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Effects of Financial Management Practices on the Financial Sustainability of Non-Government Organizations in Kenya, a Cross-Sectional Survey of Selected Non-Governmental Organizations in Mombasa County

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Abstract:
Financial sustainability has become a major concern in non-governmental organizations in Kenya. With 'donors fatigue 'in rich nations and increasing confidence from developing countries, more and more people are talking about local non-governmental organizations standing on their own two feet and become more financially sustainable. Financial sustainability is about being able to be there for your beneficiaries in the long term. It's the opposite of having to cease your activities simply because you have run out of funds. An organization is financially stable if its core work (functions) will not collapse, even if external donor funding is withdrawn(Leone, 2010).For most Non –governmental organizations working in a development context, meeting the needs of its beneficiaries in the long term and in sustainable manner is an important strategic objective. The declining state of foreign funding coupled with attempts by the government to amend the public benefit Act of 2013, so as to restrict external funding of NGO's, is leading to a situation where the demand will exceed the supply of foreign funding. This research therefore sought to assess the effects of financial management practices on financial sustainability of NGO's. The study was guided by four objectives namely assessing the effects of financial planning, financial controls, donor funding and financial reporting practices on the financial sustainability of NGOs. Their study employed three theories in explaining the variables that is Resource Based View, Agency theory and institutional theory. In this study survey research design was adopted. The target population comprised of all the senior employees of twelve (12) NGOs selected in Mombasa County, giving a sample frame of 83 management employees, with a sample size of 69 employees of the selected NGOs arrived at through the use of simplified formula for proportions. The study used both primary and secondary data. Primary data was a collected using close ended questionnaire which was administered by the researcher to the respondents. The secondary data was collected from NGOS financial statements, finance manuals, financial reports and budgets. Before the actual study a pilot study was done on ten (10) employees selected randomly from three NGOs in Mombasa County other than the ones in the target population. The collected data was analyzed using quantitative data analysis techniques which involved descriptive analysis. Descriptive analysis such as frequencies and percentages were used to present quantitative data inform of tables and graphs. Data from questionnaires was coded and logged in the computer using statistical package for social science (SPSS) version 23. To establish the predictors of financial sustainability and their relationships the researcher used regression analysis. From the analysis, the study revealed that there existed significant relationship between all the predictors, financial planning (0.09), financial controls (0.404), donor funding (0.239) and financial reporting practices (0.298). The study concluded that financial planning, financial controls, donor funding and financial reporting practices have significant effect on the financial sustainability of NGOs. The study recommended investment in innovative ways of financial planning consistent with international accounting best practices, strengthening of financial control mechanisms, diversification of revenue streams and ensuring consistency of financial reporting which should be in accordance to IFRS in order to realize financial sustainability.

Keywords: *Non-Governmental Organizations Financial Management*

1. Introduction

1.1. Background of the Study

Nzimakwe (2008) argues that nongovernmental organizations as institutions that advance development and consists of a variety of functional, geographical membership and organizational groupings which make it complex to develop a standardized definition. However there have been attempts to define the concept. The term non-governmental organization was first formalized with the United Nations systems in 1945 with the inclusion of article 71 of United Nation charter, because of the need for United Nations (UN) to differentiate in its charter between participation rights for intergovernmental specialization agencies and those for international private organization. As stated by (Lewis, 2009), nongovernmental organizations have existed in various forms for centuries but they rose to high prominence in international development and increased their numbers dramatically in the 1980s and 1990s.Today according to the UN, any kind of private organization that is independent from governmental control can be termed as NGO, provided it's not for profit, non- prevention but not a political party.

NGOs are difficult to define, and the term NGO is not always used consistently. In some countries the term NGO is applied to an organization that in another country would be called nonprofit organization (NPO) and vice versa. According to Werker(2008) NGO is not for profit organization that is independent from states and international governmental organizations. They are usually funded by donations, but some avoid formal funding altogether and are run primarily by volunteers. They are highly diverse groups of organizations engaged in a wide range of activities and takes different forms in different parts of the world. Some have charitable status, while others may be registered for tax exemption based on recognition of social purposes.

According to Kaho and Karo (2014) a nongovernmental organization can be defined as an independent voluntary association of people acting together on a continuous basis, for some common purpose, other than achieving government office, making money or illegal activities.Generally, NGOs act as implementers, catalysts and partners. Firstly, they act as implementers in that they mobilize resources in order to provide goods and services to people who are suffering due to manmade disasters or natural disasters. Secondly NGOs act as catalysts in that they drive change. They have the ability to inspire, facilitate or contribute to improved thinking and action to promote change. Lastly NGOs often act as partners alongside other organizations in order to tackle problems address human needs more effectively(Lewis, 2009).

One characteristic these diverse organizations share is that their nonprofit status means that they are not hindered by short term financial objectives. Accordingly, they are able to devote themselves to issues which occur across longer time horizons.Thus, they have become increasingly influential in world affairs. They often impact the social, economic and political activities of communities and country as a whole. They address a host of issues including but not limited to, women rights, environmental protection, economic development, health care and education. They have led the way in democratization, in battling diseases and illnesses, in promoting and enforcing human rights and in improving the standards of living(Davies, 2014).

In Kenya, NGOs began as self-help groups in the years of 1960s when the first president of Kenya, Mzee Jomo Kenyatta began to encourage grassroots growth through coming together in the spirit of what was referred to as Harambee. This spirit was based on the understanding that one could not be able to carry out plans or actions by him/herself but would require a certain contribution from the other members of the society. In the past two decades, the country has seen an explosion in the number of both foreign and local nongovernmental actors providing social services in various part of our country.

1.1.1. Financial Sustainability of Nongovernmental Organizations

There is no agreed definition of what financial sustainability is, but it's about being able to be there for beneficiaries in the long term. It's the opposite of having to cease your activities simply because you have run out of funds. An organization is considered financially sustainable if its core work will not collapse even if external donor funding is withdrawn. It's not automatically a good thing for all NGOs to be sustainable; as some are set for specific purposes and close down afterwards when their job is done (Leone, 2010).

According to bowman (2011), financial sustainability consists of having resources that give an organization the ability to seize opportunities and react to unexpected challenges while maintaining general operations of the organization at the same level. It reflects the degree of flexibility to reallocate assets in response to opportunities and threats. Financial sustainability also refers to the ability of a nongovernmental Organization 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 to attract new donors.

Financial sustainability has become something of a buzzword in the non-governmental organizations given "donor fatigue" in rich nations (Lewis, 2014). The recent economic recession has dramatically influenced trends in donations, especially from individuals as Americans and other western nations have less disposable income to continue giving to nonprofit organizations at the level they had previously. In a survey of 800 nonprofits at the end of 2008, 75 percent of nonprofits reported feeling the effects of the downturn, with 52 percent already experiencing cuts in funding (Renz, 2010).

Nonprofit Organizations are struggling financially, particularly those that rely on donor 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, David and associates 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).
Financial sustainability will be one of the key challenges for nongovernmental organizations. Only those institutions that have sound financial structures and stable income flow will be able to fulfill their multiple missions and respond to the current challenges in an increasingly complex and global environment. Financial sustainability aims to ensure organization's goals are reached by guaranteeing that the institution generates sufficient income to enable it continue its operation in the future.

It is prudent to note that financial sustainability, while critical, is only one aspect of an organization's overall sustainability; organizations must also build abroad range of organizational, technical, and human capacities. Financial sustainability is promoted through abroad based, interdisciplinary approach. Many people equate an organization's sustainability with its financial strength, but financial sustainability alone is insufficient over time. If an organization does not also develop its overall capacities, ultimately the lack of good management or technical capacity prevents the organization from generating revenue or attracting donor funding. Financial sustainability can be gauged by an organization's net income (the surplus of revenues over expenses); liquidity (the cash available to pay bills); and solvency (the relationship of assets and debt or liabilities) (Karuti, 2014).

1.2. Statement of the Problem

Financial sustainability is critical to nongovernmental organizations for stability and enhancement of growth. It may require the development of diverse resources for the nongovernmental organizations, so that it can continue its institutional structure and operations for the benefit of its intended client population even after the cessation of donor financial support. Howevermost nongovernmental organizations end their operations when funding stops. For example, nongovernmental organizations that have stopped and completely closed down their operations when donors stopped financial support are compassion international supported projects in Mombasa like KE502 in Kongowea and KE501 in Kisauni, as they had no means of supporting themselves financially, even though they had physical infrastructures laid down they could not continue after the withdrawal of donors.

Financial sustainability has become something of a buzzword in the non-governmental organizations given "donor fatigue" in rich nations (Lewis, 2014). The recent economic recession has dramatically influenced trends in donations, especially from individuals as Americans and other western nations have less disposable income to continue giving to nonprofit organizations at the level they had previously. In a survey of 800 nonprofits at the end of 2008, 75 percent of nonprofits reported feeling the effects of the downturn, with 52 percent already experiencing cuts in funding (Renz, 2010).
The declining state of foreign donations coupled with the miscellaneous amendment bill 2013 that sought to cap the amount of foreign funding to 15% of budget imposes a strain on nongovernmental organizations function in Kenya, leading to a situation whereby the demand for foreign funding exceeds supply and consequently affecting the financial sustainability of the nongovernmental organizations. Financial sustainability will be one of the key challenges for nongovernmental organizations. Only those institutions that have sound financial structures and stable income flow will be able to fulfill their multiple missions and respond to the current challenges in an increasingly complex and global environment.

Financial sustainability aims to ensure organization's goals are reached by guaranteeing that the institution generates sufficient income to enable it continue its operation in the future. Logically some nongovernmental organizations will collapse as a result of little or no funding. This study therefore sought to assess the effects of financial management practices on the financial sustainability of nongovernmental organizations.

1.3. Objectives of the Study

This study was guided by both general and specific objectives.

1.3.1. General Objective

The general objective of the study was to assess effects of financial management practices on the financial sustainability of Nongovernmental Organizations in Kenya, with a specific focus on selected NGOs in Mombasa County.

1.3.2. Specific Objectives

However, the study specifically sought:

- To assess the effect of financial planning on the financial sustainability of nongovernmental organizations
- To assess the effect of financial controls on the financial sustainability of nongovernmental organizations.
- To assess the effect of donor funding on the financial sustainability of nongovernmental organizations.
- To assess the effect of financial reporting practices on the financial sustainability of nongovernmental organizations.

1.4. Hypothesis

The study was anchored on the following hypotheses

- **$H0_1$**:Financial planning has no significant effect on financial sustainability of NGOs.
- **$H0_2$**:Financial controls have no significant effect on financial sustainability of NGOs.

- **H0$_3$**:Donor funding has no significant effect on financial sustainability of NGOs.
- **H0$_4$**:Financial reporting practices has no significant effect on financial sustainability of NGOs.

2. Literature Review

2.1. Introduction

This chapter is concerned with reviewing relevant literature with specific regard to financial sustainability of NGOs. Results from past studies are identified, sources being books, journals and web articles. It seeks to explain in details the theories used, and further examines the empirical review, the conceptual framework and research gap to be filled by the study.

2.2. Theoretical Framework

This sub section introduces and explores three theoretical perspective that help to explain the shape and form of various financial management practices i.e. financial planning, financial controls, donor funding and financial reporting practices of NGOs. These theoretical orientations are Resource based View(RBV), agency theory and institutional theory which are discussed in details in the next sub sections.
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<u>2.2.1. Resource Based View (RBV)</u>

Resource based view is a model that sees resources as key to superior organization performance. According to Barney (1995) if a resource exhibits VRIO attributes the resources enables the firms to gain and sustain competitive advantage, these resources are either tangible or intangible in nature. The RBV provides valuable insight into why firms with valuable, rare, inimitable and well-organized resources (VRIO) at their disposal may have competitive edge over others and enjoy success. These points to the importance of ensuring firms inimitable and non-substitutable resources are nurtured maintained and renewed overtime. The RBV, which is used as a theoretical foundation of Human Resource Management, is based on the assumptions that the firm's resources were heterogeneously distributed and remained stable overtime (Morris, Snell and Wright, 2005). The supporters of this view argue that organizations should look inside the company to find the sources of competitive advantage instead of looking at competitive external environment for it.

Barney (1995) observes that resource-based view formulates the firm to be a bundle of resources i.e. it is these resources or the way that they are combined that distinguishes firms from each other. Resources are firm's accumulated assets including anything the firm can use to create, produce and offer its product to the market. As Barney (1995) argues, resources such as capital, equipments and skills of individual employees, patents, finance and talented managers form the necessary inputs into a production process.

The RBV theory relies on the firms' internal attributes to explain firms' heterogeneity in strategy and performance. Based on this view, a firm can be taken as organized, unique factors known as resources and capabilities which are related sources of advantages to the firm. Resources are a firm's accumulated assets, including anything the firm can use to create, produce, and offer its products to a market. As pointed out by Amit and Schoemaker(1993), resources are eligible for legal protection (as such, firms can exercise property rights over them); can operate independently of firm members; and can intervene as factors in the production process to convert input into output that satisfies needs (Grant, 1991).

This theory is suitable for this study as it focuses on an organization's internal environment and looks at how various factors can be combined to maximize their influence and achieve their objectives. In this study the objective is ensuring financial sustainability. Financial planning is one of the factors in the internal environment of an NGO, that needs to be combined with others to give the NGO a competitive edge, which in our study is being able to be there for the beneficiaries in the long term, such that they will not cease their activities simply because they have run out of funds (Leone, 2010).The key is having a strong financial management system. In doing so the NGOs need to plan ahead to make sure there are funds to achieve the short term and long-term objectives.

According to Lewis (2014) financial planning involves focusing on the long term financial plans, having budgets that are prepared in relation to the long term financial plan and also having fund raising plans that clearly states how the required funds will be raised. The absence of financial planning or financial planning that is poorly done is one of the challenges encountered by NGOs, and this leaves them vulnerable. Thus, it's important to focus on financial planning as one of the factors within the NGOs internal environment so as to ensure financial sustainability.

Another factor in a NGO's internal environment that needs to be considered to ensure financial sustainability is the financial control. According to Suleiman *et.al* (2007), financial controls are about having sound controls that enables the NGO to handle everyday risks of mistakes, fraud and protecting the staff from any pressure to misuse funds and suspicion of wrong doing. A proper system of financial control ensures that the management of the organization utilizes the financial resources in a manner that safeguards the interests of donors and other stakeholders.

Another valuable resource that an NGO needs to organize and combine well with others so as to attain financial sustainability is the donor funding. According to Norris (2012) NGOs rely on money from a variety of sources including individual donors, foundations, corporations and even governments. Often what an NGO can do or not do is tied to where funds come from, thus influencing their effectiveness. For NGOs to be able to work towards financial sustainability there is need to have diverse sources of funds.

Boas (2012) states that diversification of sources of funds will involve a number of activities with within the organization's internal environment that strives to reduce dependence on a specific type of income, specific donor or grant maker that is the only source of funding. He further says that maintaining a balance between externally and internally generated resources is necessary to allow organization to meet its operating and administrative expenses while maintaining the freedom to determine its program priorities irrespective of donor preferences.

Another valuable resource to consider in a NGO's internal environment is the financial reporting practices. According to Leone (2010) financial reporting involves having efficient procedures for finance and administration which are governed by a series of institutional policies that help the organization to make the most of its resources and ensures transparency in financial management. It enables participants to anticipate the organizational financial standing and thus make appropriate decisions in a timely manner, and also generate income through financial management of the available assets. He further says that financial reporting ensures that there are records of the organization's transactions that enable it to visualize the organization as a whole.

2.2.2. Agency Theory

Agency is a management approach where one individual (the agent) acts on behalf of another (the principal) and is supposed to advance the principal goals(Jean and David, 2002).The agent advances both the principal interest and his own interest in the organization.A balance of these interests should be emphasized inorder to arrive at the corporate objectives of the organization through the agent because he is incharge of the vast resources of the organization.Jean and David(2002) further added that the agency theory is so crucial since the action chosen by a particular individual (the agent) affects not only one,but several other parties(the principals).Hence the agents's role in strategy fomulation and overall management process cannot be underestimated.The agency theory holds the view that there should be proper synery between management and its stakeholders inorder to work towards a common goal.

Mintzberg (2003) argues that strategies emanate from the agency as it is the agents who are judged with the responsibility of strategies formulation by other stakeholders who have direct control over the firm.The agency theory is used in management as a theoretical framework for structure na managing contracts which is among the emerging issues in strategic management.It therefore explains the behavoiur of principals and agents relationships in performance contracting in management.He further adds that the agency theory focuses on accountability by correction for opportunistic behaviour that can result from exploiting asymmetric imnformation-where on part has an economy of knowledge about something which the other part doesn't have.

The interests of agency relationships have become more prominent with the emergence of large corporations. The activities of NGOs especially in the developing nations is growing both in size and capacity, thus having organizations with an accumulation of resources, and managers with surplus of ideas. Since the owners(donors) of resources have neither the required expertise nor time to effectively run these organizations, they hand them over to the agents (managers, board of trustees, management committees) for control and day to day operations, hence the separation of ownership from control, and thus agency problems (Leblanc and Gillies,2005).

However, broader definitions of corporate governance are now attracting greater attention. Indeed, effective corporate governance is currently understood as involving a wide number of participants. The primary participants are management, shareholders and the boards of directors, but other key players whose interests are affected by the corporation are employees, suppliers, customers, partners and the general community (Solomon & Solomon, 2004). Therefore, corporate governance, understood in these broadening social contexts, ensures that the board of directors is accountable not only to shareholders but also to non-shareholder stakeholders, including those who have a vested interest in seeing that the corporation is well governed. Some corporate governance scholars also argue that at the heart of good corporate governance is not board structure which receives a lot of attention in the current regulations, but instead board process especially consideration of how board members work together as a group and the competencies and behaviors both at the board level and the level of individual directors (Carter & Lorsch, 2004).

"In agency relationship, principal and agents have clearly defined responsibilities. Principals select and put in place board of directors, auditors, governors to ensure effective governance system is implemented, while agents are responsible for the day to day operations of the organization" (Leblanc and Gillies,2005). This separation is however linked and governed through proper agency relationship. In such a principal agent relationship there is always "inherent potential for conflicts within an organization because the economic incentives face by the agents are often different from those face by principals" (ISDA, 2002). According to ISDA (2002), all organizations are exposed to agency problems, and to some extent develop action plans to deal with them. These include establishing such measures as defined financial plan, having sound and effective financial controls, adopting acceptable financial reporting practices to encourage agents in NGOs to act in the interest of the principals, and "separation of risk taking functions from control functions" (ISDA, 2002).

The management of NGOs is tasked with carrying out comprehensive financial planning both short term and long terms on behalf of the stakeholders in this case the donors, the beneficiaries and community within where they operate. They act as agents and are required to carry out financial planning with the interest of the donors and beneficiaries at heart, so as to ensure financial sustainability of the organization. According to Basal (2005) they are required to embrace long term and perspective in financial planning by shifting away from short term perspectives associated with annual budgets to five or ten years plan. They should ensure consistent participation and commitment to developing long term financial plans that outline the role of community, donors and management and how best to incorporate their guidance and ownership.

Kirk and Nolan (2010) states that the board of directors and managers should ensure that donor and other stakeholders have up to date information about the organizations operations and finance in a way of ensuring return on their investments. They continue to say that NGOs need to have competent personnel managing the NGOs as a whole as this will ensure transparency, accessibility to financial information that is relevant, which will ensure that the organization thrives and are financially sustainable.

To ensure good agency relationship between the donors and the management of NGOs, the management has to ensure that there are strong financial controls in place, which will help them handle everyday risks of mistakes and fraud. According to Jacobs (2013) the financial controls will ensure safeguarding of assets, prevention and detection of fraud, accuracy of accounting records compliance with relevant laws and restriction and that employees are protected from acting on their behalf instead of the principals that is the donors and the beneficiaries.

Bongani (2013) says that establishing financial controls systems in an NGO is critical to ensuring reliability of all the records. It's also ensures authenticity of the content of financial reports, so as to provide reasonable assurance to stakeholders and especially the donors. He continues to say that NGOs that suffer financial controls deficiency may risk losing the much-needed funds from the donors as they are accountable to them as well as the beneficiaries. Without financial controls assets are at risk, funds may not be spent in accordance with the organizations objectives and the competence of mangers and integrity of the organization may be called to question (Arel *et.al*, 2006).

According to Norris (2012) NGOs rely on funds from various sources, mostly donors and what an NGO can do or not do is tied to where money comes from, thus affecting the effectiveness and neutrality of their operations. To be financially sustainable there is need for the NGO to have diverse sources that is having a number of activities that strive to reduce dependence on a specific type of income. It's this diversification that will ensure that agency problems with one of the principal do not have adverse impact on the operations of the organization and its financial sustainability (Boas, 2012).

Rasler (2007) states that in the spirit of good governance and agency relationship it's important for the management to ensure continuity in the relationship between the NGO and the donors. Donors expect to see a return on their investment, which is through demonstration that the money invested has made an impact on the social mission of the organization. Thus, the management is charged with identifying what donors expect to see from them and communicate the same in a clear and consistent manner. In fostering relationship with donors it's important to recognize that the way NGOs communicate value for investors is as important as what is communicated (Bray, 2010).

According to Moilanean (2008) financial reporting can be said to be the periodic process of providing information in financial statements about the financial position and performance of a reporting entity to parties external to that entity to assist them in making informed decisions about allocating scarce resources .The financial management team in the organization are tasked with the responsibility of ensuring that they provide financial reports that are accurate and complete and are provided in a timely manner to the users mostly donors who are the providers of funds and seeks to realize returns on their investments.

Leone (2010) says that the finance team should ensure that the organization have procedures that enables the participants to anticipate the organization financial standing thus make the most of its resources and ensure transparency in financial management. They should also ensure that the organization generate income through financial management of available assets thus ensuring continuity and financial sustainability.

2.2.3. Institutional Theory

Institutional theory is the other theoretical orientation which offers a contrasting explanation that may be used to understand the adoption and design of financial management practices within organizations. The theory, more sociological in character, originates from the work done by Meyer and Rowan (1977) and DiMaggio and Powell (1983). The theory states that companies adopt systems and management practices that are considered legitimate by other companies in the same industry (Etengu & Nasieku, 2015). Thus, organizational financial management practices are either a direct reflection of, or response to, rules and structures built into their larger environment. Arwinge (2013) further documents that in as far as institutional theory is concerned, management is not only concerned with cost benefit concerns and risk-reward tradeoffs but looks to management fads, industry norms and firm traditions when adopting and designing new financial management functions such financial planning, financial control, donor funding and financial reporting practices.

In comparison with agency theory, institutional theory provides a different explanation as to why financial management exists in an organization by stating that financial management practices are adopted and designed in order to gain legitimacy, as symbolic displays and imitation or as practices from the outside environment (Ibid, 2013). From institutional perspectives, financial management practices such as financial planning, financial controls, and even financial reporting policies are installed in order to gain legitimacy and other less rational factors. The installation of certain governance arrangements and controls such as risk assessments, compensation committees, and policies, among other things, may thus be made partly in order to gain legitimacy. These controls display seriousness about certain matters and are adopted largely due to industry standards, imitation of other firms, firm tradition and management fads (Ibid, 2013).

In NGOs financial management practices are either a direct reflection of, or response to rules and structures built into their larger environment. They adopt systems and management practices that are considered legitimate by other organizations operating in the same sector. Financial sustainability is one of the key challenges facing the NGO sector as most of them rely on donations to be able to facilitate their missions and objectives. Thus, it's important for them to focus on the essential blocks of strong financial management systems adopted by other organizations that have facilitated financial sustainability in such organizations (Lewis, 2014).

Most organizations carry out financial planning, both in the short term and also in the long term. Financial planning enables the organization to clarify its financial missions and objectives, as well as define the actions needed to accomplish them. A financial plan consists of projected expenditure and organization potential to generate income to cover those expenditures (Leone, 2010). All NGOs further need to have fundraising plans that set out where they hope to get funds needed to support their operations over a longer period of time of more than one year. It's important to develop a detailed fundraising plan so as to address the challenges and best promote the mission of the organization (Lewis, 2014). Bray (2010) further says that developing the fundraising plans should be integrated into other planning efforts such as budgeting, strategic financial plans and program plans.

Any organization that seeks to grow and fulfill its missions and remaining a going concern be it an NGO or a profit-making organization need to practice strong financial controls. The environment in which NGOs operate dictates that for the organization to be financially sustainable it has to manage its resources in such a way that the resources are only used for the intended purposes. According to Suleiman *et.al* (2007) one possible reason that fraud and misappropriation of funds occur is lack of or poor financial controls. He further says that a proper system of financial controls ensures that the management of an organization utilizes the financial resources in a manner that will safeguard the interest of donors and other stakeholders. Jacobs (2013) continues to say that financial controls are designed to ensure safeguarding of assets, preventing and detection of fraud and errors and ensuring accuracy and completeness of records and that there is compliance with relevant laws and regulations.

All organizations operating within the NGO sector rely on funds from a variety of sources including donors, foundations, corporations and governments. Mostly what they can do is tied to where the funds come from which has effect on the effectiveness and neutrality of NGOs. Thus, to ensure financial sustainability the NGOs need to work towards having diverse sources of funds and that there is openness in communication between the donors and the NGO (Norris,2012). Diversification of sources of funds calls for a number of activities that strive to reduce the dependence on a specific type of income or grant maker. Boas (2012) says that NGOs that want to diversify their sources of funding and make it more reliable have to make a decision as to whether they want to achieve this long-term goal only through actions focused on donors and grant makers, potentially with minor self-financing activities as is usually the norm, or will also consider starting significant for profit activities, possibly organized inform of social enterprise.

Donors and other stakeholders of organizations on the NGO sector just like in the for profit making sector need to be furnished with reports and information on how the organization is doing.IAS 1 specifies the components of financial reports to be presented that is balance sheet, income statements, statements of changes in equity and cash flow statements. According to Moilanean (2008) financial reporting can be said to be the periodic process of providing information in financial statements about the financial position and performance of the reporting entity to parties external to the entity to assist them in making informed decisions about allocating scarce resources. Financial reporting involves having efficient procedures for finance and administration which are governed by a series of institutional policies that help the organization to make most of its resources and ensure transparency in financial management. The procedures must enable the participants to anticipate the organization's financial standing and thus make appropriate decisions in a timely manner (Leone, 2010).

For organizations to have financial reports that are accurate and complete and provided in a timely manner there is need for accounting systems. Different NGOs adopt accounting systems that will be able to meet their needs and resources available to them. The basic purpose of an accounting system is to meet the organization needs for information as effectively and as efficiently as possible. It enables firms to control their various units such as financial reporting, present asset value, income, taxation and expenses (Quattrone, 2009)

2.3. Conceptual Framework

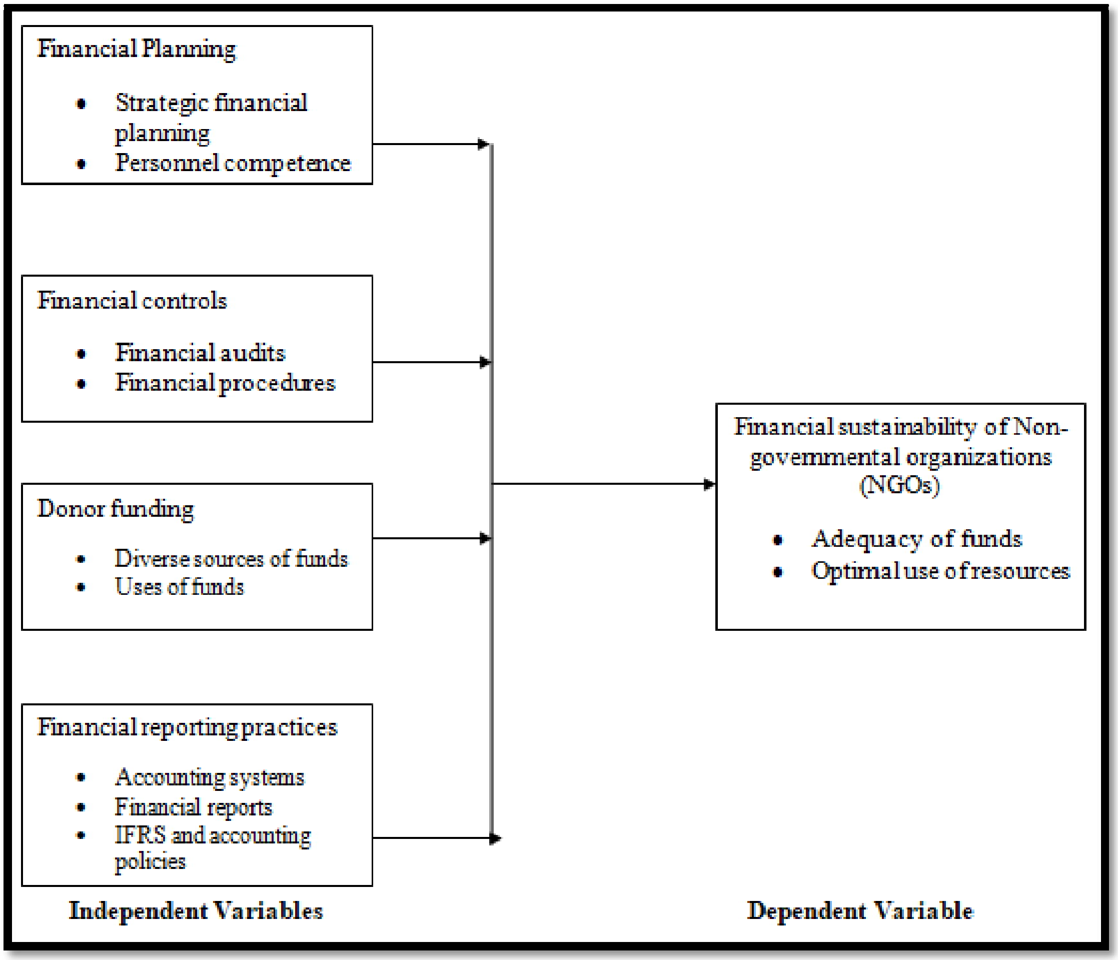

Figure 1: Conceptual Framework

2.4. Discussion of Variables

2.4.1. Financial Planning

According to Lewis (2014) there are four essential blocks in a strong financial management system. One of these blocks is financial planning. We have to plan ahead to make sure we have the funds we need to achieve our objectives now and in the future.Financial planning is all about planning to use funds well now and in the future. Financial planning in nongovernmental organizations involves preparation of budgets, fundraising plans and financial strategy. As an organization grows and takes on an increasing number of activities, it runs the risk of focusing on day to day management issues and financial needs and lose sight on the long-rangeobjectives. Financial planning thus is the mechanism to help clarify financial missions and objectives as well as define the actions needed to accomplish them. Effective financial planning has become a prerequisite for accessing available donor funds especially from international donors(Leone, 2010).A financial plan consists of projected expenditure and organizations potential to generate the income to cover those expenditures. A financial plan is a dynamic document that changes frequently. Its main purpose is to determine if the organization is going to have sufficient resources available to meet the set objectives. They operate on the basis of scenarios, ranging from minimum feasible to ideals. The minimum feasible scenario quantifies priorities that are indispensable to fulfilling the mission within a specific time frame and whether the organization can cover its fixed operational costs during the period. These indispensable priorities and fixed operational costs represent the minimum fundraising goal (Leone, 2010).

Financial planning takes place in two ways; we have the long term financial planning or the strategic financial planning and short term financial planning. Long term financial planning is a vital discipline for creating and maintaining financial sustainability. However, it requires a shift away from short term perspectives associated with annual budgeting and a shift towards five to ten-year perspective (Basal, 2005). Long term financial planning is a comprehensive effort and requires team work from all departments. It's possible to create a capable team and to allocate sufficient time to work on the financial plans, by engaging departments other than the financial department. For this to be effective it's important for the general manager or project manager to serve as a leader of the planning process, and the board to demonstrate clear endorsement for financial planning. This helps the organization to shift from a reactive to a proactive mind set. A proactive mind set offers fertile ground for continuous planning. However, it's important to note that since the environment in which NGOs operate in is continually changing, strategic financial planning has to be a continuous process that helps the organization to anticipate and respond to the changing dynamic environment in which they operate.

Absence of strategic financial planning is one of the challenges faced by the NGO sector. Few NGOs have strategic plans which would enable them to have ownership over their missions, values, objectives and strategies. This leaves them vulnerable to the control of donors and makes difficult to measure their impact over time (Bray, 2010). NGOs are negatively influences by tough economic times because of their dependence on fundraising and philanthropic giving. The relative absence of donations made to local NGOs, is mostly as a result willingness to give more than ability to give (Besel *et al*, 2011).It's this risk of reliance on external funding sources, that contends with the NGOs consistent participation and commitment to developing and communicating strategic financial plans to outline the role of community, donors and management and how best to incorporate their guidance, so as to build trust and ownership(Kirk and Nolan, 2010).

"Fundraising plans set out where NGO hope to get the funds needed to support their operations over a longer period of more than one year" (Lewis, 2014). Developing a detailed fundraising plan to address the challenges and best promote the mission of the organization is important. A strategic fundraising plan provides opportunity to examine what is working well and whether there are opportunities for improvement, thus encouraging the NGO to set specific goals, and motivate them to make commitment to focus on the big picture. Developing the fund raising plan should be integrated into other planning efforts such as budgeting, strategic plans and program plans (Bray,2010).Bray (2010) also suggested the following tasks in developing a fund raising plan "Determine a reasonable dollar goal to work towards, evaluate your organization's greatest fund raising asset, create a strategy that uses this asset most effectively to reach potential fundraising sources and write down your strategy in a short, easy to understand document to keep everyone on plan".

Short term financial planning in NGOs mostly involves budgeting. Nongovernmental organizations need budgets for all operations: Projects, programs, central support. Budgets can be for any period of time;typically, one year (Lewis, 2014). A budget is a plan of monies that an organization expects to raise and how the funds will be utilized in a specific accounting period. It's a comprehensive financial planning setting the expected route for achieving the financial and operational goals of an organization (Bray 2010). Use of budgets is a key element of financial planning as it assists managers in controlling costs by comparing actual costs with budgeted amounts and taking corrective actions where necessary. Careful planning and preparation of formal budgets leads to enhanced management responsibilities, coordination of activities which may help in ensuring financial sustainability of NGOs (Lewis, 2014). By knowing when cash deficit or surpluses are likely to occur the management can plan to borrow cash when needed and repay when there is surplus cash available. Most NGOs get their funding from donors who may require them to come up with a budget, the NGO must therefore be well informed to be able to prepare a budget that will be acceptable to donors and funders.

Reaching a satisfactory level of financial sustainability requires more than just long term and short term financial planning. It also requires strengthening of the NGO operational and organizational capacities. There exists a relationship between financial sustainability and factors of management such as leadership, staff competence, and service provision and community participation. These factors could contribute to or hinder financial sustainability. Donors want access to up to date information about the organization operations and finances as a way of ensuring return on their investment (Bray, 2010). According to Barney (1995), the resource Based View theory formulate the firm to be a bundle of resources. It's these resources and the way they are combined that makes firms different from one another. He further says that resources include the skills of individual employees, thus the need for staff competence. Cultural differences between leadership and staff of the NGOs and also with the community they serve may pose challenges for financial sustainability. Being perceived as an outsider in low income neighborhood can strain community buy in and trust. Having presence of people from the community, and a consistent track record of accountability to area residents establishes trust in a community wary of outsider's motives of engaging in the community (Kerine, 2014).

Majority of NGOs have little or no access to reliable email and internet connections. They receive almost no literature on development issues and are generally out of touch with issues global, regional and national importance. Their lack of understanding of the duties and responsibilities of the board or council is an example of knowledge gap they exist. Bray (2010) says that NGOs recognize that many of them have limited technical and organizational capacity. Few NGOs are able or willing to pay for such capacity building. For NGOs to thrive and be financially sustainable there is need for transparency, full disclosure through financial reports, accessibility to financial information and statements and ensuring relevance. All these can only be achieved by having competent personnel managing the projects and NGOs as a whole. According to Garner (1998), active and well-informed board officials are an important resource in the long term financial health NGOs. NGOs must get accounting expertise, if they do not have strong skills in this area. Organization should get someone on board with accounting skills to be the treasurer. An accountant should help set up the bookkeeping system, generate financial statements and do financial analysis. The knowledge and understanding of basic accounting processes is required for the effectiveness of accounting to be guaranteed.

The future of NGOs and its capacity to affect lives of a community depends on ability to secure funding in order to develop projects. All members of the organization should co-participate in the planning, organizing and monitoring of the financial resources of NGO. The effectiveness of a financial plan depends on a strong organization plan. It's crucial to have long term plans and also develop skills able to manage the budgeting of short term plans. The success of long term financial plans depends upon the organization's ability to get connected and networked in order to establish long term partnerships that will support the basic needs of securing funds throughout the year (Lewis, 2014).

2.4.2. Financial Controls

Financial controls mostly involve having internal controls. It's about having sound internal controls which help NGOs handle everyday risks of mistakes, confusion or fraud. They also protect the staff from any pressure to misuse funds and from suspicion of wrong doing. One possible reason that fraud and misappropriation of funds occur is poor internal controls or lack of it. Suleiman *et al* (2007) acknowledges that a proper system of internal controls ensures that the management of an organization utilizes the financial resources in a manner that will safeguard the interests of donors and contributors. According to Jacobs (2013) internal controls are designed to ensure: safeguarding of assets, prevention and detection of fraud or error, accounting records are accurate, complete and up to date, compliance with the relevance laws and restrictions and that employees are protected from themselves and from each other. Internal control is a process and not an end in itself. It's a dynamic process operating everyday within an organization framework or structure. "It's a whole system of management control environment, management risk assessment, monitoring and information and communication systems". (Robert Son & Louwers, 2002).

According to Bongani (2013) establishing internal control systems in organization is critical to ensure reliability of accounting records. Controls ensure the authenticity of the content of financial reporting, to provide reasonable assurance to stakeholders and especially donors. Most organizations that receive external funding are subjected to rigorous internal controls in line with donor agency requirements. NGOs that suffers internal control deficiencies may risk losing the much-needed funds from the donors, as they are accountable to them as well as to the beneficiaries, the employees and other stakeholders. Without financial controls assets are at risk, funds may not be spent in accordance with the organizations objectives and the competence of managers and integrity of the organization may be called to question Arel *et.al* (2006).

There are two important aspects of an internal control system: the control environment and the control procedures that take place within the environment. The control environment i.e. management style, organizational values and culture determines the effectiveness of the control procedure. Internal control procedures include physical verification of assets, having limited access through use of locks, passwords and bank signatories. There is also use of documentation such as standard format of receipts, payment vouchers, requisitions, local purchase orders. Segregation of duties to ensure that not one person can carry out a transaction from beginning to the end and there is no self-authorization. It also involves checks and balances approval and authorization (Jacobs, 2013).

In an NGO the board is ultimately responsible for the systems of internal controls. They normally delegate to the management the task of establishing, operating and monitoring the system. It's essential that the right tone is set at all levels of management. The management should send out a clear message that control responsibilities must be taken seriously. "To improve performance, you have to understand how to better manage the risk" (Coso, 2013). Internal controls procedures are tailored to meet individual need of particular organizations. They depend on nature and size of transactions, and the degree of control which the management of organization is able to exercise.

Financial control is achieved by developing systems and procedures to suit the particular needs of an organization. Alvin *et.al* (2006) reveals that for effective financial controls the organizations staff and board members are required to be conversant and participate in the budgeting process that affects the line items for which they will be held responsible.

2.4.3. Donor Funding

NGOs rely on money from a variety of sources, including individual donors, foundations, corporations and governments. Often what an NGO can do and cannot do is tied to where the money comes from, thus affecting the effectiveness and neutrality of NGOs. Many NGOs needs depend on the funding sources to operate. "Funding issues have become particularly challenging, following the economic crisis" (Norris 2012).

For NGOs to be able to work towards financial sustainability, they should ensure they have diverse sources of funds. According to Boas (2012) diversification of sources of funds descried a number of activities that strive to reduce the dependence on a specific type of income, specific donor or grant maker, dominating customer or country that is the only or main source of funding and currency in which most or all funds are paid out. He continues to say that NGOs that want to diversify their sources of funding and it more reliable have to make a decision as to whether they want to achieve this long-term goal only through actions focused on donors and grant makers, potentially with minor self-financing activities or will also be open to consider starting significant for profit activities, possibly organized inform of a social enterprise. Boas (2012) continue to say that organizations that focus their activities on donor and grant makers will try to diversify among national sources of funding, find donors and grant makers that have the reputation of being reliable and find donors and grant makers that contribute to overhead costs and startup costs. Maintaining a balance between externally and internally generated resources is necessary to allow organization to meet its operating and administrative expenses while maintaining the freedom to determine its program priorities, irrespective of donor preferences (Bray, 2010).

Using donor money wisely is particularly urgent in view of threats posed globally by natural disaster, including increasingly frequent storms, floods and droughts. Advocates of risk reduction strategies argue that donors can no longer afford to provide funding for disasters primarily after the fact that the cost is rising and compromising regular development investments (Norris 2012). According to Spence (2011) in 2010, the European Union fell short of its development aid targets by 15M Euros. A study by the Concord coalition of advocacy organization predicts that the situation is likely to get worse rather than improve in coming years, due in part to state practices inflate aid budgets, and economic crisis faced by Greece, Ireland, and Portugal. An ongoing shortfall threatens the financial sustainability of NGO activities and may mean development targets are not met. Aid advocacy fear that shaky finances of several European countries that have already prompted bailouts totaling to 256 billion Euros for Greece, Ireland and Portugal could further hurt overseas development assistance especially through NGOs Security and military operations have skewed development assistance, meaning that funding of NGOs by donors continues to decrease and is becoming unpredictable.

Most of the donors that fund the NGOs also enforce guidelines, to ensure accountability, as they are also accountable to their stakeholders and must ensure that the funds are used for the intended purposes. Most of the guidelines will be included in the grants contracts, while others will opt to carry out training of staff to ensure all guidelines are understood. Non-compliance to these guidelines can lead to costs being disallowed or in extreme cases withdrawal of support which may mean termination of the project if funds cannot be available from other sources. Most donors place the responsibility of ensuring that local partners meet adequate standards for accounting and financial management for recipient organizations. In some other perspective the donors require the recipient of the funds to submit reports before and other funds are disbursed.

It's important for management to ensure continuity in the relationship between the NGO and the donors. Donors expect to see returns on their investment. In the NGO sector this return on investment is through demonstration that the money invested has made an impact on the social mission of the organization(Rasler,2007). Thus, NGOs are charged with identifying what donors expect to see from them and communicate this information in a clear and consistent manner. In fostering relationship with donors, it is important to recognize that the way NGOs communicate value to investors is just as important as what is communicated.

2.4.4. Financial Reporting Practices

IAS 1 specifies the components of financial reports to be presented i.e. balance sheets, income statement, and changes in equity, cash flows statements. Broadly financial reporting can be said to be the periodic process of providing information in financial statements about the financial position and performance of a reporting entity to parties external to that entity to assist them in making informed decision about allocating scarce resources (Moilanean, 2008). There are no global accounting standards that apply to all NGOs. This is an area that standards settings bodies are trying to address. Until such a time as global applicable standard are developed, IFRS or local accounting standards are the most useful framework to give a true and fair view.

According to Leone(2010) financial reporting involves having efficient procedures for finance and also administration which are governed by a series of institutional policies that help the organization make the most of its resources and ensure transparency in financial management. The procedures must enable the participants to anticipate the organizational financial standing and thus make appropriate decisions in a timely manner. They also allow the organization to generate income through financial management of the available assets. Accounting-administrative procedures must fit the organization's needs, regardless of the scope and structure. They must record the organization's transactions to enable it visualize the organization as a whole.

For organizations to have financial reports that are accurate and complete, and provided on a timely basis there is need for accounting systems. Accounting systems is the fields that designs and implement the system of record keeping E.g. electronic data processing. Different NGOs adopt systems that will be able to meet their needs and resources available to them. An accounting system consists of personnel, procedures, technology and records used by an organization to develop accounting information and communicate the same to decision makers. The basic purpose of accounting system is to meet the organization needs for information as effective and efficiently as possible. According to Moilanean (2008) it enables firms to control their various units such as financial reporting, present asset value, income, taxation and expenses. Thus, the view of "accounting as a tool of administering resources efficiently, supporting the rational decision making" (Quattrone, 2009).

"A good accounting system is one that ensures that there exist controls in organizations in safeguarding assets" (William, Haka and Bettner 2005). It's one that can show that a transaction actually happened and ensure that the financial reports are accurate and complete. It ensures relevance and reliability of financial reports. The objective of financial reports is to provide information about the financial performance of an entity that is useful to a wide range of users in making economic decisions (IASB, paragraph 12). Most of the NGOs due to their sizes and lack of resources have been faced with challenge of having proper accounting systems and hence cannot provide timely reports. This has become a checking point for donors before funding NGOs, where they carry out an assessment of the accounting systems used by NGOs and how effective they are before any funds are released. Since the management has the responsibility to ensure that the information provided is reliable, relevant, and accurate and complete, they should ensure a proper accounting system is in place and finance staff understand it and use it well.

"A proper accounting system provide a chart of accounts which sorts out the different source of income and expense account and classify them into different related categories e.g. income and expenditure, assets and liabilities. The chart of accounts should be able to meet internal and external requirements" (Jacobs 2013). All approvals should be sought before payment is made as per the outlined procedures in financial manuals. Every finance staff should be conversant with the finance manual to ensure all procedures and policies are followed. When program officers are involved in handling cash they should also be trained on the basics of accounting to avoid making mistakes that could be avoided.

According to Jacobs (2013), a financial report summarizes the income and expenditure over a certain period of time. They summarize the information held in cashbook. This is normally done using a system of codes, to allocate transactions to different categories. These categories may often be defined by the donors. Every NGO needs to have proper accounting systems otherwise managing funds and providing accurate and timely financial reports may become a tedious exercise which can actually affect financial sustainability of NGOs.

2.4.5. Financial Sustainability

According to Bowman (2011) financial sustainability reflects the ability of an organization to maintaining diverse capacities. The financial capacity of an organization comprises of resources that provide the organization with the ability to seize opportunities and react to unexpected threats while continuing to manage general operations of the organization. Given that most NGOs serve in high need communities that require consistent and continually available services the challenge is even more pronounced. The goal of financial sustainability for NGOs is to maintain or expand services within the organization while developing resilience against the occasional short term economic shocks (Bowman, 2011). In essence an organization with sustainable long-term prospects may be unsustainable in the short run, vulnerable to the challenges of cash shortfalls. An organization with short term but not long tern sustainability may have adequate cash at hand but inflation will diminish the value of its assets overtime (Bowman, 2011). According to Lewis (2014) a financially sustainable organization is on that avoids dependency on any one source of revenue whether external or internal. He recommends that NGOs try to raise sufficient funds from internal sources to cover their basic operating costs while approaching external donors for funds to cover program costs.

In terms of accounting principles financial sustainability can be defined as total income less total cost giving surplus which is equated to financial sustainability. Thus, financial sustainability can be said to be an organization's net income that is surplus of revenue over expenses. According to Leone (2010), surplus generation is a requirement not a luxury, crucial to planning for the future as well as meeting current challenges. Without an income surplus, response to changes in surroundings or opportunities cannot be adequately adjusted to.

Financial sustainability in accounting terms can be measured by means of; Operating ratio, current ratio, quick ratio and asset lifecycle ratio. The operating ratio measures the amount of operating revenue versus total amount of operating expenses for a given organization or department. The minimum standard for an operating ratio is 1.0 meaning there is sufficient operating revenue to cover operating expenses. A financially healthy organization needs to maintain an operating ratio of greater than 1. A ratio of less than on indicates that there is insufficient revenue to meet the current expenses (ACCA, 2009). Current ratio is the measure of short term solvency or the ability of the NGO to meet obligations in a timely manner. It's given by current assets divided by current liabilities. The higher the current ratio the better. Some experts recommend that in relation to current ratio, cash reserves be at least 11/2 times greater than monthly operational expenses, and in additional to cash reserves, emergency reserves are of greater importance as a tool for financial sustainability. The emergency reserve is intended to help NGOs deal with short term emergencies such as sudden withdrawal of a donor which may arise from time to time. The amount of emergency reserve will vary greatly with the size of the NGO and should be equated with major infrastructural assets (Chordia *et.al*, 2005).

Debt ratio measures the amount of debt being used by the organization. A ratio of 0.7 means that 70% of operations have been financed with debt and remaining 30% has been financed by equity (Woo and Baker, 2005). As debt becomes an increasingly important tool for capitalizing on organization operations, the ability to pay debt is even more crucial. Not only does debt servicing affect cash flow but lenders pay close attention to debt service capacity which affects the cost of borrowing.

Another measure of financial sustainability for NGOs is the optimal use of resources, which can be assessed by level of administrative costs, operating margin and concentration or diversification of income streams. Administrative costs are costs or expenses than an organization incurs not directly tied to a specific function. They are related to the organization as a whole as opposed to individual departments. Most donors are less inclined to fund administrative costs, and thus an NGO with less manageable administrative costs is more likely to be more financially sustainable than one with more overhead or administrative costs. Concentration or diversification of income streams according to Boas (2012) refers to a number of activities that strive to reduce the dependency on a specific type of income, specific donor or grant maker, dominating customer or country that is the only or main source of funding and currency in which most or all funds are paid out. He further says that NGOs that want to diversify their sources of funding and make it more reliable have to make a decision as to whether they want to achieve this long-term goal only through actions focused on donors and grant makers potentially with minor self-financing activities or will also be open to consider starting significant for profit activities, possibly organized in form of social enterprises. The importance of this as a measure can be seen in the fact that diversification of income sources increases the financial sustainability of NGOs because of the probability that all sources will not be affected by the same economic shock (Bryce, 1992). Also, an NGO with different income source equally distributed will be more sustainable financially compared to an NGO with single source of income.

2.5. Empirical Review

The issue of financial sustainability of NGOs has engaged the attention of various researchers for some time. According to Uzukulu (2009) the dependency syndrome in NGOs must be abandoned. The problem of the NGOs is not lack of money but rather is fiscal inefficiency and poor stewardship of resources and the absence of acceptable computerized accounting systems and financial controls. Inadequate budgeting procedures are among the problems that NGOs must address. Owiti (2012) observed that despite the increased needs for funds as compared to the 1980s and 1990s, current donor funding has declined by 55%. Programs have come to an end, resulting in employees being rendered jobless, even as beneficiaries miss out on essential and basic services. Meanwhile donors are redirecting their funding to organizations whose structures ensures maximum benefits to beneficiaries and only minimal amounts consumed by administrative costs. NGOs have had to restructure to cope with new demands and in some cases have closed down all together.

Sound financial management practices, good governance and accountability are essential building blocks for stimulating improvement and better value for money in NGOs. Earlier research showed that management control such as accounting has a stabilizing function in the finances of NGOs (Jackson, 2009). NGOs usually exist because they have a mission to educate, cure the sick, advance profession, and feed the hungry. As Ibrahim (2007) argues the end of project funding all too often means beneficial impact that should have been sustained are lost.

Meeting financial goals is essential to fulfilling an organization's mission, but it's not the top priority. Thus, there is need to ask the question which comes first, the program to fulfill the missions or the income earned or donated to finance the program. It's important to recognize that aspirations and financial resources are related and that it is management task to coordinate the two (Jackson, 2009). All NGOs require a financial management system, however many of the may feature only an accounting or book keeping system. Accounting or book keeping is a sub set of financial management. Financial management is the responsibility of the finance manager; however, all section managers need to contribute and benefit from a financial management system. The finance manager needs to be able to maintain perspective so that program activity and administrative objectives are directed towards achieving organizational goals. The unique position he holds allows him to play an active role in strategic planning which focuses on the long-term goals and objectives of NGOs (Gray *et al* 2006).

According to Unerman and O'Dwyer (2006) ethical environments within organizations are more important than code of conduct when finance managers seek to resolve ethical problems. They found that management attitudes towards internal control were significant when accountants were asked to evaluate the control environment of an organization. A more important issue however is whether internal control factors are actually related to misrepresented financial information. Many studies have examined both the need for financial reporting and management skills required for public accounting purposes. Waddell (2006) carried out a study on complementary resources, the win- win rationale for partnerships with NGOs, while Power (2004) analyzed the financial management of everything. These studies found that organizations are more likely to voluntarily disclose negative earnings surprises than positive earnings surprises.

Gunderson (2011) shows that many establishments need to address the structural imbalance between their declining revenues and their operational and capital needs. He found that these establishments need to adopt different ways of doing business that will endure beyond any financial crisis. He further says that in order to manage effectively during critical times, financial managers should focus on rational proactive measures to preserve essential services and ensure fiscal strength reviewing financial position, practices and policies and taking action to develop appropriate short and long-term strategies. He indicated that for financial sustainability to succeed, effective financial management including fund flows, control systems, financial planning, budgeting systems, asset management system, accounting policies and procedures, internal and external auditing systems, reporting and monitoring systems are required. He confirms that the goal should be to manage revenues as carefully as expenditures and foster financial stewardship as well as cost containment.

Herrickse (2008) traced governance and financial sustainability of South Africa NGOs for the period of 1990 to 2002 with intention of developing improved options for the future regarding the sustainability of the sector, especially with regard to financial management and governance. The study found that the main aim of the process of managing finances is to achieve the various goals established at a given point in time and that an executive management team, the operational arm of the organization, that clearly understands its role and functions should manage an organization. This is because financial management tools can help an organization to deliver its mission effectively and ensure the best and most beneficial use of resources.

Tescopoly (2009) found that the vast difference among church religious organizations which are forms of NGOs, most share a common dilemma; the lack of funds limits the quantity and quality of the important work they do. The study found that unlimited needs chasing limited resources are fundamental facts of economic life in rich and poor countries. Church organizations increasingly find that grants and donations are inadequate to meet current program needs and especially inadequate for purposes of expanding program activities. The study concluded that with so many worthy causes competing for attention and generosity of the public, even wealthy donors lack the resources needed to fund every worthwhile effort.

2.6. Critique of Existing Literature

Karanja and Karuti (2014) conducted a study on factors influencing financial sustainability of NGOs, and made an extensive study on how government policies, general management of an organization and sources of finance influences the financial sustainability of NGOs. They found that funding in NGOs is a challenge and that there are government policies that

interfere with the smooth running of NGOs thus affecting their sustainability. Their study was based basically on the external factors and didn't look at the internal factors.
Njoroge (2012) made a similar study basing his study in the county of Nairobi and based his study on factors such as strategic financial management, participation in income generating activities and donor relationship management. He found that for organizations to be financially sustainable, they should participate in more income generating activities, taking care not to divert from their original purpose, should have competent personnel who are able to exercise prudence in strategic financial management and also able to manage relationship with donors. Both studies were carried out using qualitative and quantitative research methods. The studies were carried out outside the coast region where we have a lot of NGOs activities taking place, and where very little study has been done on the sustainability of the growing number of NGOs in the coast region. These studies also didn't address the key financial management practices which form the back bone of the financial operations of any NGO's operations, thus ensuring the financial sustainability i.e. financial planning, financial controls, sources of funds and financial reporting practices. These studies were however relevant because they covered other aspects of financial management that ensures financial sustainability.

2.7. Research Gaps

The review of existing literature reveals that there is limited literature on financial sustainability both in the low and high need of funds for NGOs.Most of the research studies focus on the outcome of programs i.e. whether they are operating, whether they achieving the intended goals, capacity building and government involvement rather than organizational processes and practices influencing the organizational sustainability and impact. Most of the researches conducted on financial sustainability have been done in United States of America, India, Ethiopia and South Africa. The conditions in these areas may not be the same as Kenya ranging from economic conditions to political stability.

The research studies done in Kenya have been based in regions such as Nairobi, Nakuru and Isiolo counties, and has looked mostly at factors such as government policies, organizational structures and cultures, and their influence on performance and financial sustainability of NGOs (Kerine 2014) and (Njoroge 2012).Very little has been done on research of financial sustainability of NGOs in the coast region and especially in Mombasa county, where we have many NGOs both national and international basing their operations. This research therefore seeks to assess the effects of financial management practices on financial sustainability of NGOs in the coast region focusing on NGOs in Mombasa County.

2.8. Summary of Literature Review

This chapter provided a review of intellectual work done by other researchers by way of theories and empirical reviews related to the theme of the study i.e. effects of financial management practices on financial sustainability of NGOs. The theories helped to bring out the world around which NGOs operate. Literatures related to the independent variables that formed the key pillars of the survey were also highlighted. The chapter also dealt with gaps that existed from past studies on financial sustainability of NGOs and also in studies carried out generally on the financial management of NGOs.

3. Research Methodology

3.1. Introduction

This chapter describes the research design and research methodology that will be used in the study. It provides the overall scheme or plan prepared to help the researcher in answering the raised research questions. It's organized in sections under subheadings, research design, target population, sampling size, sampling frame, sampling techniques, data collection methods and procedures and finally data analysis.

3.2. Research Design

According to Neuman (2008) a research design can be regarded as an arrangement of conditions for collection and analysis of data in a manner that aims to combine with the research purpose. This study used survey research design which is a method of sociological investigation that uses questions based on statistical surveys to collect information about how people think and act. A survey focuses on opinions or factual information depending on its purpose, but all surveys involve administering questions to individuals (Kombo et al 2006). Survey research design is an efficient method for systematically collecting data from a broad spectrum of individuals and educational settings. Survey research design was relevant to this study, because the study sought to assess the effects of financial management practices with respect to the financial sustainability of NGOs in Mombasa County and there was need to make observations on various organizations operating within similar external environment but differing internal environment. These organizations gave the researcher a broad spectrum of individuals working in different environments and with different educational and experience setting, though all working for NGOs that are involved in relief activities and focuses on either promoting education, eradicating poverty or malnutrition or promoting human rights, though they all have management systems, the levels and establishment of these systems differs considerably. By collecting data from this broad spectrum of individuals the researcher was in a position to assess the effects of financial management practices on the financial sustainability of nongovernmental organizations.

3.3. Target Population

According to Bryman & Bell, (2015) a population is the aggregate of all that conforms to a given specification. Target population is the specific population about which information is desired. It provides observable characteristics to which the researcher can use to generalize the results of the study (Cooper & Schinder, 2013). The target population of this study included the senior staff of twelve NGOs based in Mombasa County, six of which are internationally formed and six which are locally formed, are registered with NGO council of Kenya and share common characteristics, that is they deal with relief activities and focuses on either promoting education, eradicating poverty or malnutrition, are active and have an established physical location and well-defined management system. The target population is shown in the table 3.1.

3.4. Sample Frame

According to Kothari (2009) a sample frame is the source material from which a sample is drawn. It's a list of all those within a population who can be sampled. It's a complete list of all members of the population that the researcher wishes to study.

Serial number	Organization	Population
1	Compassion International Kenya	15
2	Plan International Kenya	9
3	World Vision Kenya	8
4	Operation Give Hope Kenya	7
5	Care International Kenya	5
6	Samaritan Pulse	5
7	Calvary Zion Children's Home	4
8	Baby life Rescue Centre	5
9	Wema Centre Trust Mombasa	7
10	Tumaini Children's home Mombasa	4
11	Association for The Physically Disabled of Kenya	6
12	Baobab International Africa	8
	Total	83

Table 1: Target Population

Table 1 below gives us the sample frame for this study

3.5. Sample Size

Kothari & Gang, (2014) defines sampling as the selection of some part of an aggregate or totality on the basis of which a judgment or inference about the aggregate or totality is made. Bryman & Bell, (2015) observed that the purpose of sampling is to secure a representative group which will enable the researcher to gain information about an entire population when faced with limitations of time, funds and energy. The researcher used stratified sampling targeting only the senior staff of the registered NGOs in Mombasa County. The sample size was computed using simplified formula for proportions derived from Yamane (1973), where confidence level is 95% and P>0.5 are assumed.

$n=N/1+N(e)^2$

Where:

N is the population

e is the precision level.

A sample size of 69 resulted from the use of the above formula.

Proportional allocation was used to calculate various strata. The formula used is as follows.

$(n/N)Nn$

Where

n=population in a stratum

N=Total number of Management staff

Nn=Total number of the sample.

Serial Number	Organization	Population	Sample Size
1	Compassion International Kenya	15	12
2	Plan International Kenya	9	8
3	World Vision Kenya	8	7
4	Operation Give Hope Kenya	7	6
5	Care International Kenya	5	4
6	Samaritan Pulse	5	4

Serial Number	Organization	Population	Sample Size
7	Calvary Zion Children's Home	4	3
8	Baby Life Rescue Centre	5	4
9	Wema Centre Trust Mombasa	7	6
10	Tumaini Children's Home Mombasa	4	3
11	Association For The Physically Disabled of Kenya	6	5
12	Baobab International Africa	8	7
	Total	83	69

Table 2: Sample Size

3.6. Data Collection Instruments

This study involved collection of both primary data and secondary data. The primary data was collected using questionnaires, while the secondary data was collected from already existing sources.

3.6.1. Primary Data Collection

This study used closed ended questionnaires for collection of primary data. The questionnaire was used because they are straight forward and less time consuming for both the researcher and the respondents (Kothari 2014). The questionnaire had sub-section that are sub-divided based on the major research questions except for section A, which is meant to capture the background information of the respondent such as educational background and experience. The other section covers the main area of study. The questionnaires were appropriate for the study since they collect information not directly observable like level of education and work experience. They are also confidential, have increased access to population and eliminate interviewer bias (Kombo and Tromp, 2006). The questionnaire also facilitated in easier coding and analysis of data to be collected. The close ended nature of the questionnaire ensured that the respondents are restricted to certain categories in their responses, thus obtaining objective data.

3.6.2. Secondary Data Collection

This study involved collection of data from secondary sources i.e. data that has been collected by the various organizations for other purposes. Secondary data on financial planning was collected from budget reports of NGOs, secondary data from financial controls was collected from audited reports of NGOs, secondary data from donor funding was collected from donors reports and donor journals and secondary data from financial reporting practices was collected from financial journals.

3.6.3. Data Collection Procedure

The researcher personally visited the respondents and explained the purpose of the questionnaire. This was meant to assure the respondents of the confidentiality of the responses. The researcher distributed the questionnaires to the respondents who were required to respond to them and later collected after two days. The researcher obtained also approval from the university business department.

3.7. Pilot Studies

Before embarking on the field work a pilot study was carried out to pretest the data collection instrument. This was done by administering the questionnaire to a pilot group. The content validity of the research instrument was evaluated through actual administration of the questionnaire to the pilot group. In validating the questionnaire three NGOs were selected at random from Mombasa County and then 10 management employees were selected randomly from these three organizations which about 10% of the population to be used in the actual study. The sample frame to be used in pilot testing did not form the final sample of the study. The test used both face and content validity to ascertain the validity of the questionnaire. Face Validity was actually validated at face value. As check on face validity, test items were sent to the pilot group to obtain suggestions for modification (Polkinghorne, 2006). Content validity draws an inference from test scores to a larger domain of items similar to those the test. Its concerned with sample population representativeness, that is the knowledge and skills covered by the test items should be representative of the larger domain of knowledge and skills (Polkinghorne, 2006). The questionnaires were administered to the pilot group by the researcher after which a discussion was held with the supervisor to determine the suitability, clarity, relevance of the questionnaire for the final study.

3.7.1. Reliability Analysis

Reliability is a measure of the degree to which a research instrument yields constant result or data after repeated trials. It's a measure of consistency of the results from the test of the instruments. Its influenced by the random error (Mitchell and Joney, 2007). To measure reliability a smaller population that has similar characteristics was used. This was done by issuing the questionnaire to10 management employees drawn randomly from the selected NGOs.

3.7.2. Validity Analysis

Validity is the degree to which a test measures what it purports to measure. It's concerned with the accurate representation of the variables under study. It's influenced by systematic error in data. This was addressed by having good instrument design to reflect the research objectives, and pre-testing the instrument (Borg and Gall, 1997). To ascertain validity of the questionnaire a pilot test was carried out by administering the questionnaire to the pilot group. In validating the instrument 10 staff was selected randomly, and this was used to check on the sample population representativeness.

3.8. Data Analysis and Presentation

Before the actual data analysis, data obtained through questionnaires was validated, edited and then coded. The collected data was analyzed using both quantitative and qualitative data analysis methods. The quantitative methods involved both descriptive and inferential analysis. Descriptive analysis such as frequencies and percentages were used to present quantitative data inform of tables. Data from the questionnaires were coded and entered into the computer with the help of statistical application, that is statistical package for social science (SPSS version 23). The closed ended items were coded in order to run simple descriptive analyses to obtain reports on data status. Descriptive statistic involved the use of absolute and relative percentages, frequencies, measures of central tendency and dispersion (mean and standard deviation). The study also used various inferential statistics including regression analysis. Linear and multiple regressions were computed in order to establish the relationship between and among dependent and independent variables. Correlations between variables were computed in order to establish the association between variables. The regression model is shown below.

$Y=B_{0+}B_1X_1+B_2X_2+B_3X_3+B_4X_{4+}e$

Where:

X_1 = financial planning

X_2 = Financial controls

X_3= Donor funding

X_4= Financial Reporting practices

B = Coefficient unit with B_0 as the intercept.

e = Error term.

Y= the financial sustainability of NGOs to be predicted by the financial management practices.

4. Data Analysis, Results and Discussions

4.1. Introduction

This chapter presents analysis of the data on the effects of financial management practices on the financial sustainability of non-governmental organizations in Kenya, a case study of selected non-governmental organizations in Mombasa County, Kenya. The chapter also provides the major findings and results of the study and discusses those findings and results against the literature reviewed and study objectives. The data is mainly presented in frequency tables, means and standard deviation.

4.2. Response Rate

The study targeted 69 senior officers working in non-governmental organizations operating in Mombasa Kenya. From the study, 62 out of the 69 sample respondents filled-in and returned the questionnaires making a response rate of 89.9% as per Table 4.1 below.

	Frequency	Percentage
Respondents	62	89.9
Non-Respondents	7	10.1
TOTAL	69	100

Table 3: Response Rate

According to Kothari and Gang, (2014) a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent; therefore, this response rate was adequate for analysis and reporting.

4.2.1. Validity

Factor analysis was used to check validity of the constructs. Kaiser-Mayor-Oklin measures of sampling adequacy (KMO) & Bartlett's Test of Spheri city is a measure of sampling adequacy that is recommended to check the case to variable ratio for the analysis being conducted. In most academic and business studies, KMO & Bartlett's test play an important role for accepting the sample adequacy. While the KMO ranges from 0 to 1, the world-over accepted index is over 0.5. Also, the Bartlett's Test of Sphericity relates to the significance of the study and thereby shows the validity and suitability of the responses collected to the problem being addressed through the study. For Factor Analysis to be recommended suitable, the Bartlett's Test of Spheri city must be less than 0.05.

The study applied the KMO measures of sampling adequacy and Bartlett's test of sphericity to test whether the relationship among the variables has been significant or not as shown in below in table 4. Factor 1 was based on seven items that represented financial planning; Factor 2 was based on four items that represented financial controls, Factor 3 was based on five items that represented donor funding, Factor 4 was based on four items that represented financial reporting practices, Factor 5 was based on seven items that represented financial sustainability. The Kaiser-Mayor-Oklin measures of sampling adequacy shows the value of test statistic as 0.568, which is greater than 0.5 hence an acceptable index. While Bartlett's test of sphericity shows the value of test statistic as 0.000 which is less than 0.05 acceptable indexes. This result indicates a highly significant relationship among variables.

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.568
Bartlett's Test of Sphericity	Approx. Chi-Square	57.101
	df	10
	Sig.	.000

Table 4: Kmo Bartlett Test

4.2.2. Reliability Analysis

Prior to the actual study, a pilot study was carried out to pre-test the validity and reliability of data collected using the questionnaire. The pilot study allowed for pre-testing of the research instrument. The results on reliability of the research instruments are presented in Table 5

Scale	Cronbach's Alpha	Number of Items	Remarks
Financial Planning	0.740	7	Accepted
Financial Controls	0.795	4	Accepted
Donor Funding	0.755	5	Accepted
Financial Reporting Practices	0.778	4	Accepted
Financial Sustainability	0.769	7	Accepted

Table 5: Reliability Analysis

The overall Cronbach's alpha for the four categories which is 0.755. The findings of the pilot study showed that all the four scales were reliable as their reliability values exceeded the prescribed threshold of 0.7 (Bryman and Bell, 2015).

4.3. Background Information

The background information gathered was based on level of education and working experience.

4.3.1. Level of Education

The study sought to establish the level of education of respondents. The study results revealed that respondents holding certificate/diploma were 38.7%, bachelor's degree, 46.8% post graduate 12.9% and others were 1.6% with a mean score of 1.77 and a standard deviation of 0.734. This shows that the majority of respondents that participated in the study hold at least a bachelor's degree as shown in Table 6.

	Frequency	Percentage
Certificate/Diploma	24	38.7
Bachelor's Degree	29	46.8
Postgraduate degree	8	12.9
Others	1	1.6
TOTAL	62	100

Table 6: Level of Education

4.3.2. Working Experience

The study sought to establish the working experience of respondents. The study results revealed that respondents with working experience of between 1-2 years were 1.6%, between 2-4 years were 41.9% and 5 years and above were 56.5% with a mean score of 2.55 and a standard deviation of 0.533. This shows that the majority of respondents that participated in the study have a working experience of 5 years and above as shown in Table 7.

	Frequency	Percentage
Between 1-2 Years	1	1.6
Between 2-4 Years	26	41.9
5 Years & Above	35	56.5
TOTAL	62	100

Table 7: Working Experience

4.4. Analysis of Objectives

In the research analysis the researcher used a tool rating scale of 5 to 1; where 5 were the highest and 1 the lowest. Opinions given by the respondents were rated as follows, 5= Strongly Agree, 4= Agree, 3= Neutral, 2= Disagree and 1= Strongly Disagree. The analyses for mean, standard deviation was based on this rating scale.

4.4.1. Financial Planning

Descriptive Statistics			
	N	Mean	Std. Deviation
There are both long term and short term financial plans in my organization	62	4.85	.355
There is involvement of all departments in the long term financial planning in my Organization	62	4.68	.696
My NGO prepares periodic budgets consistent with the long-term plans	62	4.84	.371
All staff participate in the development of budgets and other planning tools	62	3.89	1.203
Actual operating results are compared with approved budgets and variances explained.	62	4.82	.463
There exists written down fund raising plans for raising income.	62	3.63	1.012
Regular and adequate trainings are organized for the staff on planning and budgeting	62	4.00	1.116
Valid N (list wise)	62		

Table 8: Financial Planning

The first objective of the study was to establish the effects of financial planning on financial sustainability on non-governmental organizations operating in Mombasa County. Respondents were required to respond to set questions related to financial planning and give their opinions. The statement in agreement that there are both long term and short term financial plans in my organization had a mean score of 4.85 and a standard deviation of 0.355. The statement in agreement that there is involvement of all departments in the long term financial planning in my organization had a mean score of 4.84 and a standard deviation of 0.696. The statement in agreement that my NGO prepares periodic budgets consistent with the long-term plans had a mean score of 4.84 and a standard deviation of 0.371. The statement that all staff participates in the development of budgets and other planning tools had a mean score of 3.89 and a standard deviation of 1.203. The statement that actual operating results are compared with approved budgets and other planning tools had a mean score of 4.82 and a standard deviation of 0.463. The statement that there exists written down fund raising plans for raising income had a mean score of 3.63 and a standard deviation of 1.012. The statement that regular and adequate trainings are organized for the staff on planning and budgeting had a mean score of 4.00 and a standard deviation of 1.116.These findings are in agreement with Cheboi, (2014) that staff training is the corner stone of good financial planning.

4.4.2 Financial Controls

Descriptive Statistics			
	N	Mean	Std. Deviation
There is clear segregation of duties on writing, signing and approval of cheques	62	4.89	.319
There are well laid down policies on tendering of supplies	62	4.15	1.185
The organization is regularly audited by external and internal auditors and audit report shared with the board.	62	4.50	.763
Documentation and cash at hand are kept in a secure location (preferably a safe) whose access is controlled.	62	4.85	.355
Valid N (list wise)	62		

Table 9: Financial Controls

The second objective of the study was to establish the effects of financial controls on financial sustainability on non-governmental organizations operating in Mombasa County. Respondents were required to respond to set questions related to financial controls and give their opinions. The statement in agreement that there is clear segregation of duties on writing, signing and approval of cheques had a mean score of 4.89 and a standard deviation of 0.319. The statement in agreement that there are well laid down policies on tendering of supplies had a mean score of 4.15 and a standard deviation of 1.185. The statement in agreement that the organization is regularly audited by external and internal auditors and audit report shared with the board had a mean score of 4.50 and a standard deviation of 0.763. The statement in agreement that documentation and cash at hand are kept in a secure location (preferably a safe) whose access is controlled had a mean score of 4.85 and a standard deviation of 0.355.These statements are in agreement with Arwinge, (2013) that financial controls of donor funds creates confidence and increases funding.

4.4.3. Donor Funding

Descriptive Statistics			
	N	Mean	Std. Deviation
Capacity exists to write new proposals for more funding	62	4.05	.895
The organization has other means of generating funds other than donor funds.	62	4.02	1.152
Projects are funded by more than one donor.	62	4.42	.984
Organization is able to retain donors/funders to the end of the contract without cancellation due to non-compliance	62	4.63	.752
Organizational staff have appropriate level of understanding donors guidelines	62	4.39	.732
Valid N (list wise)	62		

Table 10: Donor Funding

The third objective of the study was to establish the effects of donor funding on financial sustainability on non-governmental organizations operating in Mombasa County. Respondents were required to respond to set questions related to donor funding and give their opinions. The statement that capacity exists to write new proposals for more funding a mean score of 4.05 and a standard deviation of 0.895. This is in agreement with Chimulwa, (2011) that funding follows strategy that are outlined in proposal, this provides how thefunds will be applied in an open accountable manner. The statement that the organization has other means of generating funds other than donor funds had a mean score of 4.02 and a standard deviation of 1.152. The statement that projects are funded by more than one donor had a mean score of 4.42 and a standard deviation of 0.984. The statement in agreement that organization is able to retain donor/funders to the end of the contract without cancellation due to non-compliance had a mean score of 4.63 and a standard deviation of 0.752. The statement that organizational staff have appropriate level of understanding donor's guidelines had a mean score of 4.39 and a standard deviation of 0.732. This is in agreement with Crefflo, (2013) that donor do give out funds after carrying out an audit of how the previous funds were applied. Therefore auditing of donor funds is essential in approval of funds in Mombasa county.

4.4.4. Financial Reporting Practices

Descriptive Statistics			
	N	Mean	Std. Deviation
Written financial manual (financial policies and procedures) Exist.	62	4.66	.788
Financial reports are submitted in the right format and timely to donors	62	4.73	.485
There is enough competent finance staff to carry out financial activities	62	4.65	.630
Organization has a reliable double entry computerized accounting system.	62	4.79	.577
Valid N (list wise)	62		

Table 11: Financial Reporting Practices

The fourth objective of the study was to establish the effects of financial reporting practices on financial sustainability on non-governmental organizations operating in Mombasa County. Respondents were required to respond to set questions related to financial reporting practices and give their opinions. The statement in agreement that written financial manual (financial policies and procedures) exists had a mean score 4.66 and a standard deviation of 0.788. The statement in agreement those financial reports are submitted in the right format and timely to donors 4.73 and a standard deviation of 0.485. The statement in agreement that there is enough competent finance staff to carry out financial activities had a mean score of 4.65 and standard deviation of 0.630. This is in agreement with Monaheng, (2014) NGOs most of the time hire qualified finance experts who are able to apply donor funds in the most appropriate manner and report back in accordance with good corporate governance.The statement in agreement that organization has a reliable double entry computerized accounting system had a mean score of 4.79 and a standard deviation of 0.577

4.4.5. Financial Sustainability

Descriptive Statistics			
	N	Mean	Std. Deviation
There is adequate allocation of financial resources for all activities of our NGO	62	2.98	1.109
Projects are completed in time according to the planned budget and schedules	62	3.15	.989
My NGO has accrued less or no debt in the last 1 year compared to other years in financing its activities.	62	4.65	.546
High dependency on donor funding has a tendency to shift interventions to match donor priorities.	62	4.55	.563
My organization has income generating activities that supplements donor funds	62	3.65	1.147
My organization maintains cash reserves and emergency reserves	62	2.87	.839
Most of the administrative costs of my organization are covered by donor funds	62	4.05	1.122
Valid N (list wise)	62		

Table 12: Financial Sustainability

The statement in disagreement that there is adequate allocation of financial resources for all activities of our NGO had a mean score of 2.98 and a standard deviation of 1.109. The statement that projects are completed in time according to the planned budget and schedules had a mean score of 3.15 standard deviation of 0.989. The statement in agreement that my NGO has accrued less or no debt in last 1 year compared to other years in financing its activities had a mean score of 4.65 and a standard deviation of 0.546. This is in agreement with Chimulwa, (2011) that majority of NGOs operate on deficit budget because funds are always scarceThe statement in agreement that high dependency on donor funding has a tendency to shift interventions to match donor priorities had a mean score of 4.55 and standard deviation of 0.563. The statement that my organization has income generating activities that supplements donor funds had a mean score of 3.65 and a standard deviation of 1.147. The statement in disagreement that my organization maintains cash reserves and emergency reserves had a mean score of 2.87 and a standard deviation of 0.839. The statement in agreement that most of the administrative costs of my organization are covered by donor funds had a mean score of 4.05 and a standard deviation of 1.122.

4.5. Correlation Analysis

To establish the relationship between the independent variables and the dependent variable the study conducted correlation analysis which involved coefficient of correlation and coefficient of determination.

4.5.1. Coefficient of Correlation

Pearson Bivariate correlation coefficient was used to compute the correlation between the dependent variable (Financial Sustainability) and the independent variables (Financial planning, Financial Controls, Donor Funding and Financial reporting practices). According to Sekaran, (2015), this relationship is assumed to be linear and the correlation coefficient ranges from -1.0 (perfect negative correlation) to +1.0 (perfect positive relationship). The correlation coefficient was calculated to determine the strength of the relationship between dependent and independent variables (Kothari & Gang, 2014).

In trying to show the relationship between the study variables and their findings, the study used the Karl Pearson's coefficient of correlation (r). This is as shown in Table 13 below. According to the findings, it was clear that there was a positive correlation between the independent variables, financial planning, financial controls, donor funding, financial reporting practices and the dependent variable financial sustainability. The analysis indicates the coefficient of correlation, r equal to 0.09, 0.404, 0.239 and 0.298 for financial planning, financial controls, and donor funding and financial reporting practices respectively. This indicates positive relationship between the independent variable namely financial planning, financial controls, donor funding and financial reporting practices and the dependent variable financial sustainability.

Correlations					
	Financial Sustainability	Financial Planning	Financial Controls	Donor Funding	Financial Reporting Practices
Financial Sustainability	1				
	62				
Financial Planning	.009	1			
	.000				
	62	62			
Financial Controls	.404**	.270*	1		
	.001	.004			
	62	62	62		
Donor Funding	.239	.337**	.211	1	
	.001	.002	.000		
	62	62	62	62	
Financial Reporting Practices	.298*	.106	.614**	.261*	1
	.000	.000	.000	.000	
	62	62	62	62	62

Table 13: Pearson Correlation
***. Correlation Is Significant At the 0.01 Level (2-Tailed)*
**. Correlation Is Significant At the 0.05 Level (2-Tailed)*

4.5.2. Coefficient of Determination (R^2)

To assess the research model, a confirmatory factors analysis was conducted. The four factors were then subjected to linear regression analysis in order to measure the success of the model and predict causal relationship between independent variables (Financial Planning, Financial Controls, Donor Funding and Financial Reporting Practices), and the dependent variable (Financial Sustainability).

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.462[a]	.213	.158	2.26076

Table 14: M Coefficient of Determination (R^2)
A. Predictors: (Constant), Financial Reporting Practices, Financial Planning, Donor Funding, Financial Controls

The model explains 21.3% of the variance (Adjusted R Square = 0.158) on financial sustainability. Clearly, there are factors other than the four proposed in this model which can be used to predict financial sustainability. However, this is still a good model as Gaur and Gaur (2009) pointed out that as much as lower value R square 0.10-0.20 is acceptable in social science research.

This means that 21.3% of the relationship is explained by the identified four factors namely financial planning, Financial controls, Donor Funding and Financial reporting practices. The rest 78.7% is explained by other factors in the financial sustainability not studied in this research. In summary the four factors studied namely, financial planning, financial controls, donor funding and financial reporting practices or determines 21.3% of the relationship while the rest 78.7% is explained or determined by other factors.

4.6. Regression Analysis

4.6.1. Analysis of Variance (ANOVA)

The study used ANOVA to establish the significance of the regression model. In testing the significance level, the statistical significance was considered significant if the p-value was less or equal to 0.05. The significance of the regression model is as per Table 15 below with P-value of 0.00 which is less than 0.05. This indicates that the regression model is statistically significant in predicting factors of financial sustainability. Basing the confidence level at 95% the analysis indicates high reliability of the results obtained. The overall Anova results indicates that the model was significant at F = 154.709, p = 0.000.These results are in agreement with (Bowman, 2011).

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	78.881	4	19.720	3.858	.008[b]
	Residual	291.329	57	5.111		
	Total	370.210	61			

Table 15: ANOVA
A. Dependent Variable: Financial Sustainability
B. Predictors: (Constant), Financial Reporting Practices, Financial Planning, Donor Funding, Financial Controls

4.6.2. Multiple Regression

The researcher conducted a multiple regression analysis as shown in Table 16 so as to determine the relationship between financial sustainability and the four variables investigated in this study.

	Unstandardized Coefficients		**Standardized Coefficients**	**t**	**Sig.**
	B	Std. Error	Beta		
(Constant)	13.674	4.340		3.151	.003
FinancialPlanning	.133	.102	.169	3.309	.000
Financial Controls	.609	.239	.393	2.550	.000
Donor Funding	.210	.130	.208	3.615	.000
Financial Reporting Practices	.029	.219	.020	3.132	.000

Table 16: Multiple Regressions
a. Dependent Variable: Financial Sustainability

The regression equation was:
$Y = 13.674 + 0.133\mathbf{X_1} + 0.609\mathbf{X_2} + 0.210\mathbf{X_3} + 0.029\mathbf{X_4}$
Where;
Y = the dependent variable (Financial Sustainability)
X_1 = Financial Planning
X_2 = Financial Control
X_3 = Donor Funding
X_4= Financial Reporting Practices

The regression equation above has established that taking all factors into account (Financial sustainabilityas a result of financial planning, financial controls, and donor funding and financial reporting practices) constant at zero efficiency in financial sustainability will be 13.674. The findings presented also shows that taking all other independent variables at zero, a unit increase in financial planning will lead to a 0.133 increase in the scores of financial sustainability; a unit increase in financial control will lead to a 0.609 increase in financial sustainability; a unit increase in donor funding will lead to a 0.210 increase in the scores of financial sustainabilitya unit increase in financial reporting practices will lead to a 0.029 increase in the score of financial sustainability. This therefore implies that all the four variables have a positive relationship with financial controls contributing most to the dependent variable. This is in agreement with Cheboi, (2014) that there was a positive correlation between the dependent variable and independent variables.

This therefore implies that all the four variables have a positive relationship with financial controls contributing most to the dependent variable. From the table we can see that the predictor variables of financial planning, financial controls, donor funding and financial reporting practices got variable coefficients statistically significant since their p-values are less than the common alpha level of 0.05.

5. Summary of the Findings, Conclusions and Recommendation

5.1. Introduction

The chapter provides the summary of the findings from chapter four, and it also gives the conclusions and recommendations of the study based on the objectives of the study. The chapter finally presents the limitations of the study and suggestions for further studies and research.

5.2. Summary of the Findings

The objective of this study was to examine the effects of financial management practices on the sustainability of non-governmental organizations in Kenya a case study of selected NGOs in Mombasa County. The study was conducted on 62 out of 69 that constituted the sample size. To collect data the researcher used a structured questionnaire that was personally administered to the respondents. The questionnaire constituted 25 items. The respondents were the senior employees of non-governmental organizations. In this study, data was analyzed using frequencies, mean scores, standard deviations, percentage, Correlation and Regression analysis.

The results revealed that majority of the respondents that participated in the study hold bachelor's degree with a working experience of 5 years and above. Further the results revealed that there was a strong positive correlation between the independent variables and dependent variable. The coefficient of determination was 21.3%.

5.2.1. Financial Planning

The study revealed that most of the NGOs under the study developed long term and short-term plans that were in line with the missions and objectives of the organization. The findings also showed that budgets are prepared periodically and the budgeting methods used ensured that all funding of operations and projects are within the specified limits. In preparation of long term financial plans all departments are involved which helps in harmonization of costs and avoiding duplication of costs between departments. This is especially helpful in the present times when caps were being put on foreign donor funding. The organization all undertook fundraising plans and this finding support the view of Bray (2010) who suggested that developing the fundraising plans should be integrated into other planning efforts such as strategic financial planning and budgeting. The findings thus revealed that for there to be sound financial standing and thus financial sustainability there is need for sound financial planning which will enable the organization to respond to, accommodate and overcome the financial challenges an NGO may face.

5.2.2. Financial Controls

The study results revealed that there is a clear segregation of duties in the finance department, and that the organizations are regularly audited by both the internal and external auditors and controls have been put in place to safeguard funds and other assets of the organization. The findings clearly show that financial controls are important for the safeguarding of assets, prevention and detection of frauds and errors, without which the organization will be prone to misuse of assets which have a significant effect on the financial sustainability of the organization.

5.2.3. Donor Funding

According to the findings majority of the respondents reported that their projects are funded by more than one donor and they are able to retain these donors to the end of the contract without cancellation due to non-compliance. The findings indicated that decrease in foreign funding is a reality thus NGOs have to look for alternative sources of funding such as having income generating projects so as to remain financially sustainable or otherwise risk collapse of their projects or the organization as a whole. The high dependence on donors is being offset by having income generating projects within the organization. The finding revealed that participation in income generating activities and having more than one donor supporting a project affect the financial sustainability of NGOs.

5.2.4. Financial Reporting Practices

For the financial reporting practices, the findings revealed that there are written down finance manuals i.e. policies and procedures that guides the NGOs in managing their funds. There is also enough competent finance staff to carry out financial activities and keep financial records through computerized accounting systems. This enables the organization submit reports in the right format and in a timely manner, which ensures retention of donors and good management of available funds without which there will be adverse effect on the financial sustainability of NGOs.

5.3. Conclusion

5.3.1. Financial Planning

Based on the results of the study it was observed that most of the NGOs under the study prepared long term plans and budgets that are consistent with the long-term plans, and that there is constant review and comparison of budgets and actual expenditure and any variances well explained. However, staff participation in development of budgets and other planning tools is still low and needs to be encouraged to facilitate better implementation. There is also need to have regular and adequate training of staff to ensure that planning and budgeting and implementation are done to the satisfaction of the organization laid down policies.

5.3.2. Financial Controls

It was also observed that financial controls have significant effect on the financial position of the NGOs. As a result, NGOs are taking initiative to ensure that there is segregation of duties on the writing, signing and approval of cheques and that the organizations are regularly audited by internal and external auditors and there is securing of documents and cash in a location whose access is controlled. However, there is need for the organizations to have well laid down policies on tendering of supplies so as to ensure that supplies are procured with minimum costs and are of the recommended quality and also within the budget limits.

5.3.3. Donor Funding

The study also observed that dwindling donor funding was having a significant effect on the financial position of the NGOs .As a result, NGOs in the area are exploring other means of funding projects such as having income generating projects and ensuring that projects are funded by more than one donors and raising more than one proposals to ensure that they have enough funds. However, there is need or the NGOs to focus more on having income generating units to reduce reliance on external donors which significantly affect their financial position and their effectiveness in the completion of projects.

5.3.4. Financial Reporting Practices

Financial reporting practices was also observed to have significant effect on the financial position of the NGOs, thus most NGOs under study have written down financial manuals, have financial reports submitted in the right format and in a timely manner, and ensure they recruit finance staff who are competent and also invest in reliable double entry computerized accounting systems.

Thus, it can be concluded that financial planning, financial controls, donor funding and financial reporting practices have significant effect on the financial sustainability of NGOs.

5.4. Recommendations

The study recommended that following:

- Those NGOs should continuously come up with innovative ways of financial planning that are consistent with the international accounting best practice.
- Those NGOs should strengthen their financial controls mechanisms to aid in proper financial reporting.
- Those NGOs should diversify their revenue streams to keep afloat and continue with operations when donors decline funding NGOs.
- Those NGOs should ensure consistency of financial reporting which should be in accordance to the International Financial Reporting Standards.

5.5. Suggestion for Further Studies

This study focused on the effects of financial management practices on the financial sustainability of NGOs in Kenya. Since only 21.3% of results were explained by the independent variables in this study, it is recommended than 78.7% a study is carried out on other factors of financial sustainability. The research should also be done in other industry or in public sector and results compared.

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