DETERMINANTS OF FINANCIAL SUSTAINABILITY OF SOCIAL ENTERPRISES ESTABLISHED BY PUBLIC BENEFIT ORGANIZATIONS IN KENYA

By:

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DECLARATION

This research project is my original work and has not been submitted for the award of a degree at any other university.

Signed…………………………. Date…………………………

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D61/72691/2012

The Research project has been submitted for the examination with my approval as the University supervisor.

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SUPERVISOR
DEDICATION

This research is dedicated to my parents Stephen Njeru and Josephine Njeru for instilling the value of education in me and their sacrifice to see my brother and I get a good education. It is also dedicated to my husband Titus Mathenge and my children Marshall and Letricia for their patience and support during the period of this study. Finally to my dear brother who has continually encouraged me throughout the period of the study.
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ABBREVIATIONS AND ACRONYMS

APA – Average performing assets

CSOs - Civil Society Organizations

GOK – Government of Kenya

LFA – Least favored Area

IGAs – Income Generating Activities

IMF – International Monetary Fund

MFIs – Microfinance Institutions

NGOs – Nongovernmental organizations

NPOs – Nonprofit organizations

OST – Open systems theory

PBO - Public Benefit Organizations

RBV – Resource Based View

SAP – Structural adjustment programs

SCT – Social Capital Theory

SE – Social Entrepreneurship

SI – Social Investments

TC – Telecentre
ABSTRACT

In today’s world economies, the third sector or social (sector) pillar is a key component of sustainable growth and development. Social investment is the provision and use of capital to generate social, environmental as well as financial returns. In developing countries, social investment strategy is a good strategy for sustainable growth and development as it cautions public benefits organizations (PBOs) from dependency syndrome, donor fatigue and eventual collapse. The monumental contributions of the nonprofit organizations in Kenya’s development agenda is well articulated in academic literature, however, are scanty documented studies on financial sustainability of these social enterprises. This descriptive study based on primary and secondary data sources therefore sought to investigate the factors that determine the financial sustainability of social enterprises established by nonprofit organizations in Kenya. The study finds that the currently, PBOs rely on foreign grants and donations to a high extent as they source social enterprise income, corporate or private companies support to a moderate extent. Further, for financial sustainability, the PBOs apply the social enterprises and volunteerism to moderate extents. The study establishes that 13.1% of variations in financial sustainability of the PBOs is explained by variations in the study variables. There is a statistically significant positive relationship between income generated by the social enterprises and financial sustainability. There is also a statistically significant negative relationship between training costs and the financial sustainability of the PBO’s. It is also noted that project duration, project financing, project corporate governance and social innovations positively influence financial sustainability. The study recommends that PBOs should be encouraged to be socially innovative by establishing enterprises that support their course. The Government should also put in place policies to encourage social entrepreneurship while at the same time streamlining the volunteering framework.
CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

In today’s world economies, social pillar is a key component of sustainable growth and development. In western nations it is referred to as third sector or social sector while in the Kenyan context, it is viewed as social pillar (Nganga, 2013). The Kenya vision 2030 blueprint has three pillars; economic, political and social pillar. Where all the pillars are interdependent, with the social pillar aiming for just and cohesive society that enjoys equitable social development in a clean and secure environment (GoK, 2007).

In developed world, social investment strategy is one of the remedy used to address the future challenge of ageing populations and the shift towards a knowledge-based and service economy with sustainable growth. In the case of developing countries, it a good strategy for sustainable growth and development as it cautions Non Profit Organizations (NPOs) from dependency syndrome, donor fatigue, and their collapse. In general, social investment strategy encompasses social responsible investments aimed at impacting the society in the long term (Nganga, 2013).

According to Dees (2008), proponents of the philanthropic use of enterprise point out that social and economic issue are inextricably intertwined. Anyone who wants to create lasting solutions to social problems would be wise to include business methods and market-oriented approaches as part of their overall tool kit. This is particularly true when the social problem being addressed is poverty in the developing world. They
are not claiming that all social problems are amenable to market-based solutions or that any major social problem will be solved by business methods alone.

1.1.1 Social Entrepreneurship

In mid-1990s, a new investment paradigm shift referred to as ‘social investment’ emerged. It gathered momentum across the globe, with an increasing number of players and types of organizations practicing ‘non-economic criteria into investment decisions’ (Bruyn, 1991). The European Union Commission (2000) in the Lisbon summit report views social investment as the provision and use of capital to generate social, environmental as well as financial returns. Social investment therefore aims at meeting the society’s social needs as well as shifting towards a knowledge-based and service economy. According to Dobrowolsky et al. (2005), social investment strategy implies that spending should be made in the form of investments, such as in human capital, to support labour market participation in the future as well as the present or to confront new social risks such as unemployment, ageing and poverty.

Social investment (SI) as a term has been used in western world for more than 20 years but in Africa it is a new term, though its aspects has been practiced within people’s cultures for generations. Social investment is the provision and use of capital to generate social, environmental as well as financial returns (Allavida, 2011). It is based on social innovation model as theory of change strategy. Social investors make social investments to the social enterprises (SEs) with an aim to meet societal basic needs consistently and continuously.
In business model perspective, Dobrowolsky et al. (2005) explain that SI is an integral part of SE, where SI is the supply side while, SE is the demand side. If the returns are financial as well as social or environmental then, it is referred to as double bottom line enterprise while, enterprise that generates financial as well as social and environmental returns are referred as triple bottom line enterprises.

1.1.2 Financial Sustainability

The World Bank defines financial self sustainability as the process of increasing the capacity of institutions or groups to make choices and to transform those choices into desired actions and outcomes (Montgomery, 2005). Central to this process are actions which both build individual and collective assets, and improve the efficiency and fairness of the organizational and institutional context which govern the use of these assets.

Sustainability is the capacity of something to be maintained, as one seize the opportunity available, mitigating risks and adhering to the mission. For NPOs, it is the ability for the organizations to fulfill its commitments to its clients, patrons, and the community in which it operates. At macroeconomic perspective, it is a means for NPOs meeting important societal needs (Weerawardena et al., 2006).

Prasad and Costello (2001) advances the economic view that when revenue inflow does not cover expenses and generate a surplus, the enterprise operation will slow down and eventually be forced to shut down. This is coined with financial viability. If the enterprise does not generate sufficient income to cover operation and maintenance
costs, termed as operational viability, the enterprise may have to shut down at an early period.

1.1.3 Determinants of Financial Sustainability of Public Benefit Organizations

According to Carroll and Stater (2009), nonprofit organizations often face the dual task of achieving mission-related goals while maintaining a healthy financial condition that ensures organizational survival. Although the traditional view of nonprofit organizations regards fundraising for charitable donations as their primary source of revenue, nonprofits also rely on grants, contracts for service, and sales of goods and services to finance operations and capital improvements.

Hodge and Piccolo (2005) explain that nonprofit organizations have been associated with resource dependency theory in which organizational survival is contingent upon the ability to acquire and maintain resources. Tuckman and Chang (1992) opine that even within a resource rich environment, the financial condition and stability of nonprofit organizations likely depends upon effective financial management practices that reduce the volatility of the revenue portfolio and have the potential to increase the organization’s equity. Kingma (1993) advocate for adoption of a strategy of diversification that leads to greater stability in the revenue structure of nonprofit organizations, which potentially makes longevity and sustainability more likely.

1.1.4 Public Benefit Organizations (PBOs) in Kenya

Prior to 2013, the PBOs in Kenya were called NGOs. In 2013, the Public benefit Organizations Act was passed as law. The PBO Act, 2013 sought to regulate the NGOs registered under the Non-Governmental Organizations coordination Act (NGO
Section 5(2) of the PBO Act defines a PBO as a voluntary membership or non-membership grouping of individuals or organizations, which is autonomous, non-partisan, non-profit, and which is locally, nationally or internationally organized and operated to engage in public benefit activities. Under the Act, organization that has as its objective the promotion of public benefit may be registered as a PBO by the Public Benefit Organizations Regulatory Authority.

Non-Profit Organizations are private; organized; not primarily commercial; self-governing; and voluntary. They are mainly: Non-Governmental Organizations (NGOs), charities, community groups, faith-based organizations, unions clubs, trusts, and foundations (Kanyinga et al, 2007). The non-profit organizations are registered either under the Societies Act, Trustees Act, Companies Act, the NGO Act, and Ministry of Culture and social services.

Kanyinga (2004) opine that the push for Structural Adjustment Programmes (SAP) by western nation’s machineries (World Bank and IMF) reduced Kenya government ability to provide basic services. Therefore, NPO’s came in to fill the gap in service provision for economic growth rate which was sluggish. The nonprofit sector policy frameworks have evolved with time. In 1971, the government produced a national policy on social welfare (Sessional Paper No. 7 of 1971) and 1992 NGOs co-ordination board was established (Republic of Kenya, 1992). The past policies excluded many other kinds of non-profits, pushing government with support of Civil
Society Organizations (CSOs) to come up the Public Benefit Organizations (PBO) Act 2013.

1.2 Research Problem

Dess (1998) observe that non profit leaders are searching for the holy grail of financial sustainability. At a minimum, organizations seek a diversity of funding sources to provide a cushion in case one source declines or disappears. Commercial funding is particularly attractive because it is potentially unrestricted whereas use of grants and donations is often restricted to particular projects and purposes. Nganga (2013) underscore that social investment strategy is a new phenomenon with an increasing interest in the world scene. Its aim to the world economies is to develop sustainable growth and development to avoid and mitigate future repercussions of economic global meltdown. Thus, SI strategy adoption is one of way for NPOs to meet sustainability as they adjust to ever changing environmental complexity.

According to Sera (2010), the enormous developmental functions undertaken by local NGOs demand an availability of funds and effective and efficient mobilization of financial resources. With the recognition of the vital role played by local NGOs at grassroots level in the task of providing basic social services including health, education and building organizational structures for development projects as an instrument to meet community needs, local NGOs require more stable and secure funding. However, local NGOs continue to lack a stable financial base.
Several studies have been undertaken in the developed countries about financial sustainability of social enterprises. Nicholls and Pharoah (2007) explored the landscape of social investment with a focus on the opportunities and challenges, Conning and Murdoch (2011) explored the role of microfinance in social investment, Porter and Kramer (2011) investigated how to reinvent capitalism and unleash a wave of innovation and growth. The determinants of financial sustainability identified by the foregoing authors include adoption of social investment strategies, organizational leadership and governance systems, networking, source of finance, technical capacity, outreach, cost of operations, strategic financial management, strategic alliances, paradigm shift in programming, support from local community or neighborhood, specialization and size of the project.

In Kenya, Kituku (2010) in a case study concludes that the income generating activities are not sustainable as they do not value project conceptualization, financial systems and funding aspects. Onsongo (2012) ranked the strategies adopted by NGOs to achieve financial sustainability in the order of strategic financial management, proper governance systems, strategic alliances, internal financial sources, organizational structure, development funding and paradigm shift in programming. Nganga (2013) establish that leadership and governance, networking, financing and technical capacity are successful strategies towards social investment sustainability of NPO activities in Nairobi. From the foregoing, it is evident that there are few or none documented studies on financial sustainability of social enterprises in Kenya, this study sought to address the research question: What are the factors that determine the
financial sustainability of social enterprises established by nonprofit organizations in Kenya?

1.3 Research Objective

This study sought to determine the significance of factors that influence the financial sustainability of social enterprises established by Public Benefit Organizations (PBO’s) in Kenya.

1.4 Value of the Study

This study expounds knowledge on social investment, where social enterprise can tap social investment strategies for their sustainability in the transformation of livelihoods of the communities they serve. The findings of this study are important to the government and policy makers hence, to formulate social investment national frameworks and policies like United Kingdom or United States has done, leading to a sustainable strong social pillar. These will be a key component towards actualization of Kenya Vision 2030 especially the social pillar.

Potential social investors can use the resource to form a better understanding of the Kenya social pillar to enable them make well informed investment decisions. The academicians and researchers may use the study as a source of reference and more importantly, the results of this study sheds light into other areas of research that other researchers need to put focus on. This study highlights the role played by social investment strategies and its impact towards sustainability of enterprise in pursuance of realization of their vision.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents the theoretical and empirical literature review on financial sustainability and its determinants. It starts by reviewing the theories that underpin the study. The subsequent review of empirical literature on financial sustainability of organizations leads to a summary highlighting the study gaps that inform the current study.

2.2 Theoretical Framework

This study is anchored on various theories key among them being Social capital theory (SCT), Resource based view (RBV), theory and open systems theory (OST).

2.2.1 Social Capital Theory

In general it is defined as social relations among individuals or groups who are able to develop norms of mutual trust and to form social networks in order to achieve certain social and economic purposes (Putnam, 2001). This definition seems to ignore social context because it assumes every individual or group to have an equal access to join in. In reality, however, such an assumption is difficult to verify.

In order to make the concept of social capital more applicable, Szreter (2002) offers new dimensions, namely bonding, bridging and linking. Bonding and bridging social capital respectively refers to social relations based on homogeneity and heterogeneity of ethnic membership or social class. While linking social capital relates to power that pushes bridging of different social class or ethnicity more pronounced in a society. A
society that possesses strong bonding and weak bridging social capital propels the sharpening of class and ethnic boundaries, while, strong bridging and weak bonding social capital supports the rise of rootless elite groups. Therefore, it is necessary to have a balanced development of bonding and bridging social capital in society. Another important aspect that should be taken into account is the idea of the outreach of social capital, something to do with coverage whether at micro, meso or macro level.

2.2.2 Resource Based View Theory

The central premise of the resource based view (RBV) is that firms compete on the basis of their resources and capabilities (Petaraf and Barney, 2003). Resources are described as the inputs or the factors available to a company, which help to perform its operations or carry out its activities. RBV is an approach to achieving competitive advantage that emerged in the 1980s and 1990s after the major works published by Wernerfelt (1984) and others. Proponents of RBV argue that it is much more feasible to exploit the external opportunities using existing resources (tangible and intangible) in a new way rather than trying to acquire new skills for each different opportunity.

Resource based view theory argues that firms possess tangible and non-tangible resources. These resources enable firms to achieve competitive advantage and lead to superior long term performance. That advantage can be sustained over longer time periods to the extent that the firm is able to protect against resource limitation, transfer or substitution (Frawley and Fahy, 2006).
2.2.3 Open Systems Theory

Bastedo (2004) explain that open systems theory share the perspective that an organization’s survival is dependent upon its relationship with the environment. According to the open system theory, there is a boundary between the organization and the environment. This boundary needs to be kept porous by the organization to permeate information, ideas and materials to pass through. The organization is therefore made up of sub systems which are interrelated and interdependent of each other.

According to Lim and Sambrook (2010), an open system occurs whenever a porous membrane or boundary exists between the organization and the external environment. This interchange between the internal and external environment demands that the controllers of such organizations pay attention to their external and internal environments and the customers’ needs and reactions.

2.3 Determinants of Financial Sustainability of Social Enterprises

Shediac-Rizkallah and Bone (1998) underscore that planning for sustainability requires use of pragmatic approaches and strategies that favor long term program maintenance. The authors suggest that the potential influences on sustainability may derive from three major groups of factors as; Project design and implementation factors, factors within the organizational setting and factors within the broader community environment.
2.3.1 Project Financing

Bossert (1990) underscore that financing is the most prominent factor in sustainability. Financial sustainability of a project beyond external donor support is dependent on one of two sources of funding. That is, host country government support or beneficiary support through cost recovery mechanisms.

Abel-Smith and Dua (1998) and Gertler and van der Gaag (2000) opine to increased reliance on community financing as a funding source for donor established programs. This is attributed to declining Government resources and global economic challenges.

2.3.2 Project Duration

Bamberger and Cheema (1990) conclude that short time horizon of government and funding agencies, due to a crisis mode of operation, short budget cycles and internal political pressures, has negatively affected the process of sustainability. Steckler and Goodman (1989) prove that short term periods for establishing new programs affect institutionalization.

Lafond (1995) also points to inward focus and short term investment cycles as traditional aid systems that exert a detrimental effect on sustainability. Donor agencies are accountable to institutions which demand swift and visible evidence of their investments. These requirements conflict with long term needs of recipient communities.
2.3.3 Training

Bossert (1990) indicate that projects with professional training components are more likely to be sustained than those without. Those trained can continue to provide benefits, train others and form a constituency in support of the project or program. In the microfinance industry, Ayayi and Sene (2010) observe that the institutions must significantly decrease personnel expenses by emphasizing employee training and financial motivations to augment productivity.

Jackson, et al. (1994) opine that capacity building approach which involves training of trainers enables subsequent transmission of knowledge and skills to other project educators in the community, thereby benefiting lay members of the community at large. Kuriyan, Toyama and Ray (2006) emphasize on training to create awareness, motivation and subsequently financial sustainability of rural computer kiosks.

2.3.4 Corporate Governance Practices

Wasike (2012) explain that good corporate governance is necessary in order to attract investors and assure them that their investment will be secure and efficiently managed and in a transparent and accountable process, create competitive enterprises, enhance the accountability and performance of those entrusted to manage corporations and promote efficient and effective use of limited resources. From the study, the size of the board has an impact on the quality of corporate governance and a large board could be dysfunctional and smaller board sizes are better than larger ones because large boards
may be plagued with free rider and monitoring problems. Further, larger boards are slow in decision making because the monitoring expenses and poor communication in a larger board give a reason for the support of small board.

As explained by Guay et al. (2004), under situations of "good" corporate governance, managers are held accountable for the performance of a company by a board of directors, whose job is to represent the interests of share holders. Under "bad" or "poor" corporate governance, there is a breakdown in the system. Managers may take actions that are not in the best interests of the shareholders, the board of directors does not adequately monitor management's activities, share holders do not pay close enough attention to the company's performance, or some combination of the three. Guay et al. (2004) suggests that NGOs use SRI in certain cases to influence people or institutions that are in key corporate governance positions.

2.4 Empirical Review

Nganga (2013) sought to investigate the social investment strategies used by NPOs in Nairobi and to subsequently determine the relationship between social investment and sustainability for nonprofit organizations. The study established that most of the NPOs suffer from dependency on foreign donations. However, due to external environmental changes like the global meltdown, they are adopting to SI strategies like social enterprises, volunteerism, endowment, commercial equity/enterprises and many more with the aim to be sustainable in future. Further, the study indicates that there is strong positive direct correlation/relationship between SI and sustainability of NPOs but there
are other factors influencing SI adoptions such as social innovation, availability of financing, globalization and internationalization and organizational structure flexibility. The study concludes that Leadership and governance, networking, finance and technical capacity are some of the successful strategies towards NPO’s SI sustainability.

Rao (2013) reckon the rapid expansion of the water sector and the importance of capital structure decisions. The study therefore sought to investigate the effect of funding sources on financial sustainability of Water sector institutes in Kenya. Regression analysis is conducted on financial sustainability and sources of capital namely; Equity (Share capital, Government grants, capital reserves and revenue reserves) and Debt (Long and Short term borrowings). The study foremost establishes a strong positive relationship between internally generated funds and financial sustainability of the water institutions in Kenya. Secondly, regression analysis revealed that when all factors are held constant, a positive relationship is evidenced on financial sustainability with an increase in government grants, donor funding, internally generated funds and reserves.

Kidzuga (2013) underscore the importance of MFIs in development discourse and acknowledge that performance of such institutions is based on the concepts of outreach and sustainability. The study sough to identify the levels of financial sustainability, assess the levels of depth of outreach of the microfinance institutions in Kenya and establish the relationship between sustainability and outreach. The findings
of this study portray that the increase in branches, average number of active clients and the high percentage of women clients has enabled achievement of a greater depth of outreach. This greater depth of outreach has then greatly influenced the financial sustainability of MFIs. It also shows a positive correlation between outreach and financial sustainability. Finally the study concludes that there is a strong relationship between financial sustainability and outreach of MFIs in Kenya.

In Ethiopia, Kinde (2012) investigated the factors affecting financial sustainability of MFIs. Using a quantitative research approach, the study finds that microfinance breadth of outreach, depth of outreach, dependency ratio and cost per borrower affect financial sustainability of the MFIs. Capital structure and staff productivity however had insignificant impact on financial sustainability of the MFIs.

Onsongo (2012) sought to identify strategies adopted by Non Governmental Organizations (NGOs) to attain financial sustainability. The focus of the study was to find out how strategic financial management, paradigm shift in programming, internal financial funding, strategic alliances and organization structure contributes towards financial sustainability amongst the sampled 300 NGOs. From this study, strategic financial management was ranked highly followed by proper governance systems, strategic alliances, internal financial sources, organizational structure, development funding and paradigm shift in programming.
Ngoe (2012) examined the factors that influence the ability of youth enterprises funded by the youth enterprise development fund (YEDF) to meet the financial obligations of their operations and service their loans as and when required. Literature surveyed revealed four prominent factors in relation to financial sustainability, namely; leadership profile, financial planning, financial and administration procedures, and internal methods of financing. The study established that the leaders and members in most groups had no prior experience in business. Though most groups appreciated the importance of financial plans, few businesses had documented their plans and were therefore likely to change them frequently. Additionally most groups appreciated the importance of having administration and financial procedures and controls and checked their records on a weekly or monthly basis. However the study also revealed that most groups only drew up an income and expenditure account and few drew up balance sheets and cash flow statements implying a lack of knowledge or understanding in key financial concepts. The study showed that personal contribution from group members was the most popular form of internal financing. However it was noted that savings from income of the group scored lowly, implying that in most cases reinvestment into the business was not a priority for the group members and this could greatly affect the financial operations of the business.

Ibrahim, Yasin and Dahalin (2010) emphasize the important role of Telecentres (TCs) established by government, NGOs and private sector in bridging the digital divide in Malaysia. The study reckons that the telecentres operate under tight cash budgets and further investigates the actions that should be taken by the government to stop funding
of the government operated TCs. The study expounds that with effective financial planning and monitoring, supported with good management and strong support from local community and neighborhood, there is a possibility that TCs could operate independently. The study recommends various strategies including; Foremost, collaboration between TCs and NGOs and private companies, Secondly, turning TCs into a social entrepreneur, for instance provide services that meet the TC’s obligation to society in return for the community’s contribution, thirdly, strategic alliances between TCs and local entities where different programs can be created to generate income for the benefits of both sides.

Ayayi and Sene (2010) recognize the reality that MFIs have to become steady profitable because donor constancy is not a given. The study on 217 MFIs from 110 countries distributed by region and type of MFI establish findings that also point that client outreach of microfinance programs and the age of MFIs positively impact on attainment of financial sustainability. The study recommends that MFIs should emulate profit making banking practices by implementing sound financial management and good managerial governance to assure their financial sustainability.

Kituku (2010) sought to determine how financially sustainable income generating activity projects supported by Compassion international in Nairobi are and the factors that drive financial sustainability. The study investigated how project conceptualization, systems and funding influence financial sustainability and
concludes that the activities did not value project conceptualization, financial systems and funding aspects thereby making them unsustainable.

Sharma (2008) analyzed the financial sustainability of (Micro finance Institutions) MFIs in Nepal including operational and financial self sufficiency. The study recommends that for financial self sufficiency, the MFIs should establish (set norms) for; return on average performing assets (APA), ratio of financial cost and operating cost to APA, amount of transactions to be carried out at a given level of expenditure for their sustainability.

Bogan, Johnson and Mhlanga (2007) reckon that expansion of MFI programs remains a formidable challenge facing the microfinance industry as millions of potential clients still remain unserved and demand for financial services far exceeds the available supply. The study does not support the proposition that the MFIs age is the deciding factor in sustainability. It identifies importance of capital structure and funding instruments as key determinants of financial sustainability.

Santarossa (2003) investigated the factors that impact on long term sustainability of a sample of scottish firms. A series of financial indicators were modelled to assess the financial health of each farm in the sample as well as predicting the future viability of each enterprise. The study findings suggest that farms characterised by not being in Least Favoured Areas (LFA), specialised, large and with low indebtedness are those most likely to survive.
2.5 Summary of Literature Review

The literature confirms the need for PBOs to implement financially sustainable project initiatives in cognizance of the shrinking donor support. The determinants of financial sustainability identified in the literature include adoption of SI strategies, Organizational leadership and governance systems, networking, source of finance, technical capacity, outreach, cost of operations, strategic financial management, strategic alliances, paradigm shift in programming, support from local community or neighborhood, specialization and size of the project.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter explains the research methodology used in the study. The first section of this chapter highlights the design strategy that the study adopted. The study population and sampling techniques as well as means of collecting data and data analysis methodologies are explained towards the end of the chapter.

3.2 Research Design

A descriptive research approach was adopted in this study. This approach is appropriate for in-depth gathering of qualitative data on determinants of financial sustainability of social enterprises established by public benefit organizations in Kenya. Saunders, Lewis and Thornhill (2009) explain that the strategy is popular both in business and management research since it answers the questions of who, what, where and how much in a study.

3.3 Population

The population of interest to this study consisted of all public benefits organizations (PBOs) registered in Kenya. As per the Public benefits organizations regulatory authority, there were 12,364 registered public benefits organizations in Kenya as at August 2015.
3.4 Sampling Procedure

The population of public benefits organizations in Kenya was 12,364 as per the public benefits organizations regulatory authority. Therefore, the sample size was arrived at using equation 3.1 below adapted from Mugenda and Mugenda (2003).

\[ n = \frac{Z^2pq}{d^2} \]  

(3.1)

Where:

- \( n \); the desired sample size (if the target population is greater than 10,000).
- \( Z \); the standard normal deviate at the required confidence level
- \( p \); the proportion in the target population estimated to have characteristics being measured.
- \( q \); \( 1 - p \)
- \( d \); the level of statistical significance set.

Mugenda and Mugenda (2003) explain that if there is no estimate available of the proportion in the target population assumed to have the characteristics of interest, 50% should be used. Since the researcher desired an accuracy of at least 95% (0.05 level of significance), the sample size was calculated as follows:

\[ n = \frac{(1.96)^2(0.5)(0.5)}{(0.05)^2} \]

\[ n = 385 \]
The study applied convenience sampling to select the 29th Public benefits organization from the alphabetical list of registered public benefits organizations in Kenya.

3.5 Data Collection

Data was collected from both primary and secondary sources for the period 2010 to June 2015. The primary data was obtained from the public benefits organizations through the administration of self-completion questionnaires attached as appendix one. The questionnaires were administered through “drop and pick later” method. The questionnaire comprises closed and open-ended questions. The questionnaire had two sections where section A outlines the demographics of the respondents; Section B highlights the determinants of financial sustainability. Secondary data was obtained from the published financial statements and returns of the Public benefits organizations filed with the Public benefit organizations regulatory authority. The template for secondary data collection is attached as appendix two.

3.6 Data Analysis and Presentation

Data collected was checked for completeness and consistency before the analysis. Statistical Package for Social Science (SPSS) and Microsoft Excel was used to analyze the data. Various descriptive analyses such as means, range, frequency distribution, percentages and coefficient were then derived from the analyzed data and inferences made there from. Presentation of data was done using graphs and tables. The study was guided by a multiple regression equation model for predicting Y as expressed below:
\[ Y = \alpha + \beta_1 \log X_1 + \beta_2 \log X_2 + \beta_3 \log X_3 + \beta_4 \log X_4 + \beta_5 \log X_5 + \beta_6 \log X_6 + \varepsilon \] 3.1

Where:

\( Y \): Financial sustainability – Deficit/ Surplus

\( X_1 \): Project Financing – Donor funds, Grants and Community financing/ total revenue

\( X_2 \): Project Duration – Number of years of external donor financing

\( X_3 \): Income from social enterprises – Self generated income/ total revenue

\( X_4 \): Training costs – Training expenses/ total operating expenses

\( X_5 \): Leadership/ Governance – Corporate governance practices - (Questions 17,18,19)

\( X_6 \): Social Innovation – Dummy variable (Question 9)

3.7 Test of Significance

Inferential statistics such as non parametric test which include analysis of variance (ANOVA) was used to test the significance of the overall model at 95% level of significance. Coefficient of correlation \((r)\) was used to determine the magnitude of the relationship between the dependent and the independent variables. Coefficient of determination \((r^2)\) was also used to show the percentage for which each independent variable and all independent variables combined are explaining the change in the dependent variable.
CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND DISCUSSION

4.1 Introduction

This chapter begins by presenting the key data of the survey from the respondents. It then summarizes and interprets the key findings of the study and compares the major findings with findings in other studies in the area of interest. Findings of the study are presented in tables, figures and related charts.

4.2 Response Rate

The targeted population was 385 respondents of PBOs, but only 316 questionnaires out of 385 given out were returned. This represented 82.07% of the population as indicated in table 4.1 below. Hence, the analysis was done using 316 questionnaires received from the respondents.

<table>
<thead>
<tr>
<th>Table 4.1: Analysis of the response rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Frequency</td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td>Questionnaire sent</td>
</tr>
<tr>
<td>Questionnaire returned</td>
</tr>
<tr>
<td>Source: Primary data</td>
</tr>
</tbody>
</table>

4.3 Background Information of the Public Benefits Organizations

The researcher sought to establish background information about the PBOs. The general information on the responses formed the basis under which the interpretations are made.

4.3.1 Public Benefits Organization’s Category

The first information sought was the category that the PBO is registered in Kenya. As presented in table 4.2 below, 49.1% of the organizations were Non -
governmental organizations, 21.8% were community groups, 9.1% were faith based organizations, 7.3% were unions clubs, 5.5% were charities and 1.9% were foundations.

Table 4.2: PBOs Category

<table>
<thead>
<tr>
<th>PBOs Category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>NGOs</td>
<td>155</td>
<td>49.1</td>
</tr>
<tr>
<td>Charities</td>
<td>17</td>
<td>5.5</td>
</tr>
<tr>
<td>Community Groups</td>
<td>69</td>
<td>21.8</td>
</tr>
<tr>
<td>Faith Based Organizations</td>
<td>29</td>
<td>9.1</td>
</tr>
<tr>
<td>Unions Clubs</td>
<td>23</td>
<td>7.3</td>
</tr>
<tr>
<td>Trusts</td>
<td>17</td>
<td>5.4</td>
</tr>
<tr>
<td>Foundations</td>
<td>6</td>
<td>1.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>316</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Primary data

4.3.2 PBOs Years of Operation

The second organizational characteristic that the study sought was the number of years that the PBO has operated. The distribution of the years of operation is presented in table 4.3 below. A majority of 45.45% of the PBOs have operated for between 21 and 30 years, 21.82% have operated for between 31 and 40 years, 13.4% have operated for between 11 and 20 years, 10.24% have operated for less than 10 years, 7.3% have operated for between 41 and 50 years and 1.8% have operated for more than 51 years. These years of operation indicate that the organizations have some long time history of operations that makes them stable or sustainable.
### Table 4.3: PBO years of operation

<table>
<thead>
<tr>
<th>PBOs years of operation</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;10 years</td>
<td>32</td>
<td>10.24</td>
</tr>
<tr>
<td>11-20 years</td>
<td>42</td>
<td>13.4</td>
</tr>
<tr>
<td>21-30 years</td>
<td>144</td>
<td>45.45</td>
</tr>
<tr>
<td>31-40 years</td>
<td>69</td>
<td>21.82</td>
</tr>
<tr>
<td>41 – 50 years</td>
<td>23</td>
<td>7.3</td>
</tr>
<tr>
<td>&gt;51 years</td>
<td>6</td>
<td>1.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>316</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Primary data

#### 4.3.3 PBOs Number of employees

The third organizational characteristic sought was the number of employees of the PBOs and the results are as presented in table 4.4 below.

### Table 4.4: PBOs number of employees

<table>
<thead>
<tr>
<th>Number of employees</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;50</td>
<td>29</td>
<td>9.18</td>
</tr>
<tr>
<td>51 to 100</td>
<td>151</td>
<td>47.78</td>
</tr>
<tr>
<td>101 to 150</td>
<td>96</td>
<td>30.38</td>
</tr>
<tr>
<td>151 to 200</td>
<td>35</td>
<td>11.08</td>
</tr>
<tr>
<td>&gt;201</td>
<td>5</td>
<td>1.58</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>316</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Primary data

As presented in the table 4.4 above, 47.78% of the PBOs have between 51 to 100 employees, 30.38% have between 101 to 150 employees, 11.08% have between 151 to 200 employees, 9.18% have less than 50 employees and 1.58% have more than 201 employees. This distribution shows that the PBOs have a very large amount of workforce that supports their various initiatives.
4.4 Funding Sources

The study sought to rank the extent to which PBOs rely on sources of funds on a scale of 1 to 3 where 3 is highest extent, 2 is moderate extent and 1 is to a lowest extent. The responses are indicated in table 4.5 below.

Table 4.5: Sources of PBO Finances

<table>
<thead>
<tr>
<th>Source</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government grants and social funds</td>
<td>316</td>
<td>1.1994</td>
<td>.47288</td>
<td>.02660</td>
</tr>
<tr>
<td>Foreign grants and donations</td>
<td>316</td>
<td>2.5348</td>
<td>.67757</td>
<td>.03812</td>
</tr>
<tr>
<td>Earned income or social enterprise</td>
<td>316</td>
<td>1.5285</td>
<td>.67317</td>
<td>.03787</td>
</tr>
<tr>
<td>High net-worth individuals</td>
<td>316</td>
<td>1.1709</td>
<td>.50007</td>
<td>.02813</td>
</tr>
<tr>
<td>Corporate or private companies</td>
<td>316</td>
<td>1.1519</td>
<td>.48700</td>
<td>.02740</td>
</tr>
</tbody>
</table>

Source: Secondary Data

The likert responses summarized in table 4.5 infer that 0.5 to 1.5 is at least extent, 1.51 to 2.5 is to a moderate extent and 2.51 to 3.5 are to a high extent. The PBOs confirm that they rely on foreign grants and donations to a high extent with a mean of 2.534 and a standard deviation of 0.677. To a moderate extent, the PBOs rely on earned income or social enterprise with a mean of 1.528 and a standard deviation of 0.673. They also rely to a moderate extent on corporate or private companies support with a mean of 1.151 and a standard deviation of 0.487. Contributions from government grants and social funds are relied on to a least extent with a mean of 1.199 and a standard deviation of 0.472. High net-worth individuals also provide the funding to a least extent with a mean of 1.170 and a standard deviation of 0.500.

4.5 Social Investments Strategies

The study sought to know if the PBOs apply social investment strategies in their operations through likert questions that are summarized as below in table 4.6.
Table 4.6: Social Investment Strategies

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social investment strategies exist</td>
<td>316</td>
<td>1.284</td>
<td>.452040</td>
<td>.025429</td>
</tr>
<tr>
<td>Social investment influence operations</td>
<td>316</td>
<td>1.246</td>
<td>.43185</td>
<td>.02429</td>
</tr>
<tr>
<td>Sustainability strategies exist</td>
<td>316</td>
<td>1.038</td>
<td>.19144</td>
<td>.01077</td>
</tr>
<tr>
<td>Social investments influence sustainability</td>
<td>316</td>
<td>1.246</td>
<td>.43185</td>
<td>.02429</td>
</tr>
<tr>
<td>Knowledge of sustainability strategies</td>
<td>316</td>
<td>1.246</td>
<td>.43185</td>
<td>.02429</td>
</tr>
</tbody>
</table>

Source: Primary Source

In a likert scale where 0.5 to 1.5 implies Yes and 1.51 to 2.5 implies No, the respondents confirmed that most of the institutions have social investment strategies with a mean of 1.284 and a standard deviation of 0.452. Knowledge of sustainability strategies, social investments effects on sustainability and social investments effects on PBO operations had a mean response of 1.246 and a standard deviation of 0.024 each. The existence of sustainability strategies had a mean response of 1.038 which also confirms that most of the PBOs have put in place various sustainability strategies.

The study sought to know the extent to which the organizations have employed various investment strategies as sustainability components. The responses are presented in table 4.7 below.
Table 4.7: Investment Strategies as Sustainability Components

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social enterprises</td>
<td>316</td>
<td>1.519</td>
<td>.67350</td>
<td>.03789</td>
</tr>
<tr>
<td>Endowment funds</td>
<td>316</td>
<td>1.335</td>
<td>.64351</td>
<td>.03620</td>
</tr>
<tr>
<td>Specialized funds</td>
<td>316</td>
<td>1.164</td>
<td>.48939</td>
<td>.02753</td>
</tr>
<tr>
<td>Social funds</td>
<td>316</td>
<td>1.253</td>
<td>.43551</td>
<td>.02450</td>
</tr>
<tr>
<td>Social impact bonds</td>
<td>316</td>
<td>1.000</td>
<td>.00000</td>
<td>.00000</td>
</tr>
<tr>
<td>Commercial enterprises</td>
<td>316</td>
<td>1.072</td>
<td>.34423</td>
<td>.01936</td>
</tr>
<tr>
<td>Volunteerism</td>
<td>316</td>
<td>1.642</td>
<td>.89548</td>
<td>.05037</td>
</tr>
<tr>
<td>Community development finance institutions</td>
<td>316</td>
<td>1.386</td>
<td>.55463</td>
<td>.03120</td>
</tr>
</tbody>
</table>

Source: Primary Source

a. t cannot be computed because the standard deviation is 0.

From the table, it is established that the PBOs apply the social enterprises as a sustainability component to a moderate extent with a mean of 1.519 and a standard deviation of 0.673. Volunteerism is also practiced to a moderate extent with a mean of 1.642 and a standard deviation of 0.895. These findings are consistent with Nganga (2013) assertions that most NPOs suffer from dependency on foreign donations. However, due to external environmental changes like the global meltdown, they are adopting to SI strategies like social enterprises and volunteerism.

Partnerships with community development finance institutions (mean = 1.386, SD = 0.554), Endowment funds (mean=1.335, SD = 0.643), Social funds (mean = 1.253, SD = 0.435), commercial enterprises (mean = 1.072, SD = 0.344) and social impact bonds (mean = 1.000, SD = 0.000) are applied by the PBOs to a least extent. This shows that the common strategies are social enterprises and volunteerism amongst the PBOs.
The respondents were asked to rank the extent to which they attribute the success of their organizations to social investment strategies. The responses are provided in Table 4.8 below.

**Table 4.8: Attributes for success of social investment strategies**

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finances or Grants</td>
<td>316</td>
<td>2.519</td>
<td>.67350</td>
<td>.03789</td>
</tr>
<tr>
<td>Technical capacity</td>
<td>316</td>
<td>1.835</td>
<td>.64351</td>
<td>.03620</td>
</tr>
<tr>
<td>Government regulatory environment</td>
<td>316</td>
<td>1.614</td>
<td>.48939</td>
<td>.02753</td>
</tr>
<tr>
<td>Networking or partnerships</td>
<td>316</td>
<td>2.323</td>
<td>.43551</td>
<td>.02450</td>
</tr>
<tr>
<td>Leadership and Governance</td>
<td>316</td>
<td>2.107</td>
<td>.34423</td>
<td>.01806</td>
</tr>
<tr>
<td>Management systems and Policies</td>
<td>316</td>
<td>2.072</td>
<td>.34543</td>
<td>.01936</td>
</tr>
<tr>
<td>Work Programming and Planning</td>
<td>316</td>
<td>1.642</td>
<td>.89548</td>
<td>.05037</td>
</tr>
<tr>
<td>Social Innovation</td>
<td>316</td>
<td>2.386</td>
<td>.55463</td>
<td>.03120</td>
</tr>
</tbody>
</table>

Source: Primary source
a. t cannot be computed because the standard deviation is 0.

As indicated in Table 4.8, the respondents attribute the success of the social investment strategies to finances and grants with a mean of 2.519 and a standard deviation of 0.673. The success is also attributed to social innovation (mean = 2.386, SD = 0.554), networking or partnerships (mean = 2.323, SD = 0.435), Leadership and governance (mean = 2.107, SD = 0.344), management systems and policies (mean = 2.072, SD = 0.345), technical capacity (mean = 1.835, SD = 0.643) and work programming and planning (mean = 1.642, SD = 0.895). These factors are established to be contributing to the success of the social investment strategies to a moderate extent.
4.6 Corporate Governance

The study sought to establish the existence of corporate governance mechanisms amongst the public benefits organizations with a focus on the existence of board of directors, board size and CEO duality. The responses on corporate governance mechanisms and practices are presented in table 4.9 below.

Table 4.9: Corporate Governance

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board existence</td>
<td>316</td>
<td>1.0506</td>
<td>.21959</td>
<td>.01235</td>
</tr>
<tr>
<td>CEO duality</td>
<td>316</td>
<td>1.4652</td>
<td>.49958</td>
<td>.02810</td>
</tr>
<tr>
<td>Board size</td>
<td>316</td>
<td>1.8513</td>
<td>.67615</td>
<td>.03804</td>
</tr>
</tbody>
</table>

Source: Primary source

As indicated in table 4.9, the PBOs have in place boards of directors with the response mean of 1.050 and a standard deviation of 0.219. Further, in most of the PBO’s the board chairman acts as the CEO with the mean response of 1.465 and a standard deviation of 0.499. The board size of between five and ten is applied in most of the PBOs with a mean response of 1.851 and a standard deviation of 0.676.

4.7 Correlation Analysis

The study variables were tested for correlation and the relationships presented in a correlation matrix in table 4.10 below.
As presented in Table 4.10 above, there are statistically significant weak positive relationships between income from social enterprises and financial sustainability \( (r=0.356) \), project corporate governance and project duration \( (r=0.371) \), Social innovation and project duration \( (r=0.283) \), Social innovation and project governance \( (r=0.153) \).

The study establishes weak positive associations between financial sustainability and training costs \( (r=0.080) \), social innovation \( (r=0.059) \), project finance \( (r=0.033) \), project governance \( (r=0.001) \). The relationships are however not statistically significant including the relationship between project governance and project finance \( (r=0.097) \).

Weak positive relationships that are not statistically significant are established between social innovation and project finance \( (r=0.039) \), training costs and social innovation \( (r=0.087) \), training costs and project corporate governance \( (r=0.076) \), training costs and

<table>
<thead>
<tr>
<th></th>
<th>Financial sustainability</th>
<th>Income from social enterprises</th>
<th>Training costs</th>
<th>Project finance</th>
<th>Project duration</th>
<th>Project governance</th>
<th>Social innovation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial sustainability</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from social enterprises</td>
<td>.356**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training costs</td>
<td>.080</td>
<td>.086</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project finance</td>
<td>.033</td>
<td>-.010</td>
<td>.100</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project duration</td>
<td>-.012</td>
<td>-.007</td>
<td>.026</td>
<td>-.026</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project governance</td>
<td>.001</td>
<td>.071</td>
<td>.076</td>
<td>.097</td>
<td>.371**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Social innovation</td>
<td>.059</td>
<td>.013</td>
<td>.087</td>
<td>.039</td>
<td>.238**</td>
<td>.153**</td>
<td>1</td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.01 level (2-tailed).
and project duration (r=0.026), training costs and project finance (r=0.100), income from social enterprises and training costs (r=0.086), income from social enterprises and project governance (r=0.071), income from social enterprises and social innovation (r=0.013).

The study also establishes weak negative relationships that are not statistically significant between project duration and financial sustainability (r=-0.012), project duration and income from social enterprises (r=-0.007), project duration and project finance (r=-0.026), project finance and income from social enterprises (r=-0.010).

4.8 Regression Analysis

The study tested the relationship between the dependent and the independent variables in a linear regression model. As indicated in table 4.11 below, adjusted R Square is 0.131 which imply that 13.1% of variations in financial sustainability of PBOs in explained by variations in the predictor variables namely: Income from social enterprises (incse), Social innovation (Socinniv), Project finance (Pfinance), Project duration (Pduration), Project corporate governance (Pgovern) and Training costs (Traincosts).

Table 4.11: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.384a</td>
<td>.147</td>
<td>.131</td>
<td>.01847</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Socinnov, Incse, Pfinance, Traincosts, Pgovern, Pduration
Table 4.12 below shows that the fitted regression model is significant with F statistic of 8.885 and P< 0.05 which indicates that the points lie moderately close to the line of best fit in the scatter diagram. This indicates that the model is relatively suitable in explaining the variance of financial sustainability of the public benefits organizations social enterprises as explained by the variance in the predictor variables.

Table 4.12: ANOVAa

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>.018</td>
<td>6</td>
<td>.003</td>
<td>8.885</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>.105</td>
<td>309</td>
<td>.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>.124</td>
<td>315</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Finsus
b. Predictors: (Constant), Socinnov, Incse, Pfinance, Traincosts, Pgovern, Pduration

Table 4.13 below shows the coefficients of the fitted regression equation that translates to:

Financial sustainability = -0.043 + 0.369 (Income from social enterprises) – 0.123 (Traincosts) + 0.046 (Project finance) + 0.016 (Project duration) + 0.008 (project governance) + 0.076 (Social Innovation)

Table 4.13: Coefficientsa

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>-0.043</td>
<td>.012</td>
<td></td>
<td>-3.451</td>
</tr>
<tr>
<td>Incse</td>
<td>.008</td>
<td>.001</td>
<td>.369</td>
<td>6.975</td>
</tr>
<tr>
<td>Traincosts</td>
<td>-.001</td>
<td>.000</td>
<td>-.123</td>
<td>-2.307</td>
</tr>
<tr>
<td>Pfinance</td>
<td>.001</td>
<td>.002</td>
<td>.046</td>
<td>.862</td>
</tr>
<tr>
<td>Pduration</td>
<td>.000</td>
<td>.001</td>
<td>.016</td>
<td>.273</td>
</tr>
<tr>
<td>Pgovern</td>
<td>.005</td>
<td>.033</td>
<td>.008</td>
<td>.137</td>
</tr>
<tr>
<td>Socinnov</td>
<td>.008</td>
<td>.006</td>
<td>.076</td>
<td>1.388</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Finsus
As indicated in Table 4.13 above, without incorporating the predictor variables, the constant levels of financial sustainability of the projects is -0.043. The positive relationship between income from sustainable entreprises and financial sustainability is established to be statistically significant ($\beta=0.369$, $t=6.975$, $p<0.05$). The finding shows that for every unit increase in income from sustainability enterprises, there is a corresponding increase in financial sustainability to the extent of 0.369. Earlier studies by Onsongo (2012) and Rao (2013) opine that internally generated funds and reserves contribute to financial sustainability.

The relationship between training costs and financial sustainability is weak but statistically significant ($\beta=-0.123$, $t=-2.307$, $p<0.05$). This finding suggests that for a unit increase in training costs, there is a decline in financial sustainability of the social entreprise projects by a proportion of -0.123.

The relationship between project finance and financial sustainability of the projects is established to be positive but is not statistically significant ($\beta=0.046$, $t=0.862$, $p>0.05$) implying that for a unit increase in project financing, financial sustainability of the projects increases by up to 0.046. This finding is consistent with earlier conclusions of Nganga (2013), Rao (2013), Onsongo (2012) and Bogan, Johnson and Mhlanga (2007) that funding instruments as key determinants of financial sustainability.

The relationship between project duration and financial sustainability of the projects is established to be positive but is however not statistically significant ($\beta=0.016$, $t=0.273$, $p>0.05$).
p>0.05) implying that for a unit increase in project duration, financial sustainability of the projects increases by up to 0.016.

The relationship between project corporate governance is positive but is not statistically significant (β=0.008, t=0.137, p>0.05). This suggests that a unit increase in corporate governance practices leads to increase in projects financial sustainability up to 0.008 times. These findings reinforce the propositions by Ibrahim, Yasin and Dahalin (2010) that good management and strong support from local community and neighborhood can result into financial sustainability of projects.

The study findings suggest that the relationship between social innovation and financial sustainability of the projects is positive. However, the derived relationship is not statistically significant (β=0.076, t=1.388, p>0.05). This finding infers that for every unit increase in social innovation in the projects, there is an increase in financial sustainability up to 0.076 times. The relationship established confirms earlier arguments by Nganga (2013) that there are other factors that influence Social investments adoption including social innovation.
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents discussions of the key findings presented in chapter four, conclusions drawn based on such findings and recommendations. This chapter is thus structured into sections namely: summary of findings, conclusions, recommendations, limitations of the study and suggestions for further research.

5.2 Summary of Findings

The study sought to investigate the determinants of financial sustainability of social enterprises established by public benefits organizations in Kenya. Three hundred and sixteen questionnaires were dully completed and analyzed which returned a 82.07% response rate. From the sample, 49.1% of the organizations were Non-governmental organizations, 21.8% were community groups, 9.1% were faith based organizations, 7.3% were unions clubs, 5.5% were charities and 1.9% were foundations.

On funding sources, the PBOs confirm that they rely on foreign grants and donations to a high extent. To a moderate extent, they rely on earned income or social enterprise, corporate or private companies support. To a least extent, they rely on contributions from government grants and social funds and high net-worth individuals.

On the social investment strategies established for financial sustainability, the study finds that the PBOs apply the social enterprises and volunteerism to moderate extents which confirm earlier arguments by Nganga (2013) that most NPOs suffer from
dependency on foreign donations but due to the external environmental changes, they are adopting to SI strategies like social enterprises and volunteerism. The other strategies applied to least extent are partnerships with community development finance institutions, endowment funds, social funds, commercial enterprises and issuance of social impact bonds.

The study finds a statistically significant positive relationship between income from sustainable enterprises and financial sustainability suggesting that for every unit increase in income from sustainable enterprises, there is a corresponding increase in financial sustainability to the extent of 0.369. This finding is consistent with earlier findings by Onsongo (2012) and Rao (2013) that internally generated funds and reserves contribute to financial sustainability. Another statistically significant relationship is between training costs and financial sustainability which suggests that for a unit increase in training costs, there is a decline in financial sustainability of the social enterprise projects by a proportion of -0.123.

The study finds non statistically significant relationships between project finance and financial sustainability of the projects implying that for a unit increase in project financing, financial sustainability of the projects increases by up to 0.046. This finding is confirms earlier conclusions of Nganga (2013), Rao (2013), Onsongo (2012) and Bogan, Johnson and Mhlenga (2007) that funding instruments are key determinants of financial sustainability.
The relationship between project duration and financial sustainability of the projects is positive but is not statistically significant implying that for a unit increase in project duration, financial sustainability of the projects increases by up to 0.016. Also, the relationship between project corporate governance is positive but is not statistically significant suggesting that a unit increase in corporate governance practices leads to increase in projects financial sustainability by up to 0.008 times. These findings are consistent with the arguments of Ibrahim, Yasin and Dahalin (2010) that noted that good management and strong support from local community and neighborhood results into projects financial sustainability.

The relationship between social innovation and financial sustainability of the projects is established to be positive inferring that for every unit increase in social innovation in the projects, there is an increase in financial sustainability up to 0.076 times. This relationship is in conformance with earlier propositions by Nganga (2013) that there are other factors that influence Social investments adoption including social innovation

5.3 Conclusions
Based on the study findings, it is concluded that internally generated funds positively influence financial sustainability of social enterprises in Kenya and the relationship is significant. This finding is consistent with earlier findings by Onsongo (2012) and Rao (2013) that internally generated funds and reserves contribute to financial sustainability. It also asserts as indicated by Nganga (2013) that PBOs apply the social enterprises and volunteerism because the NPOs suffer from dependency on foreign
donations and due to the external environmental changes, they are adapting to SI strategies like social enterprises and volunteerism.

Training costs are also established to negatively influence financial sustainability of the PBOs. Other factors that positively influence the financial sustainability include; project financing, project duration, project corporate governance and social innovation.

5.4 Recommendations

The PBOs should be encouraged to be socially innovative by establishing enterprises that support their course so as to avoid overreliance on donor and government support which is dwindling. Government should put in place policies to encourage social entrepreneurship while at the same time streamlining the volunteering framework especially by the skilled personnel in the economy.

Social innovation being a new evolving concept, policy makers should review the existing avenues for encouraging public benefits organizations to be socially responsible in their operations in Kenya. This will support social inclusion and financial sustainability of the respective institutions. Since training costs are established to negatively influence financial sustainability, the policy makers and PBO managers should review their training portfolios so as to ascertain their relevance and contributory value to the projects.
5.5 Limitations of the Study

The researcher experienced a number of limitations while carrying out the research. The major limitation was the limited literature available on similar work in Kenya with most of the literature references were from the Western world.

The study assumed that there is a relationship between financial sustainability and its determinant predictor variables. This assumption led to the use of the linear regression model. There is a possibility that the relationship is not linear like used in the analysis among all the variables and that could be why some of the variables weakly explained the financial sustainability. Given that this study is unable to categorically state whether the relationship is linear or otherwise. The findings are therefore limited to the linearity assumption.

The research findings are applicable to the PBOS sector and within the period of study. The study has not established whether the results are same outside Kenya or not. Further, since finance is in part a behavioral issue, the study has only given findings applicable within the context of the available data. The study has not expressly investigated whether the findings are applicable after the study conclusion.

5.6 Suggestions for further Research

Since the study finds that project external financing positively influence financial sustainability of the social enterprises, further studies should attempt to investigate the optimal levels of external funding that does not lead the social initiatives to donor dependency syndrome.
Since 13.1% of variations in financial sustainability of the PBOs is established to be explained by variations of the study predictor variables, further studies should be focused on identifying the other factors than explain up to 86.9% of the variations in financial sustainability some of which may be economic, political or social.
REFERENCES


Gertler, P. & Van der Gaag, J. (1990) 77K; *Willingness to Pay for Medical Care: Evidence from Two Developing Countries*. The Johns Hopkins University Press, Baltimore, MD.


Appendix One: Questionnaire

This questionnaire is part of my MBA research project. Its primary focus and intended purpose is to find out determinants of financial sustainability of social enterprises established by Public Benefit Organizations (PBOs) in Kenya. It will help to determine the relationship between the determinants and sustainability of social initiatives for transformation of the society. Information and data collected using this questionnaire will be strictly confidential, coded and will be represented only on aggregate.

Part A: General information.

1. Name of the Organization (Optional)………………………………………

2. Which category does your organization belong to as PBOs?
   i. NGO’s ( )
   ii. Charities ( )
   iii. Community groups ( )
   iv. Faith-Based Organizations (FBO) ( )
   v. Unions clubs ( )
   vi. Trusts ( )
   vii. Foundations i.e. corporate, private or family ( )

3. How long has your organization operated? ............................

4. How many employees are in your organization? ..........................

5. Who are your beneficiaries? ..............................................................

..............................................................
Part B: Social investment

9. Do you know what Social Investment (SI) is?
   Yes ( )
   No ( )

10. Does emerging of world social investment market trends influence your organization day to day operations? .................................................................

11. Rank your organization sources of funds from highest to lowest i.e. 1-5
   i. Government/social funds ( )
   ii. Foreign grants and donations ( )
   iii. Earned income/Social enterprises ( )
   iv. High-Net-Worth-Individuals (HNWI) ( )
   v. Corporate/private companies ( )

12. Does your organization have sustainability strategies?
   Yes ( )
   No ( )

13. What would you attribute the success of your organization social investment strategy/ies? *Tick more than one if applicable*
   i. Finances/grants ( )
   ii. Technical Capacity ( )
   iii. Government Regulatory Environment ( )
   iv. Networking/Partnership ( )
   v. Leadership and Governance ( )
vi. Management Systems and Polices  

vii. Work Programming and Planning  

viii. Social innovation  

14. Does the use of social innovation influence the achievement of sustainability?
   Yes  
   No  

15. Does your organization use social investment strategies?
   Yes  
   No  

16. Which social investment strategy/ies listed below has your organization employed as a sustainability component? *Tick more than one if applicable*

   i. Social enterprises  
   ii. Endowments fund  
   iii. Specialized fund (Uwezo, youth & Women funds)  
   iv. Social fund/Devolved fund  
   v. Social impact bonds/ NSE-AIMS*  
   vi. Commercial equity/enterprises  
   vii. Community Development Finance institutions (CDFI)  
   viii. Volunteerism  
   ix. Commercial equity/enterprises  

Part C: Corporate Governance

17. Does your NGO/ PBO have in place a board of directors?
   Yes ( )       No ( )

18. If Yes above, How many are the members of the board?..........................

19. Is the CEO of the NGO/PBO a chairman of the board?
   Yes ( )       No ( )

Appendix Two: Secondary Data Collection Template
Name of Public benefit Organization..............................................................................................................
Year of establishment...................................................................................................................................................
Year of establishment of social Enterprise...........................................................................................................
Number of years of donor financing.....................................................................................................................

<table>
<thead>
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<th>Year/ Item</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donor aid</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donor Grants</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Community Finance</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Self generated income</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total revenue</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total operational expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surplus/ deficit</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Project training costs</td>
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</tr>
</tbody>
</table>