STRATEGIC RESPONSES TO FINANCIAL CHALLENGES BY SELECTED NON GOVERNMENTAL ORGANISATIONS IN NAIROBI CITY COUNTY

BY

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINSTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

2016

DECLARATION

I hereby declare that this project report is my original work and has not been submitted for the award of degree in any other institution.

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Recommendation

This project report is submitted for examination with our approval as university.

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ACKNOWLEDGEMENT

I am grateful to my supervisor Mr. Ndambuki of the Department of Business Administration, University of Nairobi, for the expert advice and dedicated time throughout the research process.

I also want to express my gratitude to my family and friends for the moral and financial support. Thanks also go to my colleagues at the Nairobi University for being reliable friends and motivational during my period of study.

I also acknowledge the NGOs in Nairobi City County for their co-operation during data collection. Thanks to all the respondents for accepting to participate in the study.

DEDICATION

This research project is dedicated to my husband and son for their support and encouragement throughout my studies.

ABBREVIATIONS AND ACRONYMS

NGO	Non-Governmental Organisation
ASAL	Arid and Semi-Arid Land
RBV	Resource Based View
R&D	Research and Development
UK-	United Kingdom
SPSS-	Statistical Package for Social Sciences
AMREF-	African Medical and Research Foundation
CEO	Chief Executive Officer
IGA	Income Generating Activities
PME	Project Monitoring and Evaluation
CRDA	Community Revitalization through Democratic Action
OECD	Organisation for Economic Cooperation and Development

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ABSTRACT

The main objective of the study was to determine the strategic responses to financial challenges by Non- Governmental organisations in Nairobi City County. The research design of the study was a cross-sectional survey. The total population of the study was 6500 NGOs in Nairobi and systematic random sampling was used to identify 65 NGOs. Questionnaire was used as the main data collection tool. Data was analysed using the measures of central tendencies and the Statistical Package for Social Studies (SPSS) was used. The study established that reliance on donor funding is still very high and the lack of appropriate skills for proper grants management. Most organisations have adopted diversification and innovative strategies to reduce financial challenges. Coming up with coming generating activities and the use of innovative ways of fundraising are new ways of working in NGOs in Nairobi. Strategic alliance was also identified as a key strategy that creates synergies in program implementation, experience sharing and learning as well as joint fundraising. Proper financial management that would involve budgeting and planning, grants management and project monitoring and evaluation are important activities in any grant receiving organisation. The management leadership styles and the competences of the staff are important in enhancing the efficiency of an organisation. The study recommends that NGOs in Nairobi should have a balance between internal and external sources of income. Coming up with income generating activities and creating reserve fund are key internal sources of fund which could help finance operational costs. External funding which could come through the engagement of different donors could be used for direct program costs. The study also recommends proper financial planning and program monitoring and evaluation to enhance efficiency and effectiveness of the organisation. Continuous capacity assessment and enhancement of all stakeholders is also important in financial management strategy

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Organizations in the world work in quite unstable environment. A clear sense of direction is required for organisations operating in such an uncertain environment for it to achieve its target objectives. Strategy is an important tool when an organization faces unforeseen threats and when new opportunities are constantly appearing. According to Porter (1980), the reason for competitive strategy formulation is to link the organization to its environment. The environment consists of social, economic, political, ecological, legal and technological forces. Richard et al. (2009) argue that the financial abilities of an organization determine its performance and effectiveness. This therefore mean that when organisations face financial challenges, its operational capacity is impaired thereby limiting its ability to achieve the set objectives. Drucker, (1990) contends that, organisations will always have emerging needs that require sufficient funds. However, these organisations have to know that there are always limited opportunities to generate income. This may lead to financial crisis in organisations.

This study was guided by the Resource Based View theory. The resource based view (RBV) holds that for an organisation to have long term competitive advantage, it has to exploit its internal resources rather than external factors. The theory further argues that an organisation that have strategic resources have a higher advantage since they gain competitive advantage over its competitors. Barney (1991) classifies firm resources as either tangible or intangible. These resources provide a firm the ability to formulate and implement strategies which promotes efficiency and effectiveness. These resources may include all assets, capabilities, organizational processes, firm attributes, information and knowledge. Barney (1991) further explains that resources that give a competitive advantage to the organisation are the most valuable. This is because they have attributes such as durability, not easily identified and understood and they cannot be imitated. This therefore implies that an organisation can only sustain its competitive advantage if it keeps nurturing and developing its resource base. In addition, the resource-based view is built on the perspective that a firm's internal environment, in terms of its resources and capabilities, is more critical to the determination of strategic action than is the external environment (Camisón, 2005). The resource based view suggests that organisations should use unique resources and abilities to create strategies rather than accumulating resources for strategy implementation. This theory is, therefore, offered a powerful framework for examining the strategic responses that can be used by organizations faced by resource challenges

The NGO sector in Kenya has been developing over the years providing services in various parts of the country. They have made commendable contributions to the development processes, advocacy, relief, gender among other thematic areas. According to Kameri-Mbote (2002), NGOs existence has been justified by various societal changes that include: economic recession, emergency of new diseases, and recurrence of conflict, environmental degradation and climate change. Some NGOs have managed to have good management demonstrated by sound practices and characterized by good governance practices, quality staff, having clear visions and missions, financial stability among other factors (Kenya NGOs Management Policy, 2004). However, a good number of NGOs have not been able demonstrate similar characteristics and are facing management related problems or have closed down (Kenya NGOs Coordination Board, 2008). Further, changing economic environment in donor countries have caused most of them to face the possibility. This calls for effective management and governance practices to ensure survival if not stability or growth (Anan, et al, 2008).

1.1.1 Concept of Strategy

Chandler (1962) defines strategy as the long-term goals and objectives that an enterprise aims to achieve. He further argues that in order for an organisation to achieve its set objective it has to undertake some action and to allocate the necessary resources for carrying out these goals. Johnson, Scholes & Whittington (2002) define strategy as a way of achieving competitive advantage by organisations by determining the direction and scope of an organization activities over the long period of time in an ever changing environment. This is achieved through meeting the market needs and fulfilling stakeholders' expectations through configuration of resources and competences. A strategy steers the overall organization and its impact is felt throughout the entire organization. The main aim of strategy is to create a link between the organization and its mandate on one hand, and the organizations external environment on the other hand. Hunger and Wheeler (2010) describe strategy as a plan that comprehensively describes how the organisation will achieve its mission and objectives. The people who drive strategy in organizations are seen to be visionaries, the entrepreneurs and innovators. They are those who take risks and try new ways of doing things.

According to Porter (1990), every organization has to have a competitive strategy that makes it acquire and maintain competitive advantage in the industry. Competitive strategy formulation requires that an organisation is linked to it environment. In every industry, formulating a competitive strategy involves understanding of the fundamental determinants of competition. Porter (1980) give five basic sources of completion an industry. The development of an organisation's competitive strategy highly depends on strategic thinking. This strategic thinking is obtained when the environment is highly competitive. This concept can further be explained that the determination of the organizational direction is very fundamental and there strategy is paramount as it gives a framework to this determined direction. Emphasis have been put on formal strategic planning for organizations, however, strategy implementation and monitoring still remain the key part of strategic management for any organization to achieve the set objectives. Strategy choices have to be challenging enough to ensure the organization is ahead of the competition but at the same time achievable and realistic.

1.1.2 Strategic Response

Strategic responses refer to the ability of a firm to adapt to changing situations (Nilsson, 1995). Strategic management can be defined as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives (David, Strategic Management, 2011). Pearson & Robison (2003) considers strategic management as plans which are formulated and implemented in order to achieve an organisation's objectives. It can further be defined as a process in which the organisational objectives are specified, policies and procedures are put in place and thereafter resources are allocated for efficient implementation of the strategy. Strategic management in essence is to give an organisation some sense of direction required in order to survive in the environment.

Organizations exist and carry out their activities in an environment. This environment is either internal or it could be external. Internal environment is that which is within the organization control. It is composed of factors like: structure, policies, human resources, technology and financial resources. The external environment is outside the organization's control and include; economic, social, political legal and technological forces. The ability of an organisation to compete in a global market characterised by uncertainties depends on its competitiveness. Moorman and Miner, (1998) argues that the intensity of competition which an organisation faces in a market demands that a flexible approach is taken in order to adapt to changing situations.

In highly competitive environments, strategic responses become a valuable asset (Aaker and Mascarenhas 1984). New competition in the industry requires firms to be flexible enough. This flexibility helps in decision making regarding resource reallocation and diverse strategic options. Some uncertainties such as those of demand nature are at times difficult to deal with and require assimilating information and devising strategic plans. Management in such environments requires concerted deployment of resources devoted to the product-market operations and response to demand. In such situations therefore, the flexibility of an organisation will facilitate meeting the unique needs of consumers, business partners, and institutional constituents (Alien and Pantzalis, 1996). In stable markets, this is not the case. Competitive flexibility therefore is a key attribute required of firms facing challenging and unique situations at times of demand uncertainty.

Strategic responses therefore is the ability of an organisation to respond quickly to changing market conditions. This entails organisational capacity enhancement, investing in diverse resources and possessing a wide range of strategic options (Bowman and Hurry 1993).

1.1.3 Non-Governmental Organizations in Kenya

In Kenya, Non-Governmental Organisations started as ethnic and regional based association and groups after World War II. These groupings had political, social or economic orientations and were formed to foster the welfare of people affected by the reduction of social services during the war. AN NGO can be defined as a voluntary association of individuals who operate not for profit purposes, NGO Coordination Act (1992). The groups may be nationally or internationally formed for the purpose of benefiting the public and for the promotion of social welfare, development, charity or research. The areas covered may include, but not limited to democracy, environment, health, relief, agriculture, education, industry and the supply of amenities and services.

The NGO's in Kenya are regulated by The National Council of NGOs, popularly known as the NGO Board. The NGO coordination Board is a self-regulating, non-partisan body comprising all registered NGOs, established in August 1993 under the Non-governmental Organizations Coordination Act, 1990 as a forum of all voluntary agencies. The NGO Council has members either local, regional or international NGOs operating in Kenya either implementing projects directly or using partner CBOs. The work of NGOs is aimed at providing various services anchored on dev on their preferred thematic areas which can include health, environment, humanitarian aid as well as democracy and rights. Consequently, they have gained recognition in complementing work that is primary for the government. They play a key role in areas where government services do not reach the people especially in the remote parts of the country (Poverty Eradication Network, 2002). Essentially, they design projects that that are meant to provide interventions to local communities and build their capacity in order to sustain the programs for a long period of time. They play an important role in society by supplementing government efforts in provision of services to citizens. These activities require sound management in order to make strategic decisions to ensure the resources are utilised in the most cost efficient way.

The growth of NGOs has been enormous. In the past two decades, the number of both local and international NGOs throughout the world has increased. In Kenya, there were only 125 NGOs in 1974, close to twenty years later and the number of NGOS had (Brass 2010). The current number of registered NGOs is 7084 (NGO Coordination Board, 2016). NGOs in Kenya have since become vibrant, dynamic and economically sound as they pursue sustainability. Growth presents both opportunities and threats and NGOs have not been spared their share of threats such as limited financial resources, changing donor patterns, political interference, and poor governance especially from the NGO Board. According to Sihanya (1996), the various challenges faced by NGOs require formulation of appropriate strategies in order to take advantage of the rising opportunities and to tackle any threats.

1.2 Research Problem

Strategy is mainly concerned with planning and then carrying out some courses of action intended to attain the organisational objectives. Strategy is a game plan that bridges the gap between ends and means. Competitive strategies are founded on an organisation's strengths and its abilities, and weaknesses in relation to market characteristics and the corresponding competitors' strengths, abilities and weaknesses (Porter 1980). Financial management in any organisation considers its resource scarcity. Organizations, participate in activities that require consistent money flow which has not been achievable for most of them. This has made most of them to run in to financially crisis that has led most of them close down. They, now more than ever, require strategies that will assist them to achieve financial sustainability.

Various studies have been carried out on financial sustainability of NGOs. Okorley & Nkrumah (2012) conducted a study to underscore the key factors that affect financial sustainability of NGOs and revealed that, most local NGOs struggle to get funding from foreign donors to support their programs. Another study by Waiganjo, Ng'ethe, & Mugambi (2012) also investigated the factors that NGOs in Kenya adopted to increase financial sustainability owing to the significant decline in donor funding. Batti (2012) analysed the challenges faced by NGOs in resource mobilization and established that reliance on donations, aid and grant is the norm of NGOs. Kiragu and Njue (2013) studied the relationship between marketing in fund raising and the level of funding among NGOs in Kenya using the case study of African Medical & Research Foundation (AMREF). The study established that the level of funding of AMREF and awareness, image, networks and partners have a positive relationship. All these studies revealed that there is still high dependency on donor funding among NGOs.

In light with the increasing global economic crisis and decreasing grants, this research answered the following research question: what are the strategic responses to financial challenges by Non-Governmental Organizations in Nairobi City County?

1.3 Research Objective

The study sought to determine the strategic responses adopted by Non-Governmental Organisations in response to financial challenges.

1.4 Value of the Study

This study's findings will be of significance to strategic management since it provides a basis for comparison with existing management theories. Such comparisons help draw conclusions on the aspect of strategy responses to financial challenges in organizations thus contributing to theory building. The study will also help other scholars in coming up with research work related to strategies for NGOs financial sustainability.

The study will also be of great use to the managers in the NGO sector to come up with various strategies to cab the financial challenges that they experience. It will help them understand the various strategy practices that could be adopted in order to sustain their operations. The findings will therefore help them formulate and implement competitive strategies that assure them of long term survival in the industry.

This study will provide valuable information to policy makers and practitioners in the NGO sector. The finding will assist the government and international development partners to not only fund organizations for short term objectives but build the capacity of funded organization to achieve financial sustainability. The government can also use the findings to develop enabling policy framework for the sector, to fully tap the potential of the sector. The NGO coordination board in particular will find this study helpful in coming up with policies that facilitate financial soundness in the NGO sector. It will also be of great use to other policy makers who promote institutional developments and sustainability.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter reviews the work of other scholars who have carried out research on the same area of study. The field that were covered is the theoretical underpinning of the study; strategy responses to financial challenges faced by organizations as well as the challenges faced in implementing strategies.

2.2 Theoretical Foundation

This study was anchored on the Resource Based Theory as well as the Institutional Theory. Barney (1995) argues that resources are the most fundamental source of competitive advantage of a firm. He further argues that greater advantage is drawn from possession of internal resources rather than the external resources. The institutional theory stems from the principle that organisation's stakeholders play an important role in determining the legitimacy of an organization.

2.2.1 Resource Based View

The resource-based view considers that some resources owned by an organisation have the potential and promise to create a competitive advantage to the organisation and the superior performance needed. Barney (1995) stipulates that a firm acquires it competitiveness from its unique resources. Such resources give an organization superior performance because unique resources are hard to copy.

Resources are inputs to the process and can be classified into tangible and intangible resources. Tangible resources are physical in nature and include land, buildings, machinery, equipment, finances and human resources. Physical resources are readily available in the market and therefore give little advantage since they can easily be bought in the market by the competitors. Intangible resources are resources that cannot be touched but they are owned by the organization. They include brands, reputation, trademarks and intellectual property. Unlike physical resources, intangible assets are developed over time thus difficult for others to copy and get instant competitive advantage. They are also long term and usually stay within a company and high competitive edge. Barney (1995) further argues that resources that generate and sustain a competitive advantage for the organization are that are valuable in terms of seizing opportunities and dissolving threats, , it must be rare in the firm's current and potential competition, be heterogeneous, that is hard to copy and lastly have no equitable substitute.

The resource-based view, in summary, contends that to an organization can achieve competitive advantage by owning various strategic resources that are not only valuable but also unique, (Fahy, 2000). Therefore, the RBV emphasizes that strategic choices should be considered in relation to the changing environmental conditions and the management to have the responsibility identifying, developing and deploying key resources to maximize returns. The resource-based view could be deemed as an alternative perspective to analyze the competitive advantage needed in any organization. Porter (1991) summarizes the four attributes of the proximate environment of a firm which greatly influence its competitive advantage, namely, factor conditions, demand conditions, related & supporting industries, and firm strategy, structure and rivalry.

2.2.2 Institutional Theory

Instituitional theory has been explained byKraft's Public Policy (2007) as a policy making framework that gives importance to the formal and legal aspects of structures. This theory emphasizes more on the extensive and resilient aspects of social structures. Scott, (2001) further explains that the theory is based on the processes in which organisational structures, norms, rules and procedures are established and adopted as guidelines to the organisational social behaviours. It considers the processes by which structures, including schemes, rules, norms, and routines become established as authoritative guidelines for social behaviour. The theory has various components that explain how these social behaviours are generated and how they get through the whole organisation's system. These components are acquired over some time and eventually become fully diffused and useful. Institutions can be defined as social structures that have been tested and proven useful in determining the organisational behaviour, Scott (2001). They consist of elements which together with other associated activities and resources gives an organisation some level of legitimacy. These elements could be cognitive, normative or regulative. Institutions range from world class systems and local relationships which can be transmitted by various types of carriers, including symbolic systems, relational systems, and artefacts.

Scott (2001) contends that in order for organisations to get legitimacy, they must conform to the rules, norms and behaviours of the environment in which they operate. For example, local, international and multinational corporations must adhere to the rules of the country in which they operate. This is also true for Non-governmental organizations that operate in various countries and have to always adhere to the rules of that country.

Organisations operating in different economies have diverse ways of handling challenges. The institutional environment of an organisation is determined by political, social, economic and legal factors. These factors provide both opportunities and threats to organisations. Organisations will therefore perform efficiently if they follow the laid down procedures and norms.

DiMaggio and Powell (1991) conclude that in any environment, the organisational structures play a key role in giving an organisation a competitive edge over its rivals. Institutional theory plays a key role in bridging the gap between societal expectations and the actions taken by organisation. However, this theory presents some level of conformity which may not be the best practise for organisations. This theory therefore tends to bring together the management of an organisation and the environment it operates in. Management need to know it's environment in terms of social opinions and views and be willing to incorporate such rules, regulations and procedures in its daily operations. The concept of bringing together the management and the environment is definitely the ultimate advantage to this theory.

2.3 Strategic Responses to financial challenges

Changing business environments alter the way organizations fundamentally conduct business. Strategy responses are adaptations made to suit the firm's conditions. Effective strategy responses require continuous scanning of both internal and external environment so as it keeps abreast of all environmental variables underpinning current and future business operations of the firm (Thompson and Strickland, 2003).

2.3.1 Investment Strategies

Investment strategies are those strategies that generate some return to the organisation. For any returns to be realized, resources have to be put on innovation and market diversification. In times of adverse financial conditions, organisations seek to implement strategies that would not have been undertaken in the first place. Kitching et al. (2009) argues that the risk involved in these strategies is much higher and organisations are likely to concentrate on the short term survival rather than invest in innovation and other growth strategies.

In strategic management, the concept of diversification has received a lot of attention. Diversification depicts some sense of direction by providing the necessary resources to accomplish the organisation's objective. Rumelt (1974) defines diversification strategy as a way in which business activities are related to one another. A firm needs to first understand that diversity exists in form of strengths, skills and purpose.

Diversification moves are not only connected to the synergy motives but also to risk reduction. A company, for example, may possess key internal resources such as tangible assets and intellectual property but it cannot regulate the external factors such as technological inventions and economic fluctuations. Kranenburg (2004) argues that a company may choose to diversify either through product differentiation or market diversification. The idea behind this strategy is that products and markets cannot be affected in the same way simultaneously. For instance, one market may be declining and another one is rising, thereby smoothing the cyclical behavior of the company's sales and profit. In very dynamic environments, organizations need to implement strategies that create and sustain competitive advantage. Such strategies may include innovation and use of communication technology, changing products and production methods as well as having some regulations to guide its processes. Amit and Livnat, (1988) further argue that competitive environments enable managers to make rational decisions on activities that provide the organization with a competitive advantage. They also state that, in search for competitive advantages, managers examine all the opportunities that give a greater profitability margin than the others and that which poses minimum amount of risk.

Innovation is regarded as an emerging trend for successful business development. However, during hard economic times, organizations tend to cut back on innovation activities and concentrate the scares resources on its core functions. In the contrary, innovation is regarded as key way in which organizations can work their way out of recession and prepare for an upturn. The rising financial challenges faced by organizations demonstrate the need for innovation in order for efficient operations and long term financial sustainability. Organizations therefore need to consider the fundamental changes in business operations and concepts. The success resulting from innovation strategies isn’t likely be equivalent to the cost of innovation but rather the model adopted. In line with this school of thought, organizations should try to focus efforts in obtaining the appropriate model rather than trying to cut costs. Knitching et al (2009) argue that organizations can gain competitive advantage during hard economic times through adopting innovation models in production of goods and services and exploring other emerging markets.

2.3.2 Strategic Alliances

Spekman & Swahney (1990) defined strategic alliance as the relationship between organizations which create long term collaboration. Each partner in this relationship make substantial investments in developing long-term collaboration in order to achieve individual and mutual goals. Strategic alliances take various forms that include joint ventures, contractual agreements and equity strategic alliances. Collaboration between organizations can be an important vehicle to achieving advantage and avoid competition (Faulkner, 1995). Collaboration may be applied to boost sales and increase buyers thus increase selling power and increase buying power It also creates barriers for new entrants in the market and or avoid substitution, which gives organizations more leverage.

According to Buckley and Casson (1988), strategic alliances facilitate inter-firm learning with successful ones creating synergy and enhancing economic stability to their partners in terms of risk reduction, economies of scale and scope, production and rationalization, convergence of technologies and better local acceptance. Firms use the alliances as an entry strategy to new markets by partnering with existing companies in that market arena. According to Amita et al (2011) strategic alliances enable companies to extend their strengths to competitive arenas that they would otherwise be hesitant to enter alone. The collaborations can be useful in areas such as marketing, distribution, production, research and development, and outsourcing. When companies form alliances, they are able to accomplish bigger projects quickly and profitably. According to Barney (2002), strategic alliances may take three forms namely joint venture, equity alliances and non-equity alliances. Scholars such as Knoke (2001) also argue that collaboration may take the form of hierarchical relations, cooperatives, Research and Development consortia, strategic cooperative agreements, cartels, franchising, licensing, subcontractor networks, industry standards groups, action sets and market relations.

Elmuti and Kathawala (2001) argues that strategic alliances create effective ways of incorporating new technologies rapidly, entering new markets, and learning quickly from the leading firms in a given field. However, these alliances are not easy to create, develop and sustain through all times. In essence, strategic alliances do not take long due to errors made by management in various organisations. However, these alliances can be sustained through having agreements which stipulates all conditions and the respective implication in case of breach of contract. This therefore implies that the creation of successful alliances take considerable amount of time and energy. It is essential for corporations to enter in strategic arrangements with a comprehensive plan that outlines the expectations.

2.3.3 Ambidextrous Strategies

Ambidextrous organisations can be viewed as organisations that undertake both efficiency and innovation as an integral part of their business operations. This is because, taking one strategy, for example, cost cutting strategies will reduce costs but the organisation will be able to benefit due to better conditions of doing business. During recession time, managers experience difficulty in combining the various strategies that provide both efficient and effective operations. Organizational ambidexterity can be viewed from two directions; exploitation and exploration. The environmental dynamics and complexities give a firm only short term successes but doesn’t guarantee their long term survival. Therefore, organizational ambidexterity brings together the aspects of taking advantage of the short term opportunities while preparing for tomorrow’s trends, (Jansen, Bosch, and Volberda, 2005).

Whittington (1989) carried out eight case studies in UK in furniture manufacturing enterprises and found out companies can actually survive in very turbulent economic situations. He found out that large firms have a greater chance of going through recession successfully since they have the resources to shape their environments and adopt strategies that best suit their business environment. Inflation, for instance, does not provide any logic for cost reduction in businesses. Companies responded to inflation in different ways that include focus on cost reduction, diversification and bulk production. For effective response to economic environmental changes a firm's adaptability to changing environmental conditions is paramount. The most successful companies maintained pricing policies but also increased their production capacity, boosted staff morale and bettered the collaboration with various stakeholders in the industry.

Ambidextrous strategies can be seen to have both short term and long term solutions to financial challenges. It gives an organisation a survival tactic in the short run as well as an opportunity to acquire a competitive edge for a longer period of time. Undertaking investment and efficiency alone may not be very effective during hard economic times. In conclusion, therefore, an organisation should be able to adopt both exploitation and exploration as important strategy in turbulent economic environment.

2.4 Challenges in Implementing Strategies

The key challenge for organizations is strategy implementation. Strategy implementation requires coordination of all stakeholders and frequent communication of progress. The systems that organisations use may equally promote or hinder strategy implementation. Tan (2004) argues that strategy implementation is a practical stage in which formulated strategies are actualised. This therefore means that if the formulation was not done properly, implementation will be challenging.

According to Raps (2004) strategy implementation processes frequently result in problems if the assignments of responsibilities are unclear. Clear understanding of strategy is a pre-requisite in strategy implementation. Employee need to have a clear understanding of the strategies in order to know how these strategies contribute to the overall objectives of the organisation. Additionally, Aaltonen and Ikava (2001) also asserted that understanding of strategy is very important in strategy implementation. Aosa (1992) also revealed that there is need to link strategy to organisation's culture since a mismatch will lead to high resistance. This may hinder the process of strategy implementation.

Hrebiniak (2005) recognizes that strategy implementation is quite difficult and employees may not find the essence of doing proper implementation. He argues that there exist various hindrances to strategy implementation that include lack of the feeling of ownership of the strategy, lack of guidelines and procedures on how the execution is to take place and the role of organisational culture, structure and policy in the implementation process. Other hindrances in strategy execution include lack of incentives or inappropriate incentives to support execution objectives and insufficient financial resources to execute the strategy.

Sterling (2003) summarises the reasons for strategy implementation failures which include sudden changes in market dynamics, lack of support from the management, resource scarcity, lack of buy-in from all stakeholders, delay in relaying information of the expected dates of delivery, distraction from other competing needs and poorly designed strategies. Sometimes strategies fail because they are simply ill conceived. Johnson et al. (2003) asserts that the challenges faced in strategy implementation include: availability of resources; leadership style; organization culture; corporate structure; lack of focus and failure of buy in by implementing team.

David (2009) argues that strategy implementation should be done by functional heads and managers and should be separated from the work of strategists whose main role is just to formulate strategies. It a nutshell, strategy implementation is an uphill task for any organisation.

CHAPTER THREE

RESEARCH METHOLOGY

3.1 Introduction

This chapter contains the research design that was used in the study, population and sample design. It also explains the procedures and techniques of data collection, tools that were used as well as data analysis and reporting.

3.2 Research Design

Cooper and Schindler (2003) define a research design as a plan of activities with time based essential. The design contains the research question guides, the criteria of sources selection and the types of information. It also contains a framework for specifying the relationship among the study variables and outlines the procedures for every research activity. It is a framework of how the research will be carried out in order to obtain answers to the research questions.

In this study, descriptive cross-sectional survey was used. Singleton (1988) describes a descriptive cross-sectional survey as a comprehensive design that enables large and diverse amounts of data to be collected within a short time frame and analysed quantitatively, giving a credible presentation of results.

3.3 Population of Study

Population in research is described as the entire group of individuals or objects in which the researcher intends to generalise the conclusions. Mugenda and Mugenda, (2003), argue that any target population should at least have some characteristics which could be observed and generalised in the study. The target population of this study consisted of 6500 NGOs dully registered with the NGO Board in Kenya as having their headquarters in Nairobi, (NGO Coordination Board, 2016)

3.4 Sample Design

Ngechu (2004) explains that the initial stage in selecting a representative sample is to have a sampling frame. The number of subjects and respondents were selected from the population frame in order to make a sample. A sample refers to a sub set of the whole population which is smaller and accessible. The sample should be representative of the whole population in order to enable generalization of results.

Systematic sampling technique was used to select a sample of 65 NGOs out of 6,500. Systematic random sampling is a technique in which the population is divided into groups and then random picking of elements from each group. In systematic random sampling, the population was first divided into 65 groups. The researcher then selected each n'th subject from the list. The choice of systematic random sampling is that it allows the researcher to have some degree of process into the random selection subjects.

3.5 Data Collection

Questionnaires were used to collect data. It is an effective way to collect data from a large population within a short period of time at a reduced. It also facilitated easier summarizing of data and subsequent analysis. Bell et al (2010) argue that questionnaires are a good and effective way of collecting information quickly and cheaply. The questionnaire was designed to have two sections: section A captured the demographic information and B covered strategic responses by NGOs to financial challenges.

The respondents consisted of one of the following in each NGO: Chief Executive Officers, Finance Directors, and Finance Managers, Accountants and Program officers and directors. The questionnaires were sent via email to the respondents and follow up was done after two days. The questionnaires had an introductory letter explaining the purpose of the research and that data and findings will be reported in a manner not to identify the respondent.

3.6 Data Analysis

Breakwell (2006) advises that for descriptive research design, the use of frequency charts, graphs, and pie charts is an appropriate way to tabulate the information gathered. Statistical Package for Social Sciences (SPSS) was used as the tool to analyse the data. Quantitative data was analysed using measures of central tendencies.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the findings and analysis of the study. The data collected is presented in tables, charts and figures to facilitate understanding of the information. The chapter concludes with in depth analysis of findings of the study.

4.2 Questionnaire Return Rate

The return rate is the proportion of the sample that took part in the research procedure. Sixty five questionnaires were administered out of which 60 were returned. This forms a return rate of 92%. This response rate was achieved because the researcher made several follows ups to the respondents through emails and calls.

4.3 Background Information

The respondents' background information was based on their position in the organisation, the number of years they have operated in Nairobi as well as the level of 2015 budget. This section was aimed at understanding the organisation and the kinds of strategies they have adopted in response to financial challenges.

Table 4.1 Position of the Respondent

	Finance Managers	Finance Officers	Program Managers	CEOs
Frequency (%)	18(30)	8(13.3)	20(33.3)	14(23.3)

Source: Research Data

Table 4.1 shows that the majority 20(33.3%) of the respondents were managers of the programs run by the NGOs, followed by finance managers at 18(30%). The Chief executive officers were 14(23%) and 8(13%) were Finance Officers. Long term strategies are developed by top level managers and majority of the respondents were at the top level and those involved directly in program work.

The researcher sought to establish the number of years the NGO has been operating in Nairobi County as shown in Table 4.2

Table 4.2 Number of years the NGO has been operating

	Frequency	Percentage
Less than 5years	13	21.7
5-10 years	30	50.0
11-15 years	9	15.0
16-20 years	1	1.7
Over 21 years	7	11.7
Total	60	100.0

Source: Research Data

Table 4.2 indicates that 50% of the NGOs in Nairobi have been in existence for a period of 5-10 years, 21% for less than 5 years, 11% for over 21 years, 15% for 11-15 years and 1% between 16-20 years. This shows that there are as many NGOs with wide experience as those that have few years of experience.

The level of 2015 budget was also sought by the researcher. The response is shown in Figure 4.3 below.

Table 4.3 Level of 2015 Budget

	Frequency	Percent	Valid Percentage	Cumulative Percentage
Less than 50M	24	40.0	40.0	40.0
50-99M	20	33.3	33.3	73.3
100-499M	10	16.7	16.7	90.0
500M and Above	6	10.0	10.0	100.0
Total	60	100.0	100.0	

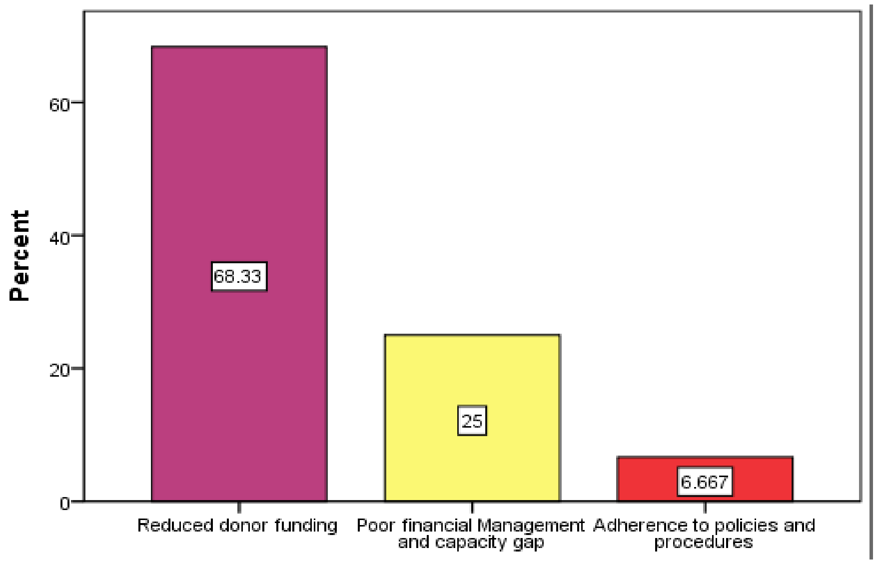
Source: Research Data

Table 4.3 above indicate that majority of the NGOs in Nairobi 24(40%) had a budget of less than 50 million Kenya shillings, 20(33%) with 50-99 million Kenya shillings 10(16%) with between 100-499 million Kenya shillings and 6(10%) had a budget of over 500M Kenya shillings.

4.4 Strategic Responses to financial challenges

The study sought to establish the strategic responses to financial challenges adopted by NGOs in Nairobi. The researcher first sought to establish the kind of financial challenges experienced by the NGOs in Nairobi. Figure 4.1 indicate the responses received

Figure 4.1 Financial Challenges



Source: Research Data

Majority of the respondents 68.33% indicated that there major financial challenge is reduced donor funding. 25% had poor financial management and the capacity to manage the funds and 6.67% indicated that they lacked adherence to the policies and procedures.

The researcher also sought to establish the strategic response that the NGOs have put in place to reduce the financial challenges. Table 4.4 show how the NGOs respond to the challenges indicated in figure 4.1 above.

Table 4. 4 Financial challenges and the corresponding strategies adopted.

		What kind of financial challenges do your NGO face?			Total
		Reduced donor funding	Poor financial Management and capacity gap	Adherence to policies and procedures	
What strategies have your NGO adopted to solve its financial solutions?	Diversification	22	5	1	28
	Innovation	7	6	2	15
	Strategic Alliances	9	1	0	10
	Financial Management	3	3	1	7
Total		41	15	4	60

Source: Research Data

Of the respondents who had challenges of reduced donor funding, 22 said that they adopted diversification strategies, 7 adopted innovation, 9 made strategic alliances while 3 adopted Financial Management Strategies. Those who has poor financial management, 5 adopted diversification,6 innovation strategies,1 made strategic alliances while 3 adopted financial management strategies. Respondents who had challenges of adherence to policies and procedures, 1 said they adopted diversification, 2 said they adopted innovation while 1 said they adopted financial management.

The respondents were further asked to indicate how they would rate the various strategies in responding to financial challenges. These were rated on a 5 point Likert scale ranging from; 1 = Strongly Agree (SA), 2= Agree (A), 3=Neutral (N) 4=

Disagree (D) to 5 = Strongly Disagree (SD). The results on this are as summarized in Table 4.5

Table 4. 5 Strategic Responses

Statement	Mean	Std.D
Having several donors reduces the financial challenges	1.75	0.836
Coming up with IGAs reduce dependency on donors	1.67	0.837
Strengthening membership in member org, boost legitimacy	1.98	0.854
Innovative fundraising increase revenue base	1.52	0.624
Employing new technology increase efficiency	1.70	0.908
Creating a reserve fund reduces financial challenges	1.75	0.936
Engaging donors with long term funding	1.90	0.969
Balancing internal & external funds increase sustainability	1.58	0.743

Source: Research Data

The findings indicate that respondents agree that coming up innovative fundraising is a key strategy, with a mean of 1.52, in increasing the revenue base of an NGO. 53% of the respondents strongly agree while 43% agree that this strategy plays an important role in solving the financial challenges of an NGO. Respondents also agree that balancing internal and external sources of finances and establishing revenue generating activities reduce the financial challenges of an NGO with a mean of 1.58 and 1.67 respectively. The findings also indicate the employing new technologies and having several donors help in reducing financial challenges with a mean of 1.70 and 1.75 respectively. Engaging donors with long term funding is viewed is a a strategy with a mean of 1.90 although a few respondents 6(10%) disagree that engaging donors with a reputation of long term funding reduces the financial challenges of an

NGO. Strengthening membership in member organization to boost legitimacy of an organization is viewed as the least strategy in solving the financial challenges of an NGO with a mean of 1.98. Fifteen respondents, 25% are not sure about this strategy in reducing the financial challenges faced by NGOs.

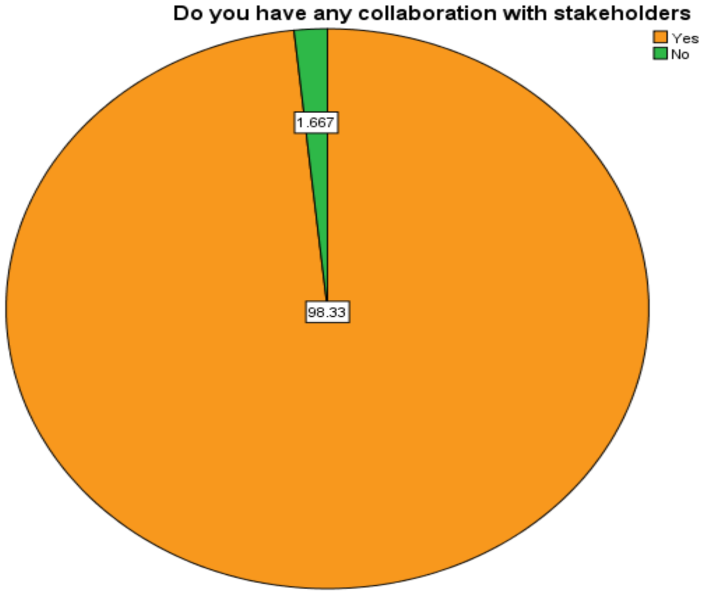
The findings reflect that a number of NGOs are seeking alternative sources of funding through diversification. Alter (2007) shows that reduced funding from donors has given rise to the number of NGOs incorporating other internal sources of income in their organization. An average of 32(53%) of the respondents strongly agree that coming up with income generating activities and balancing internal and external sources increases the sustainability of an NGO. These findings are also in line with World Bank (2000) that shows that income generation ventures should be a strategy that is conceived during program design phase. This is to ensure that the NGO uses its resources in an efficient way and reduce the reliance on donor funding and become more self-reliant and able to continue with its program activities. Further, according to CRDA (2001) NGOs operating in the current environment where reduced donor funds is experienced, having a business like mind focusing on most practicable enterprise like operations but without losing their priority to provide services to the marginalized people. This is also in line with Kurosaki (2003) who asserts that finding other sources of income is essential in order to increase the stability of the NGO. The current economic crisis require organizations to be proactive in finding alternative sources of funds, particularly looking into new funding strategies such as public-private partnership. Funding from government and its agencies is also a new and promising opportunity for NGO. This agrees with Barrett, Bezuneh, Clay and Reardon (2000) that most non-governmental respond to financial challenges by looking into alternative ways of fundraising that include collaboration with corporate donors, engaging with the general public as well as having donations in kind.

The findings also concur with views of Moore (2000) who said that donor funding is reducing and do not provide a long term guarantee to sustain the organizations activities. NGOs have started seeking for other alternative sources, either locally or internationally. Bennett & Savani (2011) observed that the more reliable long term sustainability strategies are those from domestic resources and self-financing.

The finding also indicate that majority of the respondents agree that creating a reserve fund help in solving the financial issues experienced by NGOs. These findings are in agreement with Ebrahim (2005) who contends that NGOs should have a collective model to gather resources which can be used in situations of financial crisis. Additionally, these reserved funds can be invested in an income generating activity to earn some returns.

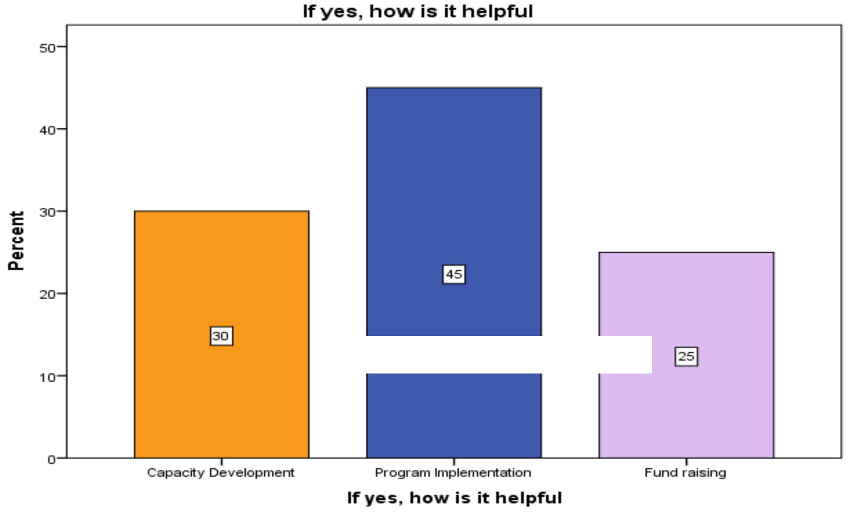
The researcher further sought if the NGOs in Nairobi County have strategic alliances with other stakeholders and how the collaboration is helpful. Figures 4.2 and 4.3 show the responses.

Figure 4.2 Collaboration with stakeholders



Source: Research Data

Figure 4. 3 How the collaboration is helpful



Source: Research Data

The findings indicate that 59(98%) of the respondents have collaboration with other stakeholders in the industry. A greater majority of the respondents, 45% indicated that the collaborations mainly help in effective program implementation. 30% said that the collaborations help in capacity building within the industry while 25% stated that the alliance help in forming synergies for fundraising.

Furthermore, the respondents were asked how they would rate the various financial and other management strategies. These were rated on a 5 point Likert scale ranging from; 1 = Strongly Agree (SA), 2= Agree (A), 3=Neutral (N) 4= Disagree (D) to 5 = Strongly Disagree (SD).

The results on this are as summarized in Table 4.6.

Table 4. 6 Financial Management Strategies

Statement	**Mean**	**Std.D**
Strategic financial planning help in financial management	1.40	0.558
Competences of management increase efficiency	1.63	0.688
Leadership approach facilitate organization to meet objectives	1.52	0.676
PME helps in cutting unnecessary costs	1.53	0.676
Grants Management creates efficiency & effectiveness of grants	1.38	0.524
Organizational restructuring reduce operational cost	2.17	0.847
Communication of budget outcome help in financial planning	1.95	0.790
Continuous capacity enhancement lead to high efficiency	1.42	0.561

Source: Researcher Data

The findings indicate that respondents strongly agree that proper grants management help in increasing effectiveness and efficiency of donor funds with a mean of 1.38. It also shows that proper financial planning greatly help in financial management having a mean of 1.40. Continuous capacity enhancement of staff and partners help in proper financial management of grants follows closely with a mean of 1.42. The study also noted that leadership, program monitoring and evaluation and the competence of management play a key role in enhancing efficiency with a mean of 1.52, 1.53 and 1.63 respectively. The study also show that a total of 43(71%) respondents agree that communication about budget help in financial planning. Organizational restructuring is noted to have a moderate effect in reducing operational cost with a mean of 2.17.

The findings are in agreement with Waddell (2000) that responses to financial challenges require good financial management which entails setting up systems, policies and procedures which can fit well in an ever changing environment. Bray (2010) suggested that financial management strategy should have an integrated plan that consist of networking and fundraising, budgeting, strategic plans and a framework for program implementation. In essence, a fundraising plan should be able to take advantage of the resources of the organization and be able to create a strategy to be used in raising funds. This strategy document should be clearly understandable to all stakeholders

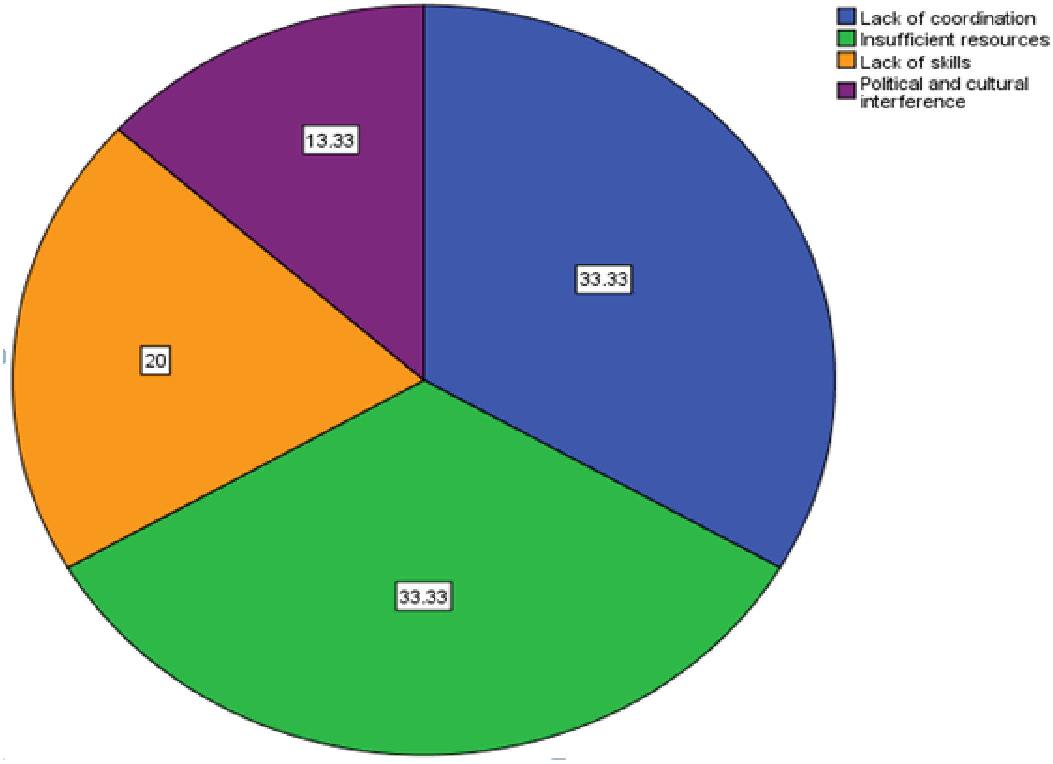
Andrews, K. (2003) assert that a firm can gain efficiency through optimal use of resources such as taking advantage of the economies of scale, outsourcing non-core functions, vertical integrations or avoiding some costs all together. Omeri (2014) revealed that organizations should always keep a balanced equation of funding and projects to ensure that they are within the budgets and in the specified limits in this present time of capping of funding sources.

The findings also reveal that the leadership style adopted play a key role in achievement of the set objectives. This contends with Barney (1995) that people skills and individual managers' competences the most valuable resources of an organization and are key in determining and checking the financial health of the organization. The findings are also in line with those of OECD, (2004) that established that governance provides the structure through which the company objectives are set, strategic plans are formulated and implemented and objectives, plans and strategies are monitored to ensure that the organization is on course to achieving the set performance targets.

Bray (2010) observed that providing information about the organization, project and how funds have been utilized, assures donors about favorable return on investment.. Program evaluation indicates the value of a nonprofit's operations and helps determine mission impact. Additionally, clearly and consistently communicating evaluation efforts and findings to funders and investors demonstrates accountability. This agrees with Plummer (2009) that communication needs to be initiated among all stakeholders. According to him, NGOs should always varnish the stakeholders with the necessary information that include the impact to the rights holders.

The researcher finally sought to understand if the NGOs experience any challenges in implementing the strategies they have adopted. Figure 4.4 below shows their response.

Figure 4.4 Challenges in strategy implementation



Source: Research Data

The findings indicate the major challenge, 33%, is lack of coordination between the stakeholders and insufficient resources to implement the set strategies. It also shows that 20% is the lack of skills to perform the tasks assigned.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings, conclusions and makes suggestion and recommendation for further studies.

5.2 Summary of Findings

This study was aimed identifying the various strategic responses to financial challenges that have been adopted by NGOs in Nairobi County. Sixty respondents took part in the study. Majority of the respondents revealed that reduced donor fund remains the major financial challenge experienced by NGOs in Nairobi County. Other challenges include poor financial management and failure to adhere to policies and procedures set by the organisation or the donor. The study also reveals that diversification is the key strategy adopted to reduce the financial challenges experienced. Innovation and strategic alliances are other strategies employed in response to the financial challenges.

The study established that dependency on donor funding can be reduced if organisations generate internal funds through income generating activities. This ensures that there is a balance of internal and external sources of funds. This can extend to having a reserve fund which could earn interest at the same time cushioning the organisation in times of financial crisis. Innovation and use of new technologies was also rated highly as having the ability to increase efficiency and effectiveness.

The study also indicated that collaboration is one of the most important strategies in the sector. Proper program implementation, knowledge sharing and synergy in fundraising are key advantages of having strategic alliances.

Strategic financial management through financial planning and grants management were highly rated as the strategic options to ensure financial challenges are reduced in the NGO sector. The study also revealed that leadership styles and competence of management play a key role in responding to financial challenges. This is in line with the continuous capacity enhancement of all stakeholders in the NGO. Project monitoring and evaluation also stood out as one of the key ways of cutting unnecessary costs in the organisation.

The study revealed that proper implementation of strategies cannot be achieved without team work and coordination of all staff, management and donors. Resistance from stakeholders was cited as a key hindrance to strategy implementation. Insufficient resources to implement strategies as well as lack of skills are other major challenges in strategy implementation.

5.3 Conclusion

The study concludes that most NGOs experience financial challenges of reduced donor funding and poor financial management. The study further concludes that Non-Governmental Organisations in Nairobi County have adopted various strategies, in response to financial challenges, which include diversification of sources of funds, innovation, strategic alliances and financial management. Moreover, it is important for NGOs to have their own internal sources of income so as to reduce over reliance on donation. This can be achieved through coming up with income generating activities which can support operational costs. Creating a reserve fund can also be adopted to cover costs in times of financial crisis. Innovation and use of new technologies is also an emerging area in helping NGOs have sustainable activities. Innovative ways of fundraising such as public-private partnership is a new dimension that creates financial sustainability of operations. Funding from governments is also an emerging trend in NGO sector.

The study further concludes that financial management plays a key role reducing financial challenges. Financial planning through budgeting, PME and grants management is of key importance in ensuring effectiveness and efficiency in an NGO. The study also revealed that stakeholders are keen on receiving information about budget spending and program implementation progress therefore communication is a key part in NGO financing. The study further concludes that the competences of people managing the funds play a key role in financial management and that continuous capacity enhancement is important for all stakeholders. In addition, leadership style adopted by management play an important role in achieving organisational objectives.

Strategic alliances are also of much importance in ensuring the long term survival of an NGO. The alliances help in effective program implementation, capacity support and joint fund raising.

5.4 Recommendations

The assessment of NGOs' performance is necessary to address in order to determine its effectiveness in terms of program implementation and proper utilisation of funds. Failure to account for and assess performance can result in less efficient programs.

Non-Governmental organisations should consider strategic financial planning as a key function. They need to prepare strategic plans and continuously review them. Participation of staff in the process as well as proper communication of strategic plans should be an integral part of the organisation's way of working. Financially sustainable operations require proper budgeting methods and a NGOs need monitor progress to ensure that they always have sufficient fund to cover their activities

5.5 Suggestions for further study

The study investigated the strategic responses to financial challenges by NGOs in Nairobi City County. The study therefore recommends further research on the same topic but with focus on other counties in Kenya.

Further studies should also be done on the overall sustainability of NGOs in terms of project effectiveness in view of limited resources. In addition, the study recommends a research on the role of restructuring in enhancing financial sustainability of NGOs.

Finally, the researcher recommends studies on; Innovation and use of new technologies in the NGO sector, The Public- Private sector partnership as a new way of sustainability of NGOs and Strategic alliances among NGOs in Kenya.

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APPENDICES

Appendix 1: Letter of Introduction

Dear Respondent,

I am a Masters student at the University of Nairobi, School of Business. I'm currently undertaking a research project titled: Strategic Responses to Financial Challenges by NGOs in Nairobi City County. The attached research instrument is for gathering data that will be useful in my research.

I therefore request you to facilitate the collection of data by answering the questions therein. Please note that the information sought will be treated with utmost confidentiality and will be purely used for academic purpose.

I look forward to your cooperation.

Yours faithfully,

Rebbecca Birech

University of Nairobi

Appendix II: Questionnaire

PART 1- BACKGROUND INFORMATION

1. Name of NGO……………………………….
2. Position of respondent……………………….
3. Number of years the NGO has been operating in Kenya
4. [ ] Less than 5 years

   [ ] 5 – 10 Years

   [ ] 11 – 15 years

   [ ] 16 – 20 years

   [ ] Over 21 years

5. Please indicate the level of your 2015 year budget in KES

   [ ] Less than Ksh.50, 000,000

   [ ] 50,000,000-99,000,000

   [ ] 100,000,000-499,000,000

   [ ] Above 500,000

PART II: STRATEGIC RESPONSES AND FINANCIAL CHALLENGES

6. What kind of financial challenges do your NGO face?

7. What strategies has your NGO adopted to solve financial challenges? (Tick where applicable)

   [ ] Diversification

   [ ] Innovation

[ ] Strategic Alliances

[ ] Financial Management

[ ] Capacity Building

8. Please tick appropriately in the boxes provided

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Having several donors reduces the financial challenges of an NGO					
Coming up with income generating activities reduces dependency on donor funds					
Strengthening membership in member organisations boost the legitimacy of an NGO					
Innovative fund raising increase the revenue base					
Employing new technologies in program implementation increases efficiency					
Creating a reserve fund help in responding to financial					

challenges.					
Engaging with donors who have the reputation of long term funding reduces the risk of financial crisis.					
Balancing internal and external funding sources increases financial sustainability					

9. i. Do you have any collaboration with stakeholders in the industry?

Yes ( ) No ( )

i). If yes, how is it helpful…………………………………………………….

ii). If no, why?...

10. Please tick the appropriate answers in the boxes provided

Statement	Strongly Agree	Agree	Neutral	Strongly Disagree	Disagree
Strategic financial planning help in financial management of an NGO.					

Competence, skills and qualification of management and staff increases efficiency.					
The leadership approaches adopted facilitate the organisation to meet its objective.					
Project monitoring and evaluation help in cutting unnecessary costs.					
Proper grants management creates efficiency and effectiveness of the grant.					
Organisational restructuring reduces operational costs					
Communication of budget outcome with stakeholders helps in financial management and planning.					
Continuous capacity enhancement of					

stakeholders leads to higher efficiency.					

11. What challenges have you encountered in implementing your strategies?