Are we there yet?

Constructing performance measurement systems within development aid organizations

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Acknowledgments

This master thesis was written during the spring of 2020 by Christoffer Hansson and Rebecca Palmgren, as the final part of the M.Sc. program Industrial Engineering and Management at the Faculty of Engineering, Lund University.

Gaining insights into the complicated aid industry has been a pleasure and a challenge. It has been interesting to explore and understand the subject of performance measurement and its importance to the success of any organization. It has been a fun journey and an educational last part of our studies. We now feel more than ready to apply our engineering skills out in the real world.

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Abstract

Title
Are we there yet? Constructing performance measurement systems within development aid organizations

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Background
Performance measurement has been on the agenda for decades with the purpose of helping organizations understand their organizational progress or lack thereof. However, measuring performance can be complex and result in a waste of resources rather than benefits.

The aid sector is characterized by complex stakeholder structures, including volunteers, offshore partners and donors that all affect the measuring of performance. This increases the risk of performance measurement resulting in burdens instead of benefits, as the measurement focuses too much on satisfying other stakeholders than the aid recipients. At the same time, if constructed right, performance measurement systems could enhance organizational learning, establish credibility and ultimately help the organization improve. Knowing how to construct beneficial performance measurement systems within development aid is therefore complex but crucial.

Purpose
The purpose of this thesis is to develop a framework for constructing performance measurement systems that will help organizations within development aid to reach their long and short-term goals. The produced system should satisfy the interests of organizations within development aid by facilitating monitoring of the organization.

Research questions
Research question 1: What characterizes performance measurement within development aid?

Research question 2: How should a performance measurement system be developed in order to satisfy the interests of an organization within development aid?

Research question 3: Is it possible to develop a standardized and usable framework for constructing a performance measurement system suitable for development aid organizations?

Methodology

In the thesis, an action research approach was used. It was conducted through an initial literature review that resulted in a theoretical framework proposing a method for constructing a performance measurement system. Through interview sessions with a total of 19 interviewees, experienced in development aid and performance measurement, the theoretical framework was revised. The final framework was tested through an application to the development aid organization Yennenga Progress. The findings were finally analyzed and conclusions were drawn.

Conclusions

Development aid organizations have several characteristics that affect their performance measurement. For starters, the unique relationship with stakeholders requires a big understanding and involvement of stakeholders when conducting performance measurement systems. Especially donors are of big importance since they provide funding to the aid organizations. Another characteristic is the purpose of making a societal impact. Since making societal impact often involves complex and long feedback loops it is often difficult to derive and measure organizational impact.

In order to conduct a performance measurement system within a development aid organization it is important to understand the needs and requirements of the organization and its stakeholders. All requirements need to be identified in order to prioritize correctly among them. The purposes of the performance measurement system should be formulated with regard to these requirements and should be present during the entire development process.

A framework for constructing performance measurement systems within development aid organizations was developed. The outline of the framework follows:

Phase 1: Mapping the organizational environment:
Phase 1 focuses on establishing a clear view of the organization and its stakeholders.

Step 1: Understand the organization
Step 2: Understand the stakeholders

Phase 2: Designing the Performance Measurement System:
In Phase 2 the purpose of the Performance Measurement System is clarified among all developers and future users of the system. Also, Key Performance Indicators are methodically identified.

Step 3: Identify the purpose of the Performance Measurement System
Step 4: Identify suitable indicators

Phase 3: Making the Performance Measurement System applicable to the organization:
In Phase 3, the Performance Measurement System is shaped to fit the organization over time. Detailed documentation with Key Performance Indicators should be integrated into a supporting infrastructure together with communication channels and targets. Eventually a plan regarding when to analyze and revise the Performance Measurement System is decided upon and added to the system.

Step 5: Create an indicator documentation
Step 6: Integrate a supporting infrastructure
Step 7: Include targets
Step 8: Plan when to analyze and review the Performance Measurement System

Keywords
Performance measurement, performance measurement system, contemporary performance measurement, aid, development aid organizations

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Vocabulary and Abbreviations

In this chapter, a list of concepts and abbreviations used in the thesis are presented to create a common understanding of the meaning between the authors and the readers.

Vocabulary

Activity - Actions where inputs are used to produce outputs
Aid organization - A non-profit organization that provides money, food, medicine, or other supplies in order to help people or countries that are suffering
Development aid organization - An aid organization that focuses on development aid
Impact - Long-term effects produced by a development project (see Figure I)
Indicator - A sign that shows what something is like or how a situation is changing
Input - Resources (financial, human, material) used for a development project (see Figure I)
Measure (noun) - A unit used for stating the size, weight, etc. of something
Measurement - A value, discovered by measuring, that corresponds to the size, shape, quality, etc. of something
Non-governmental organization - An organization that tries to achieve social or political aims but is not controlled by a government
Non-profit organization - An organization dedicated to furthering a particular social cause or advocating for a shared point of view. In economic terms, it is an organization using its surplus of the revenues to further achieve its ultimate objective, rather than distributing its income to the organization's shareholders, leaders, or members
Outcome - The short or medium-term effects of achieved output (see Figure I)
Output - The tangible and intangible results of a project or activity (see Figure I)
Process - A series of actions taken in order to achieve a result
Social enterprise - An organization that applies commercial strategies to maximize improvements in financial, social and environmental well-being

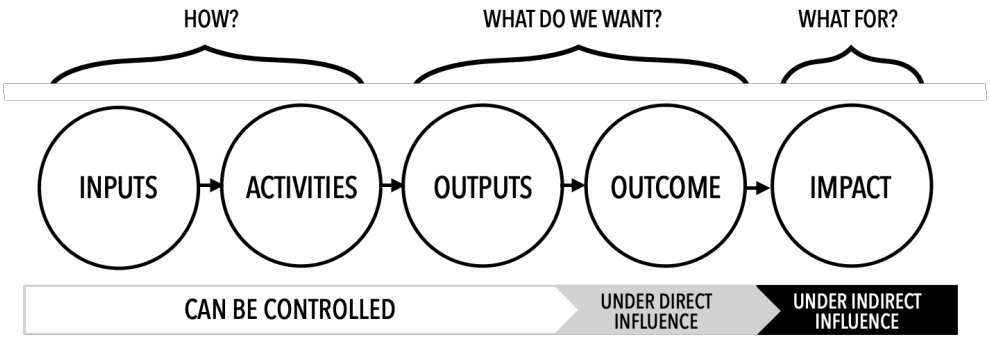


Figure I. Flow chart of activities, input, outcome and impact.

Use of vocabulary in this thesis

A development aid organization is an organization that focuses on development aid and is a subcategory of both non-profit organizations and social enterprises. Furthermore, with the sole exception of governmental aid organizations, the majority of development organizations fits into the category of non-governmental organizations. This thesis will, therefore, present findings that regard these four kinds of organizations as they all describe conditions relevant for development aid organizations.

Indicators, measures and measurements are all related concepts with only subtle defining differences. While indicators have a broader meaning of signaling a state or change, measures and measurements are units or values produced when measuring something. Thus, measures and measurements can function as different types of indicators. However, indicators are not exclusively measures and measurements. In Chapter 3, this difference is in general neglectable.

Abbreviations

CPM - Contemporary Performance Measurement
CSF - Critical Success Factor
KPI - Key Performance Indicator
NPO - Non-Profit Organization
NGO - Non-Governmental Organization
PMS - Performance Measurement System
PI - Performance Indicator

1. Introduction

This chapter introduces the topic of performance measurement in development aid organizations and the challenges associated with it. It presents a background to the subject and shows its importance. The introduction leads to the purpose of the study together with the research questions used to fulfill the same. Finally, the disposition of the study is presented.

1.1 Background

Non-profit development organizations have been growing rapidly in numbers since the ‘80s (Gneiting, 2008; Ebrahim, 2003), and can today be counted in tens of thousands (Byman et al., 2000). As public and private donors have become more critical to their decisions and have increased interest in evaluating the impact of given funds, there has also been an increase in efforts to measure effectiveness and impact from non-profit organizations (Flynn & Hodgkins, 2001). Even though the research and interest regarding performance measurement within non-profit organizations have been increasing (Micheli & Kennerley, 2005), there have been few attempts to provide a performance measurement framework adapted to their characteristics. Beamon & Balcik (2008) argue that a performance measurement approach designed for development aid is awaited, a request this paper aims to fulfill.

1.1.1 Performance measurement systems

There are a lot of different definitions at use that defines the term *performance measurement*. Magretta and Stone (2002) state that performance measurement helps an organization answer the question “Given our mission, how is our performance going to be defined?”. Neely, Gregory and Platt (1995) on the other hand suggest that performance measurement can be defined as “the set of metrics used to quantify both the efficiency and effectiveness of actions”. Efficiency can further be defined as the ratio of resources expected to be consumed to resources actually consumed (Tangen, 2004). Moreover, effectiveness is defined as the ratio of actual output to the expected output. Even if the definitions themselves sound straightforward, the challenges in creating a well-functioning system to measure performance are extensive.

The view of performance measurement has evolved over time. Before the 1950s, performance measurement used to be synonymous with measuring profits or productivity (Ravelomanantsoa, Ducq & Vallespir, 2019). A successful performance was synonymous with increasing revenues and lowering costs. Later on, up until the

1980s, competition increased and companies were forced to innovate which enforced new dimensions of performance such as lead time, quality and flexibility. After the 1980s, supply exceeded demand and organizations increased in interdependence with complex supply chains and stakeholder structures. This resulted in a complex multidimensional performance measurement which can include everything from measuring finance to organizational learning or customer perception. Consequently, the construction of a performance measurement system is far more complex today than it used to be, and organizations are often faced with having to prioritize what performance to focus on.

If the performance measurement system is forged in a successful way there are several potential benefits to the organization. According to Franceschini et al. (2019), there are four main reasons why an organization should implement a performance measurement system:

1. It creates a structured way to focus on the organization's strategic performance and goals.
2. The chosen indicators create priorities between possible actions to create improved outputs.
3. It improves internal as well as external communication to stakeholders.
4. PIs can be used to verify the success of different programs thus improve decision making.

However, there are several difficulties with constructing performance measurement systems (Franceschini, Galetto & Maisano, 2019). Common reasons for failing with constructing a system include having too much or too little data; only focusing on short-term performance indicators; including conflicting data; having too long or too short time between measurements or having a poor balance between different indicators.

There is a vast difference between for-profit and non-profit organizations, namely their revenue sources, goals and stakeholders (Beamon & Balcik, 2008). These distinctions call for separate approaches to performance measurement and what measures to use. In the private sector performance measurement is less complicated as financial metrics provide a straightforward way of measuring. Financial measures are easy to obtain, reflect market-need satisfaction and envision company capacity to run efficiently (Kanter & Summers, 1987). Non-profit organizations on the other hand do not have any financial return to focus on. Instead, it is their mission and intangible services that define their performance. It is the central foundation of societal values that causes difficulty of performance measurement within non-profit organizations in general and within aid specifically.

1.1.2 Performance measurement within the aid sector

During the 1990's, a demand for change in the public sector lead to a wave of reform called new public management. In response to rising public discontent, the idea was to bring in market strategies into the field of public management to increase accountability and efficiency. One aspect of these reforms was the rise of result-based management, a concept of monitoring the achievement of results. This was a turn from the previous focus on input and activities. Results-based management became the leading principal at a majority of the large international development aid agencies and further trickled down into development non-governmental organizations (Hatton & Schroeder, 2007). A study made by the Organisation for Economic Co-operation and Development (OECD, 2016) suggests that aid suppliers use results-based management to achieve or improve the following:

- Accountability
- Direction
- Learning
- Communication

However, a risk with performance measurement being enforced to ensure accountability and credibility is that the performance measurement might end up burdening the organization rather than benefiting it. Research has shown that performance measurement systems within aid often result in resource-demanding information gathering that leads to an overflow of useless information instead of driving change, learning and improvement (Vähämäki, 2017).

It is fair to say that although performance measurement systems can benefit development aid organizations, this is not always the case. Another complexity that might be contributing to the struggles of performance measurement within aid is the difficulty of defining what makes a successful development project (Fowler, 1996). Aid projects are usually long with complex contexts and thereby many factors affect the outcome. However, Raimondo (2016) has found that project outcome is positively affected by a well designed and implemented monitoring and evaluation system.

A quote from Kaplan and Norton (2006) summarizes the subject of performance measurement: "If you can not measure it, you can not manage it".

1.2 Purpose

The purpose of this thesis is to develop a framework for constructing performance measurement systems that will help organizations within development aid to reach their long and short-term goals. The produced system should satisfy the interests of organizations within development aid by facilitating monitoring of the organization.

1.3 Research questions

Research question 1: What characterizes performance measurement within development aid?
Research question 2: How should a performance measurement system be developed in order to satisfy the interests of an organization within development aid?
Research question 3: Is it possible to develop a standardized and usable framework for constructing a performance measurement system suitable for development aid organizations?

1.4 Delimitations

This thesis constructs and tests a framework for developing a performance measurement system for organizations within development aid. The study thereby focuses on performance measurement systems within development aid organizations, including its performance indicators. The study does not cover performance management, target setting, constructing casual and hierarchy models or the implementation of performance measurement systems. Moreover, the thesis does not discuss ways to collect data corresponding to the chosen indicators.

Monitoring and evaluation are two related but different concepts. While monitoring means giving management continuous updates on progress, evaluation is a periodic review of cause and effect on the recorded data from monitoring. This thesis mainly focuses on developing a performance measurement system for monitoring purposes.

1.5 Disposition

Chapter 1: Introduction

This chapter contains a background where insight into the subject and a problem formulation is given. Thereafter the purpose of the study and three research questions

which the study intends to answer are stated. This chapter also presents the delimitations of the study as well as the disposition of the report.

Chapter 2: Methodology

In Chapter 2 the methodological framework of the study is presented, motivated and evaluated.

Chapter 3: Theory

In this chapter the findings of relevant academic documents are presented in order to provide a solid foundation for the study. Concepts such as *key performance indicators* and *performance measurement* are thoroughly explored and the findings are presented. Also, an overview of available research on development aid organizations and the nature of such is given. Eventually a theoretical framework for developing a performance measurement system is presented based on the theoretical findings.

Chapter 4: Empirics: Performance measurement within development aid organizations

This chapter presents the findings of the held interviews regarding performance measurement within development aid organizations.

Chapter 5: Revising the framework

This chapter uses the findings from Chapter 4 to revise the framework developed in Chapter 3. A thorough description of how the framework is revised is stated continuously throughout the chapter.

Chapter 6: Applying the framework to Yennenga Progress

The revised framework formulated in Chapter 5 is applied to the development aid organization Yennenga Progress. This test results in a specified performance measurement system for the organization. Takeaways from the testing of the framework and analysis based on the test are presented in this chapter.

Chapter 7: Analysis

In the analysis-chapter, an in-depth analysis of the produced framework is given. Contributions of theory, practice and the test are discussed and analyzed.

Chapter 8: Conclusion

In this chapter, a conclusion of the study and its findings relating to the research questions and purpose are presented. Moreover, validity, reliability and representativity of the thesis as well as further research are discussed.

2. Methodology

This chapter presents the different strategies and tools used for data gathering and research. Moreover, the quality of the research methods is discussed in terms of validity and reliability. Finally, an overview of the chosen methodology is presented.

2.1 Research strategy

2.1.1 Different approaches

The research strategy states how the research questions of the study ought to be answered. In order to serve the purpose, a research strategy should be feasible, ethical and suitable for the study at hand (Denscombe, 2010).

Which research method to choose depends on the nature of the study, namely the purpose, goal and character of the study. According to Höst, Regnell and Runesson (2006) the four different purposes for a master thesis are the following:

- *Descriptive studies* have the main purpose of describing a phenomenon and its key parts or actors.
- *Exploratory studies* aim to make an in-depth analysis of how a phenomenon works.
- *Explanatory studies* aim to find causations and explanations as to why a phenomenon works the way it does.
- *Problem-solving studies* aim to find solutions to an identified problem.

Collected data can be either *quantitative* or *qualitative*. Quantitative data normally consist of numbers, whereas qualitative data consist of words (Denscombe, 2017). Conducting research mainly based on quantitative data and quantitative analysis is better suited for larger studies with access to more data. Qualitative analysis on the other hand, requires a lot of resources and is therefore more appropriate for studies on a smaller scale. Moreover, a quantitative analysis is more adequate for deductive reasoning, where the study aims to assess whether a statement is true or not (Kovács & Spens, 2005). Qualitative analysis is more suitable for inductive reasoning where the goal is to study empirical observations in order to create a theoretical framework.

2.1.2 Chosen strategy

The chosen strategy is a result of the purpose of establishing a solution to an identified problem. The first part of the study is mainly an exploratory or descriptive-

exploratory study where the main goal is to understand the current situation including all actors and externalities. Thereafter, the second part of the study is a problem-solving study where a solution is proposed to the identified problem.

The scale of the study in combination with the inductive nature of the study motivates a mainly qualitative research approach for the study.

2.2 Research methods

The chosen strategy calls for a research method that includes both identifying a problem, with an exploratory or descriptive-exploratory approach, and establishing a solution, with a problem-solving approach. Action research is therefore an appropriate research method as described below.

2.2.1 Action research

Action research is a research method for problem-solving studies with the purpose of analyzing a phenomenon in order to improve it (Höst et al., 2006). The first step of action research is observing a situation or a phenomenon in order to identify and understand a problem. Thereafter, the next step is to estimate a solution and implement it, preferably on a smaller scale. Lastly, the solution is evaluated through studies and analysis of the area the solution is applied to. In all, the method resembles the Shewhart-cycle and its four steps: Plan, do, study, act. Preferably these steps are repeated in an iterative manner until the problem is solved in a satisfactory manner.

In this thesis the first step is conducted through a literature review which results in a theoretical framework. Thereafter interviews were conducted in order to revise the framework and create a final framework for constructing performance measurement systems. This framework is finally applied and tested on the development aid organization Yennenga Progress. The organization is chosen as it fulfills the requirement of being a development aid organization in need of a performance measurement system. In the final part of the thesis, the result of applying the framework is studied and findings are analyzed.

The following tools will be used to carry out the action research:

- *Literature review:* See 2.2.1.1
- *Interviews:* See 2.2.1.1.
- *Archival research:* Studies of documents that have been produced in disregard to the thesis but relates to the observed situation or phenomenon

being examined. This was mainly done during the application of the framework to Yennenga Progress.

- *Workshops:* A group of people gathers in order to discuss a topic and possibly settle on a solution. In this thesis, workshops were used when testing the application of the model which is described in Chapter 6: Applying the framework to Yennenga Progress. Workshops were mainly useful for mapping Yennenga Progress' organizational characteristics and identifying the indicators included in their performance measurement system.
- *Meetings:* A gathering of people with a specific purpose, normally a discussion. Meetings together with the founder and general secretary of Yennenga Progress as well as other current and former employees were conducted in order to apply and test the framework to Yennenga Progress.
- *Questionnaire:* The questionnaire presented in Appendix A was sent out to the donors of Yennenga Progress in order to map their interests and requirements.

A complete overview of the methodology is presented in Section 2.4: *Methodology summary*.

2.2.1.1 Literature review

Höst et al. (2006) state that a literature review has several purposes. In the first phase of a thesis, the literature review provides the researcher with insight and understanding of the subject. In addition, it helps the researcher identifying a relevant question formulation by looking at similar studies on the topic. A literature review can also function as a good reference to compare results in order to identify analysis topics.

According to Rowley and Slack (2004), there are four different strategies for conducting a literature review, as follows:

- *Citation pearl growing*: Starts from one relevant document and uses suitable terms or sources found in that document to continue the review.
- *Brief search:* A quick superficial search with a few, easily found documents.
- *Building blocks*: Uses initial search terms by adding synonyms in order to find relevant sources.
- *Successive fractions*: A search within an already retrieved set of documents.

The literature that is used in this thesis is mainly gathered from library catalogs, search engines and online databases. In the early stages of writing the thesis, while

the topic of the thesis was still under discussion, brief searches and citation pearl growing were both frequently used. Thereafter, citation pearl growing as well as building blocks were the main strategies for conducting the literature review. Different search terms that were used included, but were not limited to the following: *challenges performance, result measurement, performance measurement, performance measurement systems, key performance indicators, contemporary performance measurement, design performance measurement, non-profit organization, theory of change, outcome mapping, outcome harvesting, logical framework approach, performance measurement within development aid, development aid, designing performance measurement, results-based management.*

2.2.1.2 Interviews

Interviews are relevant for capturing subtle and complex situations or phenomenons, and can vary in structure and format (Denscombe, 2010). The interviews can be conducted in three different ways:

- *Structured interviews* use a predefined set of questions and strongly resemble a verbal survey.
- *Semi-structured interviews* proceed with a predefined set of questions, but the interviewee is free to discuss the questions further and elaborate on its ideas.
- *Unstructured interviews* let the interviewee express its thoughts freely. The interviewer's objective is to assist the interviewee when a new topic is set or a track is lost but still remain unobtrusive (Höst et al., 2006).

To fit the purpose of the study a semi-structured approach was used. This lets interviewees elaborate their answers, but does not require the same in depth-understanding of the problem and potential solutions as the unstructured interview form. Each interview was recorded and listened to again in order to thoroughly analyze the content.

A *selective sampling* method in combination with the *snowball sampling* method was used to gather the required number of interviewees. Selective sampling is appropriate to use when certain expertise needs to be provided to the researcher as in the case of this thesis (Lekvall & Walhbin, 2007). With snowball sampling, each interviewee is asked to propose another interviewee that would suit the subject (Denscombe, 2010).

The selection of interviewees in the thesis was chosen to cover the following areas of expertise:

- Performance measurement experts: performance measurement experts within academia and consultants with experience of performance measurement systems within non-profit and for-profit organizations
- Practitioners: members of non-profit organizations with performance measurement systems
- Stakeholders: donors and members of aid regulatory organizations

19 people were interviewed according to the interview guide presented in Appendix B. A thorough description of each interviewee is presented in Appendix C.

2.3 Rigor and relevance

2.3.1 Reliability, validity and representativity

To assess the credibility of a study the three following perspectives should be further examined (Höst et al., 2006):

- *Reliability:* if the data collection and analysis is trustworthy and accurate
- *Validity:* focuses on systematic errors and whether the study measures what it intends to measure
- *Representativity:* if the conclusions are general

By conducting the interviews in a semi-structured manner, the interview process follows a consistent and clear format and reliability is enhanced. Moreover, a proactive strategy with a clear focus on the question formulations and verification of the studied literature's relevance on a regular basis helps ensure validity. Also, supervisors from both academia and the studied aid organization, Yennenga Progress, help assure the relevance and validity of the fields studied throughout the whole process.

It is important to note that a change of interview objects could lead to other insights. Also, applying the framework to a different organization could lead to other learnings. Therefore, it can be concluded that the conclusions stated are general to the extent that repeating the methodology steps and involving the interview objects and case organization stated in the report would lead to the same conclusions.

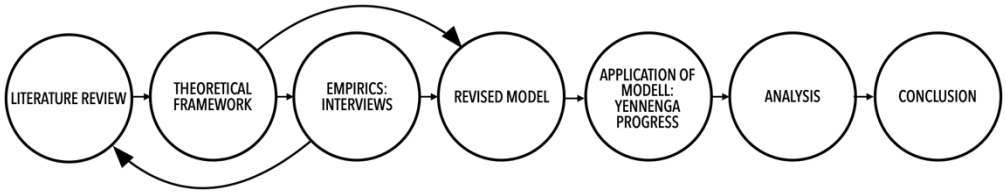
Moreover, the learnings of the case study and its contribution to the final framework are also general. However, due to the narrow case focus of one specific organization, the specific performance measurement system produced in the case study can not be considered general outside of the specific organizational scope.

2.3.2 Action research

The purpose of action research is to influence a situation or a phenomenon by observing and improving it at the same time. A side-effect of this method is therefore an involuntary bias that could affect the evaluation of the produced solution.

2.4 Methodology summary

Figure 2.1 presents an overview of the chosen methodology. The action research begins with a thorough literature review on the subject that derives a theoretical framework. Thereafter, interviews are conducted in order to understand experts' and practitioners' opinions on performance measurement. The interviewees are also



asked to comment on and revise the presented theoretical framework. Thereafter, the findings of the literature review, namely the theoretical framework, together with the findings of the interviews result in a revised framework - the final framework. This framework is further tested through an application on the development aid organization Yennenga Progress. The application-process is evaluated and results in a thorough analysis. Finally, conclusions are presented. An iterative approach to expanding the literature review was made. For example, Section 3.3: *Existing approaches to performance measurement within aid* was conducted as a result of consulting practice.

Figure 2.1. An overview of the chosen methodology.

3. Theory

This chapter includes theory on performance measurement systems, key performance indicators, performance measurement within development aid organizations, stakeholders and existing approaches to performance measurement within aid. This theory was gathered through a literature review and results in a theoretical framework.

In Figure 3.1 the theoretical input forming the framework is illustrated. Section 3.1 Performance Measurement Systems lays the foundation of what a PMS is and consists of. In Section 3.2, a deeper exploration of KPIs in PMSs is made as it is a crucial part of the development of a PMS. In Section 3.3 the characteristics and challenges of development aid organizations are presented to discover specific considerations when designing a PMS within a development aid organization. As stakeholders are specifically complex and interesting in the development aid context, tools for handling these were deemed important and contribute with the final input to the framework in Section 3.4. Section 3.5 presents existing approaches in the field to give a foundation for the empirics in Chapter 4 and to offer a reference to the theoretical framework. Finally, the theoretical framework is presented in Section 3.6.

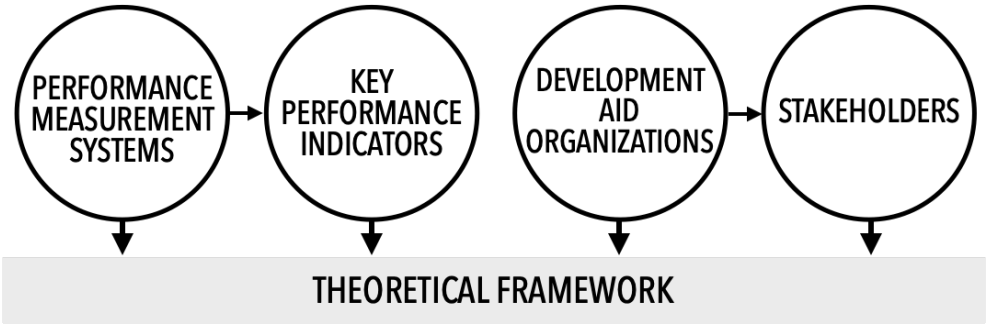


Figure 3.1. An overview of the theory chapter.

3.1 Performance measurement systems

3.1.1 Characteristics of performance measurement systems

3.1.1.1 Aspects and features included in a performance measurement system

There are a lot of definitions of performance measurement systems (PMS) at use today, which becomes problematic when attempting to use the phrase. In order to

clarify what the term means, Franco-Santos et al. (2007) plotted out the 17 most commonly used definitions and their features, roles and processes. From thereon, Franco-Santos et al. identify necessary conditions of the PMS.

Franco-Santos et al. argue that only *performance measures* and *supporting infrastructure* are necessary for a PMS. Following are the most commonly stated *features* of PMS and the percentage of definitions carrying them in the study by Franco-Santos et al. (2007):

- *Performance measures* (including features such as Multi-dimensional, leading/lagging, internal/external, vertically and horizontally integrated, multi-level) - 53%
- *Objectives/goals* (often referring to strategic objectives) - 35%
- *Supporting infrastructure* (which can include data acquisition, collation, sorting, analysis, interpretation and dissemination) - 29%
- *Targets* - 24%
- *Casual models* - 12%
- *Hierarchy/cascade* - 12%
- *Performance contract* - 12%
- *Rewards* - 12%

Moreover, when it comes to the *role* of a PMS, 17 different roles were identified which were then categorized into five groups (Franco-Santos et al., 2007). Franco-Santos et al. argue that the only necessary role of a PMS is to *measure performance.* The five groups are the following:

- *Measure performance:* This category encompasses the role of monitoring progress and measuring performance/evaluate performance
- *Strategy management*: This category comprises the roles of planning, strategy formulation, strategy implementation/execution, and focus attention/provide alignment
- *Communication:* This category comprises the roles of internal and external communication, benchmarking and compliance with regulations
- *Influence behavior*: This category encompasses the roles of rewarding or compensating behavior, managing relationships and control
- *Learning and improvement*: This category comprises the roles of feedback, double-loop learning and performance improvement

Even though organizational learning is not explicitly mentioned in the definitions as a definite role of PMSs in general, Franco-Santos et al. express it as “extremely unlikely” that learning should not occur (Franco-Santos et al., 2007). This due to the iterative and cumulative nature of PMSs in combination with system design in

general leading to self-analysis and improved knowledge of the organization (Neely et al., 2000).

Lastly, the mentioned *processes* of PMSs are categorized into five categories (Franco-Santos et al., 2007). Franco-Santos et al. argue that only three processes are necessary for a PMS: *information provision*, *measures design and selection* and *data capture*. The five categories are:

- *Selection and design of measures*: This category comprises the processes of identifying stakeholders needs and wants, planning, strategic objectives specification, measures design and selection and target setting
- *Collection and manipulation of data:* This category includes the processes of data capture and data analysis
- *Information management:* This category encompasses the processes of information provision, interpretation, decision making
- *Performance evaluation and rewards:* This category includes the processes of evaluating performance and linking it to rewards
- *System review:* This category includes the different review procedures and will ensure that there is a feedback loop within the system

Ferreira and Otley (2009) developed a framework for analyzing performance measurement and management systems. The framework consists of twelve questions developed through both management control literature as well as case studies, which helps create a strong connection to practice. Overall, the framework functions as a holistic tool to examine the way an organization works with performance management. Bourne, Melnyk and Bititci (2018) state that the framework is not a theory of performance measurement nor performance management, but rather a mapping of the current PMS. However, the questions raise a good picture of which aspects to keep in mind when designing a PMS. The twelve questions in the Ferreira and Otley (2009) framework are as follows:

1. What is the vision and mission of the organization and how is this brought to the attention of managers and employees? What mechanisms, processes and networks are used to convey the organization's overarching purposes and objectives to its members?
2. What are the key factors that are believed to be central to the organization's overall future success and how are they brought to the attention of managers and employees?
3. What is the organizational structure and what impact does it have on the design and use of PMSs? How does it influence and how is it influenced by the strategic management process?

4. What strategies and plans have the organization adopted and what are the processes and activities that it has decided will be required for it to ensure its success? How are strategies and plans adapted, generated and communicated to managers and employees?
5. What are the organization's key performance measures deriving from its objectives, key success factors, strategies and plans? How are these specified and communicated and what role do they play in performance evaluation? Are there significant omissions?
6. What level of performance does the organization need to achieve for each of its key performance measures (identified in the above question), how does it go about setting appropriate performance targets for them and how challenging are those performance targets?
7. What processes, if any, does the organization follow for evaluating individual, group and organizational performance? Are performance evaluations primarily objective, subjective or mixed and how important are formal and informal information and controls in these processes?
8. What rewards – financial and/or non-financial – will managers and other employees gain by achieving performance targets or other assessed aspects of performance (or, conversely, what penalties will they suffer by failing to achieve them)?
9. What specific information flows – feedback and feedforward – systems and networks have the organization in place to support the operation of its PMSs?
10. What type of use is made of the information and of the various control mechanisms in place? Can these uses be characterized in terms of various typologies in the literature? How do controls and their uses differ at different hierarchical levels?
11. How have the PMSs altered in the light of the change dynamics of the organization and its environment? Have the changes in PMSs design or use been made in a proactive or reactive manner?
12. How strong and coherent are the links between the components of PMSs and the ways in which they are used?

3.1.1.2 Ensuring a successful performance measurement system

Even with the right features and components added to a PMS, there are many other factors that contribute to its success. Tangen (2004) states that, in order to be successful, a PMS should:

- *Support strategic objectives:* In order to avoid unwanted side-effects of a PMS, the system should be derived from the organization's strategic

objectives. Whenever the strategy of the organization changes, the PMS should be adjusted thereafter.

- *Have an appropriate balance:* A PMS should cover all important aspects of an organization that lead up to their performance. The PMS should thereby cover more than financial aspects. A PMS should cover long and short-term goals, different types of performances (e.g. cost, quality, flexibility and dependability) and perspectives (e.g. the customer, the shareholder, the internal and the innovativeness perspective) as well as various organizational levels (e.g. global and local). It is also important to achieve a balance between informational and motivational uses of PMSs as well as between diagnostic and interactive uses (Franco-Santos, Lucianetti & Bourne, 2012). Where the appropriate balance between these factors lie is highly individual and depends on the organization.
- *Guard against sub-optimization:* It has been noted that poor performance measures could lead to what Skinner (1986) called the "productivity paradox" where improvement in one area leads to a decline in the performance of another area, often due to behavioral changes of employees. Therefore, PMSs need to guard against sub-optimization, possibly through a clear link from top to bottom of the organization, which ensures that employee behavior is consistent with corporate goals.
- *Have a limited number of performance measures:* The amount of performance measures needs to be limited in order to avoid information overload where the amount of collected information makes it hard to prioritize and benefit from the collected data. In addition, collecting information requires resources which speaks for a few but well-chosen performance measures.
- *Be easily accessible:* "a PMS's main goal is to give important information, at the right time, to the right person" (ibid.). It is important to develop PMSs so that the correct information is easy to comprehend and access by those whose performance is being evaluated as well as other relevant parties.
- *Consist of performance measures that have comprehensible specifications:* The performance measures in a PMS should be motivated and defined in a comprehensible manner with details of each measured target group clearly stated. Also, targets and appropriate timeframes for those targets should be stated.

Other contributing factors mentioned by Raimondo (2016) are that the system is not too complex, that the data collected is of good quality and that the responsibilities within the system are clear among different actors of the project.

3.1.1.3 Design architectures of performance measurement systems

There are many different approaches to designing PMSs. In an attempt to get a state of the art regarding designs of PMSs, Ravelomanantsoa et al. (2019) look at sixty different established approaches, compare them and identify five categories of design architectures. The article results in a tool for companies to identify which design architecture to adopt. Descriptions of the different categories and the organizations that should adopt the architectures are found in Table 3.1.

Table 3.1. Categories of architectures of performance measurement systems with descriptions (Vallespir, 2019).

Category	Description
Structural architectures	These approaches present structured models resembling frameworks with predefined areas and dimensions of performance. However, they do not provide any guidance in selecting relevant performance indicators within the different fields. This category consists of two types of models. The first type consists of models designed to determine the essential dimensions of performance to consider, on which the performance indicators should be decided upon. The second type contributes with guidelines for which areas of performance to look at but relies on organizational models to define the final performance indicators. Organizations that look to implement a PMS based on pre-established dimensions should look for approaches containing structural architectures.
Procedural architectures	The approaches in this category present well-defined steps for designing custom made PMSs. These architectures are important in order to ensure well-managed PMS-projects and long-term formulations of PMSs. There are two kinds of procedural architectures. The first kind focuses on PMS design and implementation including step-by-step procedures for selecting performance indicators (PI). The other kind focuses on diagnosis and audits in order to identify areas of PMS that need to be improved and PIs to be chosen in order to ensure durability. Organizations that need guidance to establish PIs, dimensions and PMSs should look for procedural architectures with a design approach. Organizations that need help finding dimensions in need of improvement should opt for procedural architectures with a diagnosis objective.
Architectures providing generic performance indicators	The approaches present a list of PIs that could be applicable to any type of organization. All organizations could use the PIs that are presented in these approaches but should be aware of criticism regarding adopting generic PIs. For example, Fernandez (2003) argues that every organization needs to develop and implement PIs according to its own needs and therefore should avoid generic PIs.

Architectures using methodological support tools	Several approaches support their architectures with tools, such as modeling tools or graphical control tools, in order to avoid developing too empirical architectures. For structural architectures, it is common to use support tools that provide structure. For procedural architectures, tools could help various processes such as the identification of critical PIs and coherence checking. All organizations could use methodological support tools as long as they contribute to the design and implementation of their PMSs.
Reference models	Reference models contain descriptions of standard organizations and their different processes or activities, the PIs that are connected to those activities and finally the different PMSs. These models resemble self-assessment rather than performance assessment and could function as inspiration within performance measurement for any organization.

3.1.2 Consequences of performance measurement systems

The updated, more holistic form of performance measurement is called Contemporary Performance Measurement (CPM). CPM has been widely discussed and implemented during the last decades. When analyzing CPM systems, Franco-Santos et al. (2012) investigated 72 studies of CPM and identified and categorized consequences of CPM according to three categories: people's behavior, performance consequences and organizational capabilities. As in the case of PMS, several definitions of CPM exists and Franco-Santos et al. (2012) choose to define CPM systems as "a [system that] exists if financial and non-financial performance measures are used to operationalize strategic objectives", a definition that is the result of looking at necessary conditions of CPM systems. Furthermore, four different types of CPM are identified according to Table 3.2.

Table 3.2. Contemporary performance measurement types (Franco-Santos et al., 2012).

	CPM A	**CPM B**	**CPM C**	**CPM D**
Components	Financial and non-financial performance measures implicitly or explicitly linked to strategy	Financial and non-financial performance measures implicitly or explicitly linked to strategy	Financial and non-financial performance measures implicitly or explicitly linked to strategy	Financial and non-financial performance measures implicitly or explicitly linked to strategy
		With explicit cause-and-effect relationships among measures		
Use/purpose	Inform decision-making	Inform decision-making	Inform decision-making	Inform decision-making
	Evaluate organizational performance	Evaluate organizational performance	Evaluate organizational and managerial performance (without links to monetary rewards)	Evaluate organizational and managerial performance
				Influence monetary rewards

Consequently, CPM is a specific type of performance measurement that at least requires both financial and non-financial performance measures as well as a set purpose: inform decision-making and evaluate organizational performance. Below, the consequences of CPM systems in each of the three categories are explained further.

Franco-Santos et al. (2012) found the following consequences of CPM on people's behavior:

- *Strategic focus:* Researchers agree that the use of a CPM system improves decision-making, helps align processes according to strategy and helps to concentrate executives' efforts on what is important for the organization. However, this is supported by qualitative data only as none of the quantitative studies convert strategic focus into a measurable variable.
- *Cooperation, coordination, and participation:* Research shows that CPM contributes to the distribution of performance information which facilitates communication and understanding of objectives and restrictions within and outside organizations (e.g. within supply relationships).
- *Motivation:* Developing and using CPM systems can affect people's motivation as well as the measured values. However, research shows that the effect could be both negative and positive depending on how the system is developed, implemented and used. In order to drive motivation the CPM should be developed and used in a way that enhances the employees' participation, psychological empowerment, and goal commitment. The system should include performance measures that are strategically aligned, controllable, timely, and technically valid (Decoene & Bruggeman, 2006).
- *Citizenship behaviors:* Burney, Henle and Widener (2009) explore the effect CPM has on behaviors beyond the requirements of the job, also called organizational citizenship behaviors, and find that the adoption of CPM type D (see Table 3.2) carry a positive effect.
- *Role understanding and job satisfaction:* Hall (2018) suggests that CPM type B leads to increased knowledge of the organization's strategic goals which in turn leads to better role understanding among managers. Similarly, Burney and Widener (2007) find that CPM type B assist the spreading of job-relevant information and decreases people's perception of role conflict and role ambiguity. However, Cheng, Luckett and Mahama (2007) note risk of goal conflicts that arise if individuals' perceived goal difficulty is high. Furthermore, Lau and Sholihin (2005) find that CPM has a positive effect on job satisfaction if the performance evaluation is perceived fair and employees trust their supervisor.
- *Decision making, learning and self-monitoring:* Wiersma (2009) found that managers experienced that CPM systems helped them with self-monitoring and decision making. Further research evidence shows that CPM systems help managers learn how to improve their performance when appropriate feedback mechanisms are at work (Tuomela, 2005). They also help confirm

that the organization operates according to managers' mental image of the operations (Hall, 2011).

- *Leadership and culture:* Studied research shows that CPM systems are powerful tools when wanting to change a culture or develop a more consultative and participative leadership style.
- *Perceptions of subjectivity, justice, and trust:* Numerous researchers agree that CPM systems bring subjectivity, which has different impacts on organizations depending on the perception of subjectivity. When subjectivity is perceived as unfairness, the CPM system is likely to disappoint. On the other hand, if subjectivity is perceived as flexibility a CPM system could have a positive effect. Burney et al. (2009) note that the perception of justice can be improved by providing a system that reflects a strategic causal model and is technically valid (its measures are accurate, accessible, understandable, reliable, and timely).
- *Judgment biases:* Judgment biases are likely to occur in cases where CPM systems are complex or have measures with a subjective nature.
- *Conflicts and tensions:* On one hand, studies show that CPM systems could cause tensions (e.g. Malina & Selto, 2001; Marginson (2002)). Moreover, the cost and increased workload of designing, implementing and using a CPM system could cause skepticism and a reluctance to CPM (Tuomela, 2005; Ahn, 2001; Butler, Letza, & Neale, 1997; Papalexandris, Ioannou & Prastacos, 2004). However, CPM also leads to more visibility and comparability among globally dispersed results, whilst helping managers saving time (Cruz, Scapens & Major, 2011).

Regarding organizational capabilities, the following consequences were found (Franco-Santos et al., 2012):

- *Strategy processes - alignment, development, implementation and review:* CPM positively affects the strategy process, for example by engaging managers in the strategy formulation and enabling the strategy to be implemented. However, the degree of this effect depends on the nature of the CPM system and the way it is designed, developed and used.
- *Communication:* CPM has a positive effect on communication processes as long as the system consists of two-way communication that encourages knowledge-sharing and generates trust.
- *Strategic capabilities:* When the focus is on learning and action rather than reporting and control, CPM contributes to organizational learning. The findings of Henri (2006) show that by balancing the diagnostic/controlling and interactive/learning use of CPM, it enables organizational capabilities

such as entrepreneurship and market orientation. Henri argues that this is due to CPM calling attention to strategic priorities and stimulating dialogue.

- *Management practices:* The study shows that CPM can be an effective management device, but is not always. According to Wouters and Wilderom (2008), to be effective CPM systems must build on employees' professionalism, acknowledge the organization's previous experience, allow experimentation with measures and encourage transparency.
- *Corporate control:* The study finds contradictory findings of CPMs impact on corporate control. On one hand, Cruz et al. (2011) and Dossi and Patelli (2010) argue that CPM enhances visibility and comparability among subunits of an organization and thereby leads to increased corporate control. On the other hand, the case study by Kraus and Lind (2010) shows that top-level management focuses on financial performance in order to simplify and narrow down the amount of information and that CPM systems thereby have no impact on corporate control. These contradictions might be explained by contextual factors such as organizational culture and the size of the organization (Franco-Santos et al., 2012).

Finally, the following consequences were found regarding performance (Franco-Santos et al., 2012):

- *Organizational and business unit performance:* A lot of studies cover this area but the results are ambiguous. Franco-Santos et al. argue that CPM can, but does not necessarily imply the improvement of performance. The improved performance, or lack thereof, depends on the way the CPM systems are designed, implemented and used.
- *Team performance:* Scott and Tiessen (1999) find that team performance is improved if the team members are involved in setting the performance targets and teamwork is encouraged when team measures affect individual incentive compensation. In addition, Davila (2000) found that team performance in product development improves with CPM.
- *Managerial performance:* Studies in this area show that CPM indirectly affects managerial performance by reducing role ambiguity and goal conflicts.
- *Inter-firm performance:* This area has little coverage in research. Only two of the studies in Franco-Santos et al.'s research report a positive effect on inter-firm performance. These two studies imply that this is due to improved cooperation and socialization among firms (Cousins, Lawson & Squire, 2008; Mahama, 2006).

To summarize, the list of consequences presented by Franco-Santos et al. (2012) shows that the likelihood of gaining the benefits of a PMS relates to how it is designed, implemented and used as well as how the system fits the context in which it operates. (e.g., Otley, 1999; Neely, 2005; Bourne & Franco-Santos, 2005). In order to maximize the positive effects of CPM systems the following conditions should be met:

- The CPM should be developed and used in a way that enhances the employees' participation, psychological empowerment, and goal commitment. This includes letting employees participate in the target setting and managers participate in the development of the CPM system. Clearly motivating the performance evaluation is essential if the evaluation is to be perceived as fair among employees.
- The system should include performance measures that are strategically aligned, controllable, timely, and technically valid (accurate, accessible, understandable, reliable). Avoid complexity and measures with a subjective nature.
- Develop a two-way reporting or communication system that enhances trust, knowledge-sharing and transparency between managers and employees. The focus should be on learning and action rather than reporting and control.
- Build a culture that sees subjectivity as flexibility rather than unfairness, for example through minimizing perceived unfairness with a strategic causal model.
- Build the CPM system on employees' professionalism, acknowledge the organization's previous experience and allow experimentation with measures.

Furthermore, Pavlov and Bourne (2011) note that performance measurement often requires the adoption of routines and triggers search for solutions that improve the performance of the organization. For example, management contributes with guidance when working with and developing PMSs. In return, this triggers feedback from the organizational environment which all together affects the organizational routines. These effects can be seen in Figure 3.2 below.

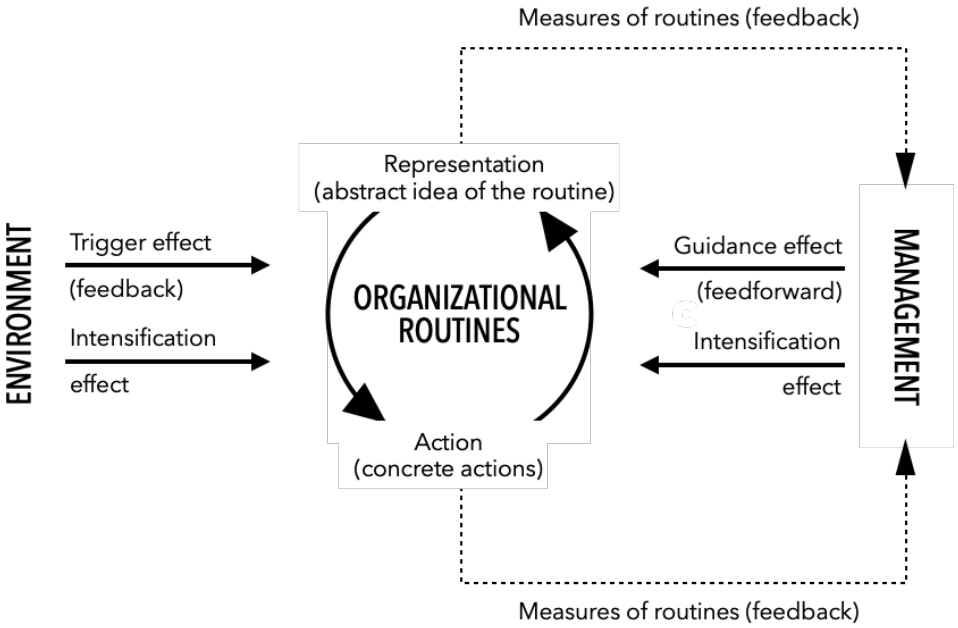


Figure 3.2. Effects of performance measurement on organizational routines (Pavlov & Bourne, 2011).

3.2 Key performance indicators

3.2.1 Defining performance indicators

Key performance indicators (KPI) are defined as a set of detailed measures, quantifiable and strategic, in a PMS that reflect the factors of success in an enterprise (Kang, Zhao, Li & Horst, 2016). According to Ravelomanantsoa et al. (2019), the performance indicators need to be simple to interpret, measurable, accessible, realistic and temporal (SMART). Also, performance indicators target different areas of the organization, Vial and Prior's (2003) propose a threefold division of the main areas:

- *Process-based* (e.g. compliance with policies)
- *Activity-based* (e.g. money spent or numbers educated)
- *Outcome-based* (e.g. goals achieved)

Another approach, also presented by Vial and Prior (2003), is to classify performance indicators according to their purposes. In Table 3.3, six categories are proposed for how to label performance indicators.

Table 3.3. Categories of performance indicators (Vial & Prior, 2003).

Category	Description
Quantitative	Measures the amount of a specific product or service
Qualitative	Structured approach to collect perceptions
Cost efficiency	The cost of performing or achieving a specified amount of service
Cost effectiveness	The cost of performing or achieving a specified amount of service to a desired level
Timeliness/Responsiveness	The time it takes to perform a service or the amount of service performed within a time period
Work team productivity	The output performance from a team or workforce

Parmenter (2015) has a different take on the definition of indicators. He distinguishes between *result indicators* and *performance indicators* and argues that the two types have different attributes and perspectives. *Result indicators* show how several different teams are producing results together. They are relevant for keeping track of the deliverance of the entire organization. A result indicator is an overall measurement that does not focus on details. The result indicators often span over a long period of time and can be hard to act upon. A result indicator will not tell you what to do but rather presents the outcome of actions already taken.

In Parmenter's (2015) opinion, a *performance indicator* is always non-financial and should be traceable directly to the performance of a single team. While financial measures only show the results of already performed actions, a performance indicator presents what action is necessary to improve the business. Accordingly, each member of the organization should feel responsible for the necessary improvement measures. Performance indicators exist to align the company strategy with the tasks presented to the workforce. The KPIs are the performance indicators

deemed most important for the success of the organization. Each KPI should be connected to at least one specific activity conducted in the organization.

Not every indicator that falls under the earlier presented categories is useful. In order to ensure that a chosen KPI is successful, Parmenter (2015) has identified seven necessary characteristics:

- *Non-financial:* If KPIs are measured in monetary terms, there is no distinction between performance and results. Thereby the information regarding what actions has led to the indicated financial result will be lost.
- *Timely*: If KPIs are not measured on a regular basis there is a risk of acting upon the information too late.
- *Chief executive officer (CEO) focus*: The involvement and investment from top management are critical for making the staff engaged in the measurement.
- *Simple*: Everyone in the organization should understand what actions are necessary in order to contribute to the improvement of the target value.
- *Team-based*: The result of the KPIs should be tied to the responsibility of a team or group of people.
- *Significant impact:* The measures should directly impact the critical success factors derived from the company strategy.
- *Limited dark side:* The KPI should encourage favorable behavior and lead to desired actions from the staff.

As a final remark it is important to mention that relative measures that are compared to a standard are more explicit than absolute ones. The standard could relate to the organization's past performance, the performance of other organizations or specific targets. (Behn, 2003; Gonzalez Quintana & Canãdas Molina, 2008)

3.2.2 Identifying suitable indicators

Indicators are set after deciding upon what has to be measured in terms of mission or goals, (Behn, 2003). Though translating high-level concepts such as mission into indicators is not easy and it may be better to replace the mission with measurable goals (Speckbacher, 2003). Mouchamps (2014) states that it is important to adapt each performance measure to a purpose when deciding measures in a PMS. When a purpose has been identified, a measurement strategy should be developed where only the measures that best serve each purpose is chosen (Behn, 2003). Parmenter (2015) has a similar view, he believes that the performance and results indicators derive from organizational vision and strategies.

Different methodologies for identifying KPIs can be used, each with its own positive and negative aspects. Barr (2014) describes five classic ways to identify KPIs with their respective characteristics:

- *Brainstorming:* The most common way of identifying KPIs but it lacks efficiency as well as quality. The method consists of participating members coming up with as many measures as possible. Eventually there must be a shortlist based on some criteria. The issue with this procedure is that the quality of identified measures is never tested.
- *Benchmarking:* Comparing what measures other organizations are using and adopting them into the organization. Even if this makes it easy to compare the organization to other organizations there is a potential risk that the measurements loose connection to the unique strategy of the business and result in routines that are not well suited to the organization.
- *Looking at currently available data:* Identify what should be measured and what is already measured. It is cost and time-efficient but tends to focus too much on past strategies which make it difficult to help the organization evolve.
- *Looking at stakeholders' interests*: Stakeholders are often interested in certain measurements. By ensuring important stakeholders are satisfied, the organization can feel safe in partnerships and top management will be satisfied. However, this method outsources the responsibility of measuring to stakeholders which might lead to choosing measurements that do not suit the organization and that are not developed in a thorough manner.
- *The use of experts:* Experts can contribute with a fresh perspective and ideas that have proved successful for other organizations. However, it is harder for an external actor to understand all unique qualities of the organization which might result in the expert trying to fit the organization into a standardized model. Moreover, the ownership of the identified measures will lie outside of the organization and thus risks lagging behind as the strategy changes.

Barr's (2014) remark to these approaches is that they are quick but have too many weaknesses to use as the sole method. More extensive frameworks have been developed to further guide a methodical process of identifying indicators. Three of the more common and influential approaches are the balanced scorecard, the performance prism and the winning KPIs. A fourth method worth mentioning is the results mapping. The two former models are mainly targeting the issue of ensuring that the indicators cover all aspects of the organization. The last two methods present a step-wise guide for designing KPIs.

3.2.2.1 Covering all perspectives

The Balanced Scorecard

In 1992, Kaplan and Norton presented their framework called the Balanced Scorecard. The intention was to present an alternative approach to solely looking at short-term financial metrics. Through introducing four processes, the framework links strategic goals to short-term actions taken in the organization (Kaplan & Norton 1996). The four processes: *Translating the Vision*, *Communicating and linking, Business Planning* and *Feedback and Learning* are shown in Figure 3.3.

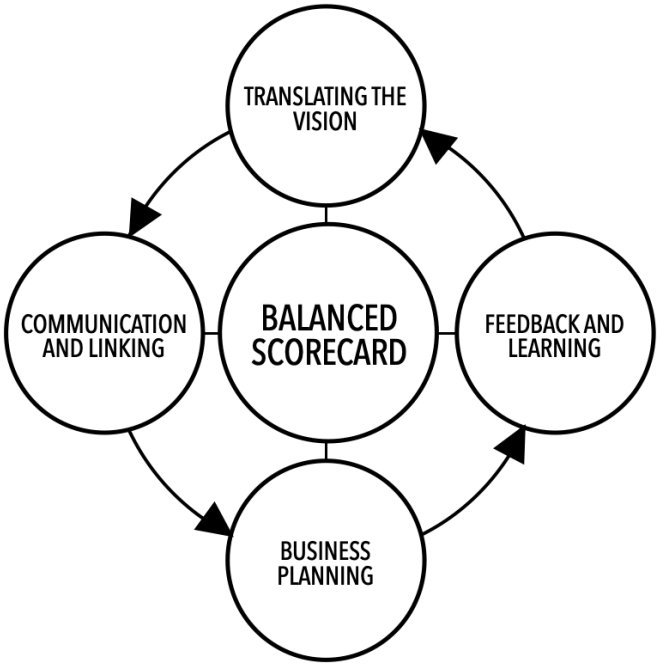


Figure 3.3. The four processes of managing strategy (Kaplan & Norton, 1996).

In the first process, the vision is translated into tangible and specific objectives (Kaplan & Norton, 1996). In the second process, the specified objectives are communicated and linked to the rest of the organization. If needed, the objectives are broken down or adapted to different parts of the organization. Eventually every part of the organization should understand the goals and the strategies to achieve them. Also, every employee should have decided upon actions aligned with the business objectives. In the third process, the organization plans and sets targets. It should quantify long-term outcomes it wishes to achieve in order to focus resources and follow up on progress. Finally, the process of feedback and learning should be

conducted. The end result is a feedback process where the strategy is reviewed through the measurement of the four processes and affects the next strategic setting.

Kaplan and Norton (2006) suggest four main perspectives deriving from strategic objectives that should be covered in every measurement system. These four perspectives are interrelated and connected to vision and strategy as illustrated in Figure 3.4. In the first process, strategies regarding each perspective are concretized and transformed into measures and actions. By leaving the traditional approach of creating measures at the financial department and instead include top management, the focus goes from control to strategy and action (Norton & Kaplan, 1992). The four perspectives are further described in Table 3.4.

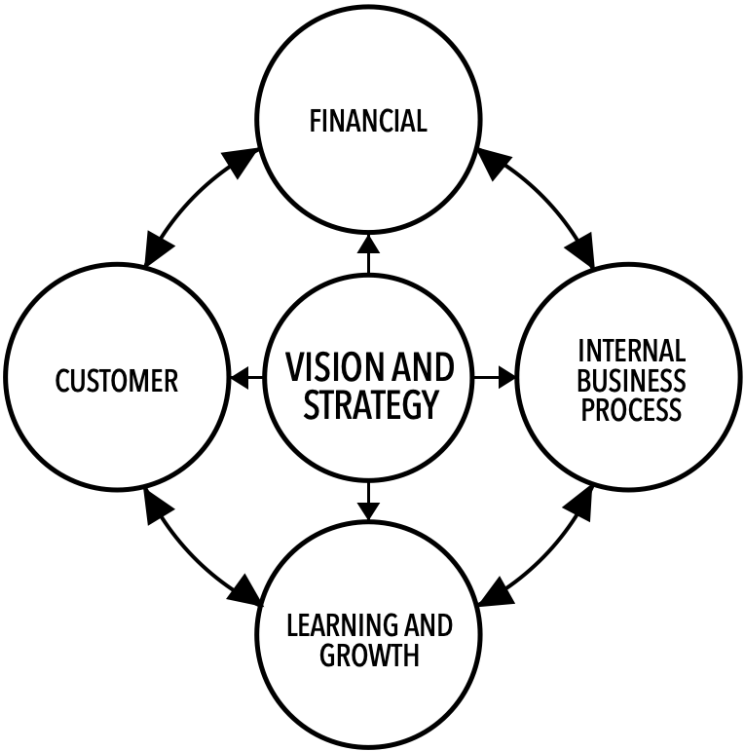


Figure 3.4. Overview of the four business perspectives deriving from vision and strategy (Kaplan & Norton, 1996).

Table 3.4. The four Balanced Scorecard perspectives (Norton & Kaplan, 2006).

Perspective	Description
Financial	Every measure should generate a positive impact on financial numbers whichever perspective it belongs to. Through linking strategic goals to financial metrics the other three perspectives will be much more focused in the same direction. How to define a suitable financial performance indicator depends on the maturity of the company.
Customer	In order to stay competitive and maintain a long-term sustainable financial situation it is of great importance to deliver customer value. In order to truly serve the customer, indicators should be chosen from three different perspectives depending on the organization: *The product and service offered, The customer relationship* and *The image and reputation of the organization*.
Internal	This perspective helps managers identify the internal processes necessary to reach the customer and financial goals. Accordingly, these measurements should be the third ones developed to maintain alignment among all business goals. The most common aspects regarding this perspective are *Cost, Quality* and *Time performance* on existing processes.
Learning & growth	The role of the fourth measurement perspective is to support and enable the targets set in the other three categories. The aim of this perspective is to ensure the long-term perspective of building internal capabilities and make sure it is not down prioritized for short-term performance reasons. The perspective can be divided into three subcategories: *Employee capabilities*, *Information systems capabilities* and *Motivation, empowerment and alignment*.

It should be noted that criticism regarding the Balanced Scorecard within non-profit organizations (NPOs) exists. Arena, Azone and Bengo (2015) argue that the Balanced Scorecard does not provide a complete PMS due to a lack of consideration of the specific features of NPOs, including their social impact mission, complex stakeholder structure and multiplicity. Similarly, Harrigan and Millers (2002) stress that a fifth perspective focusing on stakeholders is important to add. Nørreklit (2003)

on her part argues that the model with its top-down decomposition leads to unintended behaviors and a lack of control.

The Performance Prism framework

The Performance Prism framework was developed by Neely, Adams and Crowe (2001) to include and focus on the stakeholder perspective when developing indicators. In contrary to the Balanced Scorecard, they do not believe that measures should be derived from strategies but rather from stakeholders. By starting with understanding what stakeholders the organization has and what each stakeholder require, suiting strategies to fulfill these requests can be created. The main objective of the Performance Prism framework is to support the selection of correct performance measurements to drive stakeholder satisfaction. It considers five different interrelated facets of the organization and argues that actions and measures should cover each category to create a successful performance. The five different facets are presented below (Neely et al., 2001):

1. *Stakeholder satisfaction:* Consider who the stakeholders are. They could be customers, partners, employees, investors, community, regulators or suppliers. Understand what they want and need from the organization.
2. *Strategies:* The second facet considered should be to understand the existing strategies that ensure the fulfillment of stakeholder needs. This aspect stems from stakeholder satisfaction.
3. *Processes:* Identify internal business processes that deliver on the chosen strategies. From these processes or activities it should be possible to create performance-related measures that describe how the organization manages to deliver on the tasks.
4. *Capabilities:* The infrastructure and knowledge that enable the organization to exercise the internal processes identified in the third facet. When these needs are identified it should be possible to create measures that indicate whether these requirements are met or not.
5. *Stakeholder contribution:* Organizations form an interrelationship with their stakeholders. In the final facet, the organization should understand the contribution of stakeholders to the organization and how this performance can be measured in the organization.

It should be noted that the Performance Prism is not a prescriptive measurement framework but rather a management tool for ensuring that all key issues are covered when designing measurements (Neely et al., 2001). By mapping stakeholders together with selected measures and business processes, the organization can ensure

that all interests and critical activities are covered within the performance measurement. In Figure 3.5 an overview of the five facets of the performance prism is presented together with examples of related concepts.

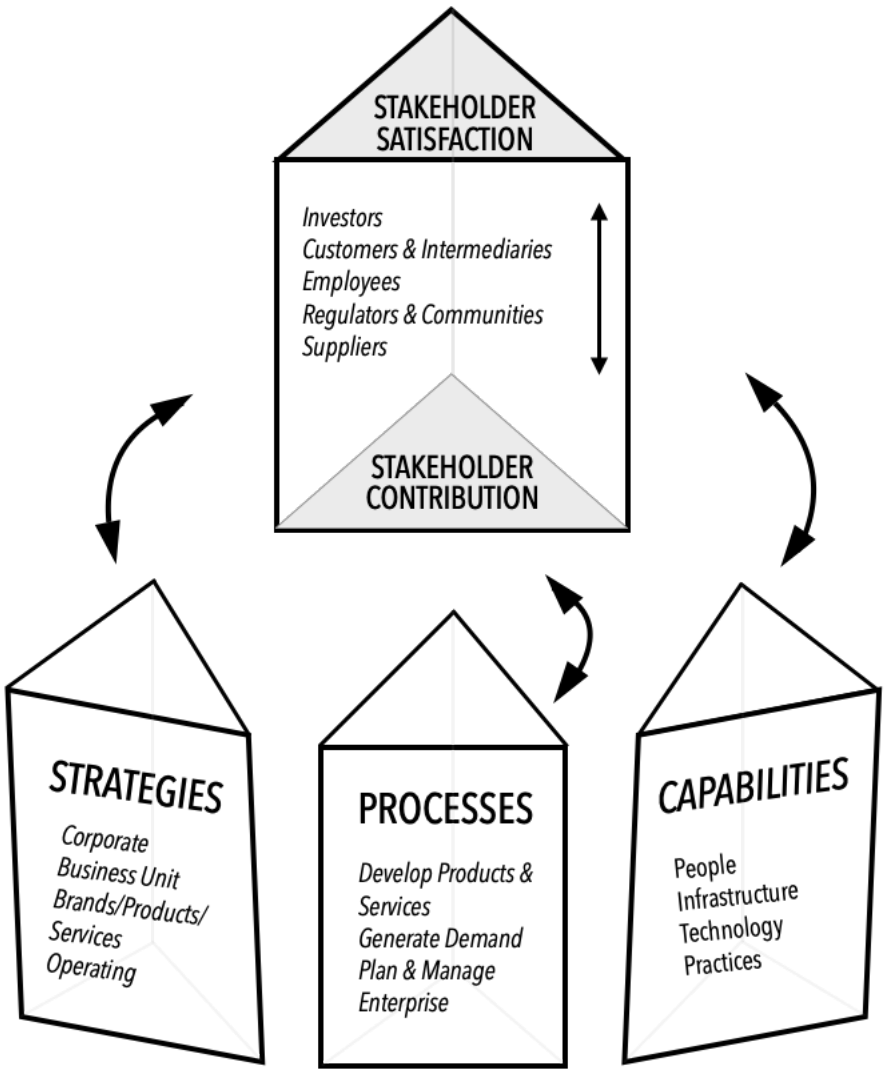


Figure 3.5. The five dimensions of the performance prism (Neely et al., 2001).

3.2.2.2 Step-wise approaches

The Winning KPI methodology

One tool offering a more detailed approach for producing KPIs is Parmenter's (2015) six-stage method called the Winning KPI methodology. The method is based on

seven concepts called foundations stones that should be present during all six stages of the method. The seven concepts are:

1. A partnership between management and relevant stakeholders such as employees, customers and suppliers should be established to understand the interests and expectations of each party.
2. The process should aim at empowering operational employees so that they can take action on the identified indicators.
3. Each indicator should be relevant, have a clear purpose and direct the organization toward successfully achieving its goals.
4. Each indicator must be connected to a critical success factor in order to drive performance and not only monitor strategic initiatives.
5. To embrace change, old processes and measurements that occupies time should be abandoned
6. Someone in the company should be responsible for measurement.
7. There should be an organizational understanding of KPIs and their definitions.

In Figure 3.6 the entire methodology including foundation stones is illustrated.

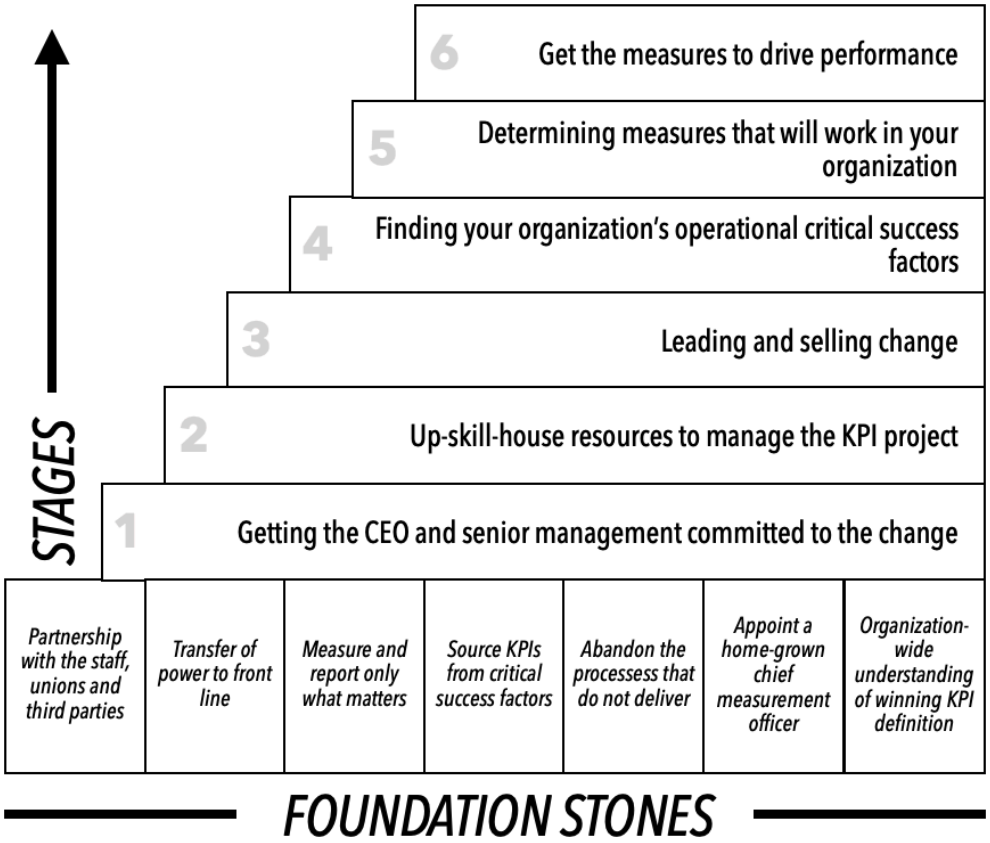


Figure 3.6. The Winning KPI methodology (Parmenter, 2015).

Stage one to three: The first three stages mainly focus on management issues (Parmenter, 2015). To ensure that the sought change is persisted, the process starts with engaging top-level management. Secondly, the project team should be recruited and trained by in-house employees to gain support and momentum. In the third stage, change management is highlighted as a useful tool for an eventually successful implementation of the new indicators.

Stage four: Critical Success Factors (CSF) create an intermediary path to go from strategy to indicators, as depicted in Figure 3.7 (Parmenter, 2015). CSFs are those aspects of an organization that are essential for it to perform well. The concept of CSFs is divided into *Operational success factors* and *External success factors* where the former describes specific actions in the organization while the latter describes external results. Operational success factors are important when identifying KPIs as they represent the operational activities that drive strategic success. CSFs are derived from strategy and should cover six business perspectives (the first four being adopted

from the Balanced Scorecard): *Financial results, Customer focus, Innovation and Learning, Internal processes, Staff satisfaction and Community and environment*.

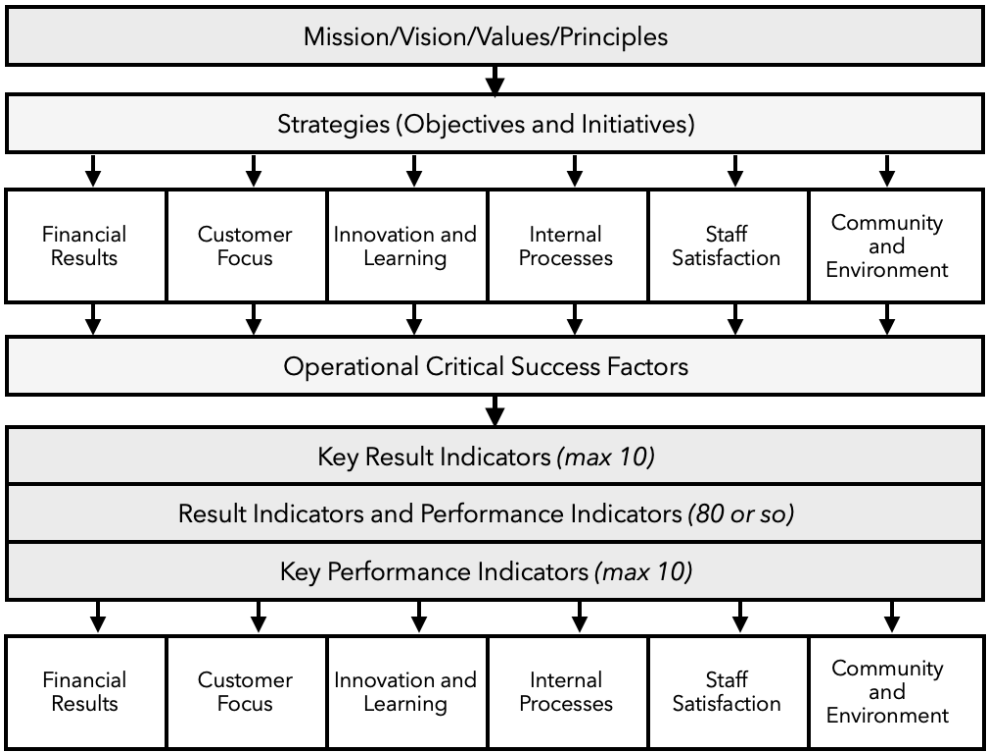


Figure 3.7. The relationships between strategy, critical success factors and key performance indicators (Parmenter, 2015).

Stage five: Through dividing CSFs into subparts it is possible to identify several underlying aspects (Parmenter, 2015). Potential indicators are identified as the performance measure of every specific CSF- aspect. As illustrated in Figure 3.8, numerous different measurements will be identified for each CSF. Since all indicators are not equally effective, it is important to perform a conscious selection. A distinguishing criterion of value-adding indicators is their tense. Indicators focusing on the past are measuring the *results* of earlier projects and are not actionable. Instead, indicators with a focus on the present or future focus on the *performance* of activities. A successful indicator should focus on performance, lack negative influence and drive at least one CSF.

A proper set of indicators should cover all of the six business perspectives and be short of any duplicates (Parmenter, 2015). Also, each indicator should have an impact on the organization and be feasible to measure. To ensure a proper set of

indicators, strategic objectives should be reviewed and chosen measures should describe the progress. All established indicators should be stored in a database together with their specification including name and method of measurement.

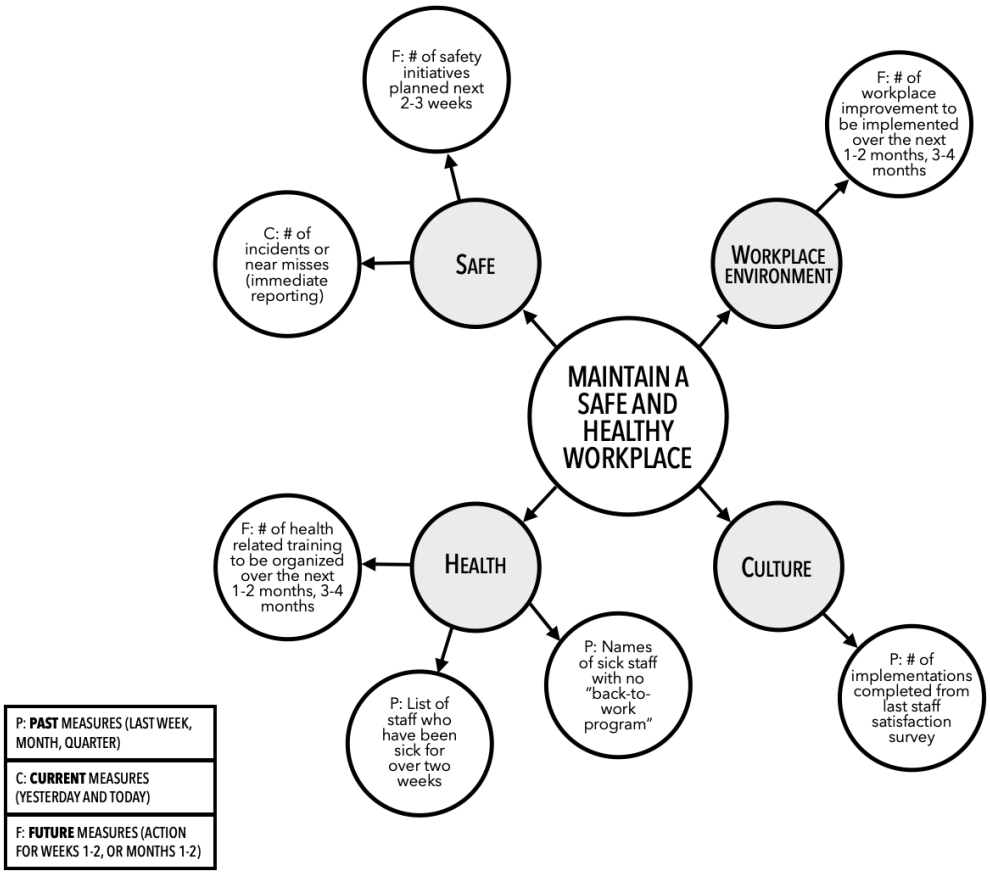


Figure 3.8. An example of a KPI-tree with identified indicators and their respective tense. This specific KPI-tree aims at maintaining a safe and healthy workplace (Parmenter, 2015).

Stage six: Eventually, a reporting framework considering ways and frequency of communication and evaluation should be developed in order to drive organizational performance through the indicators (Parmenter, 2015). In order for the indicators to be and remain used in the organization a systematic approach to these matters is necessary.

The Results Mapping methodology

The Results Mapping methodology presents a tool for deriving indicators from strategies, through looking at organizational goals (Barr, 2014). The formulation of

goals is essential in the framework, a well-functioning goal should be formulated with a distinctive meaning and easy to interpret. Goals can be formulated both as an action or a result. To handle the difficulty of turning actions into measurable indicators, the results of the actions in the strategy should be the focus of the method.

By creating a results map divided into four time horizons and a suitable number of process parts, illustrated in Figure 3.9, a strategy is reworked into measurable actions (Barr, 2014). In the center, visions are formulated on a ten to twenty-year horizon. In the second layer, visions are translated into company-wide strategic goals with a time frame of two to five years. The third layer should consist of the most essential business processes and functions necessary to achieve the inner strategic targets. In the utmost layer, operational goals tied to a specific part of the business process or a business unit are found, with time spanning between a month and a year. Each performance result is ranging from a result in the same or inner time layer, thus the interrelationships between different results are investigated and identified. There are three types of relationships: *Cause-effect, Companion* and *Conflict*. Eventually, numerous performance results have been derived from formulated strategies.

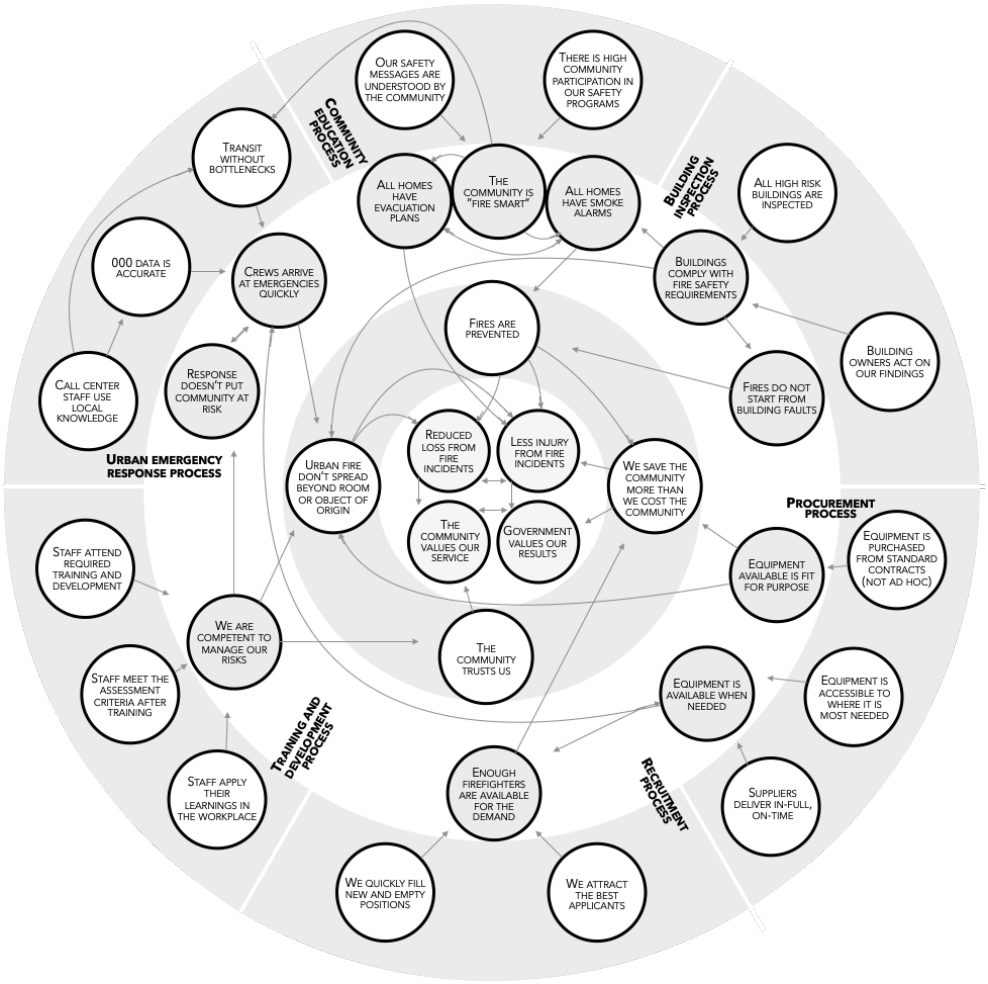


Figure 3.9. An example of an application of Barr's (2014) mapping method for identifying the processes driving desired results. This specific example regards a fire station and its related processes and results.

As the driving results have been identified, measurements should be identified for the results in the utmost layer (Barr, 2014). Only the most urgent or important results should be attaining focus, since creating too many measurements is not productive. Generally, result-goals aiming at multiple focuses simultaneously should be avoided since it can lead to a shattered focus. In order to ease the formulation of distinctive indicators, goals mentioning several improvements at once should be divided into separate statements. See if the goals set are desired and achievable considering the given conditions.

3.2.3 Reviewing indicators

It is important to strike a balance between choosing overabundant indicators and insufficient ones. By linking measures to the mission and weighing different measures against each other, this balance is found more easily (Gonzalez Quintana & Canãdas Molina, 2008). Neely et al. (2001) argue that all measurements should be gathered in a measurement record including ownership, targets, frequency, purpose, metrics and source of data. This documentation will create an understanding of chosen indicators in the entire organization and a more successful implementation.

After the decision of what to measure follows the next aspect: considering how to collect the needed data in a manner that ensures the quality of the data. If the KPIs are based on inadequate data, actions taken based on those KPIs might result in different outcomes than intended (Masayna, Koronios, Gao & Gendron, 2007). Wrongfully set performance indicators are failing organizations worldwide, both companies and governments as well as non-profit agencies (Parmenter, 2015). When designing indicators measuring development, it is important to find a balance among what objectives to focus on. The impact of organizational activities is easy to derive when only focusing on short-term objectives. However, the long-term perspective is lost which makes it hard to manage based on outcome. Only measuring performance on a too high level, on the other hand, makes it hard to distinguish what impact the organizational activities have contributed to since they normally are not the only thing affecting outcome (Parmenter, 2015).

3.3 Understanding development aid organizations

A development aid organization is an aid organization that focuses on development aid. Furthermore, development aid organizations are a subcategory of non-profit organizations as well as social enterprises. Moreover, the vast majority of development aid organizations are non-governmental organizations. This thesis will therefore present findings that regard these kinds of organizations as they all describe conditions relevant for development aid organizations.

3.3.1 Characteristics of non-governmental organizations

It is important to understand the context and specific nature of development non-governmental organizations (NGOs) within the aid sector. Lewis (2003) argues for two dimensions motivating that development aid NGOs are different in terms of organizational context in comparison to for-profit organizations and government agencies. To begin with, these NGOs do not make any profit and have no political

mandate, making it a specific field. Secondly, development aid NGOs separate themselves from others since they are aiming toward long-term societal development, almost exclusively through some form of poverty reduction.

The aim of the development aid organization's project has some distinct features: it solves issues and improve the quality of life for the receivers. It defines and presents clearly defined objectives, it addresses a specific target group and is limited in time and geography. Last but not least it should also ensure lasting effects of the intervention (Montes-Guerra et al., 2015). Another distinctive attribute of NGOs is the asymmetric information relationship between organizations and their stakeholders. An example is the fact that donors and operational aid activities are often stationed in different continents leading to donors having to trust second-hand information reported from the NGO. Also, unawareness of local cost structures can create barriers for understanding the efficiency of invested projects (Burger & Owens, 2010).

Another aspect unique for NGOs is the customer feedback loop. For a profit-oriented company, a decrease in quality would render less customer return thus eventually forcing change or the closing of the business. For a governmental organization, the inefficiency would lead to voters seeking other candidates. In NGOs there are none of these mechanisms from customers or beneficiaries since they have no power to choose another aid or vote for change (Burger & Owens, 2010). Instead, the main concern for securing financial stability is related to the donors of the NGO. The most common setup between donors and receiving organizations is short-term contracts ranging from six months to a few years. The disparity in power easily creates wrongful incentives between the donor and the aid organization. Donors naturally try to steer projects into a direction that fulfills their goals. At the same time, the competitive nature of contracts tends to make information a public relations matter where bad results are hidden (Edwards and Hulme, 1996).

3.3.2 Characteristics of the aid sector

Aid is usually not delivered by one single organization but through a complex network of parties. Fowler (1996) explains the complexity of the aid chain and the distinguishing properties associated. There are typically several actors involved, all on different levels of the aid chain ranging from upstream donors, intermediary aid organizations in western countries, the intermediary aid organizations in the recipient country to the final operating community parties. For each involved party, there are external uncontrollable factors affecting the performance of the whole chain. Lecompte (1986) stresses the complexity of cause and effect in development aid.

Sustainable improvements in the life of marginalized and poor people are seldom easy to link to one single correlation. An overview of the aid chain can be seen in Figure 3.10 below.

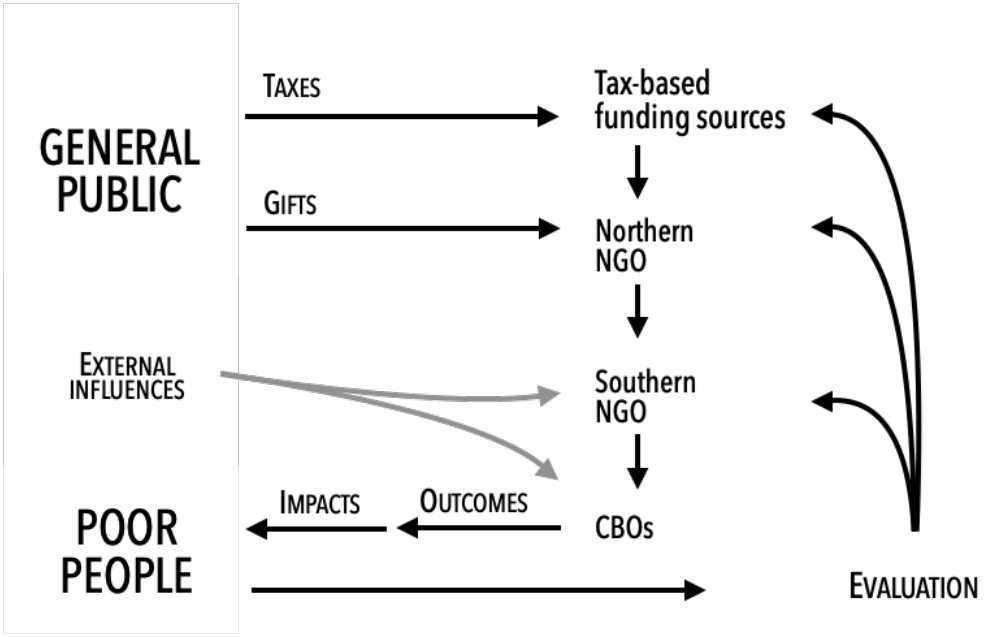


Figure 3.10. An overview of the aid chain (Fowler, 1996).

3.3.3 Performance measurement within non-profit organizations

The aid sector has increasingly focused on long-term outcomes in order to create a positive impact on people's lives. In order to achieve this impact, affecting intangible drivers is essential (Fowler, 1996). Development projects increasingly target drivers such as power relationships, human motivation, socioeconomic divisions, the capacity of local organizations, collective values and collective behavior. It is difficult to understand the cause and effect of such drivers and the non-linear nature of their development create performance measurement challenges within development NPOs.

Moura et al. (2019) conducted a study with the objective of deciding upon a conceptual framework for performance measurement within NPOs. Within the core of the framework are ten factors that influence the design of PMSs within NPOs. The factors are further categorized according to three different levels: factors related to purpose, factors related to stakeholders and factors related to management. An overview of the different factors can be seen in Figure 3.11. The model can help practitioners develop PMSs through letting them observe, analyze and assess the

roles the different factors play in their system. Following are the ten different factors that influence the design of PMSs in NPOs, divided into three different categories:

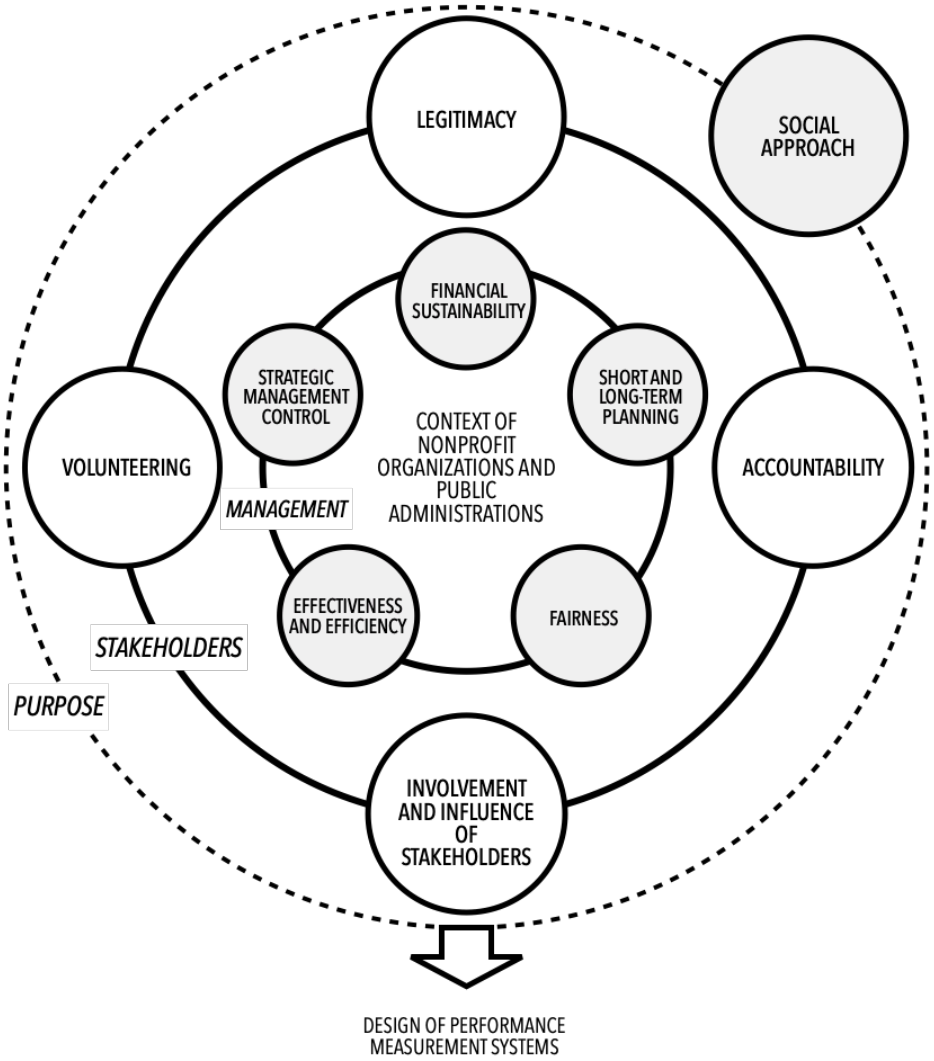


Figure 3.11. Factors that influence the design of PMSs in NPOs (Moura et al., 2019).

Factors related to *purpose* (Moura et al., 2019): NPOs are characterized by their non-financial mission where social value creation is more important than profit. Moreover, the success of an NPO is often defined by the social impact it makes as it reflects the capacity of an organization to realize its mission. The goals of an NPO are often focused on social outcomes and are defined by specifying the means of social needs. Therefore, the factor *social approach* is of high-relevance to NPOs and their PMSs (Moura et al., 2019).

Social Approach can be summarized in the key features involved in the mission and management of NPOs. The focus and pursuit of social goals ahead of profit differentiate NPOs from traditional enterprises. Their intangible nature makes social value creation hard to understand, define and measure which tends to make performance measurement within NPOs complex. However, it is an indispensable index of the effectiveness and capacity of NPOs to realize their mission.

Factors related to *stakeholders* (Moura et al., 2019): Stakeholders are linked to NPOs in many ways such as through funding, local needs and partnerships. Some examples of stakeholders in the NPO context are the public sector, donors, funders, community, regulatory agencies, tax authorities, suppliers, partners, staff and volunteers. Stakeholders influence organizational decisions, such as those regarding performance measures, and judge the legitimacy of actions. The factors that regard stakeholders are *accountability, legitimacy, volunteering* and *involvement and influence of stakeholders.*

- *Accountability:* Normally, legislation is the main driver of accountability. For example, legislation often requires financial reports as contractual obligations for external stakeholders such as governmental departments or regulatory agencies. In addition, accountability can be a way to attract or retain donors and funders.
- *Legitimacy*: In this context, legitimacy can be defined as the perception by stakeholders that the activities of an organization are being properly developed considering legal and contractual obligations, goals and social mission. Legitimacy is motivated by the desire of organizations to provide transparency and promote their organization. Demonstrating activities is an important way for organizations to increase legitimacy and thereby attract new funders, donors and partners.
- *Volunteering:* Cnaan and Cascio (1998) state that the main differences between volunteers and employees are related to motivation, commitment, hours of work, benefits and organizational characteristics. Volunteers usually have different requirements and expectations than employees and normally influence the management style and organizational culture of NPOs.
- *Involvement and influence of stakeholders:* As previously mentioned, stakeholders can take many forms and their involvement in the organization is often complex as they influence the organizational decisions on many levels. The Performance Prism (see Section 3.2.2.1) was developed with the intention to adopt a stakeholder-perspective with the important distinction between stakeholder satisfaction and stakeholder contribution (Neely,

Kennerley & Adams, 2008). However, the application of the method is limited in NPOs (Micheli & Kennerley, 2005).

The findings of Mouchamps (2014) similarly show that social enterprises, which include development aid organizations, need to have strong relationships with stakeholders, understand their needs and meet their expectations. In addition, a distinguishing feature of social enterprises is their democratic and participative governance where decisions are not based on the degree of financial participation. As a result, a multitude of stakeholders affect the decision process and evaluation frameworks of social enterprises often adopt a multiple stakeholder approach. However, since different stakeholders often differ in opinions, knowledge and incentives, trying to satisfy the whole range of stakeholders can be an impossible and counterproductive objective.

Factors related to *management* (Moura et al., 2019): NPOs have to manage volatility in available resources, which is normally influenced by political and economic circumstances, restrictions and the necessity of inter-local equity among other factors. In addition, complexity can be added due to organizational characteristics that could influence the operations of performance measurement. This context makes long-term planning difficult, which becomes problematic in the case of NPOs where social impact is hard to measure and assess in short-term. However, continuous improvements are important for organizational promotion and the establishment of a performance measurement culture. Factors that are related to management are *financial sustainability, short and long-term planning, fairness, strategic management control* and *effectiveness and efficiency*

- *Financial sustainability:* NPOs normally have various sources of income such as donations, investments and subsidies. However, stability in finances can be hard to secure due to political issues, economic crises and inconsistent or one-time donors. In addition, NPOs are affected by financial restrictions and their focus on maximizing social value creation which makes financial hedging difficult. All of these conditions will influence the management of NPOs and the dependence on alternative sources of income has led to an increase of interest regarding how financial resources are used and managed. Therefore, the PMS should include consistent information reports for stakeholders.
- *Short and long-term planning:* As previously stated, the financial instability makes long-term planning difficult. At the same time, social value creation can only be measured and assessed after a longer period of time, often several years. Moreover, complex terminology, intangible factors and assessment of long-term benefits and expected impacts increase the

complexity of planning. This often leads to PMSs with ambiguous goals which is something that NPOs should stay clear of. Instead, structured planning activities need to be implemented and result in clear, well-defined goals with annual and long-term targets. This is an important role of the PMS.

- *Fairness:* Some NPOs need to provide inter-local equity. This means that resources must be mobilized to provide a homogenous level of service so that the social value creation promotes the same social gain in each concerned area.
- *Strategic management control:* An organizational culture that encourages strategic management control contributes to the promotion of NPO toward stakeholders and thereby enhances performance measurement. A PMS that is used on a regular basis by volunteers and employees can help provide continuous improvement through organizational learning. Taylor and Taylor (2014) deem the focus on learning and improving the most desirable feature of a PMS. In addition, they state that details regarding the performance outcomes should be communicated throughout the organization in order to increase the efficiency of the PMS. Therefore, the PMS should be designed so that it enables the promotion of strategic management control - both learning and continuous improvement.
- *Effectiveness and efficiency:* The effectiveness and efficiency of NPOs operations are often conflicted by previously discussed characteristics such as social mission, alternative sources of income, intangible results and multiplicity and involvement of stakeholders.

Table 3.5 below lists the practical implications of the mentioned factors (Moura et al., 2019). This could be used by practitioners when developing a PMS for an NPO.

Table 3.5. Practical implications of defined factors that influence the design of PMS in NPOs (Moura et al., 2009).

Group	**Factor**	**Practical implications**
Purpose	Social approach	The mission must be well-established and the social purpose must be in evidence The definition of performance indicators must consider the social value creation (in short and medium-term) and social impact (in long-term)
Stakeholders	Accountability	All external requirements for financial and performance reports must be considered, including the performance indicators definition and standards of documents and reports

Stakeholders	Legitimacy	The PMS must be designed to provide performance data to improve the management and support the legitimization for external stakeholders
Stakeholders	Involvement and influence of stakeholders	Strategic stakeholders could participate in the PMS design The interface of the PMS must be able to work with data from and to external platforms
Stakeholders	Volunteering	The PMS must support the managers to evaluate and reward volunteers according to legal aspects and organizational culture
Management	Financial sustainability	Performance indicators could help the management of alternative sources of income and the sustainability
Management	Short and long-term planning	Features of short and long-term required by stakeholders must be designed Performance indicators in short and long-term could be provided to support the organizational promotion and accountability
Management	Fairness	Performance metrics can support the analysis of fairness
Management	Effectiveness and efficiency	Performance indicators that translate effectiveness and efficiency must be defined to support the managers, decision making and the accountability process
Management	Strategic management control	The PMS must support the managers through useful performance metrics to support making decisions and to encourage the learning and continuous improvement in all levels of the organization

3.3.3.1 Assessing the relevance of performance measurement systems

Mouchamps (2014) developed a framework consisting of fifteen criteria to evaluate PMSs in the context of social enterprises. The framework is developed based on performance measurement at three different levels. The first analyzed level is the process level, which focuses on inputs, processes, outputs, outcomes and impacts. Even though the connection between output and mission is not always clear, it is normal to mainly measure performance through outputs. This is a result of outcome being hard to measure and distinguish from externalities. The second level is the measurement stage level where performance can be dealt with prospectively (e.g. through planning and budgeting), on an ongoing basis (e.g. through monitoring, internal reporting and audit) or retrospectively (e.g. through external reporting and external evaluation). The last and third level is the measurement focus level. The

focus of performance measurement could vary from individuals to organizational units, the overall organization or the organizational network.

The fifteen criteria are presented in Table 3.6 below. The first seven criteria are normative criteria that allow a practitioner to assess if a tool is relevant for organizations with the features of social enterprises (Mouchamps, 2014). The following three criteria are strategy-related normative criteria and help assess if the tool is consistent with the evaluation strategy of a social enterprise. The last five criteria are indicative criteria, which mainly give information regarding the focus of the tool. Thus, these criteria cannot result in a general judgment.

Table 3.6. Framework for evaluating PMSs in the context of social enterprises (Mouchamps, 2014).

Number of criteria	**Criteria group**	**Criteria**
1st	Normative criteria	To reflect an accurate picture of performance, the tool has to encompass various dimensions of performance so that evaluators can balance them. The dimensions must differentiate between mission accomplishment and financial performance.
2nd	Normative criteria	The tool somehow has to link the indicators to the mission.
3rd	Normative criteria	The tool should make it possible to involve the key stakeholders at some point in the evaluation process for those social enterprises able and willing to do so.
4th	Normative criteria	The tool should make it possible to measure the level of the members' democratic participation in the decision-making process. Social enterprises are often "democracy schools" and often ensure the members' democratic control on the social enterprise's policy.
5th	Normative criteria	The tool must open the possibility of encompassing a diversified financial mix.

6th	Normative criteria	The tool needs to take into account the specific features of social enterprises to measure the number of outputs produced.
7th	Normative criteria	The tool has to reflect both the intrinsic quality and the process-related quality of production.
8th	Strategy-related normative criteria	The tool should include an appropriate set of indicators. Depending on the evaluation strategy of the social enterprise, more or fewer indicators could be included. A trade-off is to be made to avoid both recording too little information and being drowned out in the flood of information.
9th	Strategy-related normative criteria	The evaluation strategy should define the degree of resource-intensiveness invested in the tool. A balance should be made between low resource-intensiveness (because social enterprises have scarce resources and could be reluctant to affect their resources to another end than mission) and high resource-intensiveness (hoping for a higher return from the tool).
10th	Strategy-related normative criteria	Tenth criterion: depending on the purpose of the tool as defined in the social enterprise's evaluation strategy, the tool features on a continuum ranging from internal to external purposes.
11th	Indicative criteria	Does the tool relate to effectiveness, efficiency and/or economy?
12th	Indicative criteria	Does the tool refer to inputs, processes, outputs, outcomes and/or impacts?
13th	Indicative criteria	At what stage of performance measurement is the tool employed: prospectively, on an ongoing basis, or retrospectively?
14th	Indicative criteria	Does the tool focus on individuals, programs, organizational units, overall organizations, or organization networks?

15th	Indicative criteria	What kinds of indicators are included in the tool (monetized – non- monetized; qualitative – quantitative, etc.)?

Mouchamps (2014) concludes that none of the established tools examined, such as the Performance Prism and Balanced Scorecard, functions as an exhaustive tool in the context of social enterprises. Instead, he urges practitioners to develop their own performance measurement tools with regard to the identified criteria. In order to ensure exhaustiveness, it could be relevant to develop a set of tools, for example a first for strategic planning, a second for reporting and a third for economic optimization (Mulgan, 2010).

3.4 Stakeholders

Fowler (1996) states that an NPO should be measured from the interest of those who affect or are affected by the organization's behavior. Thus, all stakeholders must be involved when reviewing the efficiency of an aid organization.

Bryson, Patton and Bowman (2011) state the importance of addressing the interests of key stakeholders in the process of conducting evaluation and monitoring. They argue that in order to conduct a credible evaluation, it is important to ensure understanding, legitimacy and proper information sharing. If stakeholders are not taken into consideration there is an imminent risk that the evaluation becomes inaccurate and will not lead to improvement. The evaluation process would as a consequence result in a waste of resources.

A basic technique for identifying stakeholders and their interests was described by Bryson in 2004. Bryson suggests starting with brainstorming in order to establish a list of stakeholders. For each stakeholder, establish a list of criteria that the stakeholder potentially could use to evaluate the organizational performance. Also, list all the expectations each stakeholder have on the organization and identify roughly what the impression of the organization is for each stakeholder and put it in relation to their expectations. Finally identify short and long-term issues that should be addressed for each stakeholder.

Ackerman and Eden (2011) presented a framework for understanding the relationship an organization has to its stakeholder. When talking about stakeholders there are two relevant dimensions: interest and power. They identify four different kinds of stakeholders depending on what interests and power each stakeholder has

in relation to the organization. The four categories of stakeholders are *Subjects, Players, Crowd* and *Context setters* as seen in Figure 3.12.

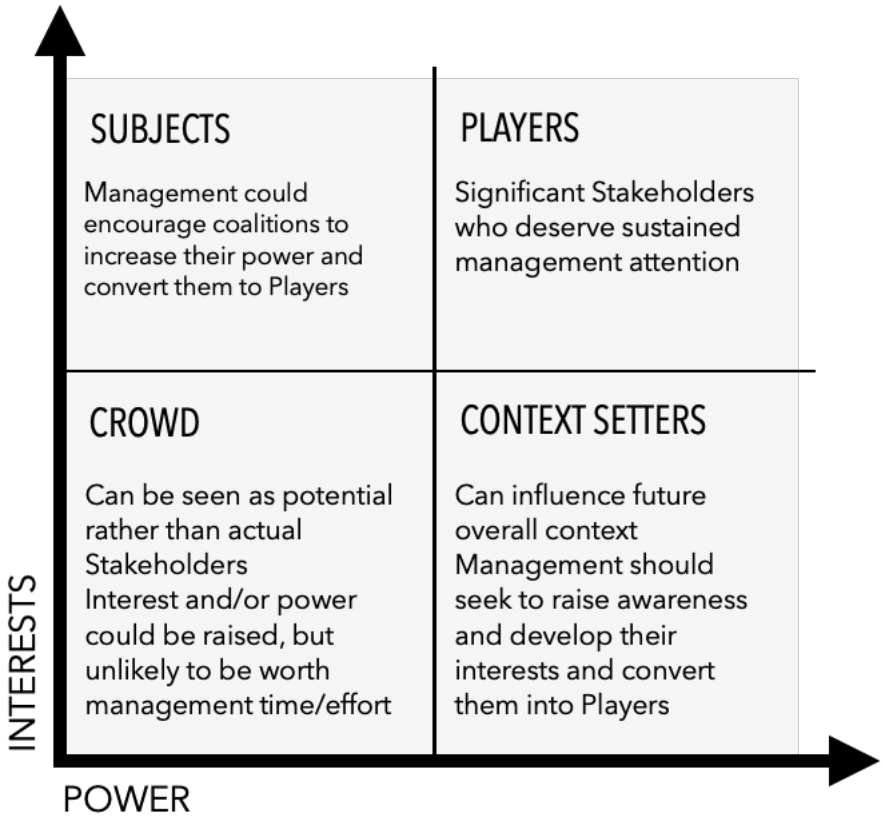


Figure 3.12. The power-interest grid for stakeholders (Ackerman & Eden, 2011).

3.5 Existing approaches to performance measurement within aid

This chapter contains descriptions of existing approaches that were frequently mentioned during the interviews (see Chapter 4). None of these approaches fulfill the requirements previously discussed in the thesis, e.g. in Section 3.1. Therefore, they do not qualify as complete frameworks for constructing performance measurement systems. However, certain aspects of the tools may function as an inspiration for constructing performance measurement tools within the aid sector.

3.5.1 Logical Framework Approach

The Logical Framework Approach (LFA) is a commonly used approach for planning, monitoring and evaluation that arose in the 1960's (Ringhofer and Kohlweg, 2019). A decade later, the tool was adopted by UN agencies and USAID which lead to it becoming widespread throughout the global aid industry. LFA mainly consists of two phases: an analysis phase and a planning phase. The analysis phase includes preparatory analysis, stakeholder analysis, problem analysis, analysis of objectives and analysis of strategies. The planning phase includes a logframe matrix, activity scheduling and resource scheduling. A logframe matrix is a concise document that outlines the key features that lead to a project achieving its purpose. This matrix is one of the key products of the design process that provides an overview of the intervention process and helps guide implementation through the project lifecycle.

In detail, the matrix is a four-component model that presents outputs, outcomes and impacts based on the 'if-then'-logic: if the activities are implemented, the following outputs will be delivered (Ringhofer and Kohlweg, 2019). If the outputs are delivered, the following outcome will be achieved. If the outcome is achieved, it contributes to the impact or goals. For each component, four aspects are covered: a narrative description, objectively verifiable indicators, means of verification and assumptions. A general example of the logframe matrix structure can be seen in Table 3.7 below.

Table 3.7. A general example of logframe matrix structure (AusAID, 2000).

Project Description	**Indicators**	**Means of verification (MOVs)**	**Assumptions**
Goal	Indicators	MOVs	
Purpose	Indicators	MOVs	Assumptions
Component Objectives	Indicators	MOVs	Assumptions
Outputs	Indicators	MOVs	Assumptions
Activities	Milestones specified in activity schedules and scope of services	Management reports on physical and financial progress	Assumptions

Finally, it is important to note that the LFA is widely criticized for being too rigid and linear (Ringhofer and Kohlweg, 2019).

3.5.2 Outcome Mapping

Outcome Mapping was developed in the early 00's at the International Development Research Center (Earl, Carden & Smutylo, 2001). The goal of this new method was to find a way to evaluate contribution from a project to a large scale change in order to offer accountability to donors. The process consists of twelve different steps divided into three different stages.

The first stage of the model is called *intentional design* and means that the organization or program should create a common understanding within the organization of the overall vision and mission and thus ensure that actions are chosen to maximize aid effectiveness (Earl et al., 2001). This stage consists of seven steps, starting with creating a vision regarding what the organization aims to accomplish. In the second step, a mission statement is formulated describing how the organization intends to work in order to achieve the vision. The goal of the third step is identifying boundary partners, namely individuals or groups that are interacting directly with the organization. In the fourth step, behavioral changes expected to occur if a successful program is completed are identified for each boundary partner. In step five, progress markers are formulated on three gradual levels: *What we expect to see, What we would like to see* and *What we would love to see* if the program is carried out. In the final steps of stage one, the organization maps all strategies used to accomplish each outcome challenge, in step six, and identifies internal practices to use in order to establish a well-functioning and effective organization, in step seven.

In the second stage, a self-assessment monitoring system, covering internal and partner progress in relation to desired outcomes, is developed in four steps (Earl et al., 2001). At first, in step eight, the organization clarifies monitoring priorities to ensure that time and resources are applied where necessary. Steps nine to eleven consist of creating journals where the performance of boundary partners (step nine), organizational strategies (step ten) and internal operational activities (step eleven) are monitored.

The third and final stage *evaluation planning* consists of just one single step (Earl et al., 2001). In step twelve the design of a proposed evaluation is formed. The step covers matters such as how the findings will be used, dates and costs.

An overview of the different stages and steps is presented in Figure 3.13 below.

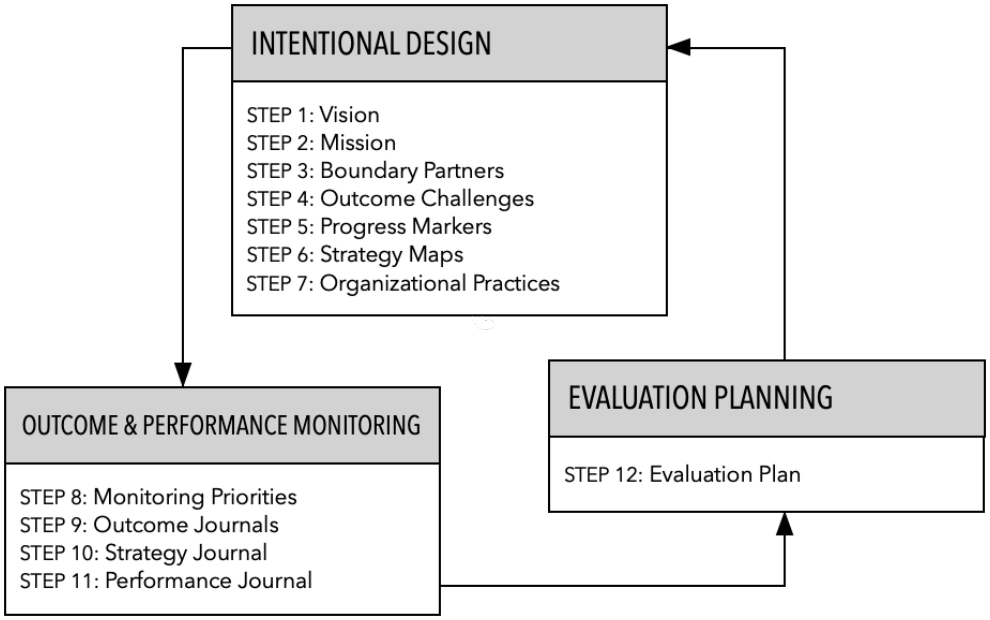


Figure 3.13. A visualization of the Outcome Mapping process (Earl et al., 2001).

Outcome Mapping has been said to be adapted for larger aid organizations rather than smaller ones as it is rather complex and resource-intense (MacDonald & Simister, 2015). The journal tracking process generates a lot of data which makes data management an additional challenge. On the same note, the method is not well suited for delivering short descriptions and summaries of programs.

3.5.3 Outcome Harvesting

Outcome Harvesting is a six-step process for monitoring and evaluating how given activities contribute to outcomes (Wilson-Grau & Britt, 2012). It was developed in the mid '00s as an evolution of Outcome Mapping. The purpose of Outcome Harvesting is not to monitor progress toward a predetermined goal but rather to backtrack from any achieved outcomes to see if initiated projects affected the noted change. It is well suited for contexts where the significance of different actions is unknown and there is a need to understand how change was achieved. The six steps should be carried out iteratively according to the International NGO Training and Research Center (INTRAC, 2017):

1. *Design the outcome harvest:* The users of the outcome harvest, the uses of the outcome harvest and so-called useable questions to guide the outcome harvest are identified. Useable questions are questions with answers that are

specifically interesting to the users of the outcome harvest. Based on these questions, information that needs to be gathered is identified. Moreover, the information that will be included in the outcome descriptions is outlined.

2. *Gather data and draft the outcome descriptions:* Existing documentation is reviewed and primary data is gathered. Descriptions of each outcome are drafted.
3. *Engage with the informants or change agents:* The draft outcome descriptions are reviewed with help from the informants or change agents. Eventually a revised set of outcome descriptions is developed.
4. *Substantiate the outcomes:* The harvest users review the outcome descriptions and verify them by looking at different samples in order to increase their accuracy.
5. *Analyze and interpret the outcomes:* The harvesters categorize the outcomes and interprets the gathered information in order to answer the useable questions.
6. *Support use of the findings:* The harvesters hold discussions with decision-makers regarding taking action based on the findings of the outcome harvest.

3.5.4 Theory of Change

There are many varying definitions of the Theory of Change (ToC). For example, Ellis, Parkinson and Wadia (2011) define ToC as "a description of a social change initiative that shows how early changes related to more intermediate changes and then to longer-term change". Furthermore, Funnel and Rogers (2011) add "Every program is packed with beliefs, assumptions and hypotheses about how change happens—about the way humans work, or organizations, or political systems, or ecosystems. Theory of change is about articulating these many underlying assumptions about how change will happen in a program.". Finally, Reinholz and Andrews (2020) state that "A theory of change is a particular approach for making underlying assumptions explicit, and using the desired outcomes of a project as a mechanism to guide planning, implementation, and evaluation.".

Vogel (2012) states that the uprising of ToC is namely due to two drivers: the results-based management agenda and its need to demonstrate impact, and the growing recognition of ambiguity and uncertainty in development work. Lastly, Cobb et al. (2003) add that ToC arose in the midst of the theory-driven evaluation. The theory-driven evaluation requires that program designers concretize and explicitly state how their program is intended to work, making their implicit assumptions explicit.

The lack of definitions also regard the development process of a ToC, but the process normally consists of the following six steps (Vogel, 2012):

1. Identifying long-term goals
2. Backward mapping and connecting the preconditions or requirements necessary to achieve that goal and explaining why these preconditions are necessary and sufficient
3. Identifying your basic assumptions about the context
4. Identifying the interventions that your initiative will perform to create your desired change
5. Developing indicators to measure your outcomes to assess the performance of your initiative
6. Writing a narrative to explain the logic of your initiative

3.6 The theoretical framework: designing a performance measurement system for development aid organizations

Further follows a framework for designing PMSs within development aid organizations and is based on presented theory regarding PMS and development aid. In order to make the framework practical, the building blocks found in Chapter 3 are represented by Phases, Steps and Substeps within the framework. The different components are put together in what is deemed a logical and practical manner. The framework has been designed with the general approach of rather including aspects and features than excluding them to ensure full coverage. Moreover, the criteria presented by Mouchamps are considered superior to other presented opinions when designing a framework adapted for development aid. Therefore, statements such as excluding financial indicators from PMSs, as suggested by Parmenter (2015), has been disregarded.

The factors presented by Moura et al. (2019) regarding the design of a PMS in NPOs have functioned as a foundation for the framework. The user of the framework is likely but not forced to create a CPM system. However, being able to create a system that fits the chosen purpose was deemed more important than ensuring that the framework only conducts CPM systems.

Due to the difficulty of creating a holistic PMS suitable for NPOs overall, this framework adopts a *Procedural Architecture with a design approach* with integrated *Methodological support tools.* The architecture could include a reference model if a relevant reference is available. However, in order to minimize the complexity of the PMS, the reference model should fit organizations with resembling organizational

characteristics. Furthermore, the reference model should function as an inspiration and a benchmarking tool throughout the PMS development.

Phase 1: Mapping the organizational environment

Step 1: Understand the organization
In order to develop a PMS, knowledge of the organization's strategy, purpose, capabilities and organizational structure is required and should be kept in mind during each of the following steps. This is preferably done by involving management in each step of the PMS development. Further, the organizational long and short-term goals as well as processes should be clearly stated.

Step 2: Understand the stakeholders
Identify the organization's stakeholders through a stakeholder mapping according to Bryson's framework. Initially, include all stakeholders to make sure that every interest affecting the organization will be covered. Thereafter, gather knowledge regarding the importance of each stakeholder for the organization, for example by using Ackerman and Eden's framework, and what they request from the organization.

Phase 2: Designing the PMS

Step 3: Identify the role of the PMS
Depending on the role and purpose of the PMS, the system will have a shift in focus for example between internal and external measures. Besides *Measure performance*, other roles of the PMS could be *Strategy management*, *Improve internal and/or external communication, Influence behavior* and/or *Learning and improvement*. The chosen purpose should suit the organization's and its stakeholders' needs.

Step 4: Identify key features of the PMS
The features of the PMS should align with the role of the PMS and the organization's capabilities. Besides *Performance indicators* and *Supporting Infrastructure*, which need to be included in the PMS, the following features might be relevant: *Objectives/goals*, *Targets*, C*asual models*, *Hierarchy/cascade*, *Performance contract, Penalties* or *Rewards*.

Step 5: Identify suitable indicators
To make sure that suitable and feasible indicators are identified the identification should be carried out methodically in five stages.

Substep 1. Formulate the outcome of the organizational goals
The process starts with the goals of the organization. The desired outcome of achieving the goals should be formulated in a clear and tangible way.
Substep 2. Identify the success factors for achieving this outcome
Identify the internal processes and external factors that are most important when driving the success of the organization. With regard to the stakeholders' interests, use Barr's results mapping to find all success factors.
Substep 3. Define measurable indicators for each success factor
Use Parmenter's method of splitting each critical success factor into smaller building blocks to eventually find measurable indicators.
Substep 4. Choose the indicators with the most impact
Map the interrelationship between the different indicators to see which ones have the largest impact and which are interrelated. Limit the number of indicators as the most important ones should be the KPIs. Make sure that the number of indicators is manageable.
Substep 5. Review the total set of performance indicators
Map the identified indicators against the interests of stakeholders and internal goals to see that at least one measurement is covering each interest.

Phase 3: Making the PMS applicable to the organization

Step 6: Create an indicator documentation
Keep documentation of each measurement, including the following:

- What goals the indicator answers to
- How to measure the indicator
- The target group of the indicator, including both internal and external actors

The documentation should preferably be easy to read and access. Furthermore, the documentation should be easy to integrate with external platforms for example through an interface. If a reference model is used, the reference targets should be included in the documentation. If causal and/or hierarchy models are chosen features of the PMS, the causality and hierarchy should be included in the documentation.

Step 7: Identify channels of communication
With regard to the organizational structure, develop a system for two-way communication. Keep in mind that the channels of communication should be chosen in order to encourage improvement and action rather than control and reporting. The channels of communication should include consistent information reports for stakeholders.

Depending on the features of the PMS, the following step is included:

Step 8: Include targets, penalties, performance contracts and/or rewards
After deciding indicators, let management, employees and/or stakeholders decide on targets, penalties, performance contracts and/or rewards. Thereafter, include the features and their timeframe in the documentation and communication system.

4. Empirics: Performance measurement within development aid organizations

The following chapter presents data collected through interviews with nineteen interviewees. The chapter is written in an anonymous manner, structured according to the main themes and topics found in the interview material. In each section, information is presented in a way to emphasize the most common opinions expressed by the interviewees, as identified by the authors.

The interviews were conducted through physical meetings or video calls. Questions were asked in a semi-open manner (see Section 2.2.1.2 Interviews) giving the interviewee room for expressing own opinions and interpreting the question individually, though some guidance was given to cover the intended topics. A complete interview guide with the questions asked during the interviews can be found in Appendix B.

The interviewees represent a broad variety of relevant experience both from the non-profit environment as well as for-profits. Questions were answered both with their own practical experiences in mind as well as from an ideal and wishful perspective. In general the interviewees can be divided into two groups: practitioners and experts. Practitioners occupy a performance measurement role in a non-profit organization. Experts have an outside perspective with knowledge untied to any organization. A notable discovery was the lack of correlation between role, experience and opinions. Table 4.1 presents the interview objects and their professional role, what kind of organization they represent and to which category of experience they are considered to belong. In Appendix C all interviewees are presented further.

Table 4.1. An overview of all interviewees

Interviewee	Professional role	Organization	Expert/practitioner
1	Senior manager	Consultancy firm	Expert
2	Former secretary-general	Fundraising foundation	Practitioner
3	Consultant	Consultancy firm	Expert
4	Head of controlling	Aid monitoring organization	Expert
5	Head of performance measurement, Sweden	Humanitarian aid organization	Practitioner
6	Method developer	Nature conservation agency	Practitioner
7	Director of international department	SRHR development aid organization	Practitioner
8	Ph.D. in performance measurement	Consultancy firm	Expert
9	Former consultant	Effect measuring organization	Expert
10	Founder and head of operations	Effect measuring organization	Expert
11	Responsible for results measurement	International development aid organization	Practitioner
12	Controller	International development aid organization	Practitioner
13	Policy advisor	International development aid organization	Practitioner
14	Responsible for partner organizations	International development aid organization	Practitioner
15	Senior advisor on results-based management	The Swedish development agency	Practitioner
16	Secretary-general	Association for civil society organizations	Expert
17	Chief operating officer	International development aid organization	Practitioner
18	Investigation secretary	Government committee evaluating development aid	Expert
19	Ph.D. in results measurement and steering in development aid	University	Expert

4.1 Characteristics and challenges of the aid sector

The interviewees expressed concerns regarding applying theories designed for corporate performance measurement to the aid context. The development aid sector was regarded as more complex compared to the private sector and therefore more difficult to measure. Results based management was mentioned as something with origin from larger corporations that has had a negative impact on the aid industry. Some organizations went as far as to say that the mere terminology that is common in the private sector, often leads to resistance within aid organizations and therefore, terms such as PMS are avoided. At the same time, it can be an issue that the aid industry tends to alienate itself and it could benefit from applying insights found in other sectors.

A specific characteristic of the development aid sector is the difficulty to distinguish organizational impact. This is mainly due to the long feedback loops where the effect of actions could take several decades to surface. Moreover, the complex stakeholder structure that includes cultural barriers and educational differences contributes to the difficulties. Problems caused by varying levels of professionalism among different actors become obstacles for developing successful PMSs.

To a large extent, the aid industry consists of people driven by their ideals. One practitioner explained that the idealistic employees believe that they are contributing to a good cause and thus, no measured results are needed to enhance their motivation. Consequently, a PMS is not required to encourage employees to the same extent as in private companies. However, other interviewees disagree and state that employees are motivated by seeing their performance measured and concretized instead of relying solely on assumptions of what they have accomplished.

Key takeaways:

- **The adoption of concepts from the private sector, without adapting them to the aid context has had negative effects on the aid industry**
- **The aid sector could learn from other sectors**
- **The aid industry often struggles with distinguishing the impact of organizational activities**
- **Cultural differences among actors can compromise the quality of performance measurement**
- **The workforce normally consists of idealists**

4.2 Organizational culture

The organizational culture was mentioned in all of the interviews. The system needs to fit the organizational culture, including the terminology that is used in the organization. It is just as important that the system aligns with the culture the organization wants to realize. For example, using terms such as “bad” or “good” when analyzing donors, could lead to a jargon where donors are labeled negatively.

It is important to have an organizational culture that sees monitoring and evaluation as a natural step toward organizational learning and development, rather than control and punishment. Moreover, a result-oriented culture, which is enhanced by adequate performance measurement, leads to organizations optimizing ways to achieve their goals. Ultimately, a result-oriented culture enables flexibility and fast organizational adjustments.

Another cultural aspect is the potential cultural clash that could arise when conducting activities in different parts of the world. Therefore, it is important to adapt the PMS and its activities to the local context and the local narrative.

Key takeaways:

- **It is important to adapt the system to the organizational culture**
- **The system should reflect the culture the organization aims to achieve**
- **It is important that the system supports a culture that sees monitoring and evaluation as a way to learn and improve**
- **Adapt the PMS to the local context**

4.2.1 Ownership

Almost half of the interviewees mentioned ownership as an important factor in performance measurement. It was often expressed that performance measurement tends to be reduced to an occasional project on the side of daily activities. This often leads to a shortage of resources allocated to performance measurement. In order to establish ownership of the different indicators, an employee or group of employees need to be assigned the responsibility of measuring performance and follow-up on the gathered information. This responsible group or person needs to ensure that their part of the system is updated, useful and practical.

Moreover, the organization, both management and employees, need to understand the purpose and importance of performance measurement. This understanding enhances a feeling of responsibility that is vital for the PMS to be accepted and used over time in the organization.

Key takeaways:

- **Ownership of the indicators is important within the PMS**
- **The entire organization needs to understand the purpose of the PMS**

4.3 Actors involved in activities regarding performance measurement

According to the interviewees, there should be several different actors involved in the activities concerning performance measurement. A lot of knowledge and experience is gained through conducting performance measurement activities. Consequently, it is important that the organization and the users of the system take part in developing and revising the PMS. It is especially important that organizational management is involved in developing the PMS, in order to understand its purpose and importance. One expert summarized it as to involve everyone who cares or knows anything about the performance within the organization.

Moreover, external input could also benefit the PMS. For example, an expert or consultant could take part in the development of the PMS or conduct external evaluations, such as peer reviews, to help keep the system relevant over time. Therefore, it is important to make sure that the PMS is compatible with external actors. Furthermore, local partner organizations need to be in close dialogue with the designers of the PMS in order to ensure the local narrative. This is especially important when the partnership runs over a long time frame.

Key takeaways:

- **The expected users of the system should be involved**
- **Organizational management should be involved**
- **External actors could provide helpful input**
- **Local partners could provide helpful input**

4.3.1 Taking stakeholders into account

The interviewees stated that a PMS should take the requirements of stakeholders into account. It is especially important that stakeholders that will use the system, such as volunteers, are integrated in the development process into the same manner as employees.

However, due to high stakeholder dependence and fear of having resources cut-off, there is a risk and tendency of adjusting the system to an extent where it only serves external stakeholders who are crucial for funding, such as donors. As one interviewee stated, it is important to remember that the most important stakeholder is the aid recipients, and a PMS should ultimately help improve the deliverance toward them.

Key takeaways:

- **Stakeholder requirements should be taken into account when creating a PMS**
- **Avoid designing a PMS that only focuses on satisfying donors**

4.4 Purpose of the system

Three different purposes of PMSs were mentioned in the majority of the interviews. The first one was to learn from experience in the organization. By measuring obtained results and progress, the organization will achieve a deeper understanding of its activities and their resulting impact. This will enhance organizational learning and will ultimately help improve the organization.

The second purpose frequently referred to during the interviews was PMS as a way of managing the internal work. On a management level, the PMS can increase the knowledge of what is happening in the organization and create opportunities for a more efficient organization. If the obtained results are not satisfying, the PMS can function as a way of steering the organization in the right direction. It can be used to drive employee motivation and change behaviors. Since the development of a PMS requires breaking down the overall goals and making them more tangible, the organization is forced to formulate and prioritize what to measure in order to achieve its goals.

The third purpose was the external legitimacy and credibility that a PMS can offer both as a way of communicating results but also as a way of showcasing internal professionalism. This is an important aspect as it helps secure present and future funding.

Key takeaways:

There are three common purposes for performance measurement:

- **Learning from experience**
- **Managing internal work**

- **External legitimacy and credibility**

4.5 Features of the system

In terms of features of a PMS, various suggestions were made which could be divided into two larger groupings: *information management features* and *performance management features.*

There are several parts to consider in a PMS to create a well-functioning information platform. Data needs to be gathered in a manner that ensures the quality of the collected information. In addition, proper indicators are needed to ensure that the data is correctly interpreted and communicated. A qualitative analysis functions as an alternative or complement to those indicators. Such an analysis could consist of meetings and discussions where the aim is to create objective reference values out of qualitative discussions. To cover the complex matter of measuring the long-term effect of organizational activities, some sort of documentation could be included. Also, reports could function as a communication tool internally and externally, as will be further discussed in Section 4.8. Digital tools could ease the use of the system and information sharing but could also create new challenges and add complexity. The list below shows a summary of the *information management features* proposed during the interviews:

- Data collection
- Indicators
- Analysis
- Reports
- Documentation
- Digital tools

If the results are not satisfying or when the surrounding environment changes, the system could need revising. Therefore, a mechanism for evaluating and updating the PMS could be included to ensure that the system stays relevant. Also, a control and steering mechanism could help the organization ensure that the results are acted upon correctly. Note that actions should be taken at the correct moment, a too quick response could be negative since results are usually seen after a long period of time in development aid. Moreover, setting targets is important in order to involve the organization and enhance motivation. An activity plan could show how the organization performs in relation to the budget in order to keep track of financial efficiency. To summarize, the following *performance management features* were discussed:

- PMS evaluation and revision
- Control & steering mechanism
- Targets
- Partner follow-ups
- Activity plan
- Budget

Key takeaways:

Suggested features in a PMS could be divided into two groups. However, all features does not have to be included in every system.

Information management features:

- **Data collection**
- **Indicators**
- **Analysis**
- **Reports**
- **Documentation**
- **Digital tools**

Performance management features:

- **PMS evaluation and revision**
- **Control & steering mechanism**
- **Targets**
- **Partner follow-ups**
- **Activity plan**
- **Budget**

4.6 Indicators

When it comes to intangible societal changes, almost all interviewees stated that it is difficult to measure long-term effects made by a specific organization. One should not believe that everything could be explained through indicators, but it is important to measure even if it is difficult. To solve this issue, solutions were discussed on two levels: the total coverage of all indicators and the characteristics of the individual measurement.

4.6.1 The set of indicators

Most commonly, the suggested solution was to have a mix of indicators to cover all relevant aspects. There are several dimensions to consider: *financial and non-financial, leading and lagging, long and short-term* as well as *direct and indirect effects.* To further add complexity, all of these can be measured either *quantitatively* or *qualitatively* and the total number of KPIs should not surpass ten in order to be practical and stimulate action for change.

It is key to understand that indicators will always have deficiencies. There is a risk that numbers will not properly measure quality and effect. The interviews promoted awareness of the flaws accompanying a specific indicator and the use of complementing indicators to weigh up for what is missing. On the topic of choosing between quantitative and qualitative measures, a balance of both is the preferred answer. The preferred balance depends on the purpose of the system as well as the available resources. Often, qualitative data takes more resources to collect than quantitative data and therefore is not collected as often. A common opinion, that is more thoroughly discussed in Section 4.7, was that it is crucial to have a dialogue beyond the numbers. Also, as two of the large aid organizations emphasized: measuring results is difficult and organizations need to be confident that their actions lead to improvement.

4.6.2 The single indicator

It is important to clearly formulate and understand what the indicators are for and what value they will bring into the organization. Too generic indicators should be avoided and the approach should rather be to investigate what information is demanded within the organization. If something is hard to measure, divide it into several indicators that indicate if you are moving toward the final goal. Make sure that the indicators drive change in the desired direction.

Indicators that are too hierarchic and top-down forces employees and volunteers into a system that they might not understand the purpose of. One expert's advice was to only develop indicators that employees can directly affect. If an indicator is too qualitative or broad it is hard for the individual to influence its value. On the same topic, all KPIs should be SMART (see Section 3.2.1) and comparable either to earlier results, other organizations or objective reference values. If it is not possible to formulate quantitative indicators, a qualitative study or analysis could be an alternative. The analysis could possibly render a weighted summation index to make it more comparable.

One expert argued that a total of three different approaches to measuring exist: qualitative, quantitative and transforming qualitative information into quantitative numbers. During the interviews the following types of data were mentioned:

- Personal success stories
- Case stories
- Quantitative numbers
- Qualitative analysis
- Subjective index

- Result matrix

Key takeaways:

- **It is difficult to measure long-term effect**
- **Keep a good balance between different indicators**
- **Qualitative numbers need to be complemented with qualitative analysis and dialogue**
- **Each indicator should bring value to the organization**
- **Avoid generic indicators**

4.7 Monitoring and analysis

According to the interviewees, analysis and discussion regarding the collected data is one of the most important aspects of a PMS. As stated in the previous purpose-section, Section 4.4, PMSs gather important insights on the outcome of the organizational activities and the factors affecting that outcome. However, in order to harvest those insights it is important that the PMS includes analysis and follow-up within the organization.

Almost half of the interviewees mentioned that the analysis is an important complement to quantitative indicators. By conducting a qualitative analysis through discussing the outcome of the organization's activities, it is possible to get an understanding of the impact the organization has caused. This analysis can be further supported by existing research on the area in order to increase its accuracy. It is important to also include a thorough analysis of other factors that might have affected the outcome.

Key takeaways:

- **Analysis and discussion are important aspects of PMSs**
- **Quantitative indicators should be complemented with qualitative analysis**
- **It is important to analyze other factors that might have affected the outcome**

4.7.1 Adjusting the time frame

The time frame and structure of the analysis varies among organizations. For example, one big aid organization explained that they coordinate these discussions through a yearly workshop where the departments within the organization meet and discuss their outcomes. Another organization stated that their analysis is an ongoing

activity where their performance in regard to their goals is constantly discussed. The majority of the practitioners stated that they analyze the outcome of their PMS on a yearly basis. However, experts recommend an agile approach that is adapted to organizational activities rather than according to a specific period of time.

Several interviewees mentioned the importance of revising the system on a regular basis. It is important to be attentive to symptoms of an outdated PMS. For example, if the organization is doing progress, but the PMS shows otherwise, it might be a sign that the system needs to be revised.

Many interviewees concluded that it is important to balance short and long-term focus. Short-term focus was said to help with motivation among employees, whereas long-term focus is needed to capture lasting effects of the organization's projects. In order to extract long-term impact, it is important to measure performance continuously over time.

Key takeaways:

- **Adjust the time frame according to the organizational activities rather than the calendar year**
- **Revise the system on a regular basis**
- **Balance short and long-term focus**
- **Measure performance continuously over time in order to distinguish long-term impact**

4.8 Performance measurement as a communication tool

Performance measurement is commonly used as a tool for communication both within and outside of the organization. Externally, PMSs can be used as the foundation of performance reports with recipients such as donors, quality-assuring organs, offshore boards or partner organizations. It is important to report relevant data and a description of how the data collection was carried out along with eventual sources of errors. Moreover, referential data could help the receiver to put the data into perspective.

Internally, it is important that employees understand how the collected data reflects the organization and how the organization can affect the measured indicators. Moreover, the flow of the communication channels should be structured from the bottom of the organization to the top management and the indicators should be transparent throughout the organization.

Key takeaways:

- **PMSs could function as a tool for communication both internally and externally**
- **It is important to understand and communicate the validity, credibility and/or accuracy of the results**
- **The use of referential data could enhance communication**
- **The users of the system must understand the indicators and how to improve their value**

4.9 Developing the performance measurement system

Even though there was a variety of suggestions regarding how to construct a PMS, some of the included concepts were recurring in the interviews. For starters, many interviewees agreed that it is important to understand the purpose of the system. Secondly, it is important to understand the goals within the organization and how to reach them. This might require prioritizing among the goals. Thirdly, the system should make use of existing resources. Organizational resources and capabilities that the developer should consider using are:

- Financial resources allocated to performance measurement
- Time allocated to performance measurement
- Existing knowledge, such as already collected data
- Tools within the organization, such as data collection tools

Gaining understanding of organizational goals and resources were often mentioned in relation to the Theory of change (see Section 3.3.4). The theory of change was further described as a positive way of gaining an understanding of the organization and its intended direction. It was also mentioned that the PMS should be designed according to the organizational vision, mission and strategy.

One expert emphasized the importance of understanding the true costs and benefits of a PMS before putting too much resources into it. It was stressed that organizations need to ask themselves what information each indicator would provide about the organization *if* it was collected, and how the organization could act upon that information. Monitoring should be made at each level of the organization in a similar fashion but with different input, thus suggesting separate actions. If the information is important and could lead to significant organizational changes, the organization needs to make sure that the information could be collected with a sufficient level of accuracy. To ensure this, there has to be sufficient competencies and experiences at each part of the organization as well as someone with a holistic view of the system.

Finally, it is important to remember that it is better to spend a large amount of money on a good PMS than less amount on a bad PMS.

Lastly, the most important thing is to start, dare to take risks and revise over time. Let the design process be an iterative exercise among different actors within the organization that will enhance the organizational learning at least. Inspiration can be gathered by looking at similar organizations, but keep in mind that every organization is unique and applying an existing system to an organization without adapting it is therefore advised against.

Key takeaways:

- **Understand the purpose of the system**
- **Understand the organizational goals and how to reach them**
- **Use existing resources**
- **Consider the costs and intended benefits before investing in a PMS**
- **The Theory of Change is a good tool for understanding the organization**
- **Start somewhere, take risks and revise**
- **Gather inspiration from other organizations**
- **Every organization is unique and needs a tailored PMS**

4.9.1 Finding the right key performance indicators

The process of finding the right KPIs was described differently among the interviewees. A consistent theme, however, was the breakdown of wanted outcomes or visions into measurable indicators. Even though the number of breakdowns differed among the interviewees, the principle was rather clear: find the drivers that lead to the change you want to achieve and identify measurable indicators that specify those drivers. Thereafter, the indicators with the biggest effect, meaning the ones that best represent the change the organization wants to achieve, are chosen as the final set of KPIs.

The system and indicators should differ within the organization depending on what level and part of the organization it is monitoring. However, it is vital that all indicators within an organization point in the same direction in order to avoid unwanted goal-conflicts or contradictory incentives within the organization. It is important to divide the system in the right number of subcategories in order to achieve a thorough follow-up. Furthermore, organizations should evaluate and question their assumptions to make sure that the chosen indicators are based on true assumptions or are handled with their accuracy in mind. This also requires an understanding of how the KPIs should be used. For example, an indicator with the purpose of establishing credibility might need a higher level of accuracy than an

indicator with the purpose of motivating employees. Moreover, when choosing indicators with the purpose of organizational improvement it is important to focus on what the organization needs to improve, rather than what is already a success. When choosing indicators for external purposes, however, it is recommended to focus on external stakeholders' interests to a larger extent.

More hands-on, discussion, brainstorming and looking at best practice and other established indicators (e.g. UNDP's Sustainable Development Goals) were mentioned as tips on how to come up with KPIs.

Key Takeaways:

- **Break down goals and/or wanted outcomes to identify suitable indicators**
- **Break down mission or vision into tangible indicators**
- **Choose the indicators with the biggest impact on the organization**
- **Evaluate assumptions**
- **Understand the accuracy of the indicators**
- **Understand the purpose of each indicator**
- **Discover potential indicators through brainstorming**
- **Get inspiration from pre-established indicators**

4.10 Keeping the system simple and practical

In almost every interview the same advice appeared: keep it as simple as possible. It is easier said than done but several suggestions on how to simplify the procedure of measuring performance were given. In general, the advice regarding PMSs could be summarized as *focus on its core purpose*, *manage it consciously, allow flexibility* and *structure it well*.

The system should not be too large or complex. Instead, it should focus on what is really important. Everything cannot be measured, why a perfect system is not to strive for. The emphasis should be on having a system that is being used. Precision is not always what should be aimed for but rather to present a broader picture and understanding of completed activities. An opinion was that the organization should assume that its activities lead to the intended change and not put too much resources on proving it. The following advice was given to keep a streamlined system:

- Time should be spent on analyzing and drawing conclusions rather than on collecting data

- Focus should always be on the improvements that the organization strives to achieve
- Avoid systems that result in discussions regarding definitions or formal details instead of the results

A good way to introduce a PMS is to start on a small scale and successively build the system to keep it manageable. A larger system takes more time to manage and monitoring thus becomes costly. A cost analysis could be conducted in order to identify how much money should be allocated to monitoring. One way of keeping complexity and costs at a low level is measuring the output but not the outcome of the organization, as output is normally easier to distinguish.

The importance of flexibility was mentioned in numerous interviews. A system too strict will hold the organization back and might counteract organizational objectives. The system must be relevant over time, evolving and changing as the organization and its activities do. One major organization considered it important to be responsive to external factors influencing the performance of the organization and thereafter adapt the PMS to these eventualities.

Key takeaways

- **Keep it simple**
- **Focus on monitoring the organization's core activities**
- **Make sure the system is manageable**
- **Flexibility is important**

4.11 Common concepts

During the interviews some common practices arose as popular among the practitioners. The far most popular was the *Theory of change*. Other mentioned practices in order of frequency were: *Outcome Harvesting, Logical Framework Approach* and *Outcome Mapping.* The theory of change was considered a good way of stepwise identifying important activities internally. Outcome Harvesting was regarded as a tool for understanding the organizational contribution to a larger change while the benefit of Outcome Mapping was the consideration of context. The opinions regarding LFA varied as it was both described as well structured and inflexible. See Section 3.5 for a theoretical description of these concepts.

Key takeaways:

- **Theory of change is a popular method within the practice**

- **Outcome harvesting presents an alternative way of understanding impact**
- **LFA is comprehensive but inflexible and unpractical**

4.12 Feedback on the framework

Before each interview the theoretical framework presented in 3.3. was sent to the interviewee. During the interview the interviewee had the opportunity to give input and reflect on the presented framework. The summarized input is presented in this section.

The overall perception of the framework was that it was simple, understandable and well designed. A couple of interviewees expressed that the framework resembled how people talk about performance measurement within the sector and that it was nice to have it clearly formulated. Although, some mentioned that the framework could be simplified in order to be more practical, it was concluded that if the steps were performed correctly, the final result would be useful for the organization using it. The practicality could also be increased by adding reference examples and a vocabulary list of the terms included.

The interviewees lacked two things in the PMS the framework would produce. Firstly, continual revision of the PMS needs to be a feature of the system, more specifically adapting and developing the system over time according to given insights. Secondly, the framework needs to be more iterative since performance measurement is an ongoing process and involves many different actors.

Phase 1

Phase 1 was deemed an important foundation for creating PMSs and thereby a good beginning of the framework. Aside from that, a variety of suggestions were mentioned by one or two interviewees each. Following are the full list of suggestions that were mentioned during the interviews:

- Add identification of organizational uncertainties as a third step within the first phase
- Add an analysis of the current organizational situation
- Take advantage of existing resources by identifying data that is available within the organization
- Add criteria to help to prioritize among stakeholders

Two interviewees mentioned the Theory of Change as a potential expansion of this phase. Other terms that were mentioned in relation to this phase were mission, vision, direction and goals.

Phase 2

Establishing the purpose of the system was in general deemed important and the framework should emphasize that step. One researcher also stressed the significance of organizational understanding of that purpose.

A few interviewees often returned to the issue of handling different stakeholders during Phase 2. One suggestion was to have the purpose in Step 3 split and connected to each stakeholder. On the same note, it was also suggested that each indicator in Step 5 should be connected to a specific stakeholder.

Another topic that arose was complexity as a few interviewees expressed that Step 4 risked producing a complex PMS and Step 5 in itself was too complex. A solution presented to the former problem was to add a disclaimer saying that more features make a more complex PMS and are therefore warned against.

Phase 3

In the last phase, most of the feedback was given in relation to Step 8. Mainly two opinions were expressed by the interviewees. Firstly, targets should be mandatory in all PMSs. Secondly, bonus systems and contracts are not beneficial and clash with the culture of aid organizations. This could either be solved by using different terminology or, as the more popular opinion stated, by removing bonus systems and performance contracts entirely from the framework.

Key takeaways:

- **Interviewees were in general positive to the framework**
- **The framework needs to be simplified**
- **Examples and a vocabulary would make the framework easier to interpret**
- **The system should be developed in an iterative manner**
- **A mechanism for revising the system should be added**
- **Targets should be a mandatory part of the PMS**
- **Remove bonus systems and contracts from the framework**

4.13 Summary of the empirics and its input on the framework

In total, the takeaways from the interviews imply several changes to the framework. For starters, it is important that the framework is iterative, especially since the development ultimately should involve many different actors. The framework should encourage involving users of the system, management, experts and local partners. Moreover, the produced system should be simple and practical and should include continuous revision. Also, the purpose of the system is essential and should be stated early on and be kept present during the whole development process.

The produced system must be well adapted to the organization. This involves keeping the terminology consistent and aligned with the organizational culture. It can be enhanced in the framework by providing a clarified list of definitions of used terms. In this way, the terminology could be adopted or easily translated into different contexts by other organizations. Furthermore, adapting to the organizational culture also means adapting to the local context. To specify, this might imply that varying levels of professionalism need to be handled or that the system needs translating to different languages.

Regarding indicators, the most important takeaway is to find the right balance. A way to balance qualitative and quantitative indicators is to always complement quantitative indicators with qualitative analysis and vice versa. A balance between long and short-term focus is also important.

Following are more specific revisions to the framework:

- Add examples in order to make the framework easier to follow
- Remove the steps adding the features: bonuses, penalties and performance contracts. They are not necessary and risk adding complexity to the system
- Add targets, system-monitoring and documentation to the mandatory parts of the framework, as they are considered mandatory features
- Add an(/a group of) employee(s) that are responsible for each indicator being measured and handled correctly
- Define the terms included in the framework
- Include a decision regarding when to review indicators and revise the system. These dates should be added to the documentation
- Include a decision regarding when to analyze the results of the performance measurement. These dates should be added to the documentation

- Find a balance between *Information management features* and *Performance management features*
- Simplify the framework by removing unnecessary steps that could be included elsewhere

5. Revising the framework

Except for the changes mentioned in Section 4.13, the biggest change from the framework presented in Section 3.6 is the removal of former Step 4: Identify key features of the PMS. It was deemed too complicated since it implied an understanding of relevant features in a stage where the performer of the framework might not have enough knowledge of different options. The final features from theory and practice were instead added to the other steps of the framework, as the majority of the features were either covered by other steps in the framework or deemed mandatory. A full list of the final features is presented below:

Information management features:

- Data collection
- Indicators/Performance measures
- Analysis
- Supporting infrastructure
- Documentation
- Reports*
- Casual model*
- Hierarchy/cascade*
- Digital tools*

Performance management features:

- Control & steering mechanism
- Targets
- Objectives/goals
- Partner follow-ups*
- PMS evaluation and revision
- Activity plan*
- Budget*

** Optional features*

Another significant revision of the initial framework is the new focus of former Step 7: Identify channels of communication. The revised step, namely Step 6: Integrating a supporting infrastructure, focuses on the supporting infrastructure rather than only establishing communication channels. This was deemed a more practically useful focus, as a supporting infrastructure is vital for establishing communication channels.

Phase 1: Mapping the organizational environment

At the end of Phase 1, the developer should have a clear view of the organization and its stakeholders.

Step 1: Understand the organization

In order to develop a PMS, knowledge of the following need to be clear:

- The organizational strategy
- The purpose of the organization
- The organizational resources (including existing data and performance measurement tools)
- The organizational structure
- The organization's long and short-term goals
- The organizational activity
- The organizational culture (including the local context)

This statement of the organization and its direction should be kept in mind during each of the following steps. This is preferably done by involving management in each step of the PMS development.

This step is in its essence the same as before. The change made is to create a more explicit list with all aspects that need to be addressed. By doing so, there is a smaller risk of missing an important perspective and the chance of creating a thorough understanding of the organization is increased.

Step 2: Understand the stakeholders

Identify the organization's stakeholders through a stakeholder mapping. Initially, include all stakeholders to make sure that every interest affecting the organization will be covered. Thereafter, gather knowledge regarding the importance of each stakeholder for the organization, and what they request from the organization. Finally, the stakeholders are prioritized according to importance. This is properly done by evaluating each stakeholder's interests and power over the organization.

In order to make this step more practical, the step no longer refers to other frameworks. Moreover, the developer is explicitly asked to prioritize among stakeholders. This will ultimately help the developer understand which requirements to take into account in the remaining steps of the framework.

Phase 2: Designing the PMS

At the end of Phase 2, the purpose of the PMS should be clear among all developers and future users of the system. A practical number of KPIs should be identified.

Step 3: Identify the purpose of the PMS
Depending on the role and purpose of the PMS, the system will have a shift in focus for example between internal and external measures. Besides *Measure performance*, other roles of the PMS could be *Strategy management*, *Improve internal and/or external communication, Ensure credibility, Influence behavior* and/or *Learning and improvement*. The chosen purpose(s) should suit and satisfy the organization's and its most important stakeholders' needs and interests.

It has been clarified that the purpose should stem from the identified important stakeholders and interests in the earlier steps. Also, note the addition of the purpose suggestion "Ensure credibility" as it was commonly mentioned and should not be forgotten in the process.

Step 4: Identify suitable indicators
To make sure that suitable and feasible indicators are identified the identification should be carried out methodically in five stages. In order to involve all future users of the system and other people of interest, the steps should be repeated iteratively until the final KPIs are identified.

> **Substep 1. Formulate the outcome of the organizational goals**
> The process starts with the goals of the organization. The desired outcome of achieving the goals should be formulated in a clear and tangible way.
> **Substep 2. Identify the success factors for achieving this outcome**
> Identify the internal processes and external factors that are most important when driving the success of the organization. With regard to your stakeholders' interests, find all success factors leading to the desired results.
> **Substep 3. Define measurable indicators for the success factors**
> Split each success factor into smaller building blocks to eventually find indicators. If needed, inspiration and reference systems can be found by looking at similar organizations' systems or indicators defined by the UNDP.
> **Substep 4. Choose the indicators with the most impact**
> Map the interrelationship between the different indicators to see which ones have the largest impact and which are interrelated. The most important ones

should be KPIs. Eventually, a practical number of KPIs should be identified. This is normally a maximum of ten KPIs per organizational unit.

Substep 5. Review the total set of performance indicators
Map the identified indicators against the interests of stakeholders and internal goals to see that at least one measurement is covering each interest.

In this step a couple of changes has been made. First of all, the framework now suggests to involve future users of the system and carry out the substeps iteratively to create even better indicators. Furthermore, in the substeps all references to specific models have been removed as it makes it unnecessarily complex and might take focus away from the purpose of the substep. In the third substep the potential benefit of looking at reference organizations and frameworks has been added. Finally, in the fourth substep it has been added that the maximum number of KPIs the organization should strive for is ten. It reduces the risk for misinterpretations and an overabundant selection of indicators.

Phase 3: Making the PMS applicable to the organization

At the end of Phase 3, the KPIs should be integrated into a thorough documentation that specifies details that are important in order to ensure the quality of the PMS over time. Moreover, ownership of the indicators should be specified, communication channels should be identified and targets should be set. Finally, the time of analysis of the results and revision of the PMS should be clarified and decided upon.

Step 5: Create an indicator documentation
Keep documentation of each indicator, including the following:

- What goals the indicator answers to
- How to measure the indicator
- The target group of the indicator, including both internal and external actors
- The person/people responsible for the indicator

The documentation should preferably be easy to read and access.

Optional features: In order to enhance communication, both internally and externally, reference values and reference targets could be included in the documentation. This could also include references such as the organizational activity plan or budget. Causal and/or hierarchy models could also be included features of the PMS. In that case, the causality and hierarchy should be included in the documentation. However, remember that it is important to aim for a simple and practical system. Adding features to the system also adds complexity.

This step is subject to a couple of changes. A fourth documentation aspect targeting who is responsible for the indicator has been added in order to put emphasis on the matter of ownership that was critical according to most interviewees. Also, the features included in the documentation have been divided between mandatory and optional in order to draw a distinction between ensuring a proper foundation and adding specific additional features to the system.

Step 6: Integrate a supporting infrastructure
With regard to the organizational structure, develop a system for two-way communication. Keep in mind that the channels of communication should be chosen in order to encourage improvement and action rather than control and reporting. Decide which format to present the collected data in, with regard to the target group and communication channel and add that to the documentation. This will eventually simplify the transition between the PMS and the final communication channels, such as reports or workshops.

Finally, the foundation of all features is the supporting infrastructure. The documentation should be added to a suiting platform that supports the identified channels of communication. The documentation should be easy to integrate with external platforms for example through an interface. Digital tools might be included to strengthen the infrastructure but pay attention so that it does not result in increased complexity for the users of the system.

This step has shifted in focus from solely focusing on communication channels to mainly focusing on supporting infrastructure. Creating a well-functioning infrastructure was previously mentioned when choosing the key features. In the revised framework, integrating a supporting infrastructure appears in this step since the infrastructure is a vital part of good documentation and communication. Moreover, the developer is asked to consider the format for presenting the information and not just to whom the information should be presented. This is a result of removing the selection of features in former Step 4.

Step 7: Include targets
After deciding indicators, let management and employees decide on eventual targets (how this is appropriately done is outside the scope for this thesis). Thereafter, include the targets and their timeframe in the documentation and the communication system.

Targets, previously an optional feature is now mandatory. It is also separated from penalties, rewards and contracts which have been removed from the framework.

Step 8: Plan when to analyze and review the PMS

As a final step, the organization should plan for future evaluations and decisions in two dimensions: when to analyze the results and when to evaluate the indicators and revise eventual targets. The first analysis should focus on identifying which actions should be taken in order to improve results. Thus, this analysis should occur more frequently. The evaluation of indicators and targets should aim to reveal whether the indicators steer decisions in the right direction or should be revised or removed. The time frames should be set with regard to the activities rather than the calendar year. Moreover, they should be documented properly and added to the documentation.

Step 8 is a completely new one added after the interviews pushing for the importance of reviewing the PMS continuously, something that is often forgotten.

6. Applying the framework to Yennenga Progress

This chapter presents the key takeaways from applying the framework presented in Chapter 5 to the development aid organization Yennenga Progress. In order to ensure that holistic organizational expertise was present throughout the development process, the secretary-general took part in every part of the development process. Each step covers observations of the implementation as well as a broader analysis.

6.1 Yennenga Progress

Yennenga Progress (2018) was founded in 2001 with the mission to build a preschool in Nakamtenga, Burkina Faso. 19 years later the project has developed into an organization aspiring to erase poverty and support democratic societies. With a three folded focus on education, health and infrastructure, Yennenga Progress aims to create the concept called "the good village" - a welfare society in miniature format. Using Nakamtenga as a successful prototype, the plan is to scale up the activities spreading the concept to more villages. By applying a franchise model, Yennenga Progress want to put the ownership of the development in the hands of the villages themselves. With a larger organization, the need for monitoring increases and thus Yennenga Progress is in a phase where a focus on performance measurement is important to ensure quality as the organization grows.

6.2 Applying the framework

Phase 1: Mapping the organizational environment

Step 1: Understand the organization

Step 1 was carried out through a meeting with the founder and secretary-general of the organization.

Some difficulties arose in Step 1 due to the organization's small size and lack of resources. Organizational characteristics were to a large extent yet only formulated in thought and needed concretization. The level of difficulty this entailed varied among different areas. For example, the mapping of the organizational structure was rather easy even though roles and the organizational structure were not explicitly formulated. The organization had a clear structure where all organizational activities were divided into three main operational areas: education, health and infrastructure.

Internal hierarchy and responsibilities within the organization were clear in terms of working procedures. At the same time, the vision and goals of the organization were broader and needed specifying to function in the later steps, which was a more requiring task. This was partly due to the goals focusing on making a social impact, which was described as a typical characteristic for aid organizations in theory (see Section 3.3).

Nonetheless, although it was challenging to formulate the organizational characteristics in ways useful in the latter steps, Step 1 resulted in a thorough review of the organization. It created a common understanding among actors involved by putting in words what had previously only been knowledge of management. To conclude, this step created a valuable management exercise as well as a good foundation for the rest of the steps.

Step 2: Understand the stakeholders

Stakeholders were identified through a brainstorming session which resulted in a list of all actors involved in Yennenga Progress. Thereafter, the stakeholders were prioritized according to the importance for Yennenga Progress, which clarified that the aid receivers were far more important than other stakeholders. A questionnaire (see Appendix A) was sent out to all donors in order to get a better understanding of their interests and what sort of information they requested from Yennenga Progress. The result showed that the donors in general had little to no specific requirements related to performance measurement, which was a bit surprising. Many donors stated that they had confidence in the organization, which showed that the organization already had very strong credibility among its donors.

Both literature and interviews warned against adapting the PMS too much according to donor requirements. However, in the case of Yennenga Progress, the discussion regarding stakeholders focused mostly on the aid interest of recipients. This might be a result of their stakeholders being quite satisfied and not requesting any specific information from the organization. Even so, when the final indicators were to be chosen, it was apparent that the external credibility toward potential donors was important. This suggests that it is difficult to understand and clarify the importance of different stakeholders this early on in the process. However, it might also be the result of a reluctance to exclude indicators in general. It can be concluded that time and structure are necessities in this step to ensure a thorough screening of all stakeholders and their interests.

Phase 2: Designing the PMS

Step 3: Identify the purpose of the PMS

Two main purposes were identified for the PMS of Yennenga Progress, namely establishing legitimacy toward donors and improving internal activities through learning. These were identified through discussion among management based on the results from Phase 1, such as the stakeholders' interests and organizational characteristics.

Step 3 was straightforward and easily conducted by management. The direction was already set in Phase 1 and rendered in the formulation of the two main purposes of the system. However, it was challenging to consider potential purposes without settling in the already identified purposes. This might have hindered discovering other potentially more fit purposes.

Another issue was to keep the purpose present as a steering foundation during the rest of the PMS development process. There was a tendency among management to drift toward creating a too broad monitoring system where measuring became a purpose in itself. A similar tendency was to focus too much on certain aspects of the purpose, such as establishing legitimacy and occasionally forgetting other parts of the purpose.

Step 4: Identify suitable indicators

Step 4 was conducted by dividing the organization into its three focus areas - health, infrastructure and education - according to the organizational structure. A group of area experts, management and employees were gathered in order to perform Substep 1 to 3. Thereafter, management and employees alone performed Substep 4 and 5. Lastly, the final set of indicators was iterated once more with the experts to ensure full coverage within each focus area.

Overall, Step 4 functioned well. The difficulties mostly lay in keeping the system simple and narrowing down the number of indicators. The ranking of indicators was a troublesome exercise and there was a tendency to keep one indicator too many rather than the opposite, which literature and interviews warned against. Key in this step was therefore to keep the purpose from Step 3 in mind.

It is also important to discuss whether the indicator is important for decision making and actions in the organization. It was clear that there is a risk of choosing indicators that focuses on the context of the aid recipients in general, rather than indicators that

measure the impact of the organization specifically. This was especially clear when identifying success factors. It was also easier said than done to focus on areas that need development, rather than areas that are already a success. According to literature and the interviews, it would seem as mainly focusing on weaker parts of the organization would be a good way to reduce the number of indicators in the system. However, since being able to demonstrate successful aid is an important part of ensuring credibility, only focusing on indicators that reflect organizational weaknesses is not a functional solution in practice. Also, neglecting successful indicators might result in successful activities and processes being cast aside and eventually forgotten.

The interviews emphasized that the resources needed to gather data should be weighed against the benefits of the acquired information. In the case of Yennenga Progress it was noticed that a top management perspective might underestimate the cost and workload of measuring, which resulted in a positive attitude toward including additional indicators. This tendency was also seen among the area experts, where removing indicators from the system was almost unthinkable as all indicators were considered important. Therefore, involving employees, who are expected to eventually collect the data, when reviewing the set of indicators was important in order to receive input on practicalities and ultimately make the system practical.

Finally, breaking down goals into measurable indicators through five parts helped make sure that the process was done thoroughly. Especially for organizations without any expertise and experience of KPIs, the five substeps helped avoid making the indicators too vague while still keeping the connection to the organizational purpose and goals.

Phase 3: Making the PMS applicable to the organization

Step 5: Create an indicator documentation

After identifying the KPIs for each of the three areas of the organization, details regarding the indicators were documented in an excel sheet. Management was in charge of the documentation, but the owner of each indicator took part in specifying details such as when and how to measure their indicators. This was deemed important in order to engage the responsible employees and establish an understanding of the system. Engaging users of the system also helped with ensuring that the system was practical and realistic.

From a management perspective there was a tendency to be a bit sweeping when documenting the indicators. In terms of how to collect the data and for what purpose,

quite generic explanations were initially used. The typical description could be "annual collection of data from within the organization, for the purpose of understanding the organization's progress and compare to other organizations". Such nonspecific explanations could be sufficient for the people developing the system as long as they remember why the specific indicator was included in the total set. However, there is an impending risk that data will not be collected in a similar fashion each year and that the purpose eventually is forgotten. Thus, the indicator might eventually be hard to evaluate and learning opportunities will be lost. To avoid this, the documentation should rather be too thorough than too vague. In the case of Yennenga Progress, the documentation was finally tested by external experts examining the documentation in order to see if they understood it properly.

Step 6: Integrate a supporting infrastructure

Step 6 was executed through discussions between management, external experts and partners. The organizational understanding from Step 1, such as the formulated organizational structure and the identified stakeholders, was the foundation for understanding how the indicators should be communicated in this step. This is essential in order to understand what actors, internal and external, to share the different kinds of collected information in the PMS with. Moreover, channels of communication were a natural additional topic after discussing the purpose and target group for each indicator in Step 5.

An important part of Step 6 was to understand what kind of information sharing platform would be suitable for the organization. In order to make that decision and eventually understand how to use that platform, the documentation and the communication channels need to be properly conducted and identified. For Yennenga Progress, existing resources in the organization played an important role. A partnership with an information sharing platform eventually was the answer to identifying an information sharing platform that all relevant actors could access.

Step 7: Include targets

It is difficult to identify suiting targets when a system is initially set up. Since the set of indicators has yet to be used there is a lack of earlier values to use as an internal reference. Therefore, deciding upon targets is not an important step at the initial design of the system but would rather increase in importance as time goes by. However, it is important that the system is compatible with targets and includes a plan for when and how to set the targets in the future. Therefore, it was made sure that the information sharing platform eventually could include targets.

Step 8: Plan when to analyze and review the PMS
Deciding when different analysis related activities should be conducted was a straightforward task. The management felt it proper to conduct follow up on results in association with the annual report. The evaluation of the entire system will be done every five years as it takes time to conclude in what direction the organization is heading.

When setting up a new PMS it is challenging to imagine all eventualities and influences that should be taken into consideration when deciding the timing of activities. Difficulties with data collection and processing might take a longer time than expected and therefore the time plan might be revised during the first years of using the PMS.

6.3 The practitioners' opinions on the framework

When asked to provide feedback on the framework, the secretary-general of Yennenga Progress expressed that the framework as such helped the organization to construct a PMS that provides the organization with important information. The different steps required time and engagement but were deemed necessary in order to conduct a well-functioning PMS. The produced PMS will be used to measure performance in the future, but it was expressed that the system will need future tweaking and revising as suggested in the framework.

7. Analysis

This chapter presents an analysis based on the findings in theory and the interviews. The analysis is divided into three parts that together cover the main themes of Chapters 3 to 6.

7.1 What affects which indicators to include in a performance measurement system?

7.1.1 Purpose of the system

What seems to be a crucial step in the process of designing the PMS is the purpose of the system. As previously stated, the two main purposes identified were *learning and improvement* and *ensuring credibility*. When asked specifically for purposes with PMSs, almost all interviewees mentioned both of these purposes. It was also these two purposes that were identified in the process with Yennenga Progress. It was clear that it was as difficult for interviewees to keep both purposes in mind during the whole interview as it was for Yennenga Progress to stick to the decided purposes during the entire development process. As an interviewer, it was often clear that the purpose kept in mind influenced the answers and often lead to a one-sided solution to dilemmas. For example, interviewees with a bigger understanding of the learning and improvement purposes focused more on making the system practical and involving the entire organization. Also, stakeholders were mostly discussed in relation to the second purpose - credibility, instead of an opportunity to learn. These specific examples are naturally explained by the different target groups of systems focusing on learning versus credibility. However, interestingly enough, losing sight of the purpose of the system and therefore creating a one-sided PMS was often warned against during the interviews. The different purposes seem to become a bias that has a tendency of conflicting with the potential of the PMS. Therefore, a framework that produces PMSs needs to remind the developer of its intended purposes regularly during the development as well as help the developer to explore and consider several purposes before deciding purpose(s). This is addressed in the produced framework.

7.1.2 Stakeholders

Stakeholders have been frequently discussed throughout the whole thesis, as much in theory as in practice. The discussion has mostly regarded balancing different stakeholders to take into account when establishing a PMS. In the final framework,

the developers are asked to perform a stakeholder mapping and thereafter prioritize the stakeholders according to importance. Any guidance on how to prioritize among stakeholders is not given. Instead, the stakeholder mapping functions as an exercise in itself that helps the developer to overlook the involved actors and their importance to the organization. From thereon, it is assumed that the developer understands the whole spectrum of stakeholders and will adapt the system to the prioritized stakeholders.

It is also important to note that there is not necessarily anything wrong with adapting a PMS solely to one specific stakeholder if that fits the purpose of the system. For example, a system that only focuses on establishing credibility might only need to focus on specific donors. Moreover, a system that aims to enhance internal communication might only need to regard its users or employees of the organization.

7.2 What is a good system and how do we know if the framework creates one?

In order to ensure that the framework provides the best possible conditions for creating PMSs, both theory and practice have been consulted. The framework that was presented in Chapter 5 includes all the main components of the framework presented in Section 3.6 that in turn meets all the requirements of the theory. Therefore, it can be concluded that requirements such as those presented by Tangen and Mouchamps were met in the final version of the framework as well. Moreover, the unrevised version was generally approved of by the interviewees and the final version included all the popular opinions stated during the interviews. In total, it can therefore be concluded that the framework provides a PMS-developer with good pre-conditions for creating a beneficial PMS. However, it is important to note that even though the structure of the framework should lead to a comprehensive PMS, success is to a large extent dependent on the commitment and competence of people involved in the development process.

7.2.1 The complexity paradox

It is difficult to capture all insights into a stepwise framework. If all tips and opinions were covered in the framework it would render a cumbersome and text-heavy framework that would not be practical. At the same time, a too minimalistic framework will also increase the risk of misinterpretation and failing to create a beneficial PMS. The right balance between creating a comprehensive but impractical framework and an easy to use but vague is necessary. By emphasizing the importance

of keeping the purpose of the system in mind, the framework aims to help the developer being practical without losing sight of what is really important - namely that the system adds the intended value to the organization.

Another difficulty with finalizing a comprehensive framework is seen in the fourth chapter. The information gathered from the conducted interviews covered a wide range of aspects of performance measurement within the aid sector. However, when asked to give feedback on the framework, at the end of the interview, little input was given and the general opinion was that the framework looked comprehensive. Seemingly, important aspects, such as keeping the system simple and adapted to the organizational culture, are difficult to ensure through a framework. Such expressions are subjective and hard to tackle, but the solution might be to start with a small and simple system and let the system grow into the organization over time.

7.2.2 The people involved in performance measurement

The practitioners in general had little experience or insights on how to develop PMSs even though some of them were responsible for a PMS. Thus, the communication gap between theory and practice was large which made the discussions a bit immature and vague. Usually, it was easy to discuss what a PMS should deliver, but when focusing on how to design such a PMS the answers were generally vaguer.

Competence is needed to measure performance in a rewarding way. The people using the system must understand the purpose of performance measurement, the purpose of their specific PMS and how they can help fulfill that purpose. If the people involved lack that understanding, the PMS will not be relevant and the PMS might end up being counterproductive. However, competence is often built through experience. Thus, it is important to start somewhere and learn during the development process.

7.3 Performance measurement within the aid sector

7.3.1 The aid sector versus the private sector

The final framework included most of the areas presented in theory. The empirics mostly added parts or clarifications to the framework but basically left the contributions from theory untouched. It is an interesting observation since most of the interviewees advocated a clear separation between aid and other kinds of organizations in terms of measuring performance. With a framework, to a high extent, based on theories that originate in the private sector more critical comments

were expected. The reason for this contradiction might be that existing frameworks have been poorly implemented and adapted to the organization. It is a struggle to overcome such a challenge since it depends heavily on the people involved in each specific development process. With the stepwise approach presented in this thesis the belief is that anyone aiming to set up a PMS will be guided through the process in a fashion minimizing the risk of bad implementation. Such a stepwise framework should suit any company or organization in general, though the specific one presented here is formed to handle the needs and pitfalls that are present within development aid.

While theory presented some ambiguities regarding the inclusion of different incentive tools, namely bonuses, penalties and performance contracts, the opinions raised in the interviews were more one-sided. In line with the overall suggestion from interviewees, these features were not included in the final version of the framework. The framework still contains all essential characteristics and features necessary according to theory. However, it should be further investigated if a foundation for incentive management could be included in the system and still fit the preferences of both theory and practice.

The opinions on aid specific frameworks (as described in Section 3.4) differed between theory and practice. *Theory of change*, *Logical Framework Approach*, *Outcome Mapping* and *Outcome Harvesting* were all mentioned in several of the interviews by experienced people within the development aid industry. The impression from the theoretical investigation was that none of these frameworks is deemed a comprehensive tool for developing PMSs. When designing the framework described in Chapter 5, these tools mainly functioned as inspiration to understand specific issues present in aid organizations. Naturally, practice is more pragmatic and strong influences from the different tools could be seen in many of the aid organizations represented in the interviews.

The terminology used in the framework in this thesis and performance measurement in general is not the same language as used within aid organizations overall. One frequently discussed dilemma was the wide range of terminology used within the sector. Since there were almost as many vocabularies as organizations among the interviewees, it was stated that a common conceptual apparatus was needed within the sector. Having the same terminology as other organizations and actors in the field is important in order to be able to communicate efficiently and avoid misunderstandings. Therefore, if the final conceptual apparatus within the sector differs from the terminology used in the current version of the framework, the framework will need revising. Furthermore, the development of a PMS can function

as a great opportunity to implement a commonly used terminology. This could refer to the terminology commonly used in theory, even if that theory deranges from the private sector. The risk of the aid sector moving further away from the general field and becoming alienated will thereby be reduced. It should therefore be a conscious act to move the terminology used in aid closer to other sectors to find knowledge exchange.

As learned from interviews and through applying the framework to Yennenga Progress there are insights from the theory that are useful within aid organizations. Challenges met when constructing the PMS of Yennenga Progress were to a large extent associated with organizational capabilities. There is a risk that the negative perception of applying private performance measurement approaches to the aid sector rather is a result of wrongfully applying models and implementing systems without adapting them to the specific organizational characteristics. It would be interesting to compare organizations based on their size and maturity rather than make the division solely based on profit and non-profit. Yennenga Progress is a smaller organization with an ambition to grow. Comparing performance measurement challenges found in private start-ups could be a better way to identify potential differences and similarities than to group them together with major international organizations when building conclusions.

To conclude, the framework that was presented after only consulting theory was a good foundation and contained the main features of a comprehensive framework. However, the framework lacked certain aspects that were added in the final version of the framework. When trying the framework in practice the main challenges were not mainly due to the aid specific characteristics as presented in theory and interviews. It was rather capabilities and experience that created most of the obstacles and the cure is an interactive approach by starting small and making adjustments and add-ons along the way. Also, in order to be successful the approach should be structured with clear documentation and an understanding of the process and its purpose within the organization.

7.3.1.1 Financials and efficiency

One interesting disparity between theory and practice was the frequency of which financial budgeting was mentioned as an aspect. In theory, performance measurement is often associated with financial performance and mentioned as a way to ensure that activities are meeting the budget. As discussed in Chapter 3, before introducing the conceptual performance measurement, performance measurement often had financials as the primary purpose. At the same time, barely any

interviewees with experience of the aid sector mentioned budget during the interviews. The lack of financial discussions was also found in the discussions with Yennenga Progress. In both cases, financials were almost exclusively mentioned when discussing stakeholders and funding and were strongly connected to credibility.

On the same note, increasing efficiency was barely mentioned specifically, although formulations such as *making sure the activities are making the intended impact* occurred. This is especially interesting not only because it is a frequently discussed matter in the private sector, but also since aid organizations normally have scarce financial resources. In the private context, PMSs are often used to ensure that resources are allocated to the business unit or activity with the most impact on the result. The impression from interviews and the application of the framework was that the financial perspective was mainly present when discussing donors. Financially, the PMS was seen as a way to improve revenue by showcasing the success of the organization rather than a way to increase efficiency and optimize the spend of existing donations. The truthfulness of this observation as well as implications associated with such a disparate view should be investigated further.

7.3.2 Maturity of performance measurement within the aid sector

A difficulty that may have arisen due to differences in terminology was the fact that interviewees often confused performance measurement with the related issues *data collection* and *performance management.* This often resulted in problems with identifying how their PMS was designed and developed as well as how a PMS should be designed ideally. Another common problem was to confuse ongoing monitoring with occasional evaluations. This lead to discussions focusing mainly on difficulties with being able to decide if an organization is successful or not, which is not necessarily a central feature of a PMS. A conclusion that can be made is that performance measurement within the sector seems to be immature and is often confused with evaluations made for the purpose of assuring credibility and funding. This might also explain why analyzing the results from the performance measurement often was described as an annual activity, rather than an ongoing steering mechanism.

The indicators in the produced PMS should provide a foundation of information for further discussion and action. There is a risk of only using a PMS as a way of collecting and bundling information, without that information resulting in further value. A PMS should be a tool that benefits the organization and thus requires the

information provided by included indicators to be not only interesting and understandable but most importantly actionable.

8. Conclusion

This chapter aims to conclude this thesis by reconnecting with the purpose and research questions. Moreover, discussions regarding the final validity, reliability, representativity and usability are presented in order to provide a thorough picture of the thesis' trustworthiness and applicability. Finally, this thesis' contribution to theory is stated.

8.1 Fulfilling the purpose and answering the research questions

Purpose: *The purpose of this thesis is to develop a framework for constructing performance measurement systems that will help organizations within development aid reach their long and short-term goals. The system should satisfy the interests of organizations within development aid.*

Through successfully answering the research questions, this thesis achieves its intended purpose. The thesis presents a framework for constructing a PMS adapted to development aid. Whether the produced systems help organizations reach their long and short-term goals is a complex matter. The final framework helps organizations establish indicators that derive from the organizations' long and short-term goals. Thus, the system will help organizations measure their performance in relation to their goals, which ultimately will help organizations reach their goals. As a final remark, the framework takes a lot of notice to both internal and external organizational interests. It forces the developer to identify all interests of the organization and its stakeholders and continually reminds the user to take these interests into account during the development process. Therefore, it can be concluded that the framework satisfies the interests of organizations within development aid.

Research question 1: *What characterizes performance measurement within development aid?*

As concluded in this thesis, one big characteristic of performance measurement within the development aid sector is the relationship to stakeholders. Development aid organizations depend on donors financing their activities, which results in a need to measure performance in order to establish credibility. This requires a big understanding of the needs and requirements of the donors. Moreover, donors as well as other stakeholders such as partners or volunteers often are and should be involved

in the construction of a PMS in order to make the system compatible with such key actors.

The organizational purpose and goals within development aid are focused on making a social impact. This often results in characteristics such as long feedback loops and the intangible impact of activities. To capture the impact of each organization, performance measurement requires a mix of quantitative and qualitative measures. The aim for social change also characterizes the employees as their drive is ethical thus no extra incentives such as bonuses and penalties are needed within the PMS.

Research question 2: *How should a performance measurement system be developed in order to satisfy the interests of an organization within development aid?*

Existing research on PMSs provides useful insights and tools on how to design a PMS but it is vital that each developed system is adapted to its organization. Regarding the interests of the organization itself, the developer of the system needs to think through the organizational interests at the beginning of the development process by identifying all interests of the organization. Thereafter, the interests and purposes that the PMS is intended to respond to need to be specified by the system developer. Finally, the developer needs to be continually reminded of taking these final interests into account during the rest of the PMS development process.

Moreover, the interests of a development aid organization to a large extent consist of satisfying its stakeholders. It is important to note that the stakeholders of a development aid organization often include a big variety of actors. Therefore, it is normally not practical to take requirements from all of these actors into consideration. With that said, it is still important to understand what different stakeholders ask of the organization in relation to performance measurement. Only after securing that understanding, priorities among the different stakeholders and their requirements should be done. Therefore, a stakeholder mapping and a prioritizing exercise will help the organization understand which requirements to take into account when constructing the PMS. Thereafter, identifying which indicators respond to certain stakeholders will help the organization make sure that no stakeholder interests are unintentionally left out from the final set of indicators.

Research question 3: *Is it possible to develop a standardized and usable framework for constructing a performance measurement system suitable for development aid organizations?*

This thesis has, through consulting theory and practice, developed a framework for constructing PMSs within development aid organizations and tested it. This framework is applicable to any organization within development aid due to its flexible nature and adaptiveness to different organizations. It helps the developer understand its organization through Phase 1 and helps the developer adapt the produced system to the organizational characteristics. By breaking down an organization's goals into measurable indicators, the relevance of the final indicators is ensured. These indicators will ultimately help understand the performance of the organization in relation to its goals. Finally, the framework functions as a good foundation for performance management that will lead to organizations reaching their long and short-term goals.

Regarding the usability of the framework it can be concluded that the framework has proved usable. This was mainly tested through the interviewees' feedback on the first version of the framework, and the application on Yennenga Progress. The different components of the framework are all relevant and needed in order to produce a comprehensive PMS. Moreover, the different phases, steps and substeps help guide the user through the development process which enhances the usability of the framework. According to the test and the interviewees, the order of the different components helps keep the user prepared for the upcoming steps in the framework. However, the framework requires engagement and competence from the developer as well as the members of the organization in order to be conducted properly. If the developer or organization lacks competence and engagement there is a risk of the framework producing an ill-fitted PMS which will not benefit the organization.

To summarize, it is possible to develop such a framework as this thesis has done so.

8.2 Validity, reliability and representativity

The framework fulfills the requirements presented in theory and discussed in practice and has been tested in a short-term perspective. Therefore, it can be concluded that the research is reliable and the framework valid for a short-term perspective. Through the inclusion of continual revision and improvement, the produced system will stay relevant and beneficial over time. Hence, the framework is seemingly sustainable in the long-term perspective as well.

This framework is developed to fit development aid organizations. Yet, a main characteristic of the final framework is the focus on each organization's individual

pre-conditions and needs. More specifically, the framework does not force its users to focus on parameters that are not relevant to the specific organization. Also, it helps each user identify what is important for its organization and makes sure to include those aspects in the produced PMS. This enhances the representativity of both the framework and the thesis since it is developed in a manner that does not exclude certain types of organizations. However, bonuses, penalties and performance contracts have been removed from the framework. Therefore, organizations that need those features in order to develop comprehensive PMSs will not be able to use this framework without complementing it.

8.2.1 The interviews

The universal applicability of the feedback from the interviews can be discussed as all interviewees are based in Sweden. It is difficult to conclude to what extent given answers were affected by conditions specific to the aid environment in Sweden. It can be assumed that a lot of issues and challenges with performance measurement in aid are universal as the organizations are global. What could be influencing the results are rather organizational culture and demands from donors. Regardless, the conclusions in this study should remain even if these biases exist since the framework is based on a procedural approach. At most, minor nuances of the steps in the framework could need tweaking.

A second aspect to consider regarding the interviews was the way the framework was presented for input. To keep preparation material slim for the interviewees, the framework was presented in a stripped-down version where the steps were presented without any specifying content. Each interviewee was to interpret and return input regarding thoughts, necessities or missing aspects in each step. This procedure might have lead to the subjects of the interviews missing parts of the framework or not receiving a deep enough understanding to discuss the framework. In-depth explanations were given during the interviews but opinions might have differed if more information was given in advance.

8.2.2 The test

When it comes to the testing of the framework, the involvement of the constructors of the framework might have impacted the test. More specifically, the constructors of the framework were always at hand, functioning as external experts, which might have helped the developers from Yennenga Progress interpret the framework in an intended way. Conducting further tests without involvement from the researchers at hand might increase the reliability and validity of the research. However, due to a

lack of resources and a need to understand the development process from Yennenga Progress' perspective, this was not possible during this research.

One other deficiency with the test was the lack of time and long-term perspective which lead to the evaluation only covering the initial development process and the first version of the produced PMS. The final framework encourages continual evaluation and revision of the framework, which was not possible to fully evaluate in the trial with Yennenga Process. On the same note, in order to properly conduct action research, the framework should be iterated until the framework is perfected. However, the lack of time only allowed the theoretical framework to be iterated once, in Chapter 5, and the final framework to be evaluated once, through the test in Chapter 6.

Moreover, the framework was only tested on one particular organization. In order to increase the validity of the framework, it should be tested on a number of organizations with different characteristics and features. For example, the stakeholders' role was frequently discussed in both theory and practice. However, in the case of Yennenga Progress, the stakeholders had little to no input on how the PMS should be designed and what results it should present. This might have affected the evaluation of the framework, since its handling of demanding stakeholders was not tested.

To summarize, in order to draw definite conclusions regarding the framework, further tests are needed. By learning from other implementation processes one could investigate if the same struggles are identified in each case or if it differs and for what reasons each challenge appears. It would also be interesting to see how the produced PMSs function over time. It takes time to conclude whether the system produced for Yennenga Progress is successful, which is a weakness in this case. Evaluating the progress over time could help with concluding if the indicators provide useful information, if data can be collected as intended and if the revision process works.

8.3 Contribution to theory

This study's contribution to theory is mainly two-folded. It produces a framework for guiding the construction of a PMS in a development aid organization and identifies what is considered important to address when developing a PMS according to experts and practitioners.

The study presents a framework that is tested and adapted to the development aid environment. It offers a clear stepwise approach and a new division between the aspects of developing a PMS for this specific kind of organization. There has been a lack of applicable frameworks for developing comprehensive PMSs that are practical in the sense that they present an approach for organizations to follow. This thesis contributes with such a framework.

During the design of the framework, opinions from experts and practitioners were gathered and explored from several major development aid organizations. The study presents several dimensions raised as important during these interviews. It also presents the finding that opinions regarding performance measurement did not differ according to roles or sectors which is an interesting foundation for future studies.

8.4 Further research

First and foremost, further testing within the development aid sector is needed in order to ensure the reliability and quality of the research. In order to ensure its representativity in a broader context, among different types of organizations, the framework needs to be tested on a bigger variety of organizations. It would also be interesting to verify if other features than the ones included in the framework should be mandatory for certain types of organizations. This would help to establish if the framework could be further tweaked and specified in order to better fit other types of organizations than development aid organizations.

Moreover, some of the tendencies noted in the interviews and discussed in Chapter 7 should be further researched in order to establish if the tendencies are general or specific for this selection of interviewees. For example, it would be interesting to investigate if the tendency to focus on ensuring revenue rather than increasing cost-efficiency is typical for the aid sector nationally and globally.

Also, since the produced system will be dependent on different stakeholders and their interests, the system will have to be revised whenever an important and demanding stakeholder is added or removed. It would therefore be interesting to investigate how to make revising of the framework on a regular basis smooth and resource-efficient.

Finally, the categorical removal of incentives such as contracts and bonuses is a topic in need of further research. Whether such mechanisms are unsuitable in themselves or in specific environments is an interesting topic for another study. Furthermore, the long and short-term effects of including incentive schemes should be

investigated. Also, it should be further investigated if other incentive management foundations could be incorporated into the system and still fit the preferences of both theory and practice.

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Appendix A: Questionnaire

Mapping of donors' interests

1. What organization do you represent? (Optional)
2. Why have you chosen to contribute to development aid?
3. What factors do you consider when choosing a receiving organization?
4. Have you ever demanded information from your recipient outside of the information you were given?
    - Yes
    - No
    - Other:
5. How is the information provided handled within your organization?
6. Have you ever terminated a partnership due to a lack of reported information?
    - Yes
    - No
    - Other:
7. If Yes: In what way did the reporting fail your expectations?
8. Do you demand anything from your receiver?
    - Yes
    - No
    - Occasionally
9. If Yes/Occasionally: What do you demand of your receiver?
10. If Yes/Occasionally: What are the consequences of unmet demands?
11. What type of results would you like to have reported to you from your receiver?
    - ☐ Quantitative indicators
    - ☐ Qualitative indicators
    - ☐ Stories or reportages from the field
    - ☐ Brief updates regarding the organizational activities
    - ☐ Other:
12. How would you preferably receive the results?
    - ☐ Mail
    - ☐ Webpage
    - ☐ Annual report
    - ☐ Activity report

- ☐ Physical meeting

13. How often would you preferably receive the results?
    - ☐ Never
    - ☐ On a daily basis
    - ☐ On a monthly basis
    - ☐ Annually
    - ☐ Other:
14. Comments regarding results reports:
15. Why have you chosen to engage in Yennenga Progress?
16. What indicators would you like to see from Yennenga Progress?
17. Finishing comments:

Appendix B: Interview guide

PART 1: KNOWLEDGE SHARING

About the interviewee:

Would you like to introduce yourself?

- What's your background?
- What's your experience of performance measurement?
- What's your experience of the aid sector?

[If the person has experience of working within an aid organization]:

Would you like to explain how you worked with performance measurement within the organization?

- What kind of organization did you work for?
- Can you describe the performance measurement system?
    - What was the purpose of the system?
    - Do you remember what indicators you measured within the system?
- What features did your system include?
    - How did you decide which features to include?
- How do you communicate the results of the performance measurement?
    - Internally?
    - Externally?
- How did you develop this system?
    - What actors were involved in the process?
    - How did you decide which indicators to measure?
- Do you think the system was successful?
    - Do you think the system was comprehensive? Why/why not?
- What do you think was good with your system?
    - What do you think could have been improved?
    - Did the system end up the way you thought it would? Why/why not?
- What do you think was good about your development process?
    - What do you think could have been improved in the development process?
- If you got to do it again, what would you have done differently?

Performance measurement systems in general:

What is a good performance measurement system and how do you develop such a system?

- What do you think an optimal performance measurement system development process should consist of?

- Do you see any common blunders regarding performance measurement?
- What features do you think a performance measurement system should include to function successfully?
- Do you see any other success factors regarding the design of performance measurement systems? (i.e. how the system works and its features)
- Do you recommend any tools for developing a performance measurement system?

Indicators in a performance measurement system:

A performance measurement system normally measures different factors through indicators. What do you think is important to keep in mind in the process of identifying such indicators?

- What do you think is important to consider when choosing which indicators to include in a performance measurement system?
- What's your best advice on how to keep your system comprehensive without it becoming impractical?
- What's the best way to measure qualitative indicators and long-term effects?

Performance measurement systems within aid organizations:

This thesis regards performance measurement within (development) aid organizations. What do you think is important to keep in mind while designing a system in that context?

- What difficulties do you see with performance measurement within aid organizations?
    - Is it possible to overcome these difficulties? How?
- What do you think is important to consider while developing a performance measurement system in an aid organization?
- Are there any differences between developing a performance measurement system within a non-profit and a for-profit organization? If so, what differs?

PART 2: FEEDBACK ON THE FRAMEWORK

The gap between theory and practice:

This framework is derived from theory on designing a performance measurement system within development aid organizations. [The theoretical framework is presented] What do you think about the framework? How would you revise it in order to make it more practical?

- Do you see any flaws or impracticalities in this framework?
- Would you like to add anything to the framework?
- Do you think this framework is applicable to development aid organizations? Why/why not?

Appendix C: Interviewees

In this appendix, a list of all interviewees with the date of the interview is presented. The list aims to express the experience of each person in order for the reader to better understand why their experience matters. All interviewees are based in Sweden.

Interviewee 1 - 10-03-2020
Senior manager at a Nordic Management consulting firm and previously management consult at both global and smaller consultancy firms. Experience from improving performance management within large companies for several years with a focus on steering, planning and analyzing performance.

Interviewee 2 - 11-03-2020
Former secretary-general of a major Swedish humanitarian fundraising and donor foundation overseeing approximately fifty development aid projects yearly. Today, the interviewee assists smaller development aid organizations in their work.

Interviewee 3 - 12-03-2020
Consultant at a global business consultancy firm. Experienced from evaluating key performance indicators at a global children's rights organization.

Interviewee 4 - 17-03-2020
Head of controlling and finance at a large monitoring organization working with ensuring transparency and efficiency within aid organizations from a donor perspective. Hands-on controlling 434 member organizations and their performance reporting.

Interviewee 5 - 18-3-2020
Head of performance measurement in Sweden for one of the world's largest humanitarian aid organizations. Oversees every part of the organization. Has experience of performance measurement in various projects and levels.

Interviewee 6 - 19-03-2020
Method developer at a major Swedish nature conservation agency. The organization has partnerships with forty organizations in ten countries and the interviewee is responsible for planning, monitoring and evaluating these partnerships. Experienced from one other large Swedish development organization.

Interviewee 7 - 19-03-2020
Director of the International Department at a large SRHR development organization. 25 years of experience working with reporting and results measurement systems regarding human rights in four different international major development and humanitarian aid organizations.

Interviewee 8 - 20-03-2020
Ph. D. in performance measurement and management, specifically regarding dynamic KPI-systems in large industrial organizations. Five years of experience working as a management consultant within steering and three years as CFO of a growing food delivery service.

Interviewee 9 - 23-03-2020
Sustainability manager at a listed biotech company. Seven years of consultancy experience within sustainability with a focus on reporting.

Interviewee 10 - 23-03-2020
Founder and head of operations at an organization specialized in measuring effect in non-profit organizations. Experience from working with over 300 social entrepreneurs and measuring their impact.

Interviewee 11 - 23-03-2020
Ten years of experience from working with aid mainly in a major international development organization. For the last four months responsible for result measurement for another major development organization with several partner organizations.

Interviewee 12 - 23-03-2020
Controller at a major Swedish development aid organization with eight years of experience within international development aid. Handles contracts and reports both upwards and downstream in the aid value chain.

Interviewee 13 - 23-03-2020
Policy advisor at a major Swedish development aid organization. Responsible for twelve partner organizations in five countries which include measuring the results of their activities.

Interviewee 14 - 24-03-2020

Responsible for a global spread of local offices and partner organizations for a large Swedish development aid organization. Experience from a major nature conservatory organization in Sweden.

Interviewee 15 - 26-03-2020
Senior advisor on results-based management in the Swedish development aid agency.

Interviewee 16 - 26-03-2020
Secretary-general for an industry association working with transparency, quality and steering and for 160 civil society organizations. Considers herself an expert in the field of measuring effect after several years in the business.

Interviewee 17 - 31-03-2020
Chief operating officer at a smaller international aid organization based in Sweden and Tanzania. Experience from working at the ministry of foreign affairs as well as the ministry of defense. Experience from working with development aid on a high policy level but new to a more operational role. Hired to develop the organizational work through monitoring and evaluation.

Interviewee 18 - 01-04-2020
Investigation secretary since 2013 at an independent government committee evaluating and analyzing Sweden's international development assistance. Previous relevant experience includes ten years of consulting work on the topics of monitoring and evaluation.

Interviewee 19 - 01-04-2020
Ph. D. in business and researcher within results measurement and steering in development aid. Previously head of result management at the Swedish development agency. Miscellaneous experience from international aid organizations and consulting in the field.