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Challenges Facing Financial Management in Sustainability of Church Related Organizations in Kenya

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Abstract: *Long-term financial planning is a vital discipline for creating and maintaining financial sustainability. However, it requires a shift away from short-term perspectives associated with annual budgeting and a shift towards five to ten year perspectives not normally associated with government financial management. Accordingly, long-term planning presents several implementation challenges. The purpose of this study was to examine challenges facing financial management in sustainability of Church Related Organizations in Kenya. The study employed cross-sectional survey design. Target population consisted of 298 respondents including members of the governing bodies in the selected CROs, development/donor partners, general secretaries and Church leaders in addition to past and executive/program staff. Stratified proportionate random sampling technique was used to select the sample of 168 respondents. Questionnaire was the data collection instrument used by the study. Questionnaire was used to collect data from the members of the governing bodies, general secretaries, past and present executive/program staff. The collected data was analyzed quantitatively. The quantitative method involved both descriptive and inferential analysis. Descriptive analysis entailed summarizing the coded data in frequencies and percentages and presenting in tables and figures. This was achieved with an aid of SPSS version 17. The study findings revealed that financial management and donor funding affected financial sustainability in the organizations.*

Keywords: *Financial Management challenges, financial sustainability, financial development, donor funding challenges, budget constraints*

INTRODUCTION

Church Related Organizations (CROs), especially in developing countries, continue to face numerous financial crises due to declining financial support from their traditional funders. The net worth of most of these organisations is shrinking, a factor accompanied by chronic unmanageable budget deficits. The reduced funding has been attributed to the world-wide economic recession, to changing domestic and international priorities in the north which in turn have affected the volume and nature of available aid. Even CROs that had established successful local fundraising strategies can no longer be complacent due to the pressing demands of poverty and the 18 Financial Sustainability of Church Related Organizations need for local fundraisers to attend to social needs.

It can be difficult to mobilize an organization for planning, especially if there is no pressing financial crisis demanding such planning. Thus, the leaders of the planning process must make stakeholders aware of the need for planning and create a desire to participate; leaders of the

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planning process can help participants envision a better future through financial planning. The converse of a better sustainable future, achievable through planning, is the deterioration in financial positions that comes from inadequate planning (Barrett, Bezuneh, Clay & Reardon, 2000).

Revenue and expenditure forecasts can be challenging because they may detract the focus of the governing board with questions of precision and validity instead of focusing on strategies to achieve and maintain financial sustainability. In dealing with these challenges, financial managers should understand long-term financial planning as a means of creating, not forecasting, the future. Long-term planning should be presented as a way of creating and then maintaining financial balance, deploying forecasting as a tool for realizing this objective. The leader of the planning process should emphasize to the board that a forecast is not intended to function as a tool of scientific precision. Rather, it is intended to reveal long-term trends and imbalances that might not be apparent within a short-term horizon (Bansal, 2005).

Long-term financial planning is a comprehensive effort; obtaining the resources to do a thorough job can be daunting. It is possible to create a capable team and to allocate sufficient time to work on financial planning. Foundational to such strategy is the need to engage departments other than the finance department. However, such departments may be reluctant to commit their resources to a process that is seen to belong to the chief financial officer or to another financial executive.

It is thus important that the CEO serves as a leader of the planning process and that the board demonstrates clear endorsement for financial planning (Aldaba, 2000). The institutionalizing of planning is a challenge because it requires diverse multi-faceted collaboration. It shifts the organization from a reactive to a proactive mindset. A proactive mindset offers fertile ground for continued planning; it can be nurtured by promoting examples of how planning reveals tomorrow's problems-allowing solutions to be enacted today and by citing instances of how inadequate planning created difficult problems that required difficult solutions. Regular forecasting can foster a proactive mindset by constantly highlighting the need to consider the longer-term horizon and acknowledging future potential imbalances. A constant challenge facing financial planning is the predilection of elected officials to be preoccupied with short-term issues. This study therefore intended to examine challenges facing financial management in sustainability of Church Related Organizations in Kenya.

METHODOLOGY

The study adopted cross-sectional survey design. The selection of this design was deemed to the fact that the study focused on attaining information from a wide range of church related organizations. Cross-sectional survey aims at describing the characteristics of a large population, makes use of large samples, thus making the results statistically significant even when analyzing multiple variables (Wanjohi, 2014).

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The target population of this study comprised 200 members of the governing bodies in the selected CROs, 32 development/donor partners, 36 general secretaries and Church leaders in addition to past and 30 present executive/programme staff. The entire target population consisted of 298 respondents from different church related organizations in Kenya.

Stratified proportionate random sampling technique was used to select the sample of 168 respondents. The study grouped the population into four strata, that is: members of the governing bodies in the selected CROs, development/donor partners, general secretaries and Church leaders, in addition to past and present executive/programme staff. From each stratum, the study used simple random sampling procedure to select one hundred and six eight (n=168). Stratified random sampling technique was used since population of interest was not homogeneous and could be subdivided into groups or strata to obtain a representative sample.

The statistical method for sample size determination was used to obtain a study sample Sample Size Calculator is Survey System (2010):
Sample Size for Infinite Population

$$SS = \frac{Z^2 \times (p) \times (1 - p)}{C^2}$$

Source: Godden, 2004
Where:
Z = Z value (e.g. 1.96 for 95% confidence level)
p = percentage picking a choice, expressed as decimal
(.4 (40%) was used as the percentage of the targeted members of CROs in Kenya)
c = confidence interval, expressed as decimal
(.04 = ±4)

$$SS = \frac{3.8416 \times .4 \times .4}{.0016}$$

$= 384$

Determination of Sample Size for Finite Population

$$\text{New SS} = \frac{SS}{\left(1 + \left(\frac{SS - 1}{Pop}\right)\right)}$$

Source: Godden, 2004
Where: pop = population

$$\frac{384}{\quad}$$

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$$\frac{(1 + (384-1))}{298}$$

Ss = 168

This study made use of a number of data collection methods. These included questionnaire and structured interview methods. A questionnaire was used to collect data from the members of the governing bodies, general secretaries, past and present executive/programme staff. Interview guides were used to collect qualitative data from the development partners.

The collected data was analyzed using both quantitative and qualitative data analysis methods. The quantitative method involved both descriptive and inferential analysis. Descriptive analysis such as frequencies and percentages were used to present quantitative data in the form of tables . Data from the questionnaires was coded and entered into the computer with the help of a statistical application known as the Statistical Package for Social Science (SPSS Version 17.0). Closed ended items were coded in order to run simple descriptive analyses to obtain reports on data status. Descriptive statistics involved the use of absolute and relative (percentages), frequencies, measures of central tendency and dispersion (mean and standard deviation respectively).

RESULTS

Demographic Characteristics

Only 16.8% of the respondents indicated that they had an experience of 5- 7.5 years, another 16.8% of the respondents had an experience of 7.5-10 years, as well as 16.8% of those who indicated that they had an experience of 10-12.5 years and 16.8% of the respondents who indicated that they had an experience of 15-17.5 years. 13.7% of the respondents had an experience of 12.5-15 years, 9.2% of the respondents indicated that they had an experience of 17.5-20 years, 3.8% of the respondents indicated that they had an experience of 20 years and above, while 3.1% of the respondents indicated that they had an experience of 0-2.5 years and 2.5-5 years in each case. This shows that 93% of the respondents had worked in their respective organizations for a period of over five years which means that they had the necessary knowledge with regard to the operations of their respective CROs and were able to assess the performance.

Challenges Facing Financial Management in Sustainability of CROs

The study sought to investigate the challenges facing financial management of sustainability of church related organizations in Nairobi County. Table 1 shows the distribution of the respondents by financial management challenges.

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Table 1

Challenges facing financial management in sustainability of CROs

Statement	**Very Low (-2)**	**Low (-1)**	**Medium (0)**	**High (1)**	**Very High (2)**	**Mean**	**Std. Dev.**
The organization adequately gets funding to support all its activities	9	46	16	51	6	-0.01530	1.08829
The arrangements to transfer the funds to the organization are satisfactory	20	28	49	22	9	-0.19080	.95365
In the past, the organization has had problems in the management of disbursements from a member of the supporting donor agency	22	36	35	30	5	-0.24430	.92063
The organization has mechanisms to manage donor relations	18	39	39	23	9	-0.42750	.82304
The level and competency of staff appropriate for the level of financial volume	14	36	40	25	13	-0.38170	.98025
Budgets are prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance	17	35	31	32	13	-0.14500	1.05336
The actual expenditures are compared to the budget with reasonable frequency, and explanations required for significant variations from the budget	16	39	34	31	8	-0.25950	1.12720
Internationally accepted accounting standards are followed	6	33	49	34	6	0.04580	.84910
There are written policies and procedures covering all routine financial management and related administrative activities	18	28	48	28	6	-0.35110	.85865
Controls exist for the collection, timely deposit, and recording of receipts at each collection location	8	40	39	31	10	-0.12980	.88923
There is a system of adequate safeguards to protect assets from fraud, waste and abuse	23	37	31	28	9	-0.19850	.94803
Subsidiary records of fixed assets and stocks are kept up to date and reconciled with control accounts	21	34	29	35	9	-0.26720	1.06572
There is an internal audit department in the organization	23	29	44	25	7	0.00000	1.01527
The audit of the entity conducted according to the International Standards on Auditing	23	35	28	34	8	-0.38170	1.04114
Financial reports are prepared in a timely fashion so as to useful to management for decision making	17	24	46	31	10	-0.32820	1.09855
Financial reports are prepared directly by the automated accounting system or are they or are they prepared by spreadsheets or some other means	16	36	31	36	9	-0.21370	1.15697

The point of budgets are prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance which moderately affects the financial sustainability had a mean score of -0.14500. The arrangements to transfer the funds to

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the organization are satisfactory which moderately affects the financial sustainability as shown by a mean score of -0.19080, there is a system of adequate safeguards to protect assets from fraud, waste and abuse which moderately affects the financial sustainability as shown by a mean score of -0.19850, financial reports are prepared directly by the automated accounting system or are they or are they prepared by spreadsheets or some other means which moderately affects the financial sustainability as shown by a mean score of -0.21370, in the past, the organization has had problems in the management of disbursements from a member of the supporting donor agency which moderately affects the financial sustainability as shown by a mean score of -0.2443, the actual expenditures are compared to the budget with reasonable frequency, and explanations required for significant variations from the budget which moderately affects the financial sustainability as shown by a mean score of -0.2595 and subsidiary records of fixed assets and stocks are kept up to date and reconciled with control accounts which moderately affects the financial sustainability as shown by a mean score of -0.26720.

The respondents further indicated that financial reports are prepared in a timely fashion so as to useful to management for decision making which moderately affects the financial sustainability as shown by a mean score of -0.32820, there are written policies and procedures covering all routine financial management and related administrative activities which moderately affects the financial sustainability as shown by a mean score of -0.3511, the level and competency of staff appropriate for the level of financial volume which moderately affects the financial sustainability as shown by a mean score of -0.3817, the audit of the entity conducted according to the International Standards on Auditing which moderately affects the financial sustainability as shown by a mean score of -0.3817 and the organization has mechanisms to manage donor relations which moderately affects the financial sustainability as shown by a mean score of -0.4275.

The responses showed that CROs had low level of staff competence (-.3817), no mechanisms to manage donor relation (-.4275), no sound policies and procedures (-.3511), no international auditing standards (-.3817), no timely preparation of financial reports (-.3282). In almost all the statements on the issues facing financial management of CROs, a good number of respondents were negative, an indication that all was not well not only with regard to the financial sustainability of CROs but also the general management.

The findings showed that there are a number of issues that continue to face the financial sustainability of Church Related Organisations as the mean scores showed negatively skewed regarding almost all the issues that the respondents were asked to respond to. A considerable number of the respondents felt that there were no written policies and procedures covering all routine financial management and related administrative activities among CROs, subsidiary records of fixed assets and stocks were not kept up to date and reconciled with control accounts, the audit was not conducted according to the International Standards of auditing and financial reports are not prepared in a timely fashion so as to be useful to management for decision making.

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DISCUSSION

The findings showed that there are a number of issues that continue to face the financial sustainability of Church Related Organizations as the mean scores showed negatively skewed regarding almost all the issues that the respondents were asked to respond to. A considerable number of the respondents felt that there were no written policies and procedures covering all routine financial management and related administrative activities among CROs, subsidiary records of fixed assets and stocks were not kept up to date and reconciled with control accounts, the audit was not conducted according to the International Standards of auditing and financial reports are not prepared in a timely fashion so as to be useful to management for decision making. The study findings appear to be in line with a study conducted by Wanyama (2006). According to Wanyama, some of the indicators of a strong organizational capacity are well-trained and experienced staff, proficient board of directors and/or trustees, and knowledge management systems.

Karanja and Karuti (2014) argue that knowledge management and employee capacity can also be consolidated into organizational capacity. In a nutshell, the financial and administration structures of an organization determine its institutional capacity in handling the funding and attaining its programs goals. The study determined that donor relations have a positive effect on the financial sustainability of the organization. From the data collected, it was clear that the organization was donor focused this concurring with the study conducted by Khodakarami, Petersen and Venkatesan (2015).

According to them, financial sustainability requires a focus on the donor and their policies to ensure a balance between the needs of the donor and those of the CROs. The research determined that the responsible staff should issue periodic progress reports on the projects they are working on. This agrees with the research of Waiganjo, Ng'ethe and Mugambi (2012) which determined that financial sustainability was affected positively by good donor reporting. The issuance of reports on funded projects allows the donor to know that the funds they give are being put into good use, and that that use is in line with the donor's own objectives. This agrees with what was determined by Okorley and Nkrumah (2012) who also determined that good donor relations and paying attention to reporting was key to boost the financial stability of organizations. This was also the finding by Gajdová and Majdúchová (2018) who determined that organizations which strive to maintain mutually beneficial and better than standard relations are more likely to be successful in achieving private financial resources (and hence be financially sustainable).

The study established that CROs has a board committee that reviews its financial performance. Given the large positive number of respondents to this research question, it is very clear that there is a present and adequate oversight over the decision-making processes of the organization. This augers very well with Iwu, et.al (2015) whose results determined that such non-financial factors as good management ability as well as good quality of the board leads to organizational

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effectiveness and as a result better chances of sustainability due to the creation of confidence by their donors.

CONCLUSION

The findings showed that there are a number of issues that continued to face the financial sustainability of Church Related Organizations as the mean scores showed negatively skewed regarding almost all the issues that the respondents were asked to respond to. A considerable number of the respondents felt that there were no written policies and procedures covering all routine financial management and related administrative activities among CROs, subsidiary records of fixed assets and stocks were not kept up to date and reconciled with control accounts, the audit was not conducted according to the International Standards of auditing and financial reports are not prepared in a timely fashion so as to be useful to management for decision making.

The research determined the management of funds by the management has a positive effect on sustainability, that the presence of a board committee that reviews financial performance and that there is compliance with the NGO board requirements in Kenya a significant part in providing the governance framework necessary for enhanced financial sustainability. Additionally, the presence of a functional financial system, the presence of guidance on organizational spending And the presence of an effective financial policy also plays a significant part in enhancing financial sustainability

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