

# Financial Sustainability of Community Based Organizations' in Mt. Elgon Sub-County, Kenya

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**Abstract:** Project management requires effective financial management. Financial Sustainability is therefore an integral part of the project management. The objective of the study was to analyze financial sustainability of community based organizations, a survey of selected community based organizations. The study was guided by the following specific objectives; Establish the diversity of funding sources and their characteristics; Examine the practices and challenges of financial sustainability in relation to financial competence and own income generation; Suggest ways towards sustainable financial management practices Kenya. Descriptive survey research design was used targeting 154 registered and active and registered CBOs in Mt. Elgon Sub County. A sample size of 110 obtained using simple random sampling was used and data collected using questionnaires. Data was analyzed using both descriptive and inferential statistics with the aid of regression analysis. The findings revealed that diversity of funding sources ( $r = 0.787$ ,  $\alpha = 0.05$ ); practices and challenges of project management ( $r = 0.478$ ,  $\alpha = 0.05$ ) and Sustainable financial management practices ( $r = 0.435$ ,  $\alpha = 0.05$ ) had significant effects on financial sustainability of CBOs. The results indicated that the Practices and challenges of the projects was the most important factor. The study recommended that CBOs should be engaging in income generation activities as for-profit organization. Emphasis should also be placed on hiring staff that are competent. This is because competence of staff significantly affects the financial sustainability of CBOs. Nevertheless, the staff should be frequently trained to ensure continued competence level.

**Keywords:** Sustainability, Finance, community based organisation, Harambee.

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## 1. INTRODUCTION

According to Wanjohi (2010), CBOs are civil society non-profit organizations that operate within a single local community. They are essentially a subset of the wider group of non-profit making organizations. Motala and Husy (2001) argue within community organizations there are many variations in terms of size and organizational structure. Some are formally incorporated, with a written constitution and a board of directors (also known as a committee), while others are much smaller and more informal. Sarma, Vicary and Holdrege (2004) defined community-based organisations as “grassroots organizations managed by members on behalf of members”. According to Sarma, Vicary and Holdrege, the community-based organizations are identified by four characteristics which are local ownership (the organization is owned by the community and serves its priorities and aspirations), local accountability (the organization is accountable to the community and not to a higher level), local control (the members have control over the direction and activities of the organization), and local membership (the organization is made up of members of the community). According to Wanyama (2001), the neo-liberal call for the retreat of the state in the development process was viewed as a means of empowering people to take charge of their own development through voluntary initiatives at the local level. According to Bowman (2011), Sustainability refers to the ability of administrators to maintain an organization over the long term. For both for-profit and nonprofit organizations, financial capacity consists of resources that give an organization the ability to seize opportunities and react to unexpected challenges while maintaining general operations of the organization. According to Renz et al., (2010), financial sustainability also refers to the ability of a Community based organisations

(CBO) to develop a diverse resources base so that it could continue its institutional structure and production of benefits for intended client population after the cessation of donor financial support this definition encompasses three areas described as follows. The two core challenges facing CBOs include, but are not limited to, the need to maintain financial sustainability and to pursue the organizational mission and maintenance of consistent and quality programming over time. In order to counter these challenges, these organizations must be guided by a sustainability strategy. Along this line of thought, Bell et al., (2010) maintain that the success of non-profit organizations (including CBOs) cannot be measured only by their high-impact programs if there is no effective accompanying strategy for sustaining the organization financially. According to Fisher (2002), Modern CBOs emerged following the American Civil War. There was a rapid rise in the number of charitable agencies designed to lend assistance to those displaced, disabled, or impoverished by the war. Many of these organizations were progressive in philosophy, even by the standards of the early twenty-first century, and they provided services to or activities for, children and teens. The term community organization was coined by social workers in this era to address the problem of coordinating charity-based services, thus reflecting the structural perspective of community. However, the next phase in the evolution of community organization stressed cooperative planning among privately run community-service agencies. Efforts were geared toward specialization of services and centralization of decisions regarding these services.

Speer and Perkins (2002) noted during the 1980s and 1990s, community organizations expanded to the point of being referred to as a movement, and the process of community organizing expanded into many community organizations. One struggle that emerged in this period was the awareness of power shifting from local communities to regions, nations, and international corporations. The process of globalization has raised new questions about the efficacy of local organizations in addressing problems caused by large-scale economic forces. Fisher (2002) noted the evolution of community organizations in recent years especially in developing countries has reinforced the view that these grass root organizations are more effective in addressing local needs than larger charitable organizations due to their penetration, networks and perceived neutrality in their areas of operations. As a consequence, many international CBOs are increasingly relying on CBOs to access the community, hence, in most cases partnering with them for greater developmental outreach. Fisher (2002) further noted CBOs in sub-Saharan Africa often focus on community strengthening, including HIV/AIDS awareness, human rights, health clinics, orphan children support, water and sanitation provision, and economic issues. Since a considerable number of CBOs in Africa are operated by International CBOs with roots in the western world, their financial sustainability is very much tied to western donors. When funding cycles change, these organisations are the first to be affected. They are unable to operate their programs, and thus their role is limited. Donor dependency is one major factor of CBO instability in Africa, though this study explores many other factors of financial instability among CBOs. According to Wanjohi (2010), CBOs began as self-help groups in the early 1960s when the first president of the republic began to encourage grassroots growth through coming together in the spirit of what was referred to as Harambee. This spirit was based on the understanding that one could not be able to carry out plans or actions by him/herself but would require a certain contribution from the other members of the society. The Harambee spirit kept most of the self-help groups growing. Karuti and Mitullah (2006) noted, it is estimated that there are approximately 40,000 registered CBOs in Kenya with most of them depending on foreign donations. However, the declining state of foreign donation coupled with the CBO Miscellaneous Amendment Bill of 2013 that sought to cap the amount of foreign funding to CBOs at 15% of their budget. This legislation imposes a strain to an already constraining situation, hence, leading to a situation whereby the demand for foreign funding exceeds the supply of foreign funding and consequently affecting the financial sustainability of the CBOs. This will occur at the expense of the socio-economic mission that the CBOs are premised on, thus underscoring the need of CBOs to become financially sustainable. Most research studies on CBOs in Kenya focus on the outcomes of programs, capacity building and government involvement rather than on organizational processes and factors influencing organizational impact. Little mention is made on financial sustainability perhaps because the CBOs have been traditionally associated with seemingly unlimited funding from foreign donors.

## **2. RESEARCH OBJECTIVES**

### **General Objective:**

The overall objective of this study was to analyze financial sustainability of CBOs in Mt Elgon sub-county

### **Specific Objective:**

The specific objectives of this study were:

- (a) Establish the diversity of funding sources and their characteristics

- (b) Examine the financial practices and challenges of projects management
- (c) Suggest ways towards sustainable financial management practices

**Research questions:**

This research was guided by the following questions:-

- (a) How does diversity of funding sources and their characteristics influence financial sustainability of CBOs in Mt Elgon?
- (b) What are the financial practices and challenges that influences financial sustainability of CBOs in Mt Elgon?
- (c) What are ways/suggestions towards sustainable financial management practices of CBOs in Mt Elgon entails?

### **3. JUSTIFICATION OF STUDY**

The benefit of the study goes to the CBOs management to use the outcome in improving financial management through financial sustainability concept and provide information to CBOs operating in Kenya. Many CBOs have for long relied on external funding. There is need for revision of practices that will induce and sustain viability of these institutions. The study also provides information to scholars pursuing research and students in this field showing the gaps for further studies in this area. From the study scholars will be able to evaluate the effect of board diversity on capital structure

### **4. LITERATURE REVIEW**

This study is based on the following theories;

**Agency Theory:**

Saam, (2007) argues that the weakness of this theory lies in the fact that an agency relationship poses agency problems which result from goal conflicts between the principal and the agent. However, according to Greenwood (2003); Johnson and Droege (2004), certain contracts are used to solve the agency problem. These include behavior-related contracts and outcome-related contracts). Dalton et al., (2007) noted under a behavior-related contract, the principal will directly monitor, assess, and reward the agent on the basis of information about the agent's actual behavior. This study dwells on outcome-related contracts or on incentive-related contracts. Resource management is one of the key parameters considered in this study. Sound management of resources (by an agent), including human resources, is an important component of the financial sustainability of organisations. Agency theory finds its application in this study since the managers as agents are entrusted with ensuring not only the best human resource management practices, but also the management of all other resources that are meant to bring about the sustainability of the organisation as a whole.

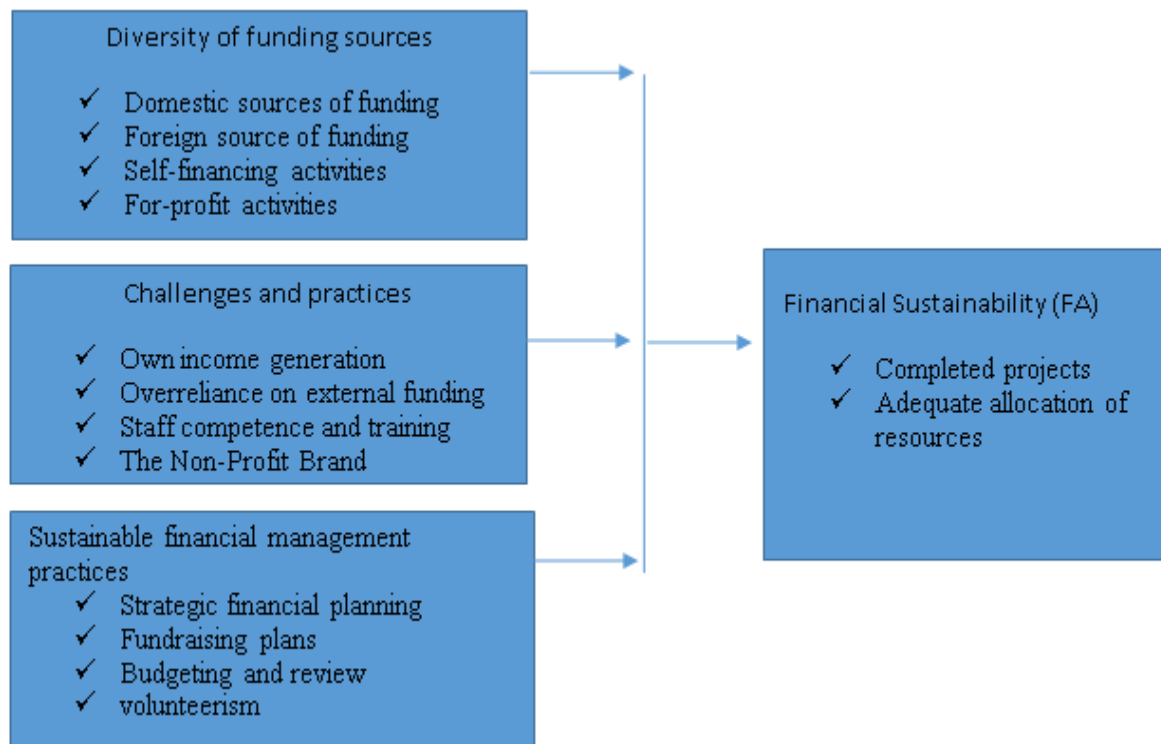
**Resource-Based View theory:**

Barney (2001) points out that resource-based view suggests that a firm can create sustainable competitive advantage through developing its unique resources and capability. The difference between providing short-term competitive advantage and that which is sustainable resides in the notion that these resources are heterogeneous in nature and are not perfectly mobile. According to Sirmon et al., (2007), Managers are not static in the RBV, but instead they are called upon to structure, bundle, and leverage their valuable resources in unique ways to maximize their contribution to providing sustained advantage. According to Rechenthin (2004), researchers might also use the RBV to highlight the notion that sustainability initiatives may be useful to firms insofar as they can provide competitive advantage. From an RBV perspective, sustainability initiatives that reside at the intersection of social/environmental concerns and market opportunities may stand the greatest chance of success.

**Complexity Theory:**

Complexity theory, which is the study of nonlinear dynamic systems, promises to be a relevant theory that reconciles the essential unpredictability of organisational financial sustainability with the emergence of distinctive patterns which dictate sustainability. Complexity theory, if rightly applied, can be used to bring about order in a complex system here referred to as organisation; it can bring about the sustainability of an organisation. The theory finds its application in the current study based on the fact that an organisation is a system which must inherently work as one entity to achieve sustainability. Various factors affecting financial sustainability must be internally coordinated to bring about sustainability.

## 5. CONCEPTUAL FRAMEWORK



## 6. REVIEW OF VARIABLES

### Diversity of funding sources:

Diversification of funding sources describes a number of activities that strive to reduce the dependence on a specific type of income, specific donor or grant maker, dominating customer, country that is the only or main source of funding and currency in which most or all funds are paid out. CBOs have to make a decision as to whether they want achieve this long-term goal only through; actions focused on donors and grant makers, potentially with minor self-financing activities or will also be open to consider, starting significant for-profit activities, possibly organized in form of a social enterprise.

### Practices and Challenges:

Sustainability for nonprofit organizations has long been of interest to organization leaders, funders, and the communities in which beneficiaries reside. However, in the face of the recent economic downturn and increased expectations of mission impact and accountability, nonprofit organizations face a myriad of challenges in establishing and defining sustainability in the long term. These challenges are particularly salient for nonprofits serving vulnerable, high-need, and low-income populations because of the need to juggle a higher reliance on external funding streams (e.g., grants and contracts) with a range of economic, cultural, and social demands that go beyond the social mission of the organization. Other challenges include lack of own income generating activities to cushion them against reliance on external funding. Understanding how the community context affects organizational operations, community engagement, and financial support is key to establishing financial sustainability for non-profits serving low-income communities

### Sustainable financial management practices:

Sustainable financial management practices entail managing the current and future financial positions of the CBOs and how best the strategic plan of an organisation can be funded. Having good strategic financial management systems helps an organisation secure funding from donors who can easily understand the direction in which the organisation is heading. CBOs need to critically strategize their financial sustainability as the operating environment changes fast. Sound and sustainable financial management practices are important to CBOs for both short- and long-term practical reasons as well as moral reasons, so that the organisation can fulfill its mandate and obligations to members and stakeholders as well as attain its objectives. Sustainable financial management practices help CBOs to achieve their mission and continue to make an impact on the lives of their beneficiaries

### Financial Sustainability:

Many authors on CBO financial sustainability provided different measures for it. Financial sustainability can be measured by completed projects, adequate funds, debt management, and control of expenditure and incidences of graft. Financial sustainability can also be measured by the levels of net income i.e. surplus of revenue over expenses, and that liquidity (cash available to make payments) and solvency (the relationship between assets and debt/liabilities) can also measure how financially sustainable an organisation is. The existence of a diversified funding base in a CBO and availability of unrestricted funding and availability of financial reserves are also key measures of a CBO's financial sustainability

## 7. RESEARCH METHODOLOGY

### Research Design:

This study used a survey research design which is a method of sociological investigation that uses question based or statistical surveys to collect information about how people think and act. A survey may focus on opinions or factual information depending on its purpose, but all surveys involve administering questions to individuals (Kombo and Tromp, 2006). When the questions are administered by a researcher, the survey is called an interview or a researcher administered survey. When the questions are administered by the respondent, the survey is referred to as a questionnaire or a self-administered survey. Survey research design is an efficient method for systematically collecting data from a broad spectrum of individuals and educational settings. Survey research design was relevant to this study because the study sought to establish the status of financial sustainability with respect to community based organizations in Mt. Elgon Sub-county.

### Target Population:

The target population was 154 active and registered CBOs in Mt. Elgon Sub-county. The respondents shall be CBO officials. The organizations targeted must be involved in different activities for instance Bee Keeping, Provision of water services, Dairy farming, table banking, health promotions, etc.

### Sample Size and Sampling Technique:

Mugenda & Mugenda (2003) observed that the purpose of sampling is to secure a representative group which will enable the researcher to gain information about an entire population when faced with limitations of time, funds and energy. Stratified sampling was used targeting only the management staff of the CBOs in the area. Since Mt. Elgon Sub-county has 6 wards namely; Kaptama, Elgon, Chepyuk, Kapkateny, Chepyuk and Chepais, 6 stratas were formed and samples drawn out of each using simple random sampling as per the proportion of each as computed using total population as the denominator. The sample size for this study was obtained using (Mora & Kloet, 2010) formula for finite population as follows;

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

Where,

n = the sample size

N = the size of population

e = the error of 5 percentage points

$$n = \frac{154}{(1 + 154 \times 0.05^2)} = 110$$

### Data Collection Methods:

Cooper et al., (2011) avers that open ended and closed ended questionnaires, interview schedule and content analysis will be the instruments of data collection. Individual interviews, observation are the most common methods relevant for this research. Interviews range from the highly structured style, in which questions are determined before the interview, to the open-ended, conversational format. In qualitative research, the highly structured format is used primarily to gather socio



demographic information. For the most part, however, interviews are more open-ended and less structured. Frequently, the interviewer asks the same questions of all the participants, but the order of the questions, the exact wording, and the type of follow-up questions may vary considerably. Observation in qualitative research generally involves spending a prolonged amount of time in the setting. Field notes are taken throughout the observations and are focused on what is seen. Secondary data is data collected by others and found by the comparative researcher in ethnographies, census and histories. Kothari et al., (2014) defines secondary data as data that is already available as having been collected and analyzed. This data involves the use of gathered data in previous study to test new hypotheses or new relationships. This data has the advantage of it is of higher quality, flexible with longitudinal data and the source is permanent and can be dependent on. Secondary data generally provides a source of data that is both permanent and available in form that may be checked relatively easily by others. Therefore increases dependability of the data. Sekaran (2010) aver that analysis of existing data is efficient and economical because data collection is typically the most time consuming and expensive part of research project. Secondary data will be used to validate the findings from analysis of primary data which was collected using questionnaires. The strategy of using both primary and secondary data was to address the same study objective that was meant to improve the interpretive coherence and improve both communicative and pragmatic validity of the study results.

#### **Pilot Test:**

Reliability is the measure of the consistency of the results from the tests of the instruments. It is a measure of the degree to which a research instrument yields consistent results or data after repeated trials. It is influenced by random error. Reliability of the research instrument was calculated using Cronbach's coefficient alpha for either even or uneven items based on the order of number arrangement of the questionnaire items. According to Fraenkel & Wallen (2000), as a rule of thumb, a proposed psychometric instrument should only be used if the alpha value,  $\alpha$ , obtained is 0.70 or higher on a substantial sample. The following is the Cronbach's coefficient alpha formular which was used

$$\alpha = \frac{N \cdot \bar{c}}{\bar{v} + (N - 1) \cdot \bar{c}}$$

## **8. CONCLUSION**

The resulting financial sustainability model function is therefore:

$Y_i = 4.611 - 0.115(X_1) + 0.453(X_2) + 0.280(X_3)$ . According to the regression equation established, taking all factors into account (Diversity of funding sources, practices and challenges of financial management and sustainable financial management, financial sustainability of CBOs will be 4.611. The Standardized Beta Coefficients give a measure of the contribution of each variable to the model. A large value indicates that a unit change in this predictor variable has a large effect on the criterion variable. The t and Sig (p) values give a rough indication of the impact of each predictor variable – a big absolute t value and small p value suggests that a predictor variable is having a large impact on the criterion variable. At 5% level of significance and 95% level of confidence, Diversification of funding sources had a -0.115 level of significance, practices and challenges of the CBOs projects had a 0.453 level of significance and sustainable financial management practices had a 0.280 level of significance. In the resulting financial sustainability model function above, diversification of funding sources is seen to negatively affect the financial sustainability of the CBOs.

#### **The study recommends that;**

CBOs should lay emphasis on practice of generating its own income through coming up with businesses that generates income so as to diversify their funding sources. This will also help CBOs to operate as for-profit organizations hence removing the tag non-profit making organizations. Emphasis should also be placed on hiring staff that are competent. This is because competence of staff significantly affects the financial sustainability of CBOs. Nevertheless, the staff should be frequently trained to ensure continued competence level.

Sustainable financial management practices are a very important. Therefore, CBOs should not only prepare strategic plans but also periodically review the strategic plans. CBOs should have coherent fundraising plans that incorporate innovative fundraising techniques. Volunteerism should be encouraged by CBOs so as to cut operations costs and encourage community service from communities within.

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