



**AN INVESTIGATION INTO THE STRATEGIES ADOPTED BY NON GOVERNMENTAL ORGANIZATIONS IN KENYA TO INCREASE FINANCIAL SUSTAINABILITY**

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**ABSTRACT**

The push for financial sustainability introduced a degree of uncertainty into the relationship nongovernmental organizations maintain with their members. Kenya is a developing country that has various challenges in terms of social economic development. This has necessitated the work of various nongovernmental organizations across the country. This study investigated the factors that nongovernmental organizations(NGOs) have adopted to increase financial sustainability, as data from the National Council of NGOs show that donor funding declined from Sh87 billion in 2007 to Sh81 billion in 2008 and Sh73 billion in 2009. The objective of the study was to find out how strategic financial management, paradigm shift in programming, internal financial funding, strategic alliances and organization structure contributes towards financial sustainability in NGOs. Data was collected using questionnaires and stratified random sampling design used to select the sample of NGOs in Nyeri County. The study used inferential statistics for analysis since the data was quantitative in nature. From the research, there is need for NGO to critically strategize on their financial sustainability as the environment of their operation is changing very fast and the needs of NGOs are increasing by day due to global climatic changes, natural disasters, diseases and drug abuse.

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**INTRODUCTION**

Global trends are creating unprecedented opportunities for civic action at local, national and international levels. Three interconnected trends are identified: economic and cultural globalization, and the inequality and insecurity they breed; the increasing complexity of humanitarian action in response to ethnic conflict and intrastate violence; and the reform of international co-operation to deal with the problems these trends create. In response, new forms of solidarity are emerging between citizens and authorities at different levels of the world system. It is these new relationships expressed through partnerships, alliances and other forms of co-operation-that provide the framework for NGO interventions, but they also require major changes in NGOs themselves. Chief among these changes are a move from 'development-as-delivery' to 'development-as-leverage'; new relationships with corporations, elements of states, the military, international institutions and other groups in civil society; and new skills and capacities to mediate these linkages. These developments call for major changes in NGO roles, relationships, capacities and accountabilities (John, 1999). In Kenya's increasingly open political climate, the role of civil society organizations has changed from simply demanding better governance to promoting specific policies. Similarly, donor priorities have

shifted from encouraging democratization and bypassing the Kenyan government to supporting its development agenda. In this configuration, NGOs must find ways to complement the government, for instance by filling service delivery gaps. An example of this approach is Northern Aid, a development NGO whose activities concentrate on northern Kenya, where for historical and cultural reasons school enrollment is particularly low. Northern Aid builds boarding facilities to enable children of pastoralists to attend school. However, funding is increasingly problematic, since the increase in NGOs has created fierce competition for a stagnant resource. Moreover, the generalization of sector-wide planning now means that donors pool their funding for a particular sector on the basis of government funding requirements. This gives the government enormous leverage over who gets funding from donors and forces NGOs to align their programs with the national strategy. Perhaps in response, an increasing number of domestic NGOs are seeking to tap alternative sources of funding, such as the local corporate sector. The African Medical Research Foundation has been particularly successful in this respect. To be effective, many NGOs are cultivating close working relationships with government officials, including joint programming and project management. Community based organisations (CBOs) and self-help groups that had previously relied on local resources to carry out their activities also begun to look outward and started to develop a donor-recipient relationship with some of the well established

foreign NGOs. Some CBOs and self-help groups developed capacity to source and secure funding from external donors. While during the 1970s and early 1980s, donors tended to regard NGOs as democratic and efficient organisations, in the 1990s the management and effectiveness of NGOs became an issue. This is also the point at which the mandate, credibility, and image of NGOs began to be questioned. Over-reliance on external donor funds has led to the inability of NGOs to sustain themselves or their projects. NGOs loyalty and accountability has been toward their external donors rather than to the local stakeholders. This further erodes credibility. Until recently, NGOs have not considered local donors as a possible source to support the activities of the sector. The NGO sector now finds itself in a dilemma: How to mobilize local resources from a society that sees the sector as well-funded by external donors, having a questionable impact on society, and poor credibility and image. Among the biggest challenge the NGO sector faces in Kenya is the question of identity. As the sector grows in size there is a need to clearly define the role of NGOs and value of NGOs to society. Secondly, the sector cannot continue on the path of total dependence on external donor funds, as this contradicts their role as facilitators of sustainable development and self-reliance. There are fifty two NGOs in Nyeri County (Appendix V) that are facing the same challenges and there are strategies the NGOs have adopted to counter the challenges, this study has tried to establish solution that can increase their financial sustainability and offer necessary recommendations.

### Statement of the Problem

With donor funding drying quickly or diverted to other needy disaster prone areas, humanitarian organizations are deepening forays into commerce as they race to reduce reliance on dwindling inflows, (Rawlings, 2010). NGOs like Kenya Red Cross Society having started Red Court Hotels and Ambulance services are example of alternative ways NGOs are adopting for survival. For years, international donors accounted for more than 95 per cent of non-governmental organization (NGOs) annual funds, but this has dropped to about 70 per cent, according to the National Council of NGOs, which has resulted to major decline of NGOs work across the country due to dwindling financial sustainability. The move by Kenyan companies to broaden their corporate social responsibility projects by starting foundations to help the needy like the Safaricom Foundation, Cooperative Bank foundation, Equity Bank foundation, East African Breweries foundation and the recently launched Kenya Commercial Bank Foundation has also diverted funds that were once channeled to NGOs", (Rawlings,2010). The researchers tried to investigate the key strategies that the NGO's can adopt in order to increase their financial sustainability since for the last couple of years the donor funding has declined consistently at an increasing rate threatening the financial muscle of many NGOs in Kenya. With decline of western donor funding, increase in disaster like earthquakes, droughts and climatic changes the research tried to address the strategies adopted to combat the problem of future financial sustainability of NGO's.

### Objective of the study

The overall objective of the study was to examine the strategies adopted by Non Governmental Organization's in Kenya to contribute to their financial sustainability.

### Research hypothesis

- I. H<sub>0</sub>: Strategic financial management does not influence financial sustainability of nongovernmental organizations in Kenya.
- II. H<sub>0</sub>: Paradigm shift in programming does not influence financial sustainability of nongovernmental organizations in Kenya.
- III. H<sub>0</sub>: Internal financial funding does not influence financial sustainability of nongovernmental organizations in Kenya.
- IV. H<sub>0</sub>: Strategic alliances do not contribute towards financial sustainability of nongovernmental organizations in Kenya.
- V. H<sub>0</sub>: organization structures do not contribute towards financial sustainability of non government al organizations in Kenya.

### Conceptual Framework

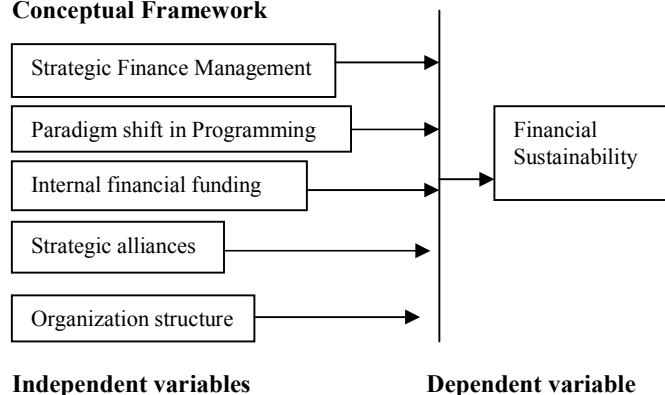


Figure 1: Conceptual framework

## MATERIALS AND METHODS

### Research Design

In this study, the researchers used survey research design because it was not possible to study all the population. The research problem was studied through the use of descriptive survey. Descriptive research portrays an accurate profile of persons, events, or situations (Robson, 2002). Surveys allow collection of large size of data from a sizeable population in a highly economic way using different sampling techniques. The researcherS applied stratified random sampling that targeted different organization levels in the NGO's of the sampled population. It allows one to collect quantitative data, which was analyzed quantitatively using descriptive and inferential statistics (Saunders et al, 2007).The target population of the study was fifty two NGOs in Nyeri County. The number of NGOs was provided by ministry of gender and social services, Nyeri South District headquarters. In this research, the researchers used simple random sampling method of 30% of 52 NGOs with an estimated staff of 416. The researchers introduced strata in the selected population and applied stratified sampling technique to select three individuals from the (30%\*52=16) sampled NGOs. This method of sampling involves grouping the population into strata and then sampling them randomly. The researchers used the method so that the information can be gathered from three management levels in NGO's namely the top, middle and operational levels. A structured questionnaire was used to

collect data from the respondents: the questionnaire was administered by the researchers and dropped in the selected NGOs and after one week follow up was done. In about two weeks time, the researchers collected the filled questionnaire from the respondents and proceeded to conduct data analysis with the help of SPSS software.

### Data analysis

Primary data collected was coded and analyzed with the help of the statistical Package for Social Sciences (SPSS). Correlation Coefficient informed the researcher the magnitude of the relationship between two variables and the direction of the relationship between the two variables. The results were presented using tables, graphs and charts for ease of understanding.

Research Model:  $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \epsilon$ .

Where:

Y = Financial sustainability of the NGOs.

$\beta_0$  = is the constant or intercept.

$\beta_j$  = Gradient of the independent variables.

$X_1$  = Level of strategic financial management.

$X_2$  = Level of paradigm shift in programming.

$X_3$  = Internal financial funding.

$X_4$  = Strategic alliances.

$\epsilon$  = error term of the model.

## RESULTS AND DISCUSSION

### Strategic Financial management

The researchers went in the field with three variables that try to address the issue of strategic financial management. This was a result of conviction that strategic financial management would affect financial sustainability of the organization. With a point to note that from the field the NGO world has attracted big brains in competition with private sector and due to increase of collaboration and networking with many companies towards achieving corporate social responsibility. There is a Strong positive relationship between strategic financial management and financial sustainability of the NGO as indicated by correlation of 0.568. The p-Value of 0.000 is less than the acceptable significance level ( $\alpha$ ), hence the null hypothesis that there is no relationship between Strategic Financial Management and financial sustainability of NGO's is rejected. This shows that the sampled data can be applied to the general population at 95% confidence level.

### Paradigm Shift in Programming

This is a variable that measures the way the NGOs program their activities. The researcher intended to know how the NGOs have strategically aligned themselves to adhere to most donors' requirement and shift as per requirement on the policies of the new constitution. This was an important variable in the sense that most donors have different requirement and wish to assist as per their own assessment of the problem at the ground. With the change of the new constitution and global changes, most donors will like the funds to reach the beneficiary as fast as possible. There is a strong positive relationship between Paradigm Shift in Programming and financial sustainability of the NGO as

indicated by correlation of 0.575. The p-Value of 0.000 is less than the acceptable significance level ( $\alpha$ ), hence the null hypothesis that there is no relationship between Paradigm Shift in Programming and financial sustainability of NGO's is rejected. This shows that the sampled data can be applied to the general population at 95% confidence level.

### Internal Financial Sourcing

This is a variable that measures the way the NGOs strategy for sustaining its core costs. The researcher intended to know how the NGOs have strategically aligned themselves in raising of funds internally so that they can survive in case of impromptu withdrawal of donor and surviving when challenges like global economic crunch affect the source of the funding. According to most respondents from the data gathered in the field 69% of the respondents said that NGOs use membership as a source of internal finance sourcing, 22% of NGOs rely on Income generating activities and 9% rely on investments. There is a weak positive relationship between Internal Finance Funding and financial sustainability of the NGO as indicated by correlation of 0.358.

### Strategic alliances

This is a variable that measures the way the NGOs level of alliances adopted to increase its financial sustainability. The researcher intended to know how the NGOs have strategically aligned themselves in terms of partnership established, networks with government and corporate and other local institution. This can be borrowed from the way USAID programmes are run in the country through consortiums established with a number of NGOs depending on their core capabilities. According to most respondents from the data gathered in the field, 34% of respondents said that NGOs have partnership programmes, 20% have alliances with religious institutions, 17% have collaboration with the government, and 15% have networks with corporate and 14% have alliances with local authorities. There is a strong positive relationship between Strategic Alliance and financial sustainability of the NGO as indicated by correlation of 0.546. The p-Value of 0.000 is less than the acceptable significance level ( $\alpha$ ), hence the null hypothesis that there is no relationship between Strategic Alliance and financial sustainability of NGO's is rejected. This shows that the sampled data can be applied to the general population at 95% confidence level.

### Organizational Structures

There is a Strong positive relationship between Organization Structures and financial sustainability of the NGO as indicated by correlation of 0.415. The p-Value of 0.010 is less than the acceptable significance level ( $\alpha$ ), hence the null hypothesis that there is no relationship between Organization structure and financial sustainability of NGO's is rejected. This shows that the sampled data can be applied to the general population at 95% confidence level.

### Financial sustainability

In order to measure the above variable the researchers presented to the respondents a number of questions on the level of donor funding and level of management of overhead

**Table 1: Correlations of Independent Variables of the Research Model**

Correlations		Strategic Financial Mgt	Paradigm shift in Programming	Internal Finance Funding	Strategic Alliance	Organization Structure
Financial sustainability	Pearson correlation	0.568	0.575	0.358	0.546	0.415
	Sig.	0.000	0.000	0.027	0.000	0.010
Correlation is significant at the 0.05 level (2-tailed).						

costs in NGOs within Nyeri County. According to most respondents from the data gathered in the field, 86% of the respondents said NGOs rely on donor funding, 8% on Companies, 3% on Government and 3% from well wishers. Hence the conclusion that many NGOs rely on donor funding putting it as a challenge on their financial sustainability in the long run. According to most respondents from the data gathered in the field, 29% of the respondent said that NGOs rely on donor funding as very great extent, 37% as great extent and 20% as moderate extent. This shows continuous shift from the traditional source of NGO funding due to the change of external environment like global crunch and development of donor fatigue especially from the western countries. On reliance on companies as a source of income, 37% of the respondent said it's a great extent, 29% as very great extent, 20% as moderate extent, 7% as less extent and 6% as no extent. On reliance on Government as a source of income, 37% of the respondent said it's a great extent, 29% as very great extent, 20% as moderate extent, 9% as less extent and 6% as no extent. On reliance on well wishers as a source of income, 37% of the respondent said it's a great extent, 29% as very great extent, 20% as moderate extent, 9% as less extent and 6% as no extent as shown in figures 4.14, 4.15 and 4.16 in the Appendix of figures.

The researchers were trying to measure financial sustainability by measuring level of overhead cost management from the NGOs as dependent variable. Variables that were measured include level of outsourcing support services like cleaning, security, courier services, level of engagement of staff in contract, permanent basis or volunteer basis, organization policy on printing private work, calling personal calls, browsing during office hours and rate of the organization in terms of general management of overhead costs. According to most respondents from the data gathered in the field, 43% of the respondents said that many NGOs have adopted outsourcing of support services from other services provides as very great extent, 17% as great extent, 23% as moderate extent, 3% as less extent and 14% as no extent.

### Test of hypothesis

The researchers summarized the correlation of the five independent variables and the level of significance with the dependent variable in the table 1. With the review of the NGOs in Nyeri County which is fifty two in number and their nature of work, the researchers found that they have a great effect on their goals and objective in contributing to national policies like vision 2030, MDG goals, eradication of communicable diseases and other national and international policies. Key point to note is more resources need to be

invested on the research so that the NGOs can rely invest more on capital investments like in hospital, private schools, hotels, agriculture among other entrepreneurial services. This will increase their capital base and their levels of operations. Among the variables studied and hypothesis tested, the researchers concluded that the research was very relevant and recommends the NGOs to keenly look at the recommendation highlighted in this research and enhance on the findings established under each variable under the study.

### Conclusion

From the feedback given in the field, there is evident that the work of NGOs is key towards the development on the economy, with one county having over fifty NGOs, this shows that one key factor towards grass root development is the recognition and strengthening the work carried out by the NGOs. There seems to be greater change within the environment outside the NGO at a greater extent than change within the NGOs. This is evident by the fact that most NGOs seem to over rely on donor funding and not to have developed mechanism towards financial sustainability. A number of NGOs have moved towards that direction notably Kenya Red Cross on having Key income generating activities like Red court hotel and venturing in ambulance services and others like AMREF have ventured in having apartments for rental purposes.

### Recommendations

1. From the point of achieving national policies like vision 2030, MDG goals, management of natural disasters and improvement of livelihood of the Kenyan people, the policy on the work of NGOs need to be strengthened since they play a leading role towards the achievement of the national policies. NGOs seem to have a very transparent mechanism and less bureaucratic to implement policies of national importance in comparison with the government hence the need to strengthen their policy framework. In terms of financial sustainability, NGOs need to keenly look for ways to strategically align themselves towards financial sustainability. We need to see NGO venture in capital investments like building hospitals, hotel industry and Ambulance services. This will enhance their financial muscle and assist them in achievement of their goals.
2. In terms of community development and involvement, we need to see more close collaboration with government and corporate especially in corporate social responsibility. This is because NGO have close link with communities at closer level in

comparison with corporate and government since this is their area of focus. The government needs to create an enabling environment to increasing the works of NGOs especially at the community level.

3. There is a need to encourage local corporate on their role on corporate social responsibility in terms of channeling their activities through the NGOs. With many firms establishing foundations like equity foundation, cooperative foundation, East African Breweries foundation to name a few, we need a better collaboration with NGOs that have a primary link with the community on the ground for efficient work of these foundations. With the new constitution a research need to be done on the way NGO activities can be aligned with the county formation towards contribution to increasing livelihood of the populations and reduction of poverty levels.

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