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The Effect of Financial Management and Practices on Financial Sustainability of NGOs in Nairobi County: A Case Study of Local NGOs

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Abstract: ***Financial sustainability has helped many NGOs implement diverse programmatic interventions which has not only benefited the communities but also improved the standard of living. Tough economic times buoyed by global recession have in one way or another affected financial sustainability. This has led many NGOs to cease operating day by the day. The NGOs are overwhelmingly significant in Africa where most Africans search for their well-being so deeply woven in the rhythms of their everyday lives and deeply entwined in their values, attitudes, perspectives and decision-making. This study sought to determine how financial management and practices influenced financial sustainability of projects. The study adopted a descriptive research design. Currently there are 708 local NGOS in Nairobi County that formed the target population of this study. Stratified random sampling and purposive sampling procedure was used to select the study sample. The study had a sample size of 78 local NGOs. The operations manager and chief financial officer were sampled using purposive sampling technique giving the study a sample size of 156 respondents. Primary data was collected by using a questionnaire. The secondary data was obtained from the published annual reports spanning five years (2011 - 2015) for the local NGOs in Nairobi. The reliability of the instrument was estimated using Cronbach's Alpha Coefficient while Validity was established from the experts' opinion. In analyzing the quantitative data. The study used SPSS version 21.0 to model the relationship between the various selected variables and tested there explanatory power. After the analysis the data was presented through the use of various presentation tools such as graphs pie charts and tables.***

Keywords: Financial sustainability**,**financial management, Non-Governmental Organization, Nairobi County

1. Introduction

For both for-profit and nonprofit organizations, financial capacity consists of resources that give an organization the ability to seize opportunities and react to unexpected challenges while maintaining general operations of the organization (Bowman, 2011). It reflects the degree of managerial flexibility to reallocate assets in response to opportunities and threats. Financial sustainability refers to the ability to maintain financial capacity over time (Bowman, 2011). Financial sustainability also refers to the ability of a Non-Governmental Organization (NGO) to develop a diverse resources base so that it could continue its institutional structure and production of benefits for intended client population after the cessation of donor financial support (Renz, David and associates, 2010). This definition encompasses three areas described as follows: Developing financial management which involves financial management systems that provide the information which enables managers to make sound financial and programmatic decisions, and thereby improves the efficiency of the organization; analyzing costs to identify potential cost savings and developing policies and strategies for reducing costs and improving financial projections/budgeting and; resource mobilization through designing a comprehensive resource mobilization strategy, Building capacity to develop and market successful project projects to attract new donors. Nonprofit organizations are struggling financially, particularly those that rely on government funding-with 61 percent of nonprofits reporting cuts in government funding-as well those that rely on foundations for monetary contributions with 48 percent of nonprofits reporting cuts in foundation funding (Renz et al., 2010). In light of the substantial cutbacks in both federal and state funds with the recent recession and subsequent declines in philanthropic giving, identifying promising strategies to sustain nonprofits is necessary to avoid cutbacks in community-based services (Besel, Williams, and Klak, 2011).

According to UN (2009), most NGOs in Kenya and Africa in general, depend on donor funding or external support agents to sustain their programmes and projects. This explains why their financial resources follow a boom-and burst trend leading to close down of many NGO's without a clear vision and mission. After getting the funds, some organizations do not bother to prepare the financial statements stating the uses of these moneys. This is why there is no proper leadership and management of the funds. Where funds are misappropriated, the result is the subsequent withdrawal by donor agencies leading to collapse of projects.

There exist other studies done by other researchers on the problem of financial stability in NGOs and other organizations which indicates clearly that financial sustainability is a common problem in organizations. Some of these studies are, "Factors affecting sustainability of projects in donor funded organizations" by Nyakwaka (2010). However, there are research gaps unexplained by these studies. It is in this regard the researcher wants to carry out this study to find out the main factors that influence financial sustainability but with more focus on local NGOs in Nairobi County.

According to IFAD Strategic Framework 2007-2010 (IFAD, 2007), Sustainability is ensuring that the institutions supported through projects and the benefits realized are maintained and continue after the end of the project. According to Iqbal, Melcher and Elmallah (1997), Accounting systems evolve, reflect, and reinforce the economic environment they serve. As such, the international accounting system is an outcome of the globalization of financial markets and the international economic integration (Iqbal, Melcher, and Elmallah (1997). A time-series comparison of financial statements of a business entity enables investors to form an intelligent opinion concerning the value of their investment and to manage it rationally. It is widely acknowledged that corporation's accountability extends the parties beyond investors and creditors for two reasons. First, society entrusts the corporation to manage scarce resources making it accountable to society. A corporation should provide information to enable members of society to assess its performance in managing and protecting the scarce resources. Second, the corporation's operations affect the quality of life and standards of living of individuals who may be neither investors nor creditors. Such individuals should be able to have access to information so that they may review, access and influence the activities of the corporation (Iqbal et al 1997). Lack of proper financial and accounting activities in donor funded organizations opens ways of corruption and funds embezzlements.

According to NGOs Co-ordination Board of Kenya (2016) there are 708 registered local NGOs in Nairobi County. Their mandate and activities range from fighting for the rights of the people, poverty eradication to empowerment as well as health safety. However, most of them are always not formed for good course and that is why the Kenyan government puts restrictions to govern their funding operations. Due to the strict set laws and regulations, then most of the local NGOs find themselves constrained with financial sustainability.
As Nyakwaka (2010) asserts, "The sustainability of most NGOs depend on how they strategize to attract donor funding and subsequently how well they utilize those funds to meet stated project objectives." Hence the ability to attract funding agencies through proposal development and fundraising which depend on financial credibility of the recipient organization past experience and track record which solely depend on sound financial management and internal control systems. Credible NGOs are able to attract many donors because reliance on a single donor means doom to the survival of the organization.

In this regard, the study assessed the financial sustainability of projects of the targeted NGOs based on their experience with a number of donors with stringent financial regulation measures, among them; UNHCR, European Commission, United Nations Development program, Swedish International Development Agency, CIDA and Forum Syd Kenya but with more focus on Local NGOs in Nairobi County, Kenya since it is the case study. The study analyzed the changing financial management requirements and their sustainability with the aim of identifying gaps to improve FMS and recommended appropriate measures to address them. Another research output was lessons for other existing and upcoming NGOs to learn from improve their FMS and enhance organizational growth, performance and sustainability.

Financial sustainability has become something of a buzzword in the NGO sector given 'donor fatigue' in rich nations. For example, the recent economic recession has dramatically influenced trends in donations, particularly from individuals, as Americans have less disposable income to continue giving to nonprofit organizations at the levels they had in previous years. Nonprofit organizations are struggling financially, particularly those that rely on government funding-with 61 percent of nonprofits reporting cuts in government funding- as well those that rely on foundations for monetary contributions with 48 percent of nonprofits reporting cuts in foundation funding (Renz et al., 2010).

In light of the substantial cutbacks in both federal and state funds with the recent recession and subsequent declines in philanthropic giving, identifying promising strategies to sustain nonprofits is necessary to avoid cutbacks in community-based services (Besel, Williams, and Klak, 2011). Nonprofit leaders perceive government and foundation support as essential for their organization's financial viability, but recognize that there are challenges associated with reliance on grants, contracts, and other sources of government or foundation funding. Additionally, overreliance on government contract funding may lead to the hiring of temporary staff, which may have negative implications for staffing patterns and delivery of quality services. Although contract funding has some benefits (e.g., providing opportunities for new programs), temporary staffing may be detrimental to a nonprofit's delivery of services and mission impact, as it may not only affect employee recruitment and retention but also negatively influence employee morale and training practices (Akingbola, 2004).

Constant turnover or continually shifting staff responsibilities to align with short-term contract requirements may prove to be expensive to maintain in the long term, and ultimately reduces the effectiveness of the services nonprofits provide to their communities. In the past two decades, governments throughout the developing world have seen an explosion in the number of both foreign and local nongovernmental actors providing social services in their territory (Wanjohi, 2010).

2. Statement of the Problem

Financial sustainability is critical to NGOs for stability and enhancement of growth. It may necessitate the development of diverse resource bases for the NGO as its becoming the case so that it can continue its institutional structure and production of benefits for intended client population after the cessation of donor financial support (Bowman, 2011).

According to UN (2009), most local NGOs which dependent on donors are faced with the challenge of sustaining their projects and programmes due to stringent financial and accounting procedures set by the donors. The local NGOs in

Nairobi County, Kenya are no exception and have been struggling to remain afloat in this competitive arena. However, past experience has led to development of attractive resource mobilization strategies that include stringent auditing, good governance, sticking to international financial reporting standards and currency exchange rates. According to Nyakwaka (2010), the financial sustainability of most NGOs depend on how they strategize to attract donor funding and subsequently how well they utilize those funds to meet stated project objectives. Chiku and Banda (2004) established that the impact an NGO makes in its environment, its credibility and accountability to its stakeholders, and most importantly, its financial and organizational sustainability determine the organization's long term success. Molomo and Somolekae (1999) noted that the key weakness of NGOs in Africa is the inappropriate organizational structures which impact the manner in which NGOs carry out their core business.

According to Saungweme, Maxwell (2014-12), on Factors influencing financial sustainability of local NGOs, A case study of Zimbabwe. Most of the local Non-governmental organizations are financially unsustainable and risk closing down and stopping service delivery to the needy not reached by government or private sector programmes if external donors pull out. local Non-governmental organizations in Zimbabwe need to change their approach to financial sustainability and start thinking hard about raising own incomes and establishing systems and processes that ensure longevity of their missions beyond external donor funding.

The General objectives of the study
The general objective was to investigate the effect of financial management and practices on financial sustainability of NGOs in Nairobi County.

The Specific Objectives of the study
The study sought to achieve the following specific objectives: -

1) To examine the influence of financial reporting tools on financial sustainability of local NGOs in Nairobi county.
2) To establish the influence of budgeting practices on financial sustainability of local NGOs in Nairobi county.
3) To determine the influence of compliance with donor requirements on financial sustainability of local NGOs Nairobi county.

3. Theoretical Review

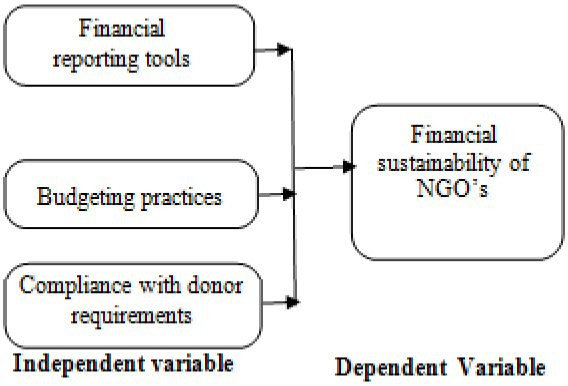
Accounting process theory
According to Kershaw and Harrell, (1999), accounting theory creates a framework that ensures that accounting practice complies with the requirements of conformity and uniformity. This theory is embodied in a set of principles, policies, methods, procedures and conventions. The continuously increasing scope and complexity of our economic system requires a corresponding process of adaptation in accounting in order that the relevant information regarding economic activities may be recorded. It is essential that everyone involved in accounting should understand this process of adaptation. Moreover, a prerequisite for such understanding is a grasp of not only the theory of accounting, but also the structure of that theory.

Accounting theory is based on a set of basic economic truths that are of a dual nature. First, accounting theory is based on propositions generally accepted in the economic order of a particular society. For example, consider the concept of personal ownership; a general accepted tenet of our society is the exclusive right of every person to own things - they are his personal property and no one else's. This concept is a basic economic truth.

Second, the basic economic truths have characteristics similar to those of natural laws in the sense that specific causes generate specific consequences. If, for example, someone derives greater value from a transaction than what was put into the transaction, his net worth - his wealth will have increased by the surplus amount. This too is a basic economic truth. These economic truths are formulated as concepts and postulates. According to Kershaw and Harrell, (1999), in the development of accounting theory, concepts and postulates serve as formulations of the basic truths or propositions upon which the theory is based. They do not attempt to prescribe the working of the accounting process, but simply the foundation upon which the structure of accountancy is based.

4. Conceptual Framework

The study adopted the following conceptual framework:



Source: Author 2017
Conceptual framework

Financial management and practices on financial sustainability.

This involves how the organizations manage their funds and the existing finance policies to govern expenditure. Kumar (2004) asserts that a financial management and practices supported by strong governance, high quality standards, and sound regulatory frameworks is essential to economic development. Indeed, high quality standards of financial reporting, auditing, and ethics underpin the trust that investors place in financial and nonfinancial information thus play an integral role in contributing to a country's economic growth and financial stability.

According to Kumar (2004), globally consistent and uniform financial systems provide cost-efficiencies to business and greater safeguards to the public. The public is entitled to have confidence that regardless of where a business activity occurs, the same high quality standards will be applied. It is widely recognized that investors will be more willing to diversify their investments across borders if they are able to rely on financial information based on a similar set of standards. The benefits of a global financial reporting framework are numerous and include: greater comparability of financial information for investors, greater willingness on the part of investors to invest across borders, lower cost of capital, more efficient allocation of resources, and higher economic growth.

Burns and Scapens (2000) argues that to make sense of diversity in management accounting practices we need to understand the complex mish-mash of inter-related influences which shape practices in individual organizations. He further outlined the contribution which institutional theories can make to understand this mish-mash of complexity that exists within the institutions.

According to Kumar (2004), various organizations have different management practices which are distinct in nature and application. However, some are fraudulent and corrupt as well. This may limit their success and financial sustainability as well. However, most NGOs try to maintain the best management practices so as to attract the willing donors which in turn improve their financial sustainability. MacLeod, León, & Esquivias, (2001), argued that it is irrelevant whether an organization is a good fundraiser or generated own income if it lacks efficient procedures for administration, finances, and fiscal planning in conjunction with strategic planning. To aid in that he came up with a four pillars of financial sustainability and the third one was Sound Administration and Finance. Through this he asserted that it is very important in for an organization to have a sound administration practice and procedures as well as finance administration. In a case of NGOs, this gives confidence to the individual donors and donor agencies hence financial sustainability.

According to Kumar (2004), the best financial management also includes the cash flow management. He defined cash flow management as a process that involves collecting payments, controlling disbursements, covering shortfalls, forecasting cash needs, investing idle funds, and compensating the banks that support these actions. Kumar argued that cash flow management can be practiced to a point where every available dollar is at work either covering payment of checks or producing income. Considering that cash flow management continues to be a complex process and increasingly mainly on the international level, there are a number of sound practices that high-performing companies employ.

5. Research Methodology

The study adopted the descriptive research design. Mugenda and Mugenda, (2008) state that descriptive research design is a method which enables the researcher to summarize and organize data in an effective and meaningful way. The design is appropriate for this study as it helped to describe the state of affairs as they exist without manipulation of variables which was the aim of the study (Kothari, 2004).
The target population of this study was the local NGOS in Nairobi County. Currently there are 708 local NGOS in Nairobi County that formed the target population of this study (NGOs Co-ordination Board of Kenya, 2016). The unit of analysis was factors influencing financial sustainability of NGOs. The unit of observation was management employees working at local NGOs in Nairobi County.

Stratified random sampling and purposive sampling procedures were used to select the study sample. This was because the technique produces estimate of overall population parameters with great precision (de Vries, 1986).A self–administered questionnaire with both open and closed ended questions was developed and administered to obtain information from the 156 respondents. Using data from the pilot study, the reliability of the instrument was estimated using Cronbach's Alpha Coefficient which is a measure of internal coefficient. A reliability of at least 0.70 at α=0.05 significance level of confidence was accepted.

The study used primary data consisting of both quantitative and qualitative data. In analyzing the quantitative data, the study used descriptive statistics and multiple regression analysis was used to determine the significance of each independent variable in affecting the financial sustainability of NGOs. The findings were presented using tables, graphs and pie charts.

6. Results and Discussions of the Findings

The study sought to establish the extent to which financial management and practices influenced the financial sustainability of local NGOs. Figure 4.14 below shows the findings.

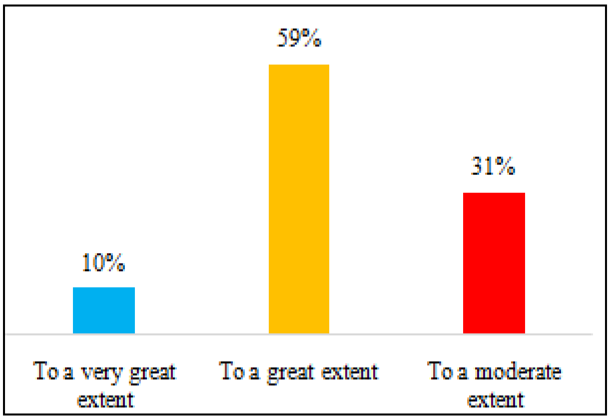


Figure 4.14 above shows that majority of the respondents (59%) indicated that financial management and practices affected the financial sustainability of local NGOs to a great extent, 31% to a moderate extent and 10% indicated to a very great extent. This depicts that local NGOs in Kenya applied financial management and practices to a great extent to spur their financial sustainability. The findings agree with Kumar (2004) who revealed that high quality standards of financial reporting, auditing, and ethics underpin the trust that investors place in financial and nonfinancial information thus play an integral role in contributing to a country's economic growth and financial stability.

Whether financial management and practices affect financial sustainability of NGO

The study sought to find out the influence of financial management and practices on the financial sustainability of NGO. The responses were rated on a five point Likert scale where: 5-To a very great extent, 4-To a great extent, 3-To a moderate extent, 2-To a little extent, and 1-To no extent. The mean and standard deviations were generated from SPSS and are as illustrated in Table 4.4 below

	Mean	StdDev
The NGO consistent use of periodic budgets has enabled its financial sustainability	3.7692	1.00802
The NGO periodically reviews of budgets and other financial plans in line with its mission improves its financial outlook	3.6615	1.07512
The budgeting methods used in our NGO ensure that all funding of operations and projects are within the specified limits	3.5769	1.16050
Staff involvement in budgeting and strategic designing of financial tools has improved prudent use of resources	3.4538	1.16214
There is effective communication of the budgets and other strategic financial plans in the NGO	3.2692	1.36846
Sound administration of finances is in place	3.2462	1.31810
Use of international financial reporting standards contribute to the financial sustainability of projects	3.6692	1.10943

From the findings, the majority of the respondents agreed to a great extent that; the NGO consistent use of periodic budgets has enabled its financial sustainability (Mean=3.7692), the NGO periodically reviews of budgets and other financial plans in line with its mission improves its financial outlook (Mean=3.6615), the budgeting methods used in our NGO ensure that all funding of operations and projects are within the specified limits (Mean=3.5769), staff involvement in budgeting and strategic designing of financial tools has improved prudent use of resources (Mean=3.4538), there is effective communication of the budgets and other strategic financial plans in the NGO (Mean=3.2692), sound administration of finances is in place (Mean=3.2462), use of international financial reporting standards contribute to the financial sustainability of projects (Mean=3.6692) respectively.

This implies that financial management and practices had a significant influence on financial sustainability of local NGOs in Nairobi County. The majority of the local NGOs used financial management and practices to enhance their financial sustainability. Through financial management and practices, local NGOs were able to plan and utilize their financial resources prudently which made the both sustainable and attract more financial support.

7. Summary of the findings

Financial management and practices had a significant influence on financial sustainability of local NGOs in Nairobi County. The majority of the local NGOs used financial management and practices to enhance their financial sustainability. Through financial management and practices, local NGOs were able to plan and utilize their financial resources prudently which made the both sustainable and attract more financial support.

8. Conclusion

The study concludes that local NGOs had in place budgeting and financial management tools to ensure prudent use of their available financial resources. Hence financial management and practices was likely to significantly impact the financial sustainability of local NGOs Nairobi County. The staff training was heavily relied on by local NGOs to increase their staff competence in financial management in order to ensure that they their financial sustainability improved progressively. The local NGO had a pool of competent staff that managed their financial matters to ensure that they remained financially sustainable. The financial management and practices affected the financial sustainability of local NGOs to a great extent hence the local NGOs in Kenya applied financial management and practices to a great extent to spur their financial sustainability.

From the findings, it was concluded that financial management and practices had a significant influence on financial sustainability of local NGOs in Nairobi County. The majority of the local NGOs used financial management and practices to enhance their financial sustainability. Through financial management and practices, local NGOs were able to plan and utilize their financial resources prudently which made the both sustainable and attract more financial support.

9. Recommendations

The financial sustainability of the Local NGOs was threatened by lack of regular and reliable funding. It is recommended that the management of the local NGOs should continue to invest funding mobilization strategy to ensure that they secure reliable funding. This should be coupled with implementation of income generating projects to raise their extra funds.

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