EFFECT OF FINANCIAL SUSTAINABILITY PRACTICES ON THE FINANCIAL PERFORMANCE OF NONGOVERNMENTAL ORGANIZATIONS IN KENYA: A CASE OF KENYA RED CROSS SOCIETY

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DECLARATION

I declare that this is applied research project is my original work and has not been submitted to an examinations body or institution of higher learning for purposes of certification.

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Signed…… Date 31st August, 2021………………………

SUPERVISOR'S DECLARATION

This applied research project is submitted for examination with my approval as the University Supervisor.

Supervisor's name: Dr. Peter G.T Gaiku

Sign: …………………………… Date: ………………………

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DEDICATION

This applied research project is dedicated to my family.

First and fore most to my mother Alice who has always seen the best in me and believed in me even when I myself did not see it. She is my prayer warrior and motivator to finalize my MBA Programme and go beyond.

My children; Nicole, Keith and Kenan who are my reason for pushing myself every day to be the best I can be. Always encouraging me to do my best because they see so much potential in their mum and have been looking forward to my graduation and greater achievements.

My sister Joyce who always believes in the sky being the limit and that l can be whatever I dream to be with hard work.

And finally, to my friend Flo who is more than a sister and never leaves me behind. As far as academics are concerned, we are joined at the hip.

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ABSTRACT

Financial sustainability has been a matter of on-going concern for non-governmental organizations, with scarcity of resource and mounting societal needs. The enduring problem has been on how to attain financial sustainability and reduce over-dependency on donor funding. It is hypothesized that engaging in financial sustainability practices will enhance financial performance of non-governmental organizations. The main aim of this research was to examine the effect of financial sustainability practices on financial performance of non-governmental organizations in Kenya. The following specific objectives guided the study; to determine the influence of funding diversification, financial planning, donor relationship management and financial risk management on financial performance. Stakeholder theory and resource dependency theory were adopted to anchor the study. A descriptive research design was used in this research. The population of the study were the 10 Kenya Red Cross Society departments in Nairobi. The unit of observation was the 389 employees in these departments. Sample size was 198 employees stratified according to their departments. For ensuring that the questionnaire was accurate, valid and reliable, a pilot study was undertaken. Primary data obtained using questionnaires was collected. The questionnaire's validity and effectiveness was tested in this study by randomly selecting 39 employees from KRCS to complete it. Those respondents used in the pilot study were not included in the final study. The questionnaires were administered through emailing as well as drop and pick later method. Upon collection of the data, it was coded in quantitative format so as to enable analysing through use of statistical package for social sciences (SPSS) version 24. Descriptive and inferential statistics generated included frequencies and percentages and simple and multiple linear regression respectively. Descriptive and inferential statistics generated were presented in tables and figures. The study revealed a significant positive relationship between funding diversification, financial planning, donor relationship management, financial risk management and financial performance of NGOs in Kenya. This study concluded that financial sustainability practices are essential for NGOs to use in their endeavor to improve on their financial performance. The study recommend management of NGOs should implement funding diversification, financial planning, donor relationship management and financial risk management in their operations to enhance financial performance. It is further recommended policy makers should come up with sound practices to guide NGOs on financial performance.

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LIST OF ABBREVIATIONS

AIDS	-	Acquired Immune Deficiency Syndrome
ANOVA	-	Analysis of Variance
ERM	-	Enterprise Risk Management
HIV	-	Human Immune Virus
KRCS	-	Kenya Red Cross Society
MFI	-	Micro Finance Institution
MPT	-	Modern Portfolio Theory
NACOSTI	-	National Commission of Science, Technology and Innovation
NGO	-	Non-Governmental Organization
OECD	-	Organization for Economic Cooperation and Development
SPSS	-	Statistical Package for Social Sciences
UNEP	-	United Nations Environmental Programme
USA	-	United States of America
USAID	-	United States Agency for International Development

OPERATIONAL DEFINITION OF TERMS

Donor Relationship Management	This refers to a comprehensive effort taken by the non-profit making organizations in ensuring that donors engage in interactions with the organization that will ensure long-term engagement and investment (Simone, 2017).
Financial Performance	A concept that arises when a firm is able to effectively, efficiently and properly employ financial resources (Wallstedt, Gross & Almqvist, 2018).
Financial Planning	Refers to the process of determining the ways in which a business can manage itself financial processes in the achievement of its goals and objectives for the short and long-term (Gkliatis & Kouropoulos, 2019).
Financial Risk Management	Refers to the process of identifying, measuring and analyzing risks and taking calculated steps to lower/mitigate the risk within the organizations in order to maximize investment returns and earnings for a given level of risk (Adelino & Robinson, 2017).
Financial Sustainability Practices	These are the measures taken by an organization to create a growth and development strategy that functions indefinitely (Elliott, 2017).
Funding Diversification	This refers to the process in which an organization creates multiple sources of income in order to adequately finance its activities in view of attaining its set objectives (SontagPadilla et al., 2018).

Non-Governmental Organizations	These are not for profit organs that work locally to improve lives of residents. Their focus is on ensuring equality in society environment, health care, quality of education, access to technology, space access and information for the disabled (Nguyen & Watanabe, 2017)

CHAPTER ONE:

INTRODUCTION AND BACKGROUND OF THE STUDY

1.1 Introduction

This chapter explores the study's background, problem statement, study objectives, research questions, study's significance, scope, limitations and delimitations as well as exemplifies a theoretical and conceptual framework that shows the relation between the dependent and independent variables of the study.

1.2 Background of the Study

Non-Governmental Organizations (NGOs) perform a huge part in the social advancement process in the different countries of the world (Lewis & Kanji, 2017). As Wright (2018) pointed out, the services provided by these organizations are crucial as they focus on the gaps not addressed by the government and private sectors. However, as the world population and economy grows, the gaps seem to bourgeon beyond the means of nongovernmental organization with sustainability becoming a far-flung goal.

When considering the financial performance of non-governmental organizations, financial sustainability is a recurrent theme (Shivairo & Were, 2017). More often than not, and particularly in recent times, many of the NGO's have a continuously increasing programmes agenda of and activities that need consistent and sufficient financing but are faced with minimal opportunities to generate extra income (Mian, Khan, & Alhashmi, 2019). If sustained funding is not emphasized in funding an NGO's activities and operations, it runs the risk of failure to achieve its objectives and risk of closure because it cannot sustain operations (Kristin, 2016). This is the most critical factor in an NGO's long-term financial viability. Financial sustainability for non-governmental organizations refers to the availability of resources that enable them to take opportunities and overcome threats while sustaining long-term operations (Pratt, 2018).

Owing to the declined economic performance in the United States of America, there has been significant reduction in funding of NGOs from the country. The non-governmental organizations in the United States suffered financial crisis due to cuts in the federal and the state funding that was directed to the operations of the organization in the nation for them to run their operational activities as intended (Horak, Arya & Isamil, 2018). Financial resources are critical to non-governmental organizations because they are required for growth and survival; As a result, it's important for them to maintain a stable financial position and perform well in order to fulfill their obligations (Kumi & Hayman, 2019).

In the United Kingdom major non-governmental organizations in the globe seem to have been deemed irrelevant due to the funding issues that have led to their collapse. For example, a major British Non-governmental organization known as Childhood Development and Aid went down in 2002 due to poor financial management practices within the organization (AIKhouri & Arouri, 2019). The organization had negative reserves for five consecutive years with reliance on restricted grants which indicated income fluctuations falling by almost 50 percent between 2000 and 2001. Another NGO known as Academy for Educational Development also collapsed and ceased its operations since it suffered the financial crisis immediately after USAID suspended its funding option due to corporate misconduct as well as lacking internal control measures associated by the organization (Simone, 2017).

In Central Asia financial sustainability has been a major obstacle to many nongovernmental organizations. The organizations in Central Asia are unable to sustain funding of their operations due to accrued financial sustainability which decreases donor funding, decreased resource allocation in the region and donors seem to be focusing on new areas and decreased amounts of social programs (Aboramadan, 2018). Despite various financing methods used in Indonesia and China while recovering from large-scale disasters, stakeholders usually face certain post-disaster reconstruction such as competence of implementing agencies, transportation capacity, legislation and governance and the market conditions. Specifically, the community-based hosting features were critical in donor-driven resourcing practice in Post Indian Ocean tsunami reconstruction in Indonesia on the other hand. Factors associated with project control and management primarily had an impact on resourcing performance of the Chinese reconstruction specialists following the Wenchuan earthquake (Ghauri & Wang, 2017).

In South America, Aponte (2019) cites that weak networks and collaboration among NGOs and other stakeholders has been a great hindrance towards the sustainability of the nongovernmental sector in Perui. In Kazakhstan, Kabdiyeva and Dixon (2017) observes that legal regime was frustrating efforts of NGO collaboration with business sector. D'arcy (2019) posit that one of the fundamental reasons most international NGOs struggle to establish themselves in South America is due to poor strategic partnership. The researcher clarifies that staff in international NGOs have damaging negative attitudes towards their local partners and believe they are superior since they hold the finances.

In Africa, the non-profit sector has continued to expand rapidly. For instance, currently, South Africa has more than 100,000 registered non-profit organizations while in Kenya the annual rate of growth has remained relatively high approximated at 20% (Mathews, 2017). However, Mohamed and Muturi (2017) notes that many

NGOs have continuously struggled in the last decade with Africa being dominated by smaller, privately owned and short-lived NGOs. With such structural weaknesses, it remains difficult for the non-profit making entities to neither achieve long-term, consistent nor improve their performance.

In Zimbabwe, most of the local NGOs are not leveraging their assets in generating income, and most do not participate in income generating activities. This therefore implies that donor reliance is a major impediment towards sustainability of NGOs across Zimbabwe. A study in Zimbabwe by Mutale (2016) found out that in spite of the efforts made by the NGO's, the poor found in rural Zimbabwe still lack adequate social services. The study concluded that the government, NGOs, donor organizations and communities have a substantial role in the success of NGO interventions in delivery of social services in Luunga ward, Binga.

A major challenge facing NGOs in Kenya today is sustaining and supporting their activities financially. The NGOs therefore must formulate new strategies to be sustainable in the long run. This has been necessitated by: reduced donor funding, the region continually receiving reduced allocations, the focus of the donor has shifted to new markets and there is generally reduced funding for the social programs (Miriti & Karithi, 2020). To remain financially sustainable, NGOs need to invest in building strong relationships of working with key stakeholders especially their donors, supporters, volunteers, staff and the community benefitting from the NGO; diversify their income sources; restructure their governance structures; enhance their financial management practices; enhance their internal capacity to foresee and cut down risks resulting from funding; engage in human capital training and development; build ample cash supply and bring down all organizational costs and overheads (Olando, 2020).

1.2.1 Financial Sustainability Practices

Financial sustainability refers to a measure of the ability of an organization to fulfill its objectives and meet the stakeholders' requirements. It entails the ability of firm to effectively grow, develop and function effectively for a long period of times (Aguilar & Hansen, 2018). According to Renz (2019), sustainability is important for continued operations of the nongovernmental organizations in execution of its programs. It entails the ability to come up with diverse resource base to enable continued provision of goods and services to the targeted beneficiaries beyond the financial support period by main donors.

For an organization to survive, it should have the ability to acquire and maintain resources. Financial resources form part of the most fundamental resources to nongovernmental organizations depending on growth and survival; hence, it is vital for them to promote a healthy financial position and performance to achieve its goals (Lin & Wang, 2018). Analysts have identified three major financial sustainability practices of modern-day NGO's namely funding diversification, donor relationship management and financial planning (Pathfinder International, 2020).

Funding diversification entail the need for an NGO to create several income sources in order to adequately finance its activities in view of its set objectives. Donor relationship management entails undertaking deliberate efforts to constructively engage the donors in the activities of the NGO while financial planning entails having in place accounting systems that aid in the effective planning, controlling and administering of the NGO's funds (Pathfinder International, 2020). In addition, Gray, Bebbington and Collison (2018) observed that financial risk management as a practice has also received increased attention and has become an area of focus for all the entities because of its long-term effect on entities financial sustainability. The reason for this is that financial risks, may affect the core competency of entities firms, and influence their operations to a large extent.

1.2.2 Financial Performance

Financial performance of an NGO as its ability to secure revenues in relation to a need, so as to constantly maintain or increase its productive processes, produce anticipated results and to obtain a surplus (AIKhouri & Arouri, 2019). Wallstedt, Gross and Almqvist (2018) define financial performance as ability of an NGO to effectively, efficiently and properly employ financial resources in meetings its set objectives.

Several different ways are used to measure the financial performance for Not-For-Profit organizations. According to the Century Business Services Inc. (2018), the performance may be reflected in the firm's current ratio, viability ratio, change in net assets, operating reliance ratio, fundraising efficiency ratio, and operating margins. Park and Cho (2020) used Deficit/surplus income of expenditure, cost structure and operating margin ratio as the measures of financial performance among NGOs. These measures will be adopted in the current study.

1.2.3 Nongovernmental Organizations in Kenya

In Kenya, NGOs were introduced as self-help groups during the 1960's when the first Kenyan president Mzee Jomo Kenyatta encouraged grass root development by means of communal efforts in line with his philosophy of Harambee. The philosophy was based on the understanding that for the country to develop it required contributions from the members of the Kenyan society working together rather than individually. Over the last several decades, Kenya has registered a high number of NGOs from foreign nations and others which are Kenyan that give various social-development services in the country. NGOs in Kenya have continually grown from lows of 100 in the 1970s to well over 10,000 in 2015 and currently as of end of 2019, there are 11,262 registered NGOs in the country (NGOs Coordination Board, 2019).

The NGOs co-ordination board is the one mandated with the regulation of NGOs in Kenya. This is a State Corporation established by the NGOs Act (Cap 19) of Kenya. The Board is mandated to regulate and enable the operations of the NGO sector in Kenya. This is formed under the interior and Coordination of National Government Ministry. The NGOs Co-ordination Board registers, facilitates and coordinates all the Kenyan and foreign NGOs with operations in the country (NGOs Coordination Board, 2019).

In recent years, international involvement in the work of NGO's and donor funding has drastically reduced with donors withdrawing their projects and programs. This has resulted into a moving away from humanitarian-based relief and recovery of donor funds. This has negatively affected NGO operations in Kenya where they are required to be accountable to have access to funding. Withdrawal of donor financing has minimized their operations leading to financial unsustainability which is critical in sustaining operation of NGOs (Muriungi, Waithaka, Were & Muriuki, 2017).

1.2.4 Kenya Red Cross Society

Through the Act of Parliament, Cap 256 of the Kenya Law on 21st December 1965 the Kenya Red Cross Society (KRCS) was formed as a humanitarian relief organization. In earlier times, during 1939 and 1965 the Society operated as a British Red Cross branch. The Society functions as a volunteer organization across a network of 8 regions and 63 branches throughout the country. This way, the Society's presence is felt across the country. The Society currently engages over 70,000 volunteers to help with its operations at the headquarters, regional and branch level. Society membership is open to anyone without prejudice on grounds of race, sex, faith, nationality, class or political opinion. The society was recognized in 1966 by the International Committee of the Red Cross (ICRC) and in addition has been a member of the International Red Cross and Red Crescent Societies (RC/RC) since 1967, the largest humanitarian movement represented in 189 countries globally (KRCS CAS, 2020). The operations nature in Kenya Red Cross Society requires involvement in financial sustainability practices in order to remain competitive and execute its mandate. It is therefore necessary for management to be involved in the sustainability practices of the organization.

According to the KRCS Cooperation Agreement Strategy (CAS), as development partners, KRCS performs a key part by operating in a number of key areas such as food security, disaster management, water and sanitation, conflict response, emergencies, health and nutrition, pandemic control and diseases prevention in Kenya. KRCS has also broadened its coverage to engage in activities that generate income like, Training School in Hotel Management and Hospitality, and the BOMA hotels and Emergencies Medical Services ambulances. Like all organizations, Kenya Red Cross Society exists to meet the objectives of various partners with diverse interests in the environment it operates in. The role KRCS plays is critical as they provide vital services not met by the government and other NGOs and therefore, they are engaging in financial sustainability strategies to remain viable in the less funded and more increasing NGO environment by sourcing funds in other ways other than relying on traditional means of donor funding to remain sustainable.

1.3 Statement of the Problem

Attaining financial sustainability is a major element for NGOs' long-term survival and operation. Currently in Kenya, NGOs do not have sufficient, appropriate and continuous funding for their projects and which often delays their work. Many local NGOs do not have the capacity to mobilize resources and often do not seek local financing, preferring to rely on donor aid. The situation is worsened by tough global economic times buoyed by global recession which have shrunk donor funding, stringent donor funding conditions, weak financial sustainability practices and questionable organization/management governance practices which have further dent the NGOs' ability to access external funding (Milelu, 2018).

A number of studies have been done on NGOs financial sustainability. For instance, Park and Cho (2020) sought to examine the determinants of donation intentions influenced by television fundraising campaigns in order to boost financial sustainability and revealed that emotional sympathy was the most important factor. Miriti and Karithi (2020) focused on determining the factors affecting the sustainability of NGOs in Kenya and revealed that sustainability of NGOS was enhanced by donor-relationship management. These findings are supported by Olando (2020) who aimed to determine the factors affecting sustainable funding of NGOs in Nairobi County with a case of UHAI East African Sexual Health and Rights Initiative (EASHRI). These studies did not however establish the influence of funding diversification, financial planning, donor relationship management and financial risk management on financial performance of non-profits in Kenya which will be the focus of the current study.

Over the last few years, the operations of NGOs in Kenya have been affected by the changes from internal and external environment in which the organization operates in.

Specifically, the COVID-19 pandemic has increased the demand for nonprofits' services while damaging their finances and staffs. If the NGOs fail to develop effective response strategies to the pandemic and other environmental changes, their ability to meet their objectives will be in doubt. There was therefore need to investigate how financial sustainability practices influence NGO's financial performance. This study therefore sought to investigate the effect of financial sustainability practices on financial performance of NGOs in Kenya using KRCS as proxy for NGOs in Kenya.

1.4 Purpose of the Study

The purpose of the current study was to establish the effect of financial sustainability practices on financial performance of NGOs in Kenya

1.5 Objectives of the Study

i. To establish the effect of funding diversification on financial performance of NGOs in Kenya
ii. To determine the effect of financial planning on financial performance of NGOs in Kenya
iii. To establish the effect of donor relationship management on financial performance of NGOs in Kenya
iv. To determine the effect of financial risk management on financial performance of NGOs in Kenya

1.6 Research Hypotheses

i. H01: Funding diversification does not have a significant effect on financial performance of NGOs in Kenya
ii. H02: Financial planning does not have significant influence on financial performance of NGOs in Kenya

iii. H03: Donor relationship management does not have significant effect on financial performance of NGOs in Kenya

iv. H04: Financial risk management does not have a significant effect on financial performance of NGOs in Kenya

1.7 Significance of the Study

The study will be useful to various groups. The information resulting from the study will help in future development of theories on financial sustainability. It will also serve as a future reference for researchers on the subject of financial sustainability practices and financial performance of organizations. The study will be useful to managers and management consultants in informing them on financial sustainability practices as a tool for controlling financial performance in an organization. Importantly, this research will educate clients in understanding effects of financial sustainability practices on financial performance. The knowledge gained on effects of financial sustainability practices on financial performance among NGOs and other firms in general will serve as a guideline for the formulation of policies.

1.8 Scope of the Study

This study considers financial sustainability in its entirety to be very important and wide, however the study was limited to a few financial sustainability attributes namely funding diversification, financial planning, donor relationship management and financial risk management practices as these attributes have received little attention in previous studies. The financial sustainability practices were the predictor variable while financial performance was the response variable.

1.9 Delimitations of the Study

The research was restricted to a collection of predictors and dependent variables, in particular financial sustainability and financial performance. Predictor variables included income diversification, financial planning, donor relationship management and financial risk management, while financial performance constituted the dependent/outcome variable. Although KRCS has many employees within the country, the study focused on the target population of 389 KRCS employees based at the head office with a sample size of 198 respondents drawn. Findings of the study were used for academic purposes only. The research project was focused towards exploring effects of financial sustainability practices on financial performance of NGOs with a distinct case of Kenya Red Cross Society.

1.10 Limitations of the Study

While there are many forms of data which can be collected in a study, primary data was adopted in the current study. As a way of reducing the possible outliers, a structured questionnaire was used. Though this can increase the chances of having data collection that is skewed because the expected respondents are restrained in terms of the type of information they give and how they are supposed to share the information. Therefore, this study aimed at ensuring that instrument of data collection captured comprehensive data that addressed the research objective without any prejudice.

In addition, some of the interview subjects were skeptical that they are research participants. This challenge was addressed by the researcher through requesting for the required approval, consents and permit for the various authorities including the KRCS, University as well as the National Commission of Science, Technology and Innovation (NACOSTI). More so, the research considered all the ethical issues required and the researcher notified the respondents of the same. Finally, the respondents were required to be willing to give their opinion and views and this was indicated in the questionnaire.

1.11 Assumptions of the Study

One of the key assumptions was that KRCS employees were available and willing to provide the required information given they operate in busy and tight environments further to the fact that some of the information sought is both sensitive and confidential. Further, the researcher assumed that the employees of KRCS sampled will agree to have their responses recorded with the guarantee that the information will only be used for the envisioned purpose. Finally, the study assumed that the management, policymakers, and other stakeholders will uphold the conclusions of this study and find it useful to guide operations as well as in decision making and policy formulation.

1.12 Theoretical Framework

This section presents a review of theories explaining the association amongst financial sustainability practices and financial performance. The study was anchored on stakeholder theory and the resource dependency theory.

1.12.1 Stakeholder Theory

Organizations should be accountable to both external and internal stakeholders as their activities impact the external environment. Stakeholders' theory, which as originally developed by Freeman (1984) was to be used as a managerial instrument. It has however since evolved to become a theory of the firm that has high explanatory potential. The stakeholder theory is like a conceptual framework of organization ethics and organizational management which addresses moral and ethical values in the management of a non-profit organization or other organizations. Stakeholder theory majorly focuses on equilibrium of the interests of the stakeholders as the core determinant of organization policy. The theory has a large contribution to risk management coming up as an addition to implicit contracts theory as well as other forms of contracts, including financing (Fontaine, 2006).

This theory is criticized on the basis of assuming a single-valued objective this is where gains accrue to a firm's stakeholders. Jensen (2016) states that there are other measures to measure how an organization has performed besides by benefits got by stakeholders. These measures include information flow from senior management to subordinate staff, working organization environment and interpersonal relations within the organization. The current study will overcome this limitation by developing other measures of a firm's financial performance.

Stakeholder theory was relevant to this study because it is aimed at ensuring that the diverse needs of all the stakeholders are well represented. This is achieved through establishing a network of relationships with the stakeholders of the NGO who include the donors, suppliers, employees, regulators and the consumers. This is part of the goal of the non-profit organization. In this study, managers of KRCS should aim at meeting the needs of all stakeholders. To achieve this goal; they should ensure they communicate all the relevant information to stakeholders and ensure accountability and transparency. The theory connects all the objectives of the study with financial performance.

1.12.2 Resource Dependency Theory

Resources adequacy and availability is critical to the effective and efficient performance of any organization both for-profit and non-profit. This theory was founded by Pfefer and Salancik (1978). It states that organizations should transact with other players and organizations in its environment to acquire resources. The proposition of the theory is that actors who lack essential resources are required to seek relationships with (that is, depend upon) others with the goal of acquiring the necessary resources. The theory further states that organizations and institutions are seen as coalitions that align the structure and behavioral patterns to acquire and maintain the required resources. In a similar perspective it is believed that the acquisition of external resources required by an organization is implemented by lowering the organization's dependence or by increasing its dependence on other entities (Medcof, 2001).

This theory is criticized by Penrose (1959) due to its assumption that the sustainability efforts of an organization are dependent on the resources possessed by the organization. The current study overcomes this limitation by acknowledging that an organization can expand its physical, human, and also organizational resources over time, hence, the productive opportunity of the organization will vary accordingly. Additionally, the theory states that the services yielded by the resources are limited to the capacities of the staff utilizing them, whereas development of capacities of the staff is partly linked to the resources dealt with by the staff.

In relation to the resource dependency theory, non-governmental organizations are dependent on other entities (mainly the donors) for their survival and attainment of financial sustainability. However, this dependence has affected the NGOs making them lose their power. This is manifested in the requirement made by donors to have the NGO's function in accordance to their regulations. Resource dependency theory was therefore used in this study, an anchor to specific objectives 1-3 of this study.

1.13 Conceptual Framework

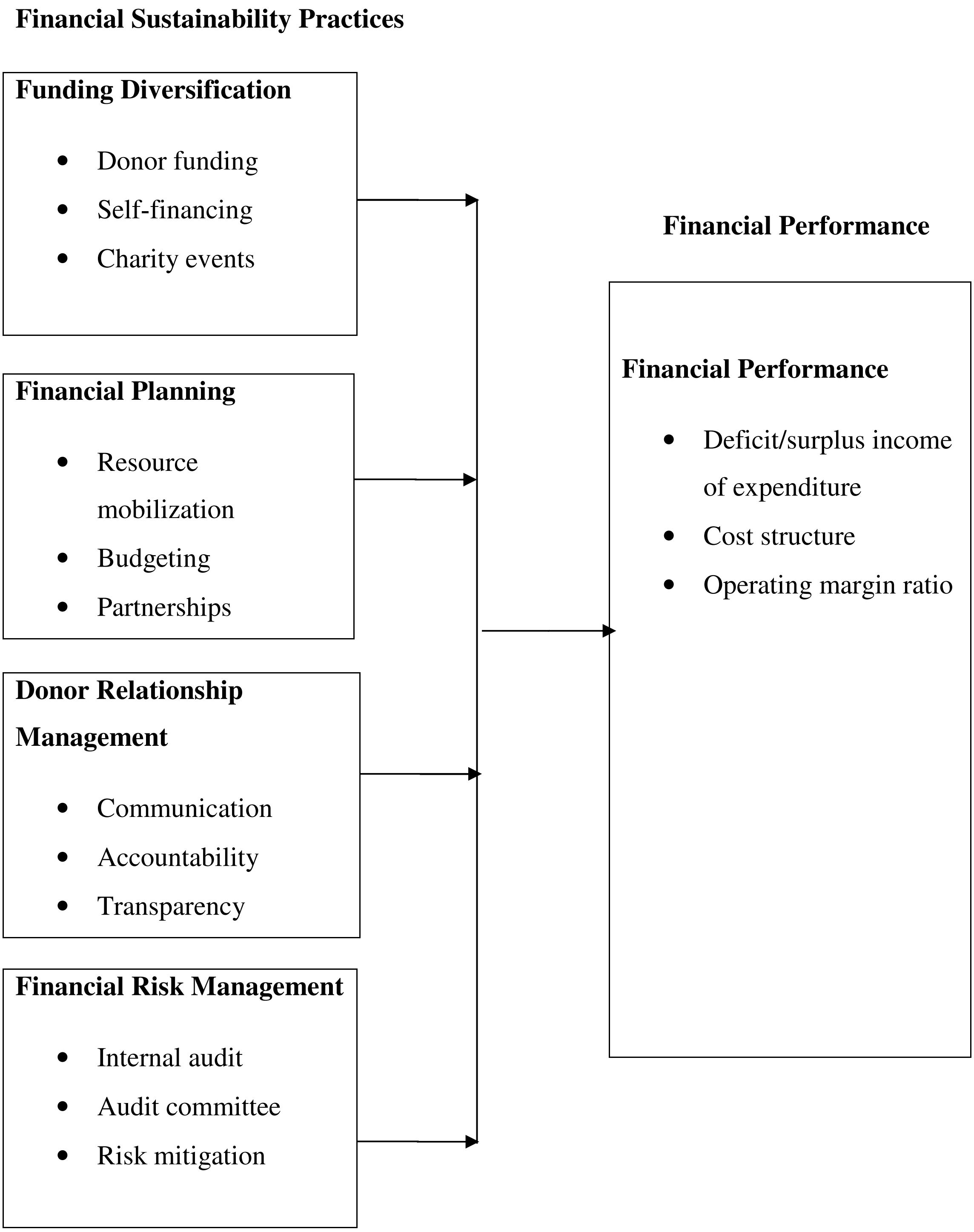

Figure 1.1: Conceptual Framework

Source: Researcher (2021)

Conceptual framework can be defined as a pictorial presentation of key variables and describes the association amongst the main concepts of a study. In this study, the independent variables comprise of, funding diversification, financial planning, donor relationship management and financial risk management whereas the dependent variable is financial performance of NGOs.

As shown in figure 1.1, the independent variables have an influence on the dependent variable. Instead of placing reliance on a single source of financing, the organizations ought to gather capital from several sources a method called layered financing. Placing heavy reliance on external financing from foreign donors will cause several problems for the NGOs. First, the international financing level is unstable. NGOs should utilize different financing methods for improving the financial sustainability of NGOs. Such methods comprise of staff training on proposal writing, extending donor scope and identification of domestic sources of financing. Additionally, management should make sure they are more transparent and accountable in financial matters by providing proper documentation, application of accounting policies and recording methods to limit ambiguities and suspicion. Management can also come with ways of self-financing to ensure financial sustainability.

Financial planning allows the NGOs to concentrate on both short and long-term strategic goals that are normally subject to availability and timing of financing. Failure to engage in effective financial planning implies that an organization may fail to achieve its greatest potential. Financial planning as an element of financial management systems allows the non-governmental organizations to form financial controls that will permit them to set spending limits and match their costs in line with revenues. Creating financial controls and spending limits enables nonprofit organizations not to overspend, and makes sure that the managers are making adequate decisions for the organization. Outside parties donating money to non-governmental organizations want to see accountability, and want to be assured that it is beneficial, and the only effective way to do this is through effective financial planning.

According to AIKhouri and Arouri (2019), claims through donor relationship management, sustainable funding for non-profit organizations can be achievable. Donor relationship management is regarded as the relationship between donor and non-profit organizations for the funding strategy. The relationship with donors is significant for the development of non-governmental organization activities and enhances growth leading to the long-term sustainability. In addition, non-governmental organizations need to have a good financial management system, good leadership with integrity, educated staff with experience and implementation of strategic planning in achieving significant donor relationship management (Nuka, 2010).

Financial risk management helps an organization to timely identify key areas that are bringing losses to an organization and decides on the critical technique of dealing with such an exposure (Muriungi, Waithaka, Were & Muriuki, 2017). Mucheru (2016) revealed that establishing a risk management department, an effective internal audit department, audit committees and risk avoidance ensures sound financial management and in effect enhanced financial performance.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter consists of empirical literature which covers various studies done by other scholars and researchers on the area of study namely effect of financial sustainability on financial performance. The section also presents the research gap that revealed what was not studied in the field of study.

2.2 Review of the Literature

This section presents a review of literature based on the objectives of the study. This section is split on the basis of each specified objective to ensure it is reliable to the study problem. An empirical review outlines what other researchers who conducted similar studies found and concluded so as to identify the gap left unstudied and therefore covered by this current study. Empirical review is the assessment using observed evidence. It is a mechanism through which knowledge is gained using direct and indirect experience. The researcher reviews the ultimate objectives/variables to this study.

2.2.1 Funding Diversification and Financial Performance

Funding diversification refers to the sourcing of funds for the Non-Governmental Organizations from many sources. The sources may include the public, external donors, the business community and governments whereby donor funding is limited with the Non-Governmental Organization using the resources only for specific purpose that is intended for in support with the activities of the NGO. According to McElwee and Wood (2018), diversification of funding is the number of activities aiming to reduce dependence on a certain type of funding, specific donor, dominating consumer and currency in which most of the funds are released form. Aguilar and

Hansen (2018), studied financing of NGOs finding that approximately 60 percent of the income for the NGOs are from a minimum of five sources of funding their projects. The authors also indicated that diversifying sources of income for the NGOs protect it from external shocks and the challenges arising from volatility of donor funding.

A lot of effort has been put by NGOs to ensure that financial resources become key in determining what they aim to achieve and how they operate with the given budget and not attempting to be profit making. Park and Cho (2020) sought to examine the determinants of donation intention which are influenced by campaigns in television fundraising so as to enhance financial stability. Data was gathered from the respondents using online surveys founded on donation experiences and applied analyses for instance ANOVA, regression and factor analysis. The study's findings revealed that, regardless of previous donation experiences, emotional sympathy was the most important factor, whereas economic benefit was relevant only for novice donors. The findings have fundraising consequences for nonprofit organizations, indicating the aspects need to be tackled in ways to inspire donors to give. This study focused on determinants of donation intention while the current study will focus on how funding diversification influences financial performance among NGOs in Kenya and specifically at KRCS. In addition, this study was conducted in Korea which has a different socio-cultural and economic environment from Kenya where the current study will be undertaken.

While reviewing the factors influencing financial sustainability of NGOs in Columbia, Moreno (2019) found that funding in Columbia NGOs was a challenge and their over-reliance on external donors for funding meant that the NGOs were highly limited in the scope of decision making as allocated funds had to be expended as instructed by the donors. The study applied an exploratory case study using a two staged approach while the target population was the 48 NGOs approved by FIFA Foundation to participate at the 2018 World Cup in Russia social festival. The study concluded that financial sustainability is dependent on international aid agencies funds and corporate partnerships. This study was anchored on dependency theory while the current study will be anchored on systems theory. Further the study did not relate funding diversification with financial performance which will be addressed in the current study.

Islam (2016) observed that in a bid to achieve financial sustainability when faced with declining financial support from external donors, NGOs in Egypt have scaled up their activities aimed at sourcing for funds at community levels and made use of local corporate donors in an effort to raise money and other support as well as seeking local and national government support. This study was a review of a focused selection of literature and case studies. The study concluded that financial dependence on a single or few donors basically imply that the NGO sacrifices autonomy, credibility, and in some cases their core mission and values leading to a situation in which the donor has the ability to influence the organization for their own desire. To have full control over their own activities and programs, NGOs should therefore develop alternative funding strategies that would enable them to become less reliant on external funding and the restrictive donor conditions. This study was a review of literature while the current study will be empirical in nature focusing on NGOs in Kenya and specifically a case study of KRCS.

Despard, Nafziger-Mayegun, Adjabeng and Ansong (2017) study found that the need to cover rising operation costs remains one of the major reasons as to why NGOs should pursue funding diversification. Non-governmental organizations, just like other business enterprises have to incur various operational costs in their day to day running and with donor funding being restricted to execution of identified programs, the need for the NGOs to have other income sources to meet their daily expenses have grown. The study concludes that funding diversification provides a viable mechanism through which the NGOs can raise much needed finances, outside their donors, and which can support their daily operational expenditure. The study recommended the need for strategies to raise additional funding given that donor funding may not be adequate to meet all the costs of an NGO. This study focused on NGOs in Sub-Saharan Africa and it was cross-sectional in nature cutting across 170 NGOs while the current study will be an in-depth case study of KRCS. Further, the study did not establish the effect of various funding sources on financial performance which the current study will focus on.

2.2.2 Financial Planning and Financial Performance

Financial planning remains one of the core functions of financial management systems in nonprofits as is with profit making organizations. Financial planning enables NGOs to concentrate on both short and long-term strategic goals that are also linked to funding availability and timing. Failure to engage in effective financial planning implies that an organization might not have the ability of reaching its optimal potential (Lewis & Kanji, 2017). Financial planning as an element of financial management systems allows the non-governmental organizations to come up with financial controls which enable them to develop spending limits and bolsters their attempt to match revenues with costs. By having financial controls and spending limits, nonprofit organizations are able to eliminate overspending and ensures that manager's decisions are for the good of the organization (Ghauri & Wang, 2017).

In a study of financial sustainability of NGOs in Canada, Kristin (2016) observed that often NGOs lack management and staff who are knowledgeable on financial matters, which complicates financial planning. Thus, the board should have professionals in finance and accounting that can assist in these areas. In addition, executives should learn how to interpret financial statements, how to set up financial plans and how to manage organizational finances in general. Given the instability in the revenue cycles of most NGOs, financial planning provides the key to reacting quickly to any short falls that may arise in an organization's future funding. This study focused on 5 NGOs in Canada which has a different social cultural and economic environment from the current study which focuses on Kenyan NGOs with KRCS as a proxy.

Strategic financial planning has as a main objective to determine the financing resources needed to execute programs and initiatives to achieve planned goals and objectives, ensuring the funding is available as necessary, track resource utilization, and to monitor the effective use of resources as required. Aboramadan (2018) conducted a study on a road map to effective management of NGOs. The study findings revealed that financial planning helps in focusing attention of the managers and subordinates towards organizational objectives. This predetermines the objectives and defines the line of action in completing the tasks and responsibilities set. Strategic financial planning serves as the framework of the course of action and eliminates the unnecessary and useless activities. It facilitates making the right decision at the right time. This study focused on developing a framework without conducting a quantitative or qualitative study to test the framework. The current study will fill this gap by investigating how financial planning affects financial performance among NGOs in Kenya using KRCS as a proxy.

Ngoe (2018) did an examination of the factors that influence financial sustainability of youth enterprises that are funded under the Youth Enterprise Development Fund (YEDF) in Mombasa County. The study established that financial sustainability is affected by strategic financial planning, the administration, financial procedures and controls adopted by organizations, record keepings systems, financial reporting and reinvestment. The study revealed that with a high reliance on a single local resource provider/ over dependency, limited knowledge, and use of provincial and national resource providers seen an inhibiting factor to sustainability. The study utilized a descriptive cross-sectional design and utilized both qualitative and quantitative data. This study was conducted among Youth enterprises funded under YEDF while the current study will focus on NGOs in Kenya using KRCS as a proxy.

An organization's financial sustainability is an indicator of the capability of the organization to fulfill its financial obligations. Mutinda and Ngahu (2016) did a study aimed on establishing the determinants of financial sustainability of NGOs located in Nakuru County. The target population was 56 registered NGOs operating in Nakuru County. Both descriptive and inferential statistics were applied in analyzing the data which was collected using questionnaires. From the findings it was shown that the NGOs financial sustainability was not significantly influenced by the capacity to mobilize financial resources. On the other hand, there was a positive significant influence of financial planning systems of the financial sustainability of the NGOs located in Nakuru County. The recommendation of the study was that management ought to strengthen financial planning systems so as to create transparency in the

NGOs management. This study focused on Nakuru County whereas the current study will focus on NGOs in Kenya using KRCS as a proxy.

2.2.3 Donor Relationship Management and Financial Performance

In a review on nurturing relationships to keep donors, Simone (2017) observed that donors who perceive the communications they receive from the funded organizations as informative, courteous, timely, appealing, and convenient tend to remain loyal for longer in turn guaranteeing continued support. According to Pathfinder International (2020), the donors should select the pattern of communication they wish to receive and the communication content. Some NGOs give donors the chance to dictate how often they should be informed on organizational matters and on how donations have been used. Such donor relationship management practices improve perception of communication quality received increasing loyalty.

Miriti and Karithi (2020) did a study to investigate on the factors that influence NGOs sustainability in Kenya. More precisely the study aimed on determining how accessibility of donor funds, managing of the funds, government policies as well as management of donor relationship affects the sustainability of donor funding. In this study the targeted population was 288 NGOS in Nairobi County whereas a descriptive research design was applied. To collect the data a questionnaire was used whereas it was analyzed using both inferential and descriptive statistics. From the findings it was shown that there was a significant relationship amongst NGOs sustainability and accessibility of donor funds, management of the funds, management of donor relationship and policies by government on donor funding. Also, the study revealed that sustainability of NGOS was enhanced by donor-relationship management. The recommendation was that NGOs management ought to ensure that donor funds ought to be properly managed in compliance with government regulations and donor policies in order to improve sustainability. This study focused on how donor relationship management influences sustainability while the current study will focus on the effect of donor-relationship management on financial performance of NGOs using KRCS as a proxy.

Olando (2020) aimed to determine the factors affecting sustainable funding of NGOs in Nairobi County with a case of UHAI East African Sexual Health and Rights Initiative (EASHRI). A descriptive research design was employed while the population of the study was made up of 43 employees working at UHAI EASHRI. The study was based on primary data which was obtained using a closed-ended questionnaire. Both descriptive and inferential statistics were used. The findings of the study revealed that there exists a significant relationship between donor relationship management and sustainable funding. This study concludes that donor relationship management enhances sustainable funding in the organization and that the relationship with donors is significant for the development of non-governmental organization activities and enhances the growth leading to long-term sustainability. The study recommends that transparency should involve a need for UHAI EASHRI to make all of its operations open to the public, this includes the operational activities involved, financing of the activities, their donors and the management among other activities of the organization. The study focused on UHAI EASHRI whose structure and size is different from KRCS which is the focus of the current study.

Milelu (2018) aimed on exploring the factors influencing the financial sustainability of NGOs located in Nairobi Kenya. A descriptive research design was adopted in this study, both regression and correlation were conducted and tables were used in presenting the results. The findings revealed that organization had made initiatives of determining constructive network and alliances with different donor organization, accountability using donor funds assisted in improvement of donor relations, organization, their organization had regular communication with donors, their organization followed the guideline and the scope of directors activities or risk getting no funding and that the stronger the relationship the organizations had with their donors the more financially sustainable they were. The study found that donor relations management has performed an important role in ensuring financial sustainability in Nairobi Kenya by NGOs and that they maintain regular effective conversations with donors and NGOs are committed to building networks and alliances with donor organizations. The recommendation of the study was that NGOs ought to develop operating frameworks which enable effective collaboration with the donor in the performance of their activities. This study was cross-sectional in nature cutting across various NGOs in Nairobi, Kenya while the current study will be an in-depth case study of KRCS.

AIKhouri and Arouri (2019) study found that through donor relationship management, sustainable funding for non-profit organizations will be achievable. Donor relationship management is regarded as the relationship between donor and non-profit organizations for the funding strategy. The study focused on NGOs in UK and collected primary data with an aid of structured questionnaires. The study concluded that the relationship with donors is significant for the development of non-governmental organization activities and enhances the growth leading to the long-term sustainability. In addition, non-governmental organizations need to have a good financial management system, good leadership with integrity, educated staff with experience and implementation of strategic planning in achieving a significant of donor relationship management. This study was conducted in UK whose social cultural and economic setting is different from the one in Kenya where the current study will be based.

2.2.4 Financial Risk Management and Financial Performance

In recent years, financial risk management has received increased attention and has become an area of focus for all the entities because of its long-term effect on entities financial sustainability. The reason for this is that financial risks, may affect core competencies of firms, and greatly impact their operations. Financial risk management is the standard for determining failure or success of an Entity. In order to maximize shareholders' wealth and acquire substantial business value that can be converted and used for expansion or to undertake new product development that will accelerate, establish the financial sustainability of the entity (Gray, Bebbington & Collison, 2018). From the empirical review a number of debates and controversies exist on financial risk management and financial sustainability. Scholars have extensively studied this topic and produced varied findings; while others found that risk management has a positive impact on financial sustainability, some found an inverse relation and others show that other factors apart from financial risk management influence financial sustainability.

Muriungi, Waithaka, Were and Muriuki (2017) analyzed how the practices of managing risks influenced financial stability of state-owned enterprises in Kenya. The focus of the study was on the tourism sector. It was found that in management of financial risks; credit risk management increases the stability of an organization. The process of managing risks is continuous in state corporations and these corporations have instituted measures that lower liquidity risk. The also noted that financial risk management improved investments. In operational risk terms, many resources have been channeled towards information technology risk management, risk-audit activities, and an assessment of operational risks and in making recommendations towards the reduction of risks. Risk management improves the financial stability of an organization and rational risk management ensures financial success of state enterprises. This study focused on state owned enterprises whose structure and operations are different from those of NGOs.

In an investigation of factors that influence implementation of NGO projects in Nakuru County, Nyanje (2016) noticed that numerous local NGOs lacked sound financial management practices and they kept their financial records in a manner that left financiers with a lot of work confronting accounting issues while attempting to settle accounts. The study also found that at times, local NGOs neglected meeting the statutory prerequisites, and with such poor book-keeping procedures were unlikely to have the capacity to produce their own assets and be viable. The study concluded that sound financial management frameworks positively affected the financial sustainability of the local NGOs. Additionally, governments and contributors of the funding were more likely to continue funding NGOs with sound financial management practices as they felt they were more accountable. Failing to implement effective financial controls adversely affects their ability to access donor funding, particularly from larger donors who emphasize on existence of sound financial management systems. The focus of this study was on factors influencing implementation of NGO projects while the current study investigates the effect of financial risk management on financial performance of NGOs using KRCS as a proxy.

Yameen, Farhan, and Tabash (2019) investigated how corporate governance practices impact performance, with a focus on the NGO sector in India. Findings showed the composition of the audit committee and diligence has a positive impact on performance of NGOs in India. The study concludes that accountability concerns have grown within NGOs in the Global South. NGOs are accountable to several stakeholders, such as financiers, foreign governments where they operate, and their immediate communities. Therefore, audit emerges at the nerve of NGO operations. This study was carried out in India whose social cultural and economic setting is different from Kenya which is the focus of the current study.

Ogega, Kibati, and Koima (2017) determined how risk based internal audit impacts sustainability of NGO's. The study established that auditor competency had significant relationships with financial sustainability and that risk based internal audit is a critical component of effective financial reporting. The study concluded that internal controls are required to safeguard NGO assets, improve consistency in accounting information, improve compliance with laws or contracts, improve operational efficiencies and meet stakeholder demands. This study focused on NGOs in Nakuru County while the current study will focus on NGOs in Kenya using KRCS as a proxy. In addition, the study's dependent variable was sustainability while the current study focuses on financial performance.

2.3 Summary of Review of Literature and Research Gaps

The literature review has been reviewed based on the study objectives in relation to other existing studies. There were numerous studies that were undertaken by other researchers and were compared and contrasted to make an informed decision on the subject matter of this study (Islam, 2016; Despard et al., 2017; Aboramadan, 2018; Alkhouri & Arouri, 2019). A careful search for the study and knowledge gap was identified. The knowledge gap was identified after a thorough critique of other existing studies and gaps presented.

Different studies have been carried out locally on the subject area of financial sustainability practices but there exist several gaps. Conceptually, although there are previous studies carried out, to the best knowledge of the researcher, they have not operationalized financial sustainability practices in terms of funding diversification, financial planning, donor relationship management and financial risk management. Further, most of the available studies have not related financial sustainability practices with financial performance. Their findings can therefore not be used to generalize on the effect of financial sustainability practices on financial performance of NGOs in Kenya.

Methodologically, most of the previous studies in the Kenyan context have been cross-sectional cutting across several firms (Muriungi et al., 2017; Mohamed & Muturi, 2017) while the current study will be an in-depth study of one organization. Contextually, there also exist studies that had the same or closely related objectives but were conducted in developed economies such as Europe, USA and some parts of Asia and therefore the findings cannot be generalized in Kenya which is a developing country. Although there are also related studies locally, most of them focused on other organizations such as government agencies, MFIs, banks, insurance firms whose operations are different from NGOs.

CHAPTER THREE:

RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers the research design that guided the study. Others include research site and rationale, target population, sampling protocol, data collection instrument and procedure, and lastly the data collection and analysis and presentation of findings.

3.2 Research Design

The study adopted a descriptive design to determine the effect of financial sustainability practices on financial performance. Descriptive design was used to describe variables of the study namely funding diversification, financial planning, donor relationship management and financial risk management as well as financial performance in terms of their mean and standard deviations. According to Cooper and Schindler (2018) a descriptive study is applicable when the researcher seeks to explain how the phenomenon operates through the identification of the underlying factors producing the change in which case the independent variable cannot be manipulated and, in this case, financial sustainability practices.

3.3 Research Site

The study was conducted to investigate the effect of financial sustainability practices on financial performance of NGOs in Kenya because NGOs are important to Kenya's socio-economic development. The target site was KRCS Headquarters located in South C, Nairobi County, Kenya.

3.4 Target Population

Population refers to an aggregate of subjects sharing common or similar characteristics (Kothari, 2017). In respect of this study, population of the study was the 10 departments in KRCS. The unit of observation was the employees in these departments. Population is as presented in Table 3.1

Table 3.1 Population Distribution

Departments	No. of Employees	% Distribution
Administration	61	15.68
Global Fund	61	15.68
ICHA	34	8.74
Logistics	52	13.37
Nutrition Services	30	7.71
Sanitation and Hygiene	6	1.54
Disaster Management	34	8.74
Organization Development	20	5.14
Disaster Risk Management	74	19.02
Partner National Societies	17	4.38
TOTAL	**389**	**100**

Source: KRCS (2021)

3.5 Study Sample

3.5.1 Sampling Procedure

This study used stratified random sampling because this method enables a researcher to subdivide the sample into suitable strata which are mutually exclusive. The employees were categorized as per their department. Cooper and Schindler (2018) stated that this sampling procedure produces a statistical efficiency increase on the sample, gives sufficient data that analyzes the respective sub-population and allows different study methods to be utilized in different strata. Burns and Burns (2018) stated that the method involves the subdivision of the research population into independent sub groups and obtaining the simple random sample for every sub group. They further stated that the selection of the sample is made in such a way that a number of sub groups within the population are included in the sub group in proportion to their number within the population.

3.5.2 Sample Size

The study adopted Yamane (1967) formula with assumption of 95% of confidence level to estimate the sample size. This formula has been used by scholars in similar studies (Gaiku, 2020, Onyanyo, 2015, Mboga, 2017, Waru, 2016).

$$n = \frac{N}{1 + N(e)^2}$$

Where:

n = sample size

N = population size

e = precision level

1 = Constant

$$n = 389/\ 1+ 389(0.05)^2$$

$$= 197.21 \approx 198 \text{ respondents}$$

Substituting these values in the above equation gives 198 respondents that were used as the sample size for the current study. Simple random sampling was used to arrive at the individual respondents in each department. The sample size is shown in Table 3.2

Table 3.2 Sample Size Distribution

Department	Population	Sample Size	% Distribution
Administration	61	31	15.68
Global Fund	61	31	15.68
ICHA	34	17	8.74
Logistics	52	27	13.37
Nutrition Services	30	15	7.71
Sanitation and Hygiene	6	3	1.54
Disaster Management	34	17	8.74
Organization Development	20	10	5.14
Disaster Risk Management	74	38	19.02
Partner National Societies	17	9	4.38
TOTAL	**389**	**198**	**100**

3.6 Data Collection

3.6.1 Data Collection Instruments

This study collected primary data by aid of a questionnaire. When undertaking data collection in a study where the population is dispersed, the most appropriate tool for use is a questionnaire (Burns & Burns, 2018). Since this study used quantitative data, a structured questionnaire was used. Structured questionnaires make it possible to obtain categorical data that is numerical in nature. Additionally, the data items which reflect the specific objectives of the study namely funding diversification, financial planning, donor relationship management and financial risk management are on a 5-point Likert scale and are made to be precise ad explicit so as to address the issue of ambiguity to the projected respondents.

3.6.2 Pilot Testing of Research Instruments

Accuracy and relevance of the research instrument is critical. In this regard this study conducted a pilot study. A Pilot study was done in order to determine the feasibility of conducting a complete study. This involved 39 KRCS employees (10% of the target population) who filled the questionnaires and its accuracy tested. The 39 respondents were not involved in the final study to ensure non-compromise of the research data. The respondents helped to estimate the time needed to fill the questionnaires and identify errors to be corrected. The pilot study established the strength or weakness of the study. The prior testing assisted to determine accuracy, clarity and suitability of the study tool.

3.6.3 Instrument Reliability

Reliability is a measure which is used to describe the overall consistency of an instrument. A measure is said to have a high reliability if it produces similar results under consistent conditions (Burns & Burns, 2018). The Cronbach alpha analysis helped to assess the reliability of the research instruments by demonstrating the internal accuracy of the data collection instrument. Cronbach's Alpha is a metric of reliability that displays a true 'base' score. Even if the questions are interchanged with similar ones, Cronbach's Alpha is important to a scholar in ensuring accuracy and reliability of the questionnaire (Khan, 2017). Reliability of 0.7 range is generally considered acceptable and over 0.8 is excellent. This thresh-hold was applied to the study.

Table 3.3 Reliability Results

Variables	Cronbach's Alpha	Critical Value	Conclusion
Funding diversification	0.763	0.7	Reliable
Financial planning	0.776	0.7	Reliable
Donor relationship management	0.826	0.7	Reliable
Financial risk management	0.813	0.7	Reliable
Financial performance	0.883	0.7	Reliable

Source: Primary Data (2021)

3.6.4 Instrument Validity

The validity of the instrument refers to the capacity of the tool to assess the construct as intended. This study subjected the research instrument to validity test. Construct validity was utilized in testing whether the operational definition of variables is an actual reflection of the true theoretical definition of the concept. For this study, the development of the questionnaire was made based on similar early studies that were modified to meet the study objectives (Aguilar & Hansen, 2018; Moreno, 2019; Miriti & Karithi, 2020). Content validity was determined using expert opinion. This was the opinion of supervisors, which guaranteed the questionnaire covered all variables. They also checked the document to make sure theoretical dimensions were similar to those conceptualized.

3.6.5 Data Collection Procedures

The study used a structured questionnaire for collecting primary data. The study issued the questionnaire to selected KRCS employees through Google forms. In order to ensure that the respondents receive the issued questionnaire, care and control was exercised. The researcher kept a copy of the questionnaire register, which were issued and obtained.

3.7 Data Processing and Analysis

The data was reviewed for completeness and the variables with missing or incomplete data removed. Cases with more than 20% incomplete answers were also excluded from the study. The reason for data cleaning was to ensure that outliers, which often threaten the accuracy and reliability of the results of the analysis, were minimized. Version 24 of the Social Sciences Statistical Package (SPSS) method was used to analyze data as SPSS is more robust than other data processing tools and is commonly used by many academicians in data analysis (Jomo, 2017). The data was analyzed for descriptive statistics as well as correlation analysis. Diagnostic tests such as normality, multicollinearity, and autocorrelation and correlation analysis were undertaken to test if the multi-regression model was well specified as per the assumptions of linear regression. Multiple regression analysis was also applied while ANOVA, F-test and t-test were carried to test the relationship between financial sustainability practices and financial performance. The research hypothesis was tested using the regression analysis. The following empirical model was adopted.

$$Y=\beta_0 + \beta_1X_1+ \beta_2X_2+ \beta_3X_3+ \beta_4X_4+\varepsilon$$

Where:

Y is ‘financial performance’

B_0 is the ‘Constant’

X_1 is 'Funding diversification

X_2 is 'Financial planning'

X_3 is 'Donor relationship management'

X_4 is 'Financial risk management'

ε represents 'Error Term'

β_1, $\beta 2$, β_3, β_4 represent 'Regression coefficients of predictor variables

Both descriptive and inferential statistics results were presented in tables and figures which were accompanied by pertinent interpretations and discussions.

3.8 Legal and Ethical Considerations

Requisite permits, consent, and approvals were sought before data collection since it is an ethical requirement in research. Authority to do the research study was attained from the school and a research authorization/permit letter from the NACOSTI was sought because this is the institution in the country mandated to approve and supervise research in Kenya. Finally, approval to do the study in KRCS was sought from the management for concurrence and access to staff and offices to conduct study. Having determined both the reliability and the validity of the study-specific data collection tool, the principal investigator disbursed questionnaires, which were self-administered so that respondent can independently answer the questions. Confidentiality and privacy was observed by not having had to identify information on the questionnaire and allow the respondents to fill the questionnaire in privacy as this is an ethical requirement by ANU and NACOSTI. The study protected and kept information confidential and, before revealing any information, the consent of the respondent was sought first. This ensured free flow of information without any inhibition hence guarantee accurate and reliable data for analysis in this study.

CHAPTER FOUR
DATA ANALYSIS AND FINDINGS

4.1 Introduction

This section presents the results from the study. The sections in this chapter include the general information section encompassing the response rate and demographic information. The chapter also outlines the descriptive and inference statistics in line with the study objectives.

4.2 Response Rate

In survey research, a response rate is the number of responses obtained divided by the number of target respondents. The response rate is also denoted as the completion rate or return rate and it is usually expressed percentage form. Information on the rate of response for this research is displayed in Table 4.1.

Table 4.1: Response Rate

Response Rate	Frequency	Percent
Returned	133	67.2
Unreturned	65	32.8
Total	**198**	**100**

Source: Primary Data (2021)

Table 4.1 showcases that 198 questionnaires were issued to employees in the 10 departments at KRCS. The study findings exhibit that out of the 198 issued questionnaires to the target respondents, only 133 responses were made with adequate information and returned which translated to an overall 67.2% study response rate. This is in line with Neil (2009), who stated that a study with 50% response rate and above is sufficient for analysis and drawing conclusions.

4.3 Demographic Analysis

This segment tabulates descriptive statistics for the demographic profiles of the respondents.

4.3.1 Gender Representation

The target respondents were requested to state their gender. The results are mentioned in Table 4.2.

Table 4.2: Gender Distribution

Gender	Frequency	Percentage
Male	69	51.88%
Female	64	48.12%
Total	**133**	**100%**

Source: Primary Data (2021)

According to the findings, male respondents made up 51.88 percent of the total, while female respondents made up 48.12 percent. This demonstrates that KRCS is committed in ensuring gender diversity, as the there was no huge variation in the number of male and female employees among respondents, according to the findings of the study.

4.3.2 Age of the Respondents

The study sought to establish the age of the respondents involved in this research. Understanding the age of the respondents is important as someone's age can influence their response to study. The outcomes are depicted in Table 4.3.

Table 4.3: Respondents' Age Composition

Age	Frequency	Percentage
21-30 years	6	4.51%
31-40 years	48	36.09%
41-50 years	61	45.86%
51 and above	18	13.54%
Total	**133**	**100%**

Source: Primary Data (2021)

Table 4.3 displays that the highest respondent number (45.86%) were between the ages of 41 and 50, 36.09 percent were between the ages of 31 and 40, 13.45 percent were 51 and up, and the smallest percentage (4.51%) were between the ages of 21 and 30years. According to the findings, KRCS human resource personnel are relatively young. This implies that the respondents are likely to work for KRCS for a long period of time and therefore in a position to implement the findings of this study.

4.3.3 Highest Education Level

The target respondents were asked to indicate their highest educational level. The results are shown in Table 4.4.

Table 4.4: Distribution of Respondents by Highest Level of Education

Education	Frequency	Percentage
Diploma	6	4.51
First Degree	87	65.41%
Masters	40	30.08%
Total	**133**	**100%**

Source: Primary Data (2021)

The majority of respondents (65.41 percent) had a bachelor's degree, while 30.08 percent had a master's degree. Only 4.51% had a diploma as the highest qualification. None of the respondents had a doctorate. These results imply that KRCS seeks to recruit employees that are well educated. High education levels are important in an organization as it helps in understanding and solving issues facing an organization. The implication of these findings is that the respondents were in a position to comprehend the questionnaire and respond appropriately.

4.3.4 Years in the Firm

Respondents were asked to indicate how long they had worked in the firm. The results are as shown in Table 4.5.

Table 4.5: Years of Service in the Firm

Number of years	Frequency	Percentage
Less than 1 year	10	7.51%
1-3 years	36	27.07%
4-7 years	57	42.86%
8 years and above	30	22.56%
Total	**133**	**100%**

Source: Primary Data (2021)

The respondents had spent varied number of years with their current employer. The duration with an organization can be used as an indicator of their level of knowledge of internal organizational processes, capabilities, and success. The results in Table 4.5 indicated that 42.86% had worked with the current employer for 4-7 years, 27.07% for 1-3 years, 7.51% for less than 1 year and 22.56% for 8 years and above. This implies the respondents had worked in the organization for a long period of time and therefore in a position to understand their financial sustainability practices and how this can affect performance.

4.4 Presentation of Research Analysis and Findings

This section presents the results of the study based on the research objectives. Each sub-section presents the descriptive statistics in terms of mean and standard deviations and the inferential statistics in terms of correlation and regression analysis.

4.4.1 Funding Diversification and Financial Performance

The first study objective aimed to establish the effect of funding diversification on financial performance at KRCS. The respondents were requested to complete the questionnaire on statement concerning funding diversification in KRCS on a 5-point Likert scale.

4.4.1.1 Descriptive Statistics for Funding Diversification

Table 4.6 shows the study findings. The findings revealed that most of the respondents concurred that the most significant and relevant factor is that funding diversification reduces the risk of KRCS closing down in case of withdrawal of donors (Mean=4.45, std. dev=0.5). The findings further revealed that there was agreement by the respondents that funding diversification enables KRCS to be able to reject funding whose sources do not fit into its agenda and values (Mean=4.33, std. dev=0.53). Respondents further agreed with foreign donations as sources of funding being on the decline at KRCS (Mean=4.24, std. dev=0.55). Additionally, findings discovered that majority of the respondents agreed that creating other income generating activities increases KRCS financial sustainability (Mean= 4.21, std. dev=0.73). The findings, furthermore, showed that most respondents agreed on the statement that reliance on donor funding forces KRCS to align its plans with donor priorities (Mean=4.03, std. dev=0.63). Lastly, the findings revealed that most respondents concurred that, funding diversification increases KRCS ability to fund its projects based on its own priorities (Mean=3.55std dev=0.86). On average the respondents concurred that KRCS practices funding diversification (Mean=4.14 std dev=0.65).

Table 4.6: Descriptive Statistics on Funding Diversification

Statements	N	Mean	Std. Dev
Foreign donations as sources of funding are on the decline at KRCS	133	4.24	0.55
Creating other income generating activities increases KRCS financial sustainability	133	4.21	0.73
Reliance on donor funding forces KRCS to align its plans with donor priorities	133	4.03	0.63
Funding diversification increases KRCS ability to fund its projects based on its own priorities	133	3.55	0.86
Funding diversification reduces the risk of KRCS closing down in case of withdrawal of donors	133	4.45	0.50
Funding diversification enables KRCS to be able to reject funding whose sources do not fit into its agenda and values	133	4.33	0.53
Funding diversification enables KRCS meet its overhead costs and other expenses not met by the donors	133	4.03	0.63
Overall mean Score	**133**	**4.14**	**0.65**

Source: Author (2021)

4.4.1.2 Correlation Analysis for Funding Diversification and Financial performance

Correlation analysis was done to establish the association between funding diversification and financial performance. The findings were as shown in Table 4.7. The correlation findings shown that the relationship amongst funding diversification and financial performance was positive (r=0.429, p<0.001). The implication here was that funding diversification positively impacted financial performance at KRCS.

Table 4.7: Correlation Matrix for Funding Diversification and Financial Performance

		Financial performance
Funding diversification	Pearson Correlation	.429**
	Sig. (2-tailed)	0.000

Source: Author (2021)

4.4.1.3 Regression Analysis for Funding Diversification and Financial Performance

Regression determined the effect of funding diversification on financial performance. The appropriateness of fit as exhibited in Table 4.8 demonstrates that the findings showed that the R square was 0.184 indicating that funding diversification explain 18.4% of the variation in financial performance and therefore 81.6% is of the variation is explained by other factors not included in this study.

Table 4.8: Model Fitness for Funding Diversification and Financial performance

R	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
.429a	0.184	0.176	0.5181863

Source: Author (2021)

The ANOVA results in Table 4.8 exhibited that the overall model used to assess the relationship between funding diversification and financial performance was significant. This was supported by a significance level of 0.000 that was below 0.05 with confidence level being at 95%.

Table 4.9: ANOVA Results for Funding Diversification and Financial Performance

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	5.881	1	5.881	21.902	0.000
Residual	26.046	131	0.269		
Total	31.927	132			

Source: Author (2021)

The regression coefficient results indicated that funding diversification positively and significantly relate with financial performance (β=0.558, p=0.000). This suggested that a unit increase in funding diversification would result in 0.558 increase in financial performance as in the model. The t value (4.680) was higher than the t critical of 1.96 which further supports the findings.

$Y=1.408+0.558X$

Where;

Y= Financial performance and

X = Funding diversification

Table 4.10: Regression Coefficients for Funding Diversification and Financial Performance

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	1.408	0.496		2.841	0.005
Funding diversification	0.558	0.119	0.429	4.680	0.000

Source: Author (2021)

4.4.2 Financial Planning and Financial Performance

The second study objective aimed on determining the effect of financial planning on financial performance. The respondents were requested to complete the questionnaire on statement concerning financial planning in KRCS on a 5-point Likert scale.

4.4.2.1 Descriptive Statistics for Financial Planning

Table 4.11 shows the descriptive statistics for financial planning. The findings showed that most respondents concurred that KRCS has financial policies to check on the spending of financial resources (Mean=4.42, std. dev=0.55). The findings also discovered that KRCS links the budget to the strategic plan (Mean=4.33, std. dev=0.68). The findings also show that most of the respondents agreed that operations and project implementation are done according to budgetary allocations at KRCS (Mean=4.21, std. dev=0.69). Additionally, findings revealed that most of the respondents agreed that KRCS periodically reviews the budgets and other financial plans to see if they agree with its mission (Mean=4.03, std. dev=0.63). Further, findings shown that many respondents concurred that KRCS maintains an updated assets list (Mean=4.03, std. dev=0.52). Finally, findings showed that most respondents concurred that KRCS has strategic partnerships with key stakeholders essential in attracting funding for organizational initiatives and activities (Mean=3.97, std. dev=0.67). The overall mean was 4.17 suggesting that for most of the statements regarding financial planning, respondents were agreeing.

Table 4.11: Descriptive Statistics for Financial Planning

Statements	N	Mean	Std. Dev
Operations and project implementation are done according to budgetary allocations at KRCS	133	4.21	0.69
KRCS periodically reviews the budgets and other financial plans to see if they agree with its mission	133	4.03	0.63
KRCS maintains an updated assets list	133	4.03	0.52
KRCS has financial policies to check on the spending of financial resources	133	4.42	0.55
KRCS links the budget to the strategic plan.	133	4.33	0.68
KRCS has strategic partnerships with key stakeholders essential in attracting funding for organizational initiatives and activities.	133	3.97	0.67
Overall Mean Score	**133**	**4.17**	**0.61**

Source: Author (2021)

4.4.2.2 Correlation Analysis for Financial Planning and Financial Performance

Correlation analysis was done to establish the association between financial planning and financial performance. The findings were as shown in Table 4.12. The correlation findings shown that the relationship between financial planning and financial performance was positive ($r=0.544$, $p<0.000$). The implication here was that financial planning positively impacted financial performance at KRCS.

Table 4.12: Correlation Matrix for Financial Planning and Financial Performance

		Financial performance
Financial planning	Pearson Correlation	.544**
	Sig. (2-tailed)	0.000

Source: Author (2021)

4.4.2.3 Regression Analysis for Financial Planning and Financial Performance

Regression analysis was done to determine the effect of financial planning on financial performance. The model of fitness findings was illustrated in Table 4.13. This showed that the R square was 0.296 signifying that financial planning explains 29.6% of the variation in financial performance.

Table 4.13: Model Fitness Results for Financial Planning and Financial Performance

R	R Square	Adjusted R Square	Std. Error of the Estimate
.544a	0.296	0.289	0.4814159

Source: Author (2021)

The ANOVA results in Table 4.14 indicated that the overall model applied to assess the relation between financial planning and financial performance was significant. This was supported by a significance level of 0.000 that was below 0.05 at 95% confidence level.

Table 4.14: ANOVA Results for Financial Planning and Financial Performance

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	9.446	1	9.446	40.759	0.000
Residual	22.481	131	0.232		
Total	31.927	132			

Source: Author (2021)

The regression coefficient results indicated that financial planning positively and substantially relate with financial performance (β=0.821, p=0.000). This implied that change with a unit in financial planning would lead in 0.821 changes in financial performance as in the model. The findings were further supported by a t statistic of 6.384 which was higher than the t critical of 1.96.

$Y = 0.293 + 0.821X$

Where

Y is financial performance and

X is financial planning

Table 4.15: Regression Coefficients for Financial Planning and Financial Performance

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	0.293	0.538		0.543	0.588
Financial planning	0.821	0.129	0.544	6.384	0.000

Source: Author (2021)

4.4.3 Donor Relationship Management and Financial Performance

The third study objective aimed on determining the effect of donor relationship management on financial performance. The respondents were requested to complete the questionnaire on statement concerning donor relationship management in KRCS on a 5-point Likert scale.

4.4.3.1 Descriptive Statistics for Donor Relationship Management

Table 4.16 shows the findings. The findings showed that a large proportion of interviewees agreed that KRCS maintains regular meaningful communications with its donors (Mean=4.0, std. dev=0.55). The findings further noted that most of the respondents agreed that the stronger the relationship KRCS has with its donors the more financially sustainable it is (Mean=3.97, std. dev=0.58). Similarly, findings showed that respondents agreed on the statement that KRCS actively implements donor visibility/recognition activities (Mean=3.91, std. dev=0.67). The findings further shown that there was an agreement from the respondent that KRCS has to follow the guidelines as well as scope of donor activities or risk getting no funding (Mean=3.85, std dev=0.78). Furthermore, findings shown that there was an agreement by respondents that KRCS provides regular reporting on its expenditure to foster accountability for funds given (Mean=3.82, std. dev=0.80). Finally, findings showed that the respondents agreed that accountability in the use of donor funds has helped improve KRCS donor relations (Mean=3.82, std. dev=0.83).

Table 4.16: Descriptive Statistics for Donor Relationship Management

Statements	N	Mean	Std. Dev
KRCS maintains regular meaningful communications with its donors	133	4.00	0.55
KRCS actively implements donor visibility/recognition activities	133	3.91	0.67
KRCS provides regular reporting on its expenditure to foster accountability for funds given	133	3.82	0.80
KRCS has to follow the guidelines as well as scope of donor activities or risk getting no funding	133	3.85	0.78
The stronger the relationship KRCS has with its donors the more financially sustainable it is	133	3.97	0.58
Accountability in the use of donor funds has helped improve KRCS donor relations	133	3.82	0.83
KRCS has made efforts in establishing constructive networks and alliances with various donor organizations	133	3.85	0.80
Overall Mean Score	**133**	**3.90**	**0.68**

Source: Author (2021)

4.4.3.2 Correlation Analysis for Donor Relationship Management and Financial Performance

Correlation analysis was done to establish the association between donor relationship management and financial performance. The findings were as shown in Table 4.17. The correlation findings shown that the relationship between donor relationship management and financial performance was positive ($r=0.708$, $p<0.001$). The implication here was that donor relationship management positively impacted financial performance at KRCS.

Table 4.17: Correlation Matrix for Donor relationship management and financial performance

		Financial performance
Donor relationship management	Pearson Correlation	.708**
	Sig. (2-tailed)	0.000

Source: Author (2021)

4.4.3.3 Regression Analysis for Donor Relationship Management and Financial Performance

The variables were regressed to determine the effect of donor relationship management on financial performance. The model of fitness findings was presented in Table 4.18. R square was 0.501 indicating that donor relationship management explain 50.1% of the variation in financial performance.

Table 4.18: Model Fitness Results for Donor Relationship Management and Financial Performance

R	R Square	Adjusted R Square	Std. Error of the Estimate
.708a	0.501	0.496	0.4053917

Source: Author (2021)

The ANOVA results in Table 4.19 indicated that the overall model used to assess the relationship between donor relationship management and financial performance was significant. This was supported by a significance level of 0.000 which was less than 0.05 at 95% confidence level.

Table 4.19: ANOVA Results for Donor Relationship Management and Financial Performance

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	15.986	1	15.986	97.273	0.000
Residual	15.941	131	0.164		
Total	31.927	133			

Source: Author (2021)

The regression coefficient results indicated that donor relationship management positively and significantly relate with financial performance (β=0.873, p=0.000). This suggested that a unit variation in donor relationship management would cause 0.873 variation in financial performance as shown in the model. The t computed was 9.863 which was greater than the t critical of 1.96 further supporting the findings that donor relationship management is significantly related with financial performance.

$Y= 0.315+0.873X$

Where Y is financial performance and

X is Donor relationship management

Table 4.20: Regression Coefficients for Donor Relationship Management and Financial Performance

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	0.315	0.347		.908	0.000
Donor relationship management	0.873	0.089	0.708	9.863	0.000

Source: Author (2021)

4.4.4 Financial Risk Management and Financial Performance

The fourth study objective aimed on determining the effect of financial risk management on financial performance. The respondents were requested to complete the questionnaire on statement concerning financial risk management at KRCS on a 5-point Likert scale.

4.4.4.1 Descriptive Statistics for Financial Risk Management

Table 4.21 shows the findings. The findings showed that most respondents concurred that there are unacceptable variances on budgets that the management at KRCS must seek approval from the stakeholders (Mean=3.81, std. dev=1.101). The findings also discovered that most of the respondents agreed that KRCS has a fully quipped internal audit unit (Mean=3.97, std. dev=0.81). Additionally, findings revealed that most of the respondents agreed that majority of audit committee members at KRCS are independent nonexecutive directors (Mean=4.07, std. dev=1.295). Further, findings shown that many respondents concurred that variance of the budgets at KRCS is communicated annually to stakeholders and full justification obtained (Mean=3.76, std. dev=1.178). The overall mean was 3.70 suggesting that for most of the statements regarding financial risk management, respondents were agreeing.

Table 4.21: Descriptive Statistics for Financial Risk Management

Statements	N	Mean	Std. Dev
There are unacceptable variances on budgets that the management at KRCS must seek approval from the stakeholders	133	3.81	1.101
KRCS has a fully quipped internal audit unit	133	3.97	0.81
Majority of audit committee members at KRCS are independent nonexecutive directors	133	4.07	1.295
Variances of the budgets at KRCS is communicated annually to stakeholders and full justification obtained	133	3.76	1.178
Overall Mean Score	**133**	**3.70**	**1.005**

Source: Primary Data (2021)

4.4.4.2 Correlation Analysis for Financial Risk Management and Financial Performance

Correlation analysis was done to establish the association between financial risk management and financial performance. The findings were as shown in Table 4.22. The correlation findings shown that the relationship between financial risk management and financial performance was positive ($r=0.577$, $p<0.001$). The implication here was that financial risk management positively impacted financial performance at KRCS.

Table 4.22: Correlation Matrix for Financial Risk Management and Financial Performance

		Financial performance
Financial risk management	Pearson Correlation	.577**
	Sig. (2-tailed)	0.000

Source: Author (2021)

4.4.4.3 Regression Analysis for Financial Risk Management and Financial Performance

Regression analysis was done to determine the effect of financial risk management on financial performance. The model of fitness findings was illustrated in Table 4.10. This showed that the R square was 0.436 signifying that financial risk management explain 43.6% of the variation in financial performance.

Table 4.23: Model Fitness Results for Financial Risk Management and Financial Performance

R	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
.661a	0.436	0.433	0.54644

Source: Author (2021)

The ANOVA results in Table 4.24 indicated that the overall model applied to assess the relation between financial risk management and financial performance was significant. This was supported by a significance level of 0.000 that was below 0.05 at 95% confidence level.

Table 4.24: ANOVA Results for Financial Risk Management and Financial Performance

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	38.159	1	38.159	127.794	0.000
Residual	49.269	131	0.299		
Total	87.428	132			

Source: Author (2021)

The regression coefficient results indicated that financial risk management positively and substantially relate with financial performance (β=0.633, p=0.000). This implied that change with a unit in financial risk management would lead in 0.633 change in financial performance as in the model. The findings were further supported by a t statistic of 11.305 which was higher than the t critical of 1.96.

Y= 1.3+0.633X

Where

Y is financial performance and

X is financial risk management

Table 4.25: Regression Coefficients for Financial Risk Management and Financial Performance

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.3	0.213		6.11	0.000
Financial risk management	0.633	0.056	0.661	11.305	0.000

Source: Author (2021)

4.5 Hypothesis Testing

The study hypotheses were tested using multiple regression analyses. The acceptance/rejection criteria was, if the p-value is greater than 0.05, the Ho is not rejected but if it’s less than 0.05, the Ho is rejected.

4.5.1 Funding Diversification and Financial Performance

The first null hypothesis, H_{01}, stated: funding diversification has no significant effect on financial performance at KRCS. Results in Table 4.10 show that the p-value was $0.000<0.05$. This indicates the null hypothesis is rejected hence there is a significant effect of funding diversification on financial performance at KRCS. Funding diversification was positively and significantly related with financial performance at KRCS ($\beta=0.558$, $p=0.000$). The study results show funding diversification has a significant effect on financial performance.

4.5.2 Financial Planning and Financial Performance

The second null hypothesis, H_{02}, stated financial planning has no significant effect on financial performance at KRCS. Results in Table 4.15 show the p-value was $0.000<0.05$. This indicates the null hypothesis is rejected hence there is a significant effect of financial planning on financial performance of KRCS. Financial planning was positively and significantly related with financial performance of KRCS ($\beta=0.821$, $p=0.000$). The study results show financial planning has significant effect on financial performance.

4.5.3 Donor Relationship Management and Financial Performance

The third null hypothesis, H_{03}, stated: donor relationship management has no significant effect on financial performance of KRCS. Results in Table 4.20 show that the p-value was $0.000<0.05$. This indicates that the null hypothesis is rejected hence there is a significant effect of donor relationship management on financial performance at KRCS. Donor relationship management was positively and significantly related with performance of KRCS ($\beta=0.873$, $p=0.000$). The study results show that donor relationship management is a significant factor affecting financial performance.

4.5.4 Financial Risk Management and Financial Performance

The fourth null hypothesis, H_{04}, stated: financial risk management has no significant effect on financial performance of KRCS. Results in Table 4.25 show that the p-value for financial risk management was $0.000<0.05$. This indicates that the null hypothesis is rejected hence there is a significant effect of financial risk management on financial performance of KRCS. Financial risk management was positively and significantly related with financial performance of KRCS ($\beta=0.633$, $p=0.000$). The study results show financial risk management has a significant effect on financial performance.

CHAPTER FIVE
DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a discussion, summary, conclusion, and recommendations. The discussion, summary, conclusion, recommendations for improvements for the study are presented in line with the study research objectives. Recommendations for further research are also presented in this chapter.

5.2 Discussions

The study's main objective was to investigate the influence of financial sustainability practices on financial performance of NGOs in Kenya using KRCS as a proxy. The study was anchored on stakeholder theory and the resource dependency theory. The dependent variable was financial performance which was represented by likert scale questions. The independent variables were namely funding diversification, financial planning, donor relationship management and financial risk management. Descriptive research designs was adopted. The target population comprised of all 389 employees in the 10 departments at KRCS. A sample of 198 was arrived at using a stratified random technique and Yamane formula.

Primary data was collected using a structured questionnaire administered to 198 employees at KRCS using Google forms. Through the researcher's follow ups 133 questionnaires were collected giving 67.2% response rate. Descriptive statistics, correlation and regression analyses were carried out in data analysis. A simple linear regression model and t-statistic were used to establish the relative importance of each independent variable in influencing the financial performance.

5.2.1 Funding Diversification and Financial Performance

The study’s first objective was to assess the influence of funding diversification on financial performance of NGOs in Kenya. Results demonstrate that the NGOs have adopted funding diversification to a great extent. This is supported by the fact that on a five-point Likert scale, the mean scores for attributes related to funding diversification were greater than 3. The correlation analysis conducted was aimed at testing the association between the funding diversification and firm performance. These results revealed a significant positive association between funding diversification and financial performance.

The null hypothesis was rejected, and conclusion made that funding diversification significantly influenced the NGO’s financial performance. The results established that a unit change in funding diversification would result in 0.558 change of financial performance. This was a confirmation also that there was a significant positive influence of funding diversification on financial performance of NGOs in Kenya.

The findings of this study are in agreement with Islam (2016) who observed that in a bid to achieve financial sustainability when faced with declining financial support from external donors, NGOs in Egypt have scaled up their activities aimed at sourcing for funds at community levels and made use of local corporate donors in an effort to raise money and other support as well as seeking local and national government support. The findings are also in agreement with Aguilar and Hansen (2018) who studied financing of NGOs finding that approximately 60 percent of the income for the NGOs are from a minimum of five sources of funding their projects. The authors also indicated that diversifying sources of income for the NGOs protect it from external shocks and the challenges arising from volatility of donor funding.

5.2.2 Financial Planning and Financial Performance

The study's second objective was to evaluate the influence of financial planning on the financial performance of NGOs in Kenya. The descriptive analysis findings revealed that NGOs in Kenya had adopted financial planning. The most adopted financial planning measures included availability of financial policies to check on the spending of financial resources, linking the budget to the strategic plan and ensuring that operations and project implementation are done according to budgetary allocations.

Correlation analysis done to test the strength of the association between financial planning and financial performance of NGOs in Kenya, the results established a positive and moderately strong association between the two variables. The findings also implied that an increase in financial planning would result to an increase in financial performance. Results also established that a unit change in financial planning would result in 0.821 units change in financial performance of NGOs in Kenya. This confirmed the significant influence of financial planning on financial performance. The null hypothesis was rejected, and a conclusion made that financial planning had a significant influence on financial performance of NGOs.

The findings of this study are in line with Aboramadan (2018) who conducted a study on a road map to effective management of NGOs. The study findings revealed that financial planning helps in focusing attention of the managers and subordinates towards organizational objectives. This predetermines the objectives and defines the line of action in completing the tasks and responsibilities set. Strategic financial planning serves as the framework of the course of action and eliminates the unnecessary and useless activities.

5.2.3 Donor Relationship Management and Financial Performance

The study's third objective was to determine influence of donor relationship management on financial performance of NGOs in Kenya. Descriptive results revealed that NGOs practice donor relationship management to a great extent. The descriptive results further revealed that KRCS maintains regular meaningful communications with its donors and that the stronger the relationship KRCS has with its donors the more financially sustainable it is. Similarly, findings showed that KRCS actively implements donor visibility/recognition activities.

The results of correlation analysis indicated that donor relationship management strategy had a positive and significant correlation with financial performance. The correlation findings implied that a positive increase in donor relationship management strategy would result to a corresponding positive change in financial performance. The regression results established a positive and significant relationship between donor relationship management and financial performance. The results implied that a change in donor relationship management would result to a change in financial performance of NGOs in Kenya. The null hypothesis was rejected, and conclusion made that donor relationship management had a significant influence on financial performance of NGOs in Kenya.

The findings of this study concur with Miriti and Karithi (2020) who aimed at determining how accessibility of donor funds, managing of the funds, government policies as well as management of donor relationship affects the sustainability of donor funding. From the findings it was shown that there was a significant relationship amongst NGOs sustainability and accessibility of donor funds and that sustainability of NGOS was enhanced by donor-relationship management.

5.2.4 Financial Risk Management and Financial Performance

The study's fourth objective was to determine influence of financial risk management on financial performance of NGOs in Kenya. Descriptive results revealed that NGOs practice financial risk management to a great extent. The descriptive results further showed that there are unacceptable variances on budgets that the management at KRCS must seek approval from the stakeholders. In addition, the findings also revealed that KRCS has a fully quipped internal audit unit and that majority of audit committee members at KRCS are independent nonexecutive directors.

The results of correlation analysis indicated that financial risk management had a positive and significant correlation with financial performance. The correlation findings implied that a positive increase in financial risk management would result to a corresponding positive change in financial performance. The regression results established a positive and significant relationship between financial risk management and financial performance. The results implied that a positive change in financial risk management would result to an increase in financial performance of NGOs in Kenya. The null hypothesis was rejected and conclusion made that financial risk management had a significant influence on financial performance of NGOs in Kenya.

The findings of this study are in agreement with Ogega, Kibati, and Koima (2017) who focused on how risk based internal audit impacts sustainability of NGO's. The study established that auditor competency had significant relationships with financial sustainability and that risk based internal audit is a critical component of effective financial reporting. The study concluded that internal controls are required to safeguard NGO assets, improve consistency in accounting information, improve compliance with laws or contracts and meet stakeholder demands

5.3 Summary of Main Findings

The study's purpose was to establish the effect of financial sustainability practices on financial performance among NGOs in Kenya. The specific research objectives were; to establish the effect of funding diversification on financial performance of NGOs in Kenya, to determine the effect of financial planning on financial performance of NGOs in Kenya, to establish the effect of donor relationship management on financial performance of NGOs in Kenya and to determine the effect of financial risk management on financial performance of NGOs in Kenya.

Both descriptive and explanatory research design were used and a questionnaire used in data collection. Data was collected from 198 employees at KRCS. The employees were sub-categorized according to their department. Descriptive statistics, regression analysis as well as correlation analysis were used in analyzing the data. SPSS was utilized in data analysis. The Descriptive statistics were applied in describing the mean and the standard deviations for the study findings. The inferential statistics on the other hand helped determine the relationship between funding diversification, financial planning, donor relationship management, financial risk management and financial performance.

In regards to funding diversification and financial performance at the KRCS, the descriptive analysis findings revealed that NGOs in Kenya had adopted funding diversification to a great extent. The results further revealed that funding diversification reduces the risk of KRCS closing down in case of withdrawal of donors and enables KRCS to be able to reject funding whose sources do not fit into its agenda and values. The regression results revealed that funding diversification had a significant positive influence on financial performance.

The findings of the study in regards to financial planning and financial performance established that NGOs in Kenya had adopted financial planning. The most adopted financial planning measures included availability of financial policies to check on the spending of financial resources, linking the budget to the strategic plan and ensuring that operations and project implementation are done according to budgetary allocations. The correlation and regression results revealed that financial planning has a positive and significant influence on financial performance.

Findings relating to donor relationship management and financial performance established that NGOs practice donor relationship management to a great extent. The descriptive results further revealed that KRCS maintains regular meaningful communications with its donors and that the stronger the relationship KRCS has with its donors the more financially sustainable it is. Similarly, findings showed that KRCS actively implements donor visibility/recognition activities. The results of correlation and regression analysis revealed that donor relationship management positively influences financial performance at KRCS.

Findings relating to financial risk management and financial performance established that NGOs practice financial risk management to a great extent. The descriptive results further showed that there are unacceptable variances on budgets that the management at KRCS must seek approval from the stakeholders. In addition, the findings also revealed that KRCS has a fully quipped internal audit unit and that majority of audit committee members at KRCS are independent nonexecutive directors.

5.4 Conclusions

This section presents the conclusions drawn from the research findings for each of the research objectives. The study concluded that funding diversification influenced NGO's financial performance positively. The study further concluded that funding diversification among NGOs have been adopted to a great extent. Funding diversification reduces the risk of closing down in case of withdrawal of donors and enables NGOs to be able to reject funding whose sources do not fit into their agenda and values.

The study concludes that financial planning influenced NGOs' financial performance positively. It can also be concluded that financial planning is being undertaken by NGOs to a great extent. The most adopted financial planning measures included availability of financial policies to check on the spending of financial resources, linking the budget to the strategic plan and ensuring that operations and project implementation are done according to budgetary allocations.

This study concluded that donor relationship management is essential in enhancing financial performance among NGOs. The NGOs were found to practice donor relationship management to a great extent through maintaining regular meaningful communications with donors. It can also be concluded that the stronger the relationship a NGO has with its donors the more financially sustainable it is. Similarly, it was concluded that NGOs actively implements donor visibility/recognition activities.

This study concluded that financial risk management is essential for NGOs to enhance their financial performance. Some of the ways through which financial risk management is done include ensuring there are unacceptable variances on budgets that the management of an NGO must seek approval from the stakeholders and having a fully quipped internal audit unit and ensuring that majority of audit committee members are independent nonexecutive directors.

5.5 Recommendations

The study revealed that funding diversification influenced NGOs financial performance positively. The study recommends that the management of NGOs should formulate and implement relevant funding diversification strategies that uphold the desired financial performance and avoid overreliance on a single donor. Similarly, the study recommended that regulatory authorities should assess the suitability of the current funding regulations for NGOs to ensure they have enough legislation protection when pursuing any funding diversification.

The study revealed that financial planning influenced financial performance of NGOs positively. The study therefore recommends that the management of the NGOs that have not adopted financial planning should put in place internal organizational policy and culture to encourage financial planning adoption. These firms can adopt financial planning as a tool to achieve desired financial performance. The regulators should also develop policies relating guiding NGOs on financial planning.

The study revealed that donor relationship management influenced financial performance of NGOs positively. The study therefore recommends that managers of NGOs that are yet to practice donor relationship management should do so as this will aid their financial performance especially during turbulent business environment. The regulator can also develop policies guiding NGOs on how to go about donor relationship management.

The study revealed that financial risk management influenced NGOs financial performance positively. The study therefore recommends that to enhance financial performance and sustainability of NGOs, managers of these organizations ought to implement financial risk management measures. Regulators can also aid NGOs in financial risk management by developing policy guidelines on the same.

5.6 Areas of Further Research

This study focused on NGOs in Kenya and used KRCS as a proxy. Further studies can focus on a comparative analysis of NGOs that have adopted financial sustainability practices and those that have not, to clearly bring out the difference in terms of their financial performance. Further, this study focused on four sustainability practices namely; funding diversification, financial planning, donor relationship management and financial risk management. Future studies should focus on other financial sustainability practices that were not considered in this study.

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APPENDICES
APPENDIX I: INTRODUCTION LETTER

Dear Sir/Madam,

My name is Jacinta W. Nato. I am a student Africa Nazarene University of admission number 14S03EMBA019 and currently undertaking an academic research project on; ***"EFFECT OF FINANCIAL SUSTAINABILITY PRACTICES ON FINANCIAL PERFORMANCE OF NGOs IN KENYA: A CASE OF KRCS".*** This research is a requirement for the award of Master of Business Administration of Africa Nazarene University, School of Business.

A questionnaire has been developed to assist gathering relevant information for this study. I will ask you a few questions to assist in completion of this study. Whatever information you shall provide will be strictly confidential and will be used for academic purposes only. Participation in the study is voluntary.

Many thanks for your acceptance with regards to participation in this study.

Yours Faithfully,

Jacinta W. Nato

APPENDIX II: RESEARCH QUESTIONNAIRE

This questionnaire has been structured to collect information on the effect of financial sustainability practices on financial performance at Kenya Red Cross Society. Please read the questions carefully and respond to the best of your understanding. The facts gathered will purely be used for academic purposes

Instructions

Do not indicate your name on the questionnaire.

Tick only one answer (box) for each question.

PART A: BACKGROUND INFORMATION

1 Gender: Male [ ] Female [ ]

2 Under which age brackets are you?

21 – 30 Years	[ ]	31 - 40 Years	[ ]
41 - 50 years	[ ]	Over 50 years	[ ]

3 Which is the highest education level that you have attained?

Diploma	[ ]	Masters	[ ]
Degree	[ ]	PhD	[ ]

Others Specify………………….

4 How many years have you worked in your firm?

Less than one year	[ ]	1-3 years	[ ]
4-7 years	[ ]	8 years and above	[ ]

PART B: FINANCIAL SUSTAINABILITY PRACTICES

To what extent do you agree with the following statements? Rate in a scale of 1 to 5 (1 Strongly disagree, 2 Disagree, 3 Neutral, 4 Agree, 5 Strongly Agree)

i) Funding diversification

STATEMENT	1	2	3	4	5
Foreign donations as sources of funding are on the decline at KRCS					
Creating other income generating activities increases KRCS financial sustainability					
Reliance on donor funding forces KRCS to align its plans with donor priorities					
Funding diversification increases KRCS ability to fund its projects based on its own priorities					
Funding diversification reduces the risk of KRCS closing down in case of withdrawal of donors					
Funding diversification enables KRCS to be able to reject funding whose sources do not fit into its agenda and values					
Funding diversification enables KRCS meet its overhead costs and other expenses not met by the donors					

ii) Financial Planning

STATEMENT	1	2	3	4	5
Operations and project implementation are done according to budgetary allocations at KRCS					
KRCS periodically reviews the budgets and other financial plans to see if they agree with its mission					
KRCS maintains an updated assets list					
KRCS has financial policies to check on the spending of financial resources					
KRCS links the budget to the strategic plan.					

KRCS has strategic partnerships with key stakeholders essential in attracting funding for organizational initiatives and activities.					

iii) Donor Relationship Management

STATEMENT	1	2	3	4	5
KRCS maintains regular meaningful communications with its donors					
KRCS actively implements donor visibility/recognition activities					
KRCS provides regular reporting on its expenditure to foster accountability for funds given					
KRCS has to follow the guidelines as well as scope of donor activities or risk getting no funding					
The stronger the relationship KRCS has with its donors the more financially sustainable it is					
Accountability in the use of donor funds has helped improve KRCS donor relations					
KRCS has made efforts in establishing constructive networks and alliances with various donor organizations					

iv) Financial Risk Management

STATEMENT	1	2	3	4	5
There are unacceptable variances on budgets that the management at KRCS must seek approval from the stakeholders					
KRCS has a fully quipped internal audit unit					

Majority of audit committee members at KRCS are independent nonexecutive directors					
Variances of the budgets at KRCS is communicated annually to stakeholders and full justification obtained					

PART C: FINANCIAL PERFORMANCE

The following are statements on financial performance in your organization. Indicate your level of agreement with each statement using the scale of 1 to 5 provided below, where (1 strongly disagree, 2 Disagree, 3 Neutral, 4 Agree, 5 strongly Agree)

Statements	**1**	**2**	**3**	**4**	**5**
KRCS annual statement of income and expenditure always has surplus					
KRCS funding is fully diversified where donor funding does not exceed 40 percent of organization funding					
KRCS has less percentage of fixed cost as compared to total cost.					
KRCS has a positive operating margin ratio.					
KRCS is able to meet its recurring expenditures into unforeseen future					

THANK YOU

APPENDIX III: RESEARCH AUTHORIZATION LETTER

19th, November, 2021

E-mail: researchwriting.mba.anu@gmail.com

Tel. 0202711213

Our Ref: 14S03EMBA019
The Director.
National Commission for Science,
Technology and Innovation (NACOSTI),
P. O. Box 30623, 00100
Nairobi. Kenya

Dear Sir/Madam:

RE: RESEARCH AUTHORIZATION FOR: JACINTA WAKASA NATO

Miss. Jacinta is a postgraduate student of Africa Nazarene University in the Master of Business Administration (MBA) program.
In order to complete her program, Miss. Jacinta is conducting a research entitled: "**Effects of Financial Sustainability Practices on the Financial Performance of Non-Governmental Organizations in Kenya: A Case of Kenya Red Cross Society.**"
Any assistance offered to her will be highly appreciated.

Yours Faithfully,

Kishuhy

DR. Kimani Gichuhi,

MBA, Coordinator,

School of Business,

Africa Nazarene University.

APPENDIX IV: RESEARCH PERMIT

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **828049**

Date of Issue: **10/March/2022**

RESEARCH LICENSE

This is to Certify that Ms.. Jacinta Wakasa Nato of Africa Nazarene University, has been licensed to conduct research in Nairobi on the topic: EFFECTS OF FINANCIAL SUSTAINABILITY PRACTICES ON THE FINANCIAL PERFORMANCE OF NON GOVERNMENTAL ORGANIZATIONS IN KENYA: A CASE OF KENYA RED CROSS SOCIETY for the period ending : 10/March/2023.

License No: **NACOSTI/P/22/16189**

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Verification QR Code

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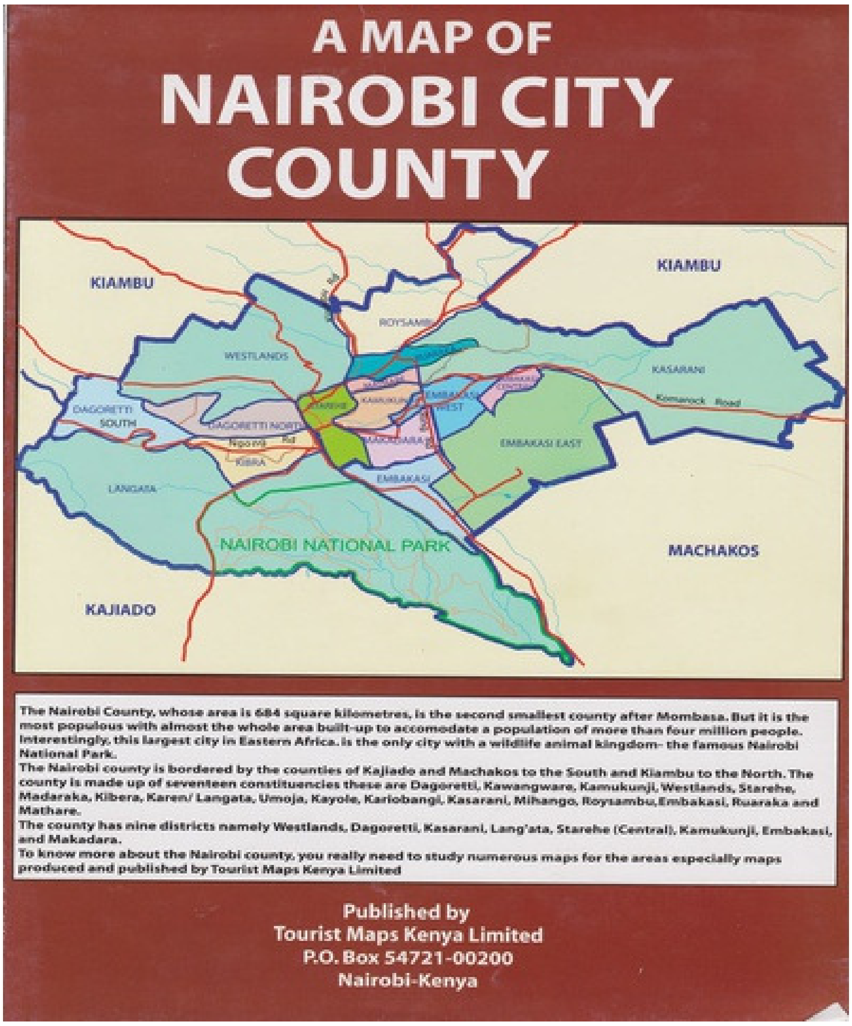
APPENDIX V: RESEARCH MAP



APPENDIX VI: RESEARCH BUDGET

ITEM	QUANTITY	UNIT COST Ksh	TOTAL-AMOUNT Ksh
STATIONERY			
-Photocopying	200 pages	10	2,000
-Foolscaps	8 rims	240	1,200
-Printing	200 Copies	10	2,000
DATA COLLECTION	-	-	15,000
DATA ANALYSIS	-	-	20,000
Binding copies	10	60	600
TOTAL			40,800
CONTINGENCY			14,200
GRAND TOTAL			55,000