers. All respondents were well prepared for the interviews and since we contacted them for further questions along the way and also to clarify some answers, we believe that someone else also would have got the same result as we did. (Bell, 2000)

In addition, validity deals with if we measure what we are supposed to measure, hence if the interviews are giving us the information needed to answer our questions. It is important to use questions which are carefully designed and provides with high validity in order to limit the possibilities for the respondents to answer differently from what the intentions are with the questions, even if their answers may seem interesting (Bell, 2000). To measure this we have developed interview questions related to the theoretical and practical frame of references so they will provide with answers related to the aim and problem definition. Also, to increase the validity further, we screened the collected answers afterwards to make sure that the information was relevant for the thesis.

2.6 Criticism of the sources

Meaningful secondary sources for this thesis have been the web sites of both SFI and FRII. We believe the information available on these web sites to be highly reliable since the purposes with their operations are to both control aid agencies and to increase their trustworthiness to society. Further, we believe the written sources to be highly reliable since they are mostly written by well known authors within the field of this subject. The respondents' working positions and contributions of relevant knowledge were taken into account when selecting them for the interviews. The interviews have further been examined by investigating the respondents own descriptions of their working positions in the organizations they represent, which we have considered to be enough. The consistency

between primary and secondary sources has been controlled and compared afterwards to assure high truth-value.

2.7 Criticism of the interviews

We decided to approach the respondents by contacting them through emails, which we came to experience some difficulties with. The majority responded answered rather fast if they were interested or not in participating, while some unfortunately provided us with answers a long time after the requests was sent out.

All respondents were given the opportunities to perform the interviews either by telephone or email, due to the geographical distance. Though our primary choices were to perform personal interviews, we only had the opportunity to perform one personally, in Helsingborg. Although we preferred telephone interviews before email, it was a hectic time for many which made some of the respondents to prefer interviews by email so they could answer in peace and quiet when they had the time.

Not only did we notice the personal and telephone interviews to be more valuable for us because we had the opportunities to clarify possible problems and ambiguities at once, but also more elaborated and detailed answers. In comparison, interviews by email provided us with some drawbacks. The wealth of details or content in the responses was not always as well performed as in the other methods. Despite the fact that we had the options to send complementary questions we acknowledged pressure of time when the answers were not sent back to us within our wished-for timeframe. Such time pressure was excluded when collecting and processing the personal and telephone interviews. Our time schedule was indeed affected and pressured in the process of gathering answers through emails.

3. FRAME OF REFERENCES

This chapter presents the frame of references, mainly describing commercial accounting regulation for aid agencies and complementary accounting regulation by SFI and FRIL. Furthermore we will describe some difficulties in aid agencies financial statements to stress the complexity within the industry.

Available literature within the area are mostly dealing with the term “non-profit organizations” which embodies non-profit organizations such as trade unions, sports associations and aid agencies. Only a limited part deals with aid agencies separately and their accounting practices. For that reason and to a large part, we will be using the term non-profit organizations instead of aid agencies.

3.1 Non-profit organizations

Where the ultimate vision for profit-driven organizations is profit-maximization, the primary vision of non-profit organizations is not to distribute profits but to fulfill different needs in society. Although a non-profit organization can both have non-profit purposes and look after its members economic interests. The only condition is that non-profit organizations are not engaged in businesslike operations. (The homepage of Skatteverket: 1) In addition, voluntary work and gifts are significant fund raising activities in charity foundations and money are looked at as a complement, according to Leopold (2006). Further, results from activities in aid agencies aim to provide resources. It is not a matter of receiving rewards for accomplishments, but rather to have a certain purpose with the operations and to fulfill a need. An agency’s image helps to develop trust, engagement and support from people who contribute with resources as a result.

Hemström (2010) explains that the purpose and the operation in non-profit organizations can differ heavily and that there are three types of non-profit organizations. One type of organization is where the members’ economical interests are promoted through non-economical operations, such as labor unions. Further there are organizations that promote non-economical interests through non-economical operations, such as religious organizations or charity foundations. Finally, there are organizations that promote non-profit interests through economical operations, for example organizations with business operations in handmade crafts. Moreover, non-profit organizations according to Lundén & Lindblad (2008) can be classified as being in stakeholders’ interest, such as charity foundations where aid

agencies are included. This means that their ideal vision is first and foremost to promote stakeholders interest before realizing the organizations own interest.

3.2 Accounting regulation for non-profit organizations

Although there is no specific accounting regulation for non-profit organizations, doesn't mean that they stand outside any accounting regulation. Non-profit organizations have to follow commercial accounting regulation of the Bookkeeping Act. (Hemström, 2010) According to the Bookkeeping Act (1999:1078), chapter 2. 2 § p.1, bookkeeping becomes compulsory for non-profit organizations that practices business operations, is a parent company in a corporate group or if total market value of assets exceeds 1, 5 million SEK, as illustrated in figure 3 below. Recommendations and guidelines in book-keeping are further provided in the general advices of the Accounting Standards Board (BFNAR 2010:1).

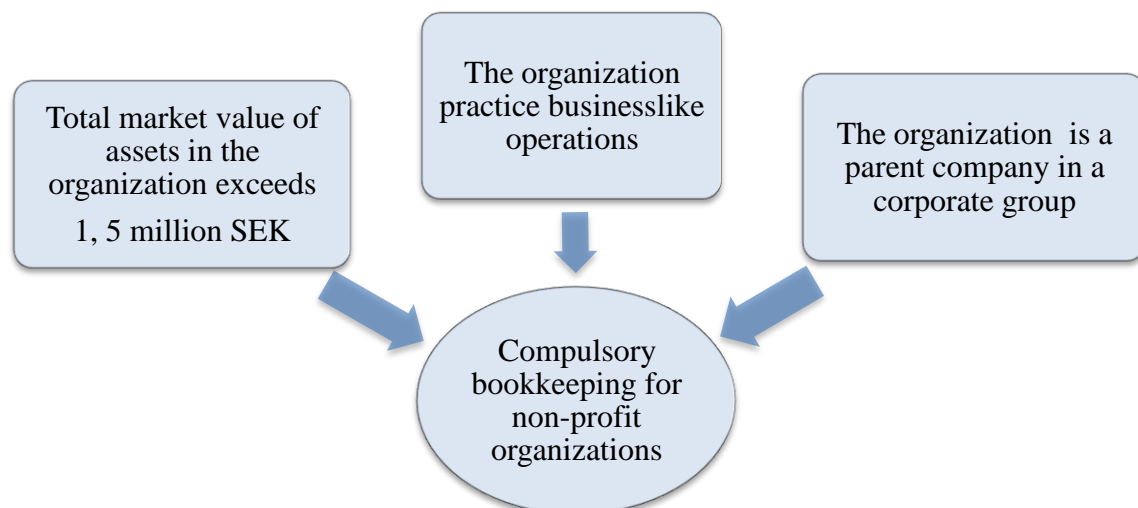


Figure 3: Compulsory bookkeeping for non-profit organizations

If non-profit organizations meets the requirements compulsory for bookkeeping they have to close their accounts with either an annual financial statement, annual accounts or a simplified annual accounts, according to the Annual Accounts Act (1995:1554). A non-profit organization that meets more than one of the following requirements during one of the last two fiscal years must close their accounts with an annual financial statement:

- Average number of employees amounted to more than 50
- The total reported balance sheet amounted to more than 25 million SEK
- Reported net sales amounted to more than 50 million SEK

(The homepage of Skatteverket: 2)

An annual financial statement should be prepared in accordance with the rules of the Annual Accounts Act chapter 2.1 §. It should consist of a balance sheet, an income statement, notes and a management report. A non-profit organization that is not compelled to prepare an annual financial statement shall instead prepare an annual account. If the amounts of annual net sales do not exceed 3 million SEK, the organization may instead prepare a simplified annual account. Annual accounts consist of a balance sheet, an income statement and additional information in accordance to accounting rules of the Bookkeeping Act. A simplified annual account consists of a balance sheet, an income statement and is prepared according to generally accepted accounting principles. If the organization is required to prepare an annual financial statement, there should at least be a CPA to review the financial reports. (The homepage of Skatteverket: 3)

3.3 The complexity in aid agencies financial statements

Financial statements are significant because they provide information about aid agencies' operations to both members and stakeholders, according to Lindblad & Lundén (2008). Financial statements provide members with opportunities to estimate how the board members have managed operations and voluntary contributions from donors. Gustafson (2006a) argue that compulsory rules of the Annual Accounts Act regarding layout of both balance sheet and income statement has different meanings for non-profit and profit-driven organizations. Concepts such as profit/loss, revenues, costs and equity become very complex in aid agencies.

By summarizing all revenues and costs in the income statement which have affected the organization during the year and in accordance with generally accepted accounting principles, the aim is to provide a fair picture of the agency's financial operation and result. However, it is rather complicated to completely understand the content of profit/loss for the year in aid agencies. A financial loss may indicate that an agency has planned to use funds received in the past and a loss can therefore be a "positive" financial result. Also, a profit is not necessarily "positive" but could be the result of failure in achieving the operational purpose. (Gustafson, 2006b)

Further, the concept of equity differs between profit organizations and aid agencies because aid agencies lack any ownership of capital which entitles owners in profit-driven organizations with certain rights and privileges as to share net profits. However, aid agencies need to have capital saved for the future, for example in preparatory purposes if catastrophes

occur. However, an increase in equity may be misinterpreted by stakeholders who conclude that aid agencies are in no need of their donations or external financing. (Gustafson, 2006b)

Moreover, revenues in profit-driven organizations are related to accomplishments where money is exchanged against products or services at the time of an exchange. The difference here, which becomes problematic for aid agencies, is that there is usually no connection between the donors of gifts, those providing with resources and those who finally uses the resources. The question is whether aid agencies need to accomplish something in order to receive voluntary contributions or gifts. (Gustafson, 2006b)

Equivalent situation concerns the concept of costs which are described as efforts to obtain revenues by utilizations of resources. A large part of costs in aid agencies do not create revenues or can be matched with specific revenues, as they consist of voluntary gifts. It is therefore a complicated situation for aid agencies to follow commercial accounting regulation. (Gustafson, 2006b)

3.4 The Swedish Foundation for Fundraising Control (SFI)

The Swedish Foundation for Fundraising Control, SFI, is no public authority but a foundation. SFI is a control body operating through the donors interest and place strict requirements on aid agencies accounting practices in order to protect distribution of donors contributions (The homepage of SFI: 1). SFI was founded in 1943 as the predecessor of The Confederation of Swedish Enterprises, as the Second World War resulted in lots of contributions from the public. The founders of SFI originate from LO, SACO, TCO, The Confederation of Swedish Enterprise and FAR SRS. (The homepage of SFI: 2)

SFI promotes that:

- public fundraising for humanitarian, charitable, cultural and other public purposes are subject to satisfactory control
- fundraising is not burdened with excessive costs
- stable marketing techniques are used in the fundraising area
- appropriate methods of fundraising control are developed

(The homepage of SFI: 2)

3.4.1 Regulation and guidelines

SFI promote its objectives by offering control of all organizations that are engaged in public fundraising for the purposes set out above, with help of regulation and guidelines (The homepage of SFI: 2). All aid agencies must follow the Annual Accounts Act despite that small organizations only have to establish annual accounts in line with the Bookkeeping Act. In addition, SFI's requirements of information in financial statements are stricter than requirements in the Annual Accounts Act. For example, SFI command all revenues to be reported in gross value in the income statement. (The homepage of SFI: 3)

Further, SFI's own established forms regarding profit/loss must be completed and submitted to SFI together with the financial statement no later than 6 months after the end of the financial year. The forms are not included in the financial statement but instead function as a complement for SFI when performing control. The forms are much more specific than the financial statement and show for example where revenues and costs originate from, in detailed. (The homepage of SFI: 3)

Moreover, an audit report should be established by a CPA approved by SFI. The auditors review should be more subscribed than in a normal audit since a CPA should ensure himself that the aid agency meets its purpose and that SFI's regulations are followed. In addition, including an operating statement in the financial statement should communicate more in detail, for example *if* and *how* the objective has been achieved and if the agency has followed SFI's regulations and guidelines. (The homepage of SFI: 3)

SFI performs annual controls of aid agencies financial statements as well as on the established forms of profit/loss. The control includes verifying that funds are used for right purposes, that fundraising and administration costs are not too high, that fundraising are in a sound and ethical manner and that SFI's regulations are obtained. In addition, extended analysis of aid agencies key figures is included in the control. Special audits of individual aid agencies can also be performed when required. (The homepage of SFI: 3)

3.4.2 The 90-account

When an aid agency meets the specific requirements of SFI they will receive a seven numbered account starting with 90 from which the fundraising will be handled. The so-called 90-account is SFI's most famous control tool in guaranteeing an agency's truthfulness and that funds are used properly. It should be in an agency's interest to receive a 90-account since it can be viewed as a quality symbol in the eyes of stakeholders. Stakeholders should only

give contributions to agencies that possess a 90-account since it will guarantee them that agencies operate to achieve its purposes, uses legislative methods, et cetera. (The homepage of SFI: 4)

To obtain a 90-account the aid agency must meet the following requirements:

- the organization must have its seat in Sweden
- the organization must have a clear objective with the fundraising
- the purpose of the fundraising must be so determined that it is possible to control
- the fundraising must be managed by appropriate and economic knowledgeable individuals
- the organization must have an authorized or approved public accountant, a so-called office supervisor
- no more than 25 percent of the funds raised should go to administration costs
- the Board of the aid agency should not have any credit history
- the organization must submit their annual accounts to the SFI control

(The homepage of SFI: 4)

If an aid agency does not follow the regulations set up by SFI they will have their 90-account suspended (The homepage of SFI: 4).

SFI's own established forms of profit/loss:

The name of the organization	Code of industry	Org no:	
	<i>kk</i>	<i>kk</i>	
The organizations revenues and costs	2010	2009	Note
Operating Revenues from the public			
R010 Money collection			
R020 Membership fee			
R040 Sales of goods and services			
R050 Fundraising with donation certificates			
R060 Donations with conditions			
R070 Sum of contributions from the public	0	0	
Operating Revenues from the other			
R080 Grants/contributions from authorities			
R090 Grants/contributions from organizations			
R095 Grants/contributions from corporations			
R100 Sum of funds from authorities, org. and corporations	0	0	
R130 Other operating revenues			
R150 Sum of Operating Revenues	0	0	
R200 Project costs (paid out to the purpose)			
Fundraising Costs (the public)			
R210 Direct costs of the sales of goods and services			
R220 Direct costs of "fundraising with donation certificates"			
R230 Other fundraising costs			
R240 Sum of Fundraising Costs	0	0	
R270 Administration costs			
Income from Financial investments			
R280 Interest income, dividends et cetera			
R285 Capital profits, reversals of prior impairments			
R290 Interest costs and similar financial items			
R292 Capital losses, impairments of securities			
R295 Sum of income from Financial investments	0	0	
R300 Income after Financial investments	0	0	
R310 Taxes			
R315 Profit & Loss for the year	0	0	
Key figures %			
Adm- and fundraising costs/Total revenues			

(The homepage of SFI: 5)

3.5 The Swedish Fundraising Council (FRII)

The Swedish Fundraising Council, FRII, is a mutual trade organization for Swedish aid agencies. The organization consists of 125 aid agencies, such as the Red Cross, UNICEF Sweden and Plan Sweden. (The homepage of FRII: 1) Some of the aid agencies are representatives in FRII's board (The homepage of FRII: 2). To become a member an agency must possess a 90-account and thereof follow regulations of SFI. (FRIIs KVALITETSKOD).

The purpose of FRII is not to be a control body, but to work for a beneficial climate of non-profit and collecting work. FRII operate to prevent unreliable aid agencies as well as to improve the conditions between aid agencies and suppliers. In addition, FRII educate fundraisers and stakeholders to improve agencies operations and provide stakeholders with greater understanding. They are also actively involved in developing guidelines for its members and to provide with recommendations in aid agencies operations (The homepage of FRII: 1).

3.5.1 The quality code and the general guidelines

The quality code of FRII is a result of close cooperation between FRII and the auditing firm PWC. The 53 page document involves contributions to current accounting regulation of aid agencies. The quality code has a principle-based character, meaning that members follow it differently due to variety in aid agencies purposes and financial resources. Agencies should follow the code thoroughly or explain why they deviate from it. (FRIIs KVALITETSKOD)

The quality code involves guidelines in seven different areas:

- overall principles regarding the quality code of FRII
- attitudes to the public
- purpose and fruition
- directions, management and control
- co-workers
- reporting and information

(FRIIs KVALITETSKOD)

Moreover, FRII has developed FRII's general guidelines regarding accounting reporting, which is much more specific in the way of reporting than the Annual Accounts Act. Unlike the forms of SFI, the general guidelines and the quality code are not for FRII's own control but for aid agencies to use when establishing financial statements. Both are compulsory for

members but also recommended by SFI when establishing financial statements since the accounting information becomes more transparent than in line with the Annual Accounts Act.

The guidelines are the result of stakeholders' requirements on control of aid agencies operations and to ensure that contributions are distributed correctly. The aim is to facilitate establishment of financial statements for aid agencies and are in line with the Annual Accounts Act, saying that consolidated income statements should be function based and that items can vary due to agencies different purposes. Further, two significant items in a function based income statement are *project costs* and *fundraising costs*. Project costs are related to the purpose and fundraising costs are related to costs due to fundraising operations. Both items should be explained in the financial statement through notes. (The homepage of FRII: 3) Further, FRII has developed a classification of accounts to fit non-profit organizations (The homepage of FRII: 1).

4. THEORY

The chapter presents relevant parts of our chosen theories of Legitimacy Theory and Agency Theory and their descriptions of stakeholders' relationships to non-profit organizations. The theories will be treated as complementary, to emphasize the problem of our thesis and to help analyze our empirical material.

4.1 Legitimacy theory

Tilling (2004) defines organizational legitimacy as: “Organizations seek to establish congruence between the social values associated with or implied by their activities and the norms of acceptable behavior in the larger social system in which they are a part. In so far as these two value systems are congruent we can speak of organizational legitimacy. When an actual or potential disparity exists between the two values systems there will be a threat to organizational legitimacy.”

Further, DiMaggio & Powell (1983) also speaks of acceptable behavior in the larger social system. They argue that organizations adjust their behaviors to resemble each other, hence *institutional isomorphism*. They argue for three mechanisms. The first mechanism, *coercive isomorphism*, is associated with cultural expectations in society along with formal and informal pressures upon which the organization is dependent. Such pressure can be direct requirements of financial statements from the government, which shape organizations in similar ways. *Mimetic isomorphism* is resulting from uncertainty created in the environment and makes organizations to model themselves after similar organizations in their field which they find to be more legitimate. The final mechanism, *normative isomorphism*, stems primarily from members of professional groups, particularly managers collective struggle to achieve legitimacy for the methods of their work.

Suchman (1995) also state that organizational legitimacy is dependent on the larger social system, however independent of individual values. Suchman define legitimacy as a *perception* as it represents relevant reactions from stakeholders and their views of the organization. Further, legitimacy is *socially constructed* and reflects the conformity between the legitimated organization and the shared values of social groups. Yet, Aerts & Cormier (2009) suggests that organizations are able to control legitimacy and to change perceptions through sophisticated corporate choices and actions of resources. For example, if an organization wants its audience to keep a distance and only seek passive support from the audience, the

establishment of legitimacy might be rather low. On the contrary, if they seek active support, the demands and pressure of legitimacy increases. (Suchman, 1995) Aid agencies are typically seeking active support from members in terms of voluntary contributions and gifts which puts pressure on legitimacy.

Tilling (2004) explain legitimacy as being developed in four different stages where the initial stage is to *establish legitimacy*. It is important for the agency to consider aspects important for future operations, such as internal competence, market regulations and norms important for society. Secondly, *maintain legitimacy* includes ongoing work to show that everything is functioning well and trying to predict threats against legitimacy. In this stage it is important for the agency to adjust itself to society's values. Thirdly, *expand legitimacy* is when the agency enters a new market or change the way it operates to meet new demands on existing markets. The agency may have to expand its legitimacy to become more trustworthy among potential stakeholders. Finally, *defend legitimacy* occurs when the agency has been exposed to an internal or external scandal which may threat current legitimacy.

Organizational legitimacy is not only affected of how stakeholders acts toward organizations but also how they understand them. Stakeholders are in all likelihood supplying resources to organizations they recognize as desirable and appropriate. In addition, organizations they find meaningful, predictable and trustworthy. Thus, pursuing credibility by explaining the organizations existence of *what* they do and *why*, is highly significant (Suchman, 1995). Tilling (2004) argues that mobilizations of resources, consisting of various contributions from stakeholders, are essential for aid agencies when maintaining legitimacy. As legitimacy is associated to trust, aid agencies strive to receive as much donations as possible from stakeholders.

To fully understand legitimacy theory it is necessary to identify the different stakeholders who somehow affect the aid agency as the controller of resources. Tilling (2004) define critical stakeholders groups as those which the agency is dependent upon, such as the government, the public and media, stated below:

Table 2: Critical stakeholder groups (Influenced by Tilling, 2004)

STAKEHOLDER	RESOURCES UNDER CONTROL
The government	Regulation, funding and taxations
The public	Support in terms of non-profit work and contributions of gifts
Media	Indirect influence on stakeholder decisions

Aerts & Cormier (2009) contend that organizations use communication channels like media and more precise, financial statement disclosures, to signal to stakeholders that their corporate behavior is desirable and appropriate. Legitimacy is therefore significantly affected by the quality of financial statement disclosures and its economic-based information. Media has received great attention and is a powerful distribution channel as it provides society with much more information on aid agencies than average stakeholders have possibilities to find out on their own. Surely, media's exposure of financial information most certainly puts pressure and influence on organizations to increase their disclosures. The power of media attention might even increase pressure from the other sources above, for example increased regulatory oversight.

While legitimacy theory focuses on society's expectations in general, stakeholder theory discusses the power of separate stakeholder groups in society. Both theories are part of a broader social system which organizations have impact on. In addition, they are affected by different stakeholders. Similarities between the theories indicate that they should be treated as overlapping theories, as opposed to two distinct theories. Stakeholder theory recognizes that stakeholders have different demands in what information organizations provide concerning their operations. (Deegan, 2009) Aid agencies have to take different stakeholder expectations into account and decide whose expectations to conform to. In order to meet the stakeholders' needs, Ljungdahl (1999) claims financial statements to be a helpful tool to provide with required information and possibly to increase organizational legitimacy. In contrary, Gustafson (2006b) expresses that financial information provided to stakeholders of aid agencies, is not conformal to them or presents a true and fair view of the operations due to requirements to follow commercial accounting regulation.

4.2 Agency theory

Agency theory can be defined as a relationship with a “contractual agreement” between one or more persons (the principal(s)) and another person (the agent), where both are “wealth-maximizers”. By delegating decision-making authority to the agent, the principal aim to use the contractual agreement between the parties to engage the agent to perform services on his or her behalf. However, there are reasons to believe that a conflict will emerge between the parties if the agent is a “utility maximizer” on behalf of the principal. Principal-agent relationships exist everywhere in society, all from profit-driven organizations between shareholders and managers to various relationships in non-profit organizations. (Jegers, 2009) In this thesis, various stakeholders, such as donors are witnessed as principals and the board of aid agencies as agents.

Artsberg (2005) phrases that although aid agencies are non-profit organizations, stakeholders contribute with expectations that something well will result, such as saving lives, while the board aim to collect as much donations as possibly. This relationship and the problems emerging from it are affected by information asymmetry according to Jegers (2009), in terms of managers’ information advantages over stakeholders and incentives to misbehave as long as their behaviors are unguarded. Artsberg (2005) argues that the behaviors of managers are selfish and focusing on motivations such as personal reputation and income and therefore not pursuing the same objectives or goals as stakeholders.

When managers intentionally misstate their financial information to represent financial performance in a way that sends positive signals about the future or meet financial goals, it is defined as accounting manipulating (Artsberg, 2005). Trussel (2003) argue that managers of aid agencies may have incentives to manipulate certain financial information reported to stakeholders, such as the program – spending key figure (the percentage of expenses allocated to programs as instead to administrative or other functions) because some donors consider this key figure when making decisions regarding donations. While the managers strive to maximize service outputs to stakeholders it is rather difficult to measure, and spending key figure becomes applicable instead as measurement of service efforts. For example, managers have an incentive to allocate indirect costs in a way that shows activity levels. When total program costs (both direct and indirect costs) are disclosed together with total fundraising and administrative costs, organizations have shifted fundraising costs to the other costs. Consequently, cost calculation within aid agencies, of revenues and costs related to activities

can increase the information asymmetry if the calculations do not give a clear picture of the relevant costs. Therefore, Gustafson (2008) expresses that transparency in accounting information and financial statements is useful for stakeholders to make sure that the agencies fulfill their obligations, by monitoring financial performance and accounting figures.

4.3 Stakeholder faith

It is important for aid agencies to both create and maintain support and faith from stakeholders. The extent of people's faith affects their desires to contribute with resources and faith is therefore a crucial factor for the survival of many aid agencies. (Boric & Olczak, 2007)

Most recent media attention concerning aid agency scandals have shocked stakeholders and reduced the faith for the whole non-profit sector. One occurrence that jeopardized donors trust was the internal fraud scandal of the Red Cross where the former communication manager Johan af Donner, swindled large amounts of money by framing false invoices. In addition, the police interrogation revealed that af Donner had financial problems and a credit history in connection with tax debts and a large debt to SEB. Further media attention has been drawn to Bengt Westerberg, the president of the board of the Red Cross, regarding his reputable high salary payments which also decreased stakeholder's faith. (Röda Korsets chef åtalad för bedrägeri, 2010)

Financier Roger Akelius phrased in an interview that the bookkeeping of the Red Cross was catastrophic. The Red Cross had book kept expenditures such as members' reviews, advertising et cetera together with cost for emergency aid. In Akelius standpoint, the Red Cross was guilty of fraud. He argues that aid agencies should separate between expenditure and cost regarding emergency aid in the bookkeeping and not adding these in the same way as the Red Cross. The Red Cross must have a more ethical bookkeeping in line with norms and regulations to regain peoples' trust. (Alkelius, 2010) The scandals have contributed to a reduction in members for the Red Cross and a more skeptical view on non-profit organizations among stakeholders (Röda Korset tappar medlemmar, 2010).

It has been discussed if aid agencies can achieve more faith from stakeholders. According to Gometz (2006), it is impossible to purchase faith since it requires hard work during a long

period of time but at the same time can be taken away over a night. A destroyed faith requires much time and resources to regain. However, Rombach & Solli (2006) argue that the constant mission of reaching faith is dangerous because it can be harmful to have too many expectations aiming to fulfill. Instead, agencies should search for the “perfect” level of faith, hence searching for increased faith as long as it can be achieved in reality.

5. EMPIRICAL FRAME

The respondents' answers in this chapter provide the reader with the primary sources collected from our interviews. The main areas to be presented are potential problems for aid agencies and stakeholders due to current accounting regulation and if there is a need to improve the regulation. The aid agencies responses will be presented at first, then the control bodies' and finally the representatives of stakeholders'.

5.1 Eva Rundgren - Forsberg, CFO at the Red Cross

For aid agencies to follow the same accounting regulation as for profit-driven organizations does not create any special problems, according to Rundgren-Forsberg. On the contrary, it is positive for stakeholders in terms of facilitating the comparability and understanding of financial statements in different organizations and businesses. Further, Rundgren-Forsberg does not believe that the trustworthiness of the Red Cross is being jeopardized because they follow commercial accounting regulation. Aid agencies have the possibilities to choose their own key figures, specific within the industry, to demonstrate more ingoing the utility of donors' contributions. However, finding the most appropriate key figures is a real challenge. One important key figure of the Red Cross is fundraising/operating revenues, which indicates how much of total operating revenues originate from donors (the public and corporations).

In terms of key concepts of revenues and costs, Rundgren-Forsberg believes them to be relevant for aid agencies. Although she admits they can create misunderstandings, she believes it can be avoided by using appropriate items in the function based income statement. In addition, agencies can use suitable key figures to measure service outputs and explain calculated numbers in notes. Rundgren-Forsberg goes on explaining than a profit in the income statement is not necessarily "positive" since it may indicate that all contributions has not been distributed, hence the advantages are not maximized. At the same time, a loss may indicate that all contributions have been distributed, which is good. This area might be inadequate in commercial accounting regulation applied at aid agencies. Minor adjustments for aid agencies would have been preferred, such as clarifying the concept of revenues further. For example, stakeholders should easier be able to understand what the specific parts of total revenues consists of, such as fundraising, donations et cetera, argues Rundgren-Forsberg.

Information required from stakeholders regarding the operations of the Red Cross is provided through financial statements available at the web site and in printed versions. According to Rundgren-Forsberg, the Red Cross communicates a great deal of information to stakeholders, mainly through the financial statement, which ought to satisfy their needs. As explained above, by reporting detailed information, using valuable key figures and notes, will result in transparency of operations. Beyond this, she adds that a membership of SFI and to follow FRII's general guidelines provide the agency with a quality label in the eyes of stakeholders.

5.2 Fredrik Hedberg, CFO at UNICEF Sweden

Hedberg does not believe commercial accounting regulation to create any problems for UNICEF Sweden or to jeopardize their trustworthiness. Even though concepts of revenues and costs are originally developed for profit organizations, they are equally important for aid agencies, explains Hedberg. More specifically, UNICEF Sweden has some sales which generate revenues and costs. An invoice will be performed for cooperation with another organizations where there is common to have an expectation of a counter performance, such as appearing with the brand of UNICEF Sweden in some context. Still, equivalent terminology for the non-profit sector would have been desirable in some cases, as well as specifying revenues and costs more ingoing. The agency is a charity foundation, hence a profit is "positive" for the agency and a loss is "negative". Hedberg express his viewpoint in the following way:

If we report a loss, we have lost our legitimacy to operate in the sector. No one wants to put money in a black hole.

Naturally, the requirements of SFI and FRII have a great impact on accounting and on the internal performances of UNICEF Sweden. When it comes to communicating financial information and other relevant information to stakeholders, Hedberg emphasize the essence of transparency, for example by determining what costs are included in the project costs and to be able to communicate relevant information related to such costs to stakeholders. In fact, it is important to inform stakeholders about costs and revenues, since they want to know if their contributions have been distributed to its purpose. In addition, stakeholders wish to see reduced administration costs as well as increased revenues. Hedberg refer to the regulation of SFI, saying no more than 25 percent of the fundraising should be distributed to administration costs. Despite this, Hedberg admits it can be difficult to use the rule in order to compare

agencies in between due to the diversity in purposes. To be able to make as reliable comparisons as possible between aid agencies, comparisons should only be made between agencies with related operational purposes.

Moreover, in Hedberg's opinion, it is not necessary to change current accounting regulation for aid agencies or to develop any separate accounting standards for the non-profit sector. A united regulation facilitate for readers of financial statements to both understand and compare financial statements between agencies. As a final remark he adds that there should be an increase in control bodies of aid agencies, equal to the Swedish Companies Registration Office of the profit sector.

5.3 Christina Hanze, finance manager at Plan Sweden

Hanze does not believe current accounting regulations to develop any problems or to jeopardize the trustworthiness of Plan Sweden, as they have not experienced any problems due to this. When it comes to the discussion of different concepts in the financial statement Hanze argue that concepts of revenues and costs to be equally relevant for them as for profit organizations. Revenues in Plan Sweden consist of contributions and donations from sponsors and other donors and costs are divided into fundraising costs, administrative costs and project costs. While different kind of received contributions are reported in the income statement, not all are reported line by line but sometimes in a lump sum.

A loss may be misinterpreted and create questions among stakeholder, admits Hanze. However, she continue by explaining that a loss is not really a loss for the year but that the agency has been effective and donated all the contributions to its purpose. It can also indicate that the agency has chosen to "periodize" received revenues from contributions this year over the next year. Further, a loss can be the result of money transferred to the headquarter but this still does not mean that Plan Sweden have made a loss for the year. However, misinterpretations can be avoided by applying a function based income statement and by clarifying disclosures in the notes. Therefore, Hanze does not feel that their stakeholders lack relevant accounting information but that their financial statements provide with desirable information of operations. The regulations of FRII, which Plan Sweden relates to, are described by Hanze as a compromise between many different types of non-profit organizations. Hanze explain that the non-profit sector consist of organizations with multiple operational differences which made it impossible for FRII to create specific guidelines for all

purposes. As a result, comparability in accounting between aid agencies becomes limited because there is no standardized regulation for all. However, the variation and complexity of operations is too large, according to Hanze, which restrict the possibilities to develop a system suitable for all types of non-profit organizations.

5.4 Eva Birath, chief secretary at SFI

SFI require members to disclose financial information in accordance with the Annual Accounts Act, which also includes agencies that otherwise are not obligated according to the Act. Despite this, Birath consider commercial regulations to be inadequate and not framed for aid agencies since they do not have the purposes to distribute profits, which could create misunderstandings between agencies and stakeholders. Hence, to solve any potential problems SFI have developed their own regulation and guidelines suitable for aid agencies. Legislators strive for consistency in regulation, however Birath argues that if the legislator makes changes in the accounting regulation which SFI miss like, SFI will only rewrite their guidelines to be in line with their own objective.

SFI's recommendations of disclosing detailed information in the operating statement plays an extraordinary role, since it provides stakeholders with more information than required by the Annual Accounts Act, such as *where* fundraising has originated from and to *what* purpose they have been distributed. Consequently, Birath argues that agencies with a 90-account, hence follow the regulation and guidelines of SFI, do not risk creating any misunderstandings towards stakeholders. Agencies that only establish an annual closing and not a financial statement on the other hand, risk creating misunderstandings since they are not transparent enough. Hence, it should not be a disadvantage for aid agencies to follow commercial accounting regulation as long as they disclose information in notes and uses key figures reflecting effectiveness of outputs in operations.

Journalists may sometimes criticize agencies and complain about absent accounting information which might create problems for aid agencies and jeopardize their trustworthiness to stakeholders. However, some stakeholders might only look at the final rows in the income statement and notice a loss, which may be interpreted as negative in their eyes, but really is the opposite for the agency. Birath explains that the most desirable information for stakeholders is included in the revenues since it shows how much of stakeholders contributions that have been collected during the year and will be donated to its purpose. It is

therefore essential for aid agencies to clarify distribution of donations by describing purposes and how they aim to achieve them, in the financial statement.

Moreover, changes in accounting regulation for aid agencies should be changed in accordance with SFI's regulation and guidelines. Nonetheless, Birath do not believe that the regulation for non-profit organizations will change in the future. No government would dare to over-regulate the non-profit sector and jeopardize people's wills to work in the sector since administration and accounting matters might become too complex.

5.5 Eva Törning, accounting specialist at FRII

It is not a problem that aid agencies applies same accounting regulation as profit-driven organizations, nor does it decrease aid agencies trustworthiness, according to Törning. She rather believes it to be positive when organizations follow same accounting rules since it becomes easier for stakeholders to understand and compare financial statements. Also, people who start working in the non-profit sector do not need additional or specific accounting education or accounting training when performing accounting in an aid agency. According to Törning, the Annual Accounts Act works equally well for the non-profit sector since basic concepts are the same, such as the principles of going concern and accruals basis but also valuation principles.

When it comes to the different concepts of revenues and costs, Törning claim them to be equivalent for aid agencies as for profit-driven organizations. She illustrates this statement by providing with an example of two corporations, the profit-driven corporation VOLVO and the non-profit corporation Swedish Lifeboat Society:

The purpose of VOLVO is to sell cars and the generated money from selling cars is reported as revenue, i.e. *income of selling* in the income statement. In contrast, generated money related to the Swedish Lifeboat Society's purpose of collecting money to save lives at sea, is equivalent to *income of selling* but instead called *generated funds*. The same principle is applicable to costs. VOLVO has costs related to their purpose of producing and selling cars while the Swedish Lifeboat Society has costs related to their purpose to save lives. Further, selling expenses in VOLVO can consist of advertising while the Swedish Lifeboat Society has fundraising costs related to advertising to inspire people to donate money. It is the same logic in both cases but the revenues and costs are reported as different items in the financial statements which, according to the Annual Accounts Act, are acceptable as long as the

arrangement of the statement is not being changed. Törning explains that accounting of all agencies has to be prepared from the purpose of their operations.

Yet, aid agencies that do not follow the general guidelines of FRII may create misunderstandings since stakeholders may not get an overall picture of the operations. Törning argue that regulations of the Annual Accounts Act concerning profit/loss for the year may be misinterpreted by stakeholders. As an example, if an agency receives 10 million SEK in donations during 2010 to be used during 2011 to build schools in Kenya, the financial statement will show a profit of the same amount, which stakeholders may register as negative. However, if the same agency is a member of FRII and follows the general guidelines, the 10 million SEK must be differently. The selection below in table 3 indicates that an allocation of 10 million SEK to a separated part of equity should be done since the amount is related to the next year, and the adjusted profit will be reported at 0 SEK, hence something positive in the eyes of stakeholders.

Table 3: Profit/loss in accordance to FRII’s general guidelines

Profit/ loss for the year	10
<hr/>	
Allocation of the profit/loss for the year	
Profit/loss according to income statement	10
Allocation to special purpose received during the year but not used during the year	-10
Usage of special purpose specified funds from previous years and fund used according to resolutions by the Board	0
Remaining amount for the year	0

Another problematic factor for agencies that establish their financial statements in line with the Annual Accounts Act, but do not give further information in line with FRII, is *the Cash and bank*. In the eyes of stakeholders, noticing saved money in the financial statement raises negative feeling since they rather see the money used for its purpose. When following FRII’s general guidelines, the key figure *readiness of payment* portrays how long an agency can continue to operate if they do not receive more revenues. In addition, since many projects are operated for many years, it can be positive to show for how long already collected revenues will last. Törning explains that reporting a “saved amount” under *Cash and bank* does not need to be negative, instead indicating of long-term thinking as long as an agency provides with additional information about it. A catastrophe agency must have a large amount of

capital saved to use if and when a catastrophe occurs, she continues. The Children's Cancer Foundation is another example of an organization which has to have a large amount of capital saved and prepared to us for research, when required.

Törning would like to see additional key figures and diagrams even in FRII's general guidelines to report the effectiveness of outputs, in agencies. The Annual Accounts Act and the Bookkeeping Act are frame laws, hence aid agencies may additionally explain and inform as much as they want in the financial statements.

5.6 Camilla Backström, CEO at Charity Rating

Aid agencies disclosing accounting information in accordance with the Annual Accounts Act and in the same way as profit organizations, do not provide stakeholders with a fair view of the operations, according to Backström. Profit organizations strive to distribute profit to shareholders while aid agencies want to provide stakeholders with information of how they distribute their resources. The variety of how aid agencies disclose information in the financial statement is large. There are those who are very transparent and open about their operations, and those who are not so transparent. An aid agency that follow the same accounting regulation as profit organizations, hence the Annual Accounts Act, has a very low degree of transparency. Instead, present accounting regulations are sufficient if agencies are members of SFI and FRII and follow their recommendations. The more transparent the financial statement is the more information is being presented to stakeholders, which will increase the trustworthiness and contribute with a fair view of reality.

Nonetheless, Backström is not completely satisfied with current regulations requirements on agencies ways of reporting *if* and *how* their projects have been achieved. To clarify with an example, if the purpose with a project is to build 100 arterial wells to provide people in Africa with water, Charity Rating requests the agency to report in the operating statement what they in fact have accomplished with their projects, if the purpose is fulfilled and what the long-term effect will be. Moreover, the donor should be informed *if* the contributions have been distributed to the right purposes.

Further, in the discussion of the so called 75/25-rule of SFI, meaning that an agency is not allowed to use more than 25 percent to administration costs and at least 75 percent must go to the purpose of the agency, Backström claims it can be misleading. An agency can fulfill the

purpose of the rule but that does not have to mean that the agency is efficient or creates value with their operations.

The financial statement is of great importance for Charity Rating when recommending aid agencies to future donors. With the help of collected information on hundreds of non-profit organizations and their available work on the web site, donors are able to compare agencies in between with the help of a donors guide and to decide whom they trust enough and choose to donate to. Further, Backström explains that the profit/loss for the year plays an enormous role in the decision making. If an agency in any way indicates it will not survive for long, then Charity Rating will not recommend them to stakeholders. Though, if a non-profit organization “should” report a profit or a loss depends on their operational purpose. It is therefore difficult to compare non-profit organizations and aid agencies in between since their purpose can differ heavily.

In terms of stakeholders’ requirements on accounting information, Backström explains that there is a “tradition” within the sector of donating money to various non-profit organizations without phrasing any specific demands on the receiving organizations. The same way people phrase demands on what food they eat, they should require better information from the organization they choose to donate to. Backström emphasize:

It may be easy to forget the donors own responsibilities in this discussion, but they have the responsibilities to make requirements of information from aid agencies.

Even though the actual reporting in line with SFI and FRII demonstrate transparency, donors should require more information about effectiveness measurements and feedback on projects. This should result in more transparency in the sector and the trustworthiness would therefore increase.

6. ANALYSIS

The starting position of this chapter is to analyze our collected material in an empirical analysis. Furthermore, we find it meaningful to interconnect the empirical analysis with the theory and the frame of references in order to create an understanding for the reader of how all parts works together.

6.1 Accounting for aid agencies

Financial statements aim to provide readers with significant information of how aid agencies have managed their operations and distributed voluntary contributions during the year. However, Gustafson (2006a) argues that concepts such as of profit/loss for the year, revenues, costs and equity highlight different meanings in non-profit organizations than in profit-driven ones. Relevant key concepts of the income statement and the balance sheet may therefore contribute to misunderstandings between aid agencies and stakeholders. Nonetheless, all representatives of the aid agencies express such concepts to be relevant for aid agencies, if not equally important as for profit-driven organizations.

6.1.1 Key concepts in the financial statement

Both profit and non-profit organizations disclose revenues and costs related to their operational purposes and such concepts are therefore equivalent for aid agencies, according to Törning. While generated revenues and costs of profit-driven organizations have linkages to performances, it is excluded in non-profit organizations because collected donations are not related to any specific performances. Contributions do not necessarily have to be connected to the fulfillment of an agency's purpose, despite that revenues are an expression indicating that an agency receives voluntary contributions or gifts. As many of the respondents explain, a profit for the year is not necessarily "positive" in the eyes of stakeholders who may believe that their contributions are kept in agencies instead of distributed to its purpose. However, to report a profit for the year does not have to indicate of ineffective operations. As table 4 show, a loss for the year at the Red Cross is not necessarily "negative" and can be the result of effective operations in terms of donating all contributions to its purpose, argues Hanze.

Table 4: Profit/loss of the Red Cross

	2010	2009
Business Results	-138 239	-152 320
Income from Financial Investments	68 883	93 042
Income after Financial items	-69 356	-59 278
Profit/loss for the year	-69 356	-59 278

The amount of profit/loss has nothing to do with performances, which make a profit or loss for aid agencies quite irrelevant. We therefore question if these concepts in aid agencies contribute with as transparent information regarding operations as for profit-driven organizations. In order to prevent misinterpretations from happening, Hanze claims that the profit/loss has to be considered in relation to other items of the financial statement and its overall picture. Following the general guidelines of FRII and to disclose financial information in a function based income statement will provide stakeholders with clarity of the distribution of gifts. She explains that Plan Sweden might transfer money to the following year in order to support a project. Stakeholders will then be informed through the final rows in the income statement that the amount of profit/loss of this year is intended for next year, if following FRIIs guidelines.

Table 5: Profit/loss of Plan Sweden

	2009	2008
Profit & Loss for the year	9 704 506	-1 137 575
Allocation of the Profit & Loss for the year		
Profit & loss due to the statement of income	9 704 506	-1 137 575
Change of reserved funds related to the purpose	-9 704 506	1 137 575
The remaining amount for the year	0	0

Moreover, lack of ownership in aid agencies creates a different content of equity. It can be considered as a “moral obligation” against stakeholders as it should be used and not saved. An increase in equity may therefore be misinterpreted by stakeholders when assuming aid agencies performances to be measured under the same conditions as for profit-driven organizations. Depending on what the purposes are, Törning declare that some agencies need

to reserve large amounts of capital for later years if a catastrophe would occur. Reserving capital in equity becomes crucial in ensuring the survival of some agencies. Hence, if agencies are not successful enough in providing with sufficient information regarding accomplishments of purposes, they create the risk of communicating an inaccurate picture of operations and at the same time damaging stakeholders trust.

6.1.2 Complementary information to financial statements

Success in the non-profit sector is built on trust from stakeholders. Transparency and clarity in the communication of results and cost effectiveness is therefore crucial. All respondents argue that possible misunderstandings due to concepts in the financial statement can easily be avoided by using appropriate key figures and notes to demonstrate more ingoing the utility of donors’ contributions. By reporting as concrete and specific as possible, transparency is highlighted and stakeholders are provided with required information. The character of complementary financial and non-financial information is essential since it might be difficult for individuals to understand different concepts in financial statements as we find the complexity to be very high.

All respondents are unanimous and do not believe commercial accounting regulation to create any misunderstandings towards stakeholders as long as aid agencies follow FRII’s general guidelines. Communicating information in notes of what is included in different items will give a fair view of operations, according to Rundgren-Forsberg. In line with FRII, an agency has to account item for item in operating revenues or to provide additional information in notes of a group of items. Available information in table 5 specifies how the Red Cross report item for item, in accordance with FRII’s guidelines.

Table 6: Recognized items of operating revenues at the Red Cross

Operating Revenues		
Membership fee	21 418	26 227
Fundraising	298 871	235 506
Sale of donated goods	6	106
Other sales, course revenues et cetera	38 487	48 878
External grants	347 387	324 481
Other income	7 077	7 821
Sum of Operating Revenues	713 246	643 019

The Annual Accounts Act does not only express requirements regarding the content of a financial statement but also regarding the presentation of costs in the income statement. Yet,

none of the studied aid agencies uses these descriptions, but instead those recommended in the accounting manual of FRII, adjusted for charity organizations. Hedberg highlights the essence of low administration and fundraising costs in order to maintain a high level of credibility and reliability. In addition, stakeholders wish to see such costs reduced as much as possible. Furthermore, a lot of attention has been drawn to the share project cost key figure where at least 75 percent of fundraising should be distributed to the purpose. SFI's objective is to control this key figure, as it represents efficiency and assurance to donors that their contributions are distributed to the purpose. In contrast to profit-driven organizations, results and efficiency in aid agencies cannot be measured in terms of money, phrases Gustafson (2008). Focus should instead be put on measurements on how well purposes are achieved. Backström and Hedström question the share project cost key figure and refer to difficulties in comparing efficiency in between agencies. Further, Rundgren-Forsberg expresses the challenge of finding the most appropriate key figures which may cause misunderstandings if aid agencies do not adapt key figure that best reflect the efficiency of outputs in operations. Additionally, Backström emphasize the value of complementary non-financial information in the operating statement to provide with satisfying information of accomplishments in projects.

6.2 An explanation to why aid agencies follow commercial accounting regulation

DiMaggio & Powell (1983) expresses explanatory factors of institutional isomorphism which influences organizations to behave more similar to each other. It is clear that financial reports of aid agencies similarities to commercial accounting have its origin in isomorphism. The shaping of accounting regulation of aid agencies are the outcomes of different formal and informal pressures in society. Formal regulation of the Annual Accounts Act and the Bookkeeping Act, which regulate both profit-driven and non-profit organizations, are indeed expressions of coercive pressure in shaping organizations to become more similar to one another. Tilling (2004) describes this coercive pressure as being expressed by the critical stakeholders of the government, the public and media, which agencies are dependent upon. Different expectations and needs from these stakeholder groups might increase pressure and influence on aid agencies in their abilities to communicate required information. This might lead to a complex need of information which place high demands on quality of financial statement disclosures.

Yet, informal pressure is the obvious result of high demands in complementing formal accounting regulations, which has developed the requirements, guidelines and recommendations of both SFI and FRII. Birath, Törning and Backström underline the importance of these complementary regulations due to inadequate formal regulation. Pressure from powerful sources will provide society with more information on aid agencies than average stakeholders would be capable to do on their own.

Moreover, applying commercial accounting regulation on aid agencies becomes problematic, according to Gustafson (2006b), though their purposes differ considerably from profit-driven ones and therefore not providing a fair picture of operations and results. This view is not shared by the majority of the respondents and Rundgren-Forsberg claim regulations of the Annual Accounts Act and the Bookkeeping Act to be positive in such matters that they increases the comparability and understanding of financial statements in different businesses for stakeholders. Consequently, this should facilitate the requirements on information between agencies and their stakeholders. Presentation of financial reports can be interpreted as a mimetic process of aid agencies efforts in reporting accounting information in similar ways to reduce uncertainty from the environment in which they are active. Uncertainty may create the institutional pressure of adapting accounting procedures developed from commercial regulation without questioning it. Still, Hanze state that a uniform accounting regulation for the non-profit sector is close to impossible to develop since the sector is complex and consists of multiple operational differences. It becomes difficult to compare aid agencies in between due to these variations since it may create misunderstandings and provide with an unfair picture of operations to stakeholders.

6.2.1 Level of trust

The whole existence of the charitable sector's is based on trust. Communication through financial statements can be used to build trust. Thus, as mentioned by Ljungdahl (1999), trust is related to organizational legitimacy and it is therefore significant that financial statements are understandable and provide with required information. The quality code of FRII, which all studied aid agencies follow, has specifically been produced to increase transparency and quality in financial statements of non-profit organizations. Access to information and reports is therefore essential and all three agencies provide financial statements and additional information on their websites. The majority of the respondents express the essence of complementing financial information with non-financial information, as in notes or with

relevant key figures in order to prevent misinterpretations among stakeholders. Referring to trust, key figures can indeed create a comprehensive picture of an agency but these ought to be adjusted to measure the agency's performance in the most appropriate way. Therefore, inappropriate usage of non-financial information may cause an adverse effect on trust by limiting transparency and complicating the process of understanding for stakeholders.

Credibility and reliability becomes significant in aid agencies when donors make contributions and have expectations that donations will be distributed in an optimal way in order to create as much value as possible. Donors expectations on how agencies will act on their behalf can be drawn to the contractual agreement between the principal and the agent of the agency theory, where both parties strive to maximize own wealth. The agent wishes for his or her contribution to be distributed in an optimal way while the main goal of the principal is to both distribute contributions and to collect new contributions from stakeholders. Suchman (1995) emphasizes the essence of organizational legitimacy and argues that agencies can affect stakeholders' perceptions and control legitimacy through sophisticated actions of resources. Thus, influencing stakeholders' perceptions to donate to agencies they find meaningful and trustworthy. Also, declaring how well projects are executed and how well they succeed, communicate a feeling of transparency and honesty to stakeholders. These feelings are strongly related to trust.

A function based income statement is preferable from a donor's perspective since it facilitates the recognition where money has been distributed to and what function costs have fulfilled. Hence, Trussel (2003) argues that managers may have incentives to manipulate financial information to send positive signals about the agency's financial situation to stakeholders. By increasing organizational legitimacy, managers strive to receive as much donations as possible from stakeholders. Although aid agencies strive to maximize service outputs, it is rather difficult to measure, which may create incentives among managers to manipulate certain financial information considered relevant for stakeholders with the use of the program – spending key figure. If managers chooses to allocate costs in a way that increases activity levels it would give an inaccurate picture of the distribution of relevant costs. This reasoning is shared by Backström who claims that the 25/75 percentage rule of SFI can be misleading since acting in agreement with the rule does not measure efficiency or how well purposes are accomplished. Managers' incentives in providing with inaccurate pictures of service outputs may indeed increase stakeholders' perceptions and organizational legitimacy, incorrectly. Still, to reduce the information asymmetry between the principals and the agent and to make

sure that the agent does not manipulate financial information in efficiency of operational accomplishments, it becomes necessary for the principals to control the agent through appropriate measurements.

Referring to SFI in the financial statement also clarifies what an inspection from the control organ really symbolizes. A membership of SFI can therefore be associated with a quality label in the eyes of stakeholders, which is not only confirmed by Birath, but also by Rundgren-Forsberg, Hedberg and Backström. Although, such a quality label can be questioned due to the confidence problem related to the efficiency measurement in allocations of costs. Further, aid agencies that choose to apply other items in the income statement except those according to the Annual Accounts Act are only obligated to emphasize *if* they choose to refer to FRII without any additional explanation. This provides FRII with authority. Hence, the recommended function based income statement of FRII aim to meet stakeholders need by making it possible for them to control the distribution of costs arising from fundraising, thereby controlling the agent.

Stakeholders trust in aid agencies has lately been reduced because of the scandals that recently have appeared in media. This has increased stakeholders' interest and drawn attention among donors of how the agencies distribute their contributions. As Backström argues, there is a "tradition" within the non-profit sector of donating money without phrasing any specific demand on organizations. This probably indicates a naturally high level of trust in the sector. If the level of trust originally were to be lower we question if the donors would have required increased controls within the sector. This is in line with Backström's argument of donors' own responsibilities in placing demands on agencies to provide them with reliable information. This makes the process of constantly reaching faith from stakeholders in order to reduce damage appearing from scandals dangerous, argues Rombach & Solli (2006). A faith problem is best managed by agencies by focusing on satisfying expectations from those stakeholders they find valuable and possible to satisfy.

7. CONCLUSION

In the final chapter we will present our conclusions which can be drawn from the analysis. The conclusions will answer our problem definition and the purpose of this thesis. Finally we present suggestions for further research.

7.1 Conclusion

The study has shown that the main purpose with aid agencies financial statements is to demonstrate the utility of resources. The linkage between revenues/costs may not be as obvious as a purchase/selling relationship in a profit-driven organization. Despite this, the meanings of these concepts in aid agencies are similar to those in profit-driven organizations. However, the profit/loss in an aid agency's income statement is not related to any performances. A financial loss may indicate that an agency has planned to use funds received in the past and a loss can therefore be a "positive" financial result. A reported loss is not necessarily something "negative" however a loss in the long run would be a sign of expended equity. Also, a profit is not necessarily "positive" but could be the result of failure in achieving operational purpose. The long-term ambition is for the operations to continue. We can therefore conclude that the definition of profit/loss in commercial accounting is less insignificant for aid agencies.

Even though income statements of aid agencies are similar to income statements of profit-driven organizations in appearance, aid agencies most certainly emphasize the essence of cash flows. The role of the income statement is to show received resources from donors, the distribution of them and the distribution of costs. A function based income statements, as recommended by FRII, will clearly show how resources have been distributed and emphasizes the flow of capital. Since aid agencies should strive to create trustworthiness in accounting towards stakeholders, it becomes highly significant to conform to the guidelines and recommendations set up by SFI and FRII. Fulfilling their requirements in accounting becomes a way for aid agencies to cope with problems and misunderstandings developed by commercial accounting regulation.

Financial information becomes less significant for aid agencies while it becomes far more important to express service outputs and operational values in words, since it develops trustworthiness among stakeholders. While calculations in the income statement do not

completely reflect the effectiveness of an agency's operation, value of complementary non-financial information in aid agencies can therefore be looked at as compensation for shortcomings which commercial accounting reporting causes. In order to increase transparency and communicated information to stakeholders, it is necessary for aid agencies to report their true operational outputs verbally, in terms of the operating statement. Consequently, complementary information in the operating statement becomes highly essential in order to avoid misunderstandings between aid agencies and their stakeholders due to commercial accounting regulation. Even though aid agencies have opportunities to use appropriate key figures with intention to compensate loss of output measurements, it seems to be difficult to find appropriate key figures which measures cost-effectiveness in operations. Inadequate measurements may not measure the effectiveness in operations and can give a misleading picture of an agency's operation.

Another consequence which may arise due to commercial accounting regulation and create confusion among stakeholders is if they interpret the accounting reporting in the same way as in profit-driven organizations. An increase in equity for example becomes crucial in ensuring the survival for an agency in the long run, while equity in profit-driven organizations probably would be paid as dividends to owners. Stakeholders may misinterpret high equity as a sign of plenty of resources and conclude that their donations are not required. It is therefore crucial for stakeholders to get access to information of operations in order to develop insight and understanding required to reach proper decisions when making donations.

Furthermore, we conclude that the application of commercial accounting regulation on aid agencies can be explained through the mechanisms of isomorphism. It is clear that the financial statements similarities with commercial accounting regulation are based on isomorphism. Despite the fact that aid agencies may experience difficulties in connecting financial reporting with operational purposes and at the same finding appropriate measurements which best reflect the operational purposes, mimetic pressure becomes positive in the eyes of stakeholders by increasing their understanding and the comparability in financial statements. While this is perceived as legitimate, stakeholders may still experience difficulties in interpreting effectiveness of operations and contents of reports communicated with the language of commercial accounting and can therefore be misinterpreted by stakeholders. Institutional pressures which provide with legitimacy make aid agencies to resemble each other without necessarily making them more efficient.

Moreover, there is no specific accounting regulation for the non-profit sector today. The complexity and variation in different operations of non-profit organizations makes it difficult to develop an accounting regulation for the whole sector, a view shared by the majority of our respondents. Instead, different adjustments have been made to compensate for shortages in commercial accounting regulation. This gives the indication that a need of improving accounting regulation once existed but has decreased along with adjustments in form of complementary regulations. Complementary regulations of SFI and FRII confirm that different adjustments within the sector have been made, as for charity foundations. The high complexity in the sector indicates that any modifications within accounting regulation have to take a variety of operational purposes into consideration. Such modifications are the verification of FRII's general guidelines.

7.2 Suggestions for further research

This study focuses on selected respondents different viewpoints in accounting regulation for aid agencies and how regulations affects both aid agencies and their stakeholders. Since our study only affect stakeholders viewpoints in financial information to a limited part, a further interesting area of research could be to investigate, from a stakeholder perspective, how stakeholders are using and interpreting financial statements of aid agencies. In order to find out if stakeholders are satisfied with presented accounting information or not, it is important to observe how they understand contents of reports, language and their interests in financial reports. Research in this area could contribute to greater understanding in stakeholders needs and more concrete of what aspects that needs to be improved.

Since this study only touches the surface of performance measurements and the misinterpretations they may cause when not evaluating effectiveness in operations, a deeper study in this area is desirable. Such a study should perhaps include an evaluation of appropriate key figures in aid agencies to be able to measure service outputs and comparison in between aid agencies.

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Personal

Törning, Eva, Accounting specialist at FRII: 2011-04-29, 13.00-14.00

Telephone

Backström, Camilla, CEO at Charity Rating: 2011-05-10, 16.00-17.00

Birath, Eva, chief secretary at SFI: 2011-04-20, 13.30-14.30

Rundgren - Forsberg, Eva, CFO at the Red Cross: 2011-04-20, 12.00-13.00

Email

Hanze, Christina, Finance manager at Plan Sweden: 2011-05-09

Hedberg, Fredrik, CFO at UNICEF Sweden: 2011-05-05

APPENDIX 1: Interview guide for aid agencies

Introductory questions

1. Tell us about yourself. What is your position within the aid agency and for how long have you worked in the agency as well as in the non-profit sector? What are your earlier work experiences?
2. Tell us about the organization. What's the purpose of the operations and what do you do to meet your objectives?

Issues concerning accounting regulation for aid agencies

3. Do you experience any problems with the shaping of the aid agency's accounting since aid agencies have to follow same accounting regulation as profit organizations? If yes, what kind of problems?
4. Do you think that the trustworthiness in the aid agency's accounting is being jeopardized since aid agencies have to follow same accounting regulations as profit organizations?
5. Do you have any problems with the treatment or interpretation of the concepts of revenues and costs, as aid agencies have to follow same accounting regulation as for profit organizations? Revenue is generated from a performance or exchange of goods in return of money/service. Cost is a consumption of an asset that enables future revenues.
 - Are these concepts relevant for aid agencies?
6. What meaning does the concept of positive/negative financial result have for you?
7. Are your operations and accounting affected by SFI and FRII? If so, in what ways?

Potential problems and misunderstandings for stakeholders

8. Who are your stakeholders and readers of the financial statements?

9. In what ways are you presenting the financial statements to stakeholders?
10. Do you believe that the aid agency's financial statement provides stakeholders with the information they require?
11. Do you think that since aid agencies have to follow the same accounting regulation as for profit organizations, creates problems or misunderstandings between aid agencies and stakeholders?
12. In what ways, except the accounting regulations and other practices/principles, do you make sure that stakeholders are satisfied with relevant information?
13. Is there any dialogue between you and stakeholders in order to find out what kind of information they wish to be provided with?

Improve accounting regulation

14. How do you feel regarding present accounting regulations for aid agencies?
15. How are you affected with the fact that there is no specific accounting regulation for aid agencies?
16. Is there, according to you, a need to change the regulation to make it more appropriate for aid agencies?
 - If so, in what ways is there a need for change?
 - If not, motivate why you do not think a change is necessary?

APPENDIX 2: Interview guide for SFI & FRII

Introductory questions

1. Tell us about yourself. What's your position and for how long have you worked within the organization? What are your earlier work experiences?
2. Tell us about the organization. What's the purpose of the operations and what do you do to improve the accounting regulation for aid agencies?

Issues concerning accounting regulation for aid agencies

3. Do you experience any problems with the shaping of aid agencies accounting since aid agencies have to follow same accounting regulation as profit organizations? If yes, what kind of problems?
4. Do you experience that the trustworthiness in aid agencies accounting is being jeopardized since aid agencies have to follow same accounting regulation as profit organizations?
5. Are there any other effects, positive or negative, that can emerge for aid agencies when they have to follow same accounting regulation as profit organizations?

Potential problems and misunderstandings for stakeholders

6. Do you think that the accounting information provided to stakeholders fulfill their needs?
 - If so, explain why.
 - If not, what is it inadequate?
7. Do you think that since aid agencies have to follow the same accounting regulation as for profit organizations, creates problems or misunderstandings between aid agencies and stakeholders?

Improve accounting regulation

8. How do you feel regarding present accounting regulations for aid agencies?
9. Do you think that there is a need to change present accounting regulations for aid agencies?
 - If so, why and in what ways is there a need for change?
 - If not, explain why you think existing regulation is acceptable/optimal?
 - Do you think the accounting regulation will change in the future for aid agencies? If yes, in what ways?
10. How did you report before the legislative change and how do you report today?
What's the difference?
11. What do you think of the fact that there is no specific accounting regulation for aid agencies and the non-profit sector?

APPENDIX 3: Interview guide for Charity Rating

Introductory questions

1. Tell us about yourself. What's your position at Charity Rating and for how long have you worked within the organization? What are your earlier work experiences?
2. Tell us about Charity Rating. What is the purpose of the organization and what does Charity Rating do to meet the objectives?

Issues concerning accounting regulation for aid agencies

3. Do you experience any problems with the shaping of aid agencies accounting since aid agencies have to follow the same accounting regulation as profit organizations? If yes, what kind of problems?
4. Do you experience that the trustworthiness in aid agencies accounting is being jeopardized since they have to follow the same accounting regulation as profit organizations?
5. How do you feel regarding the accounting information in the financial statements of aid agencies, is it important for you as well as other stakeholders? Do you feel that you can trust the information and does it provide you with a fair view of the reality?
6. To what extent do you make your decisions based on the financial information in the financial statements of aid agencies?
7. What does it mean for you that aid agencies report a positive/negative financial result?

Potential problems and misunderstandings for stakeholders

8. Do you think that the accounting information provided to stakeholders fulfill their needs?
 - If so, explain why.
 - If not, what is it inadequate?

9. Do you believe that aid agencies that follow rules and guidelines of SFI and FRII increases the trustworthiness in their accounting towards stakeholders?

Improve accounting regulation

10. How do you feel regarding present accounting regulations for aid agencies and the fact that there is no specific accounting regulation for aid agencies and the non-profit sector?

11. Do you think that there is a need to change accounting regulations for aid agencies?

- If so, why and in what ways is there a need for a change?
- If not, explain why you think existing regulation is acceptable/optimal?

APPENDIX 4: The Income Statement of the Red Cross

(Kkr)	Note	2010	2009
Operating Revenues			
Membership fee	1	21 418	26 227
Fundraising	2	298 871	235 506
Sale of donated goods		6	106
Other sales, course revenues et cetera		38 487	48 878
External grants	3	347 387	324 481
Other income	4	7 077	7 821
Sum of Operating Revenues		713 246	643 019
Operating Costs			
Project costs			
Humanitarian rights, vales and human rights	5	-82 230	-93 743
Primary emergency	6	-175 743	-102 853
Crisis and disaster emergency	7	-91 461	-83 249
Health and social stability	8	-190 478	-222 776
Association development	9	-137 678	-135 213
College	10	-11 327	-12 488
“Gripsholmsviken”	11	-15 759	-21 813
Communication	12	-24 242	-31 413
Sum of Project Costs		-728 918	-703 548
Fundraising costs	13	-33 648	-43 735
Membership costs	14	-7 121	-10 165
Administration costs	15	-30 875	-31 957
Restructuring costs	16, 27	-50 922	-5 934
Sum of Operating Costs	17	-851 485	-795 339
Business Results		-138 239	-152 320
Income from Financial Investments	18	68 883	93 042
Income after Financial items		-69 356	-59 278
Profit & Loss for the year		-69 356	-59 278
Allocation of the Profit & Loss for the year	19		
Profit & loss due to the statement of income		-69 356	-59 278
Reservation of the other purposes specified funds received during the year but not used during the year		-133 447	-121 807
Use of purposes specified funds from previous years and free deposition according to the resolution of the Board of Directors		165 704	169 658
Remaining amount for the year		-37 099	-11 427

APPENDIX 5: The Income Statement of UNICEF Sweden

(Kkr)	Note	2010	2009
Operating revenues	2	419 757	496 403
Project costs	3	-353 809	-431 620
Fundraising costs & cost of sales	4	-59 150	-57 751
Administration costs	4	-6 798	-7 032
Business Results		0	0
Income from financial investments			
Interest income and other items	5	1 276	975
Interest charge and other items		-11	-493
Sum of income from financial investments		1 265	482
Income after financial items		1 265	482
PROFIT AND LOSS FOR THE YEAR		1 265	482

APPENDIX 6: The Income Statement of Plan Sweden

(Kkr)	Note	2009	2008
Operating Revenues			
Sponsor contributions	1	174 070 505	180 352 617
Other collected contributions	2	5 277 791	5 720 679
Contributions SIDA		31 799 334	20 358 506
Other income	3	536 421	300 243
Sum of Operating Revenues		211 684 051	206 732 045
Operating Costs			
	4		
Project costs (contributions transferred to Plan Int Inc.)		-141 830 538	-161 041 227
Project costs (national costs)		-21 195 834	-11 386 164
Fundraising costs		-22 348 500	-17 868 556
Administration costs		-17 807 628	-18 882 422
Sum of Project Costs		-203 182 500	-209 178 369
Business Results		8 501 551	-2 446 324
Income from Financial Investments			
Interest received		1 210 913	1 311 688
Interest charge		-7 958	-2 939
Sum of Income from Financial Investments		1 202 955	1 308 749
Profit & Loss for the year	5	9 704 506	-1 137 575
Allocation of the Profit & Loss for the year			
Profit & loss due to the statement of income		9 704 506	-1 137 575
Change of reserved funds related to the purpose		-9 704 506	1 137 575
The remaining amount for the year		0	0