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Effect of strategic financial management on sustainability of Church related Organizations in Kenya

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Abstract: *The purpose of this study was to examine the effect of strategic financial management on 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 affected financial sustainability in the organizations. Failure of CROs to effectively manage finances can lead to financial instability. The study concluded that financial management affects the financial sustainability of the CROs. As such, budgeting systems, funds flow control system, asset management systems, financial planning, reporting and monitoring systems, accounting policies and procedures, internal and external auditing systems, financial analysis, information systems and plan implementation are used. The study therefore recommended that the CROs should establish various social enterprises that serve as a strategy to diversify their funding base, decrease reliance on donors, and recover or subsidize program costs. Leaders play an important role in shaping the necessary change processes related to diversity and the Church Related Organizations need to reinforce awareness around the range of activities they undertake and the added value they create for society, helping potential partners to evaluate funding options as well as tapping international funding streams.*

Keywords: *Church Related Organizations, strategic financial management, church related organization's sustainability*

INTRODUCTION

Strategic financial management means not only managing a company's finances but managing them with the intention to succeed and attain the company's goals and objectives and maximize shareholder value over time. However, before a company can manage itself strategically, it first needs to define its objectives precisely, identify and quantify its available and potential resources, and devise a specific plan to use its finances and other capital resources toward achieving its goals (Nitto, 2020). Strategic financial management is about creating profit for the business and ensuring an acceptable return on investment. Financial management is

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accomplished through business financial plans, setting up financial controls, and financial decision making. However, that is not the case in most CRO across the globe.

The issue of financial sustainability for CROs has engaged the attention of various writers for some time. Utuk (2015) examined the life and work of the AACC, highlighting the financial difficulties of the organization. He indicated in his book that because of these difficulties, a million shillings endowment fund was launched to make the AACC less financially dependent on external support. Almagtomea, Shakerb, Al-Fatlawic & Bekheetd (2019) lamented that “self support and financial independence should have been sufficiently dealt with long before they threatened to bring the organization to its knees”. Dependency in the Church has become a system of social control that obliges African Church leaders to go to European agencies with beggar bowls in hand seeking funds to maintain themselves (Tutu, 2000). The dependency syndrome must be abandoned (Uzukulu, 2009). The problem of the Church is not lack of money, but fiscal inefficiency and poor stewardship of resources; it is the absence of acceptable computerized accounting systems and financial controls. Inadequate budgeting procedures are among the woes that CROs must address. Some CROs are treated as “Civil Service” life-time job providers and are therefore not expected to produce results for their clients. After over 100 years of missionary effort the Church in Africa is reported to be the fastest growing institution on the continent and yet the absence of good stewardship combined with excessive dependency on foreign funds have rendered it immature and infantile (Larry 2006). It is about time the Church distinguishes between moral and economic causes; it is time to set performance goals with respect to its programmes. Only in this way can it remain competitive and attract foreign funds in this time of globalization and competition (Levine, Drucker & Rosenthals, 2012).

The search for an alternative source of finance can be likened to an entrepreneur looking for investment opportunities. Kiiru (2010) asserts that unrestricted funding is liberating for any CRO. It allows the CRO the freedom to achieve its objectives in whatever way is thought best without the need to consider donor-imposed restrictions. Two main alternative to donor funding have been suggested: i) self–financing include membership fees, income generating activities linked to the work of the CRO; income generation activities not linked to the work of the CRO (e.g. real estate development, investment income from reserves and endowment funds, donations and gifts in kind from supporters and members, and ii) local/community financing: This includes fund raising from the general public, business sponsorship and donations or provision of skills and facilities (Kiiru, 2010; Chikati, 2009; Musila, 2019).

Owiti (2016) observed that despite the increased need for funds as compared to the late 1980s and 1990s, current donor funding has declined by 55%. Programmes have come to an end resulting in employees being rendered jobless even as beneficiaries are missing out on essential and basic services. Meanwhile, donors are redirecting their funding to organisations whose structures ensure maximum benefits to beneficiaries and only minimal amounts consumed by administrative costs. CROs have had to restructure to cope with new demands and in some cases have closed operations altogether (Owiti, 2016).

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Church related Organizations, especially in developing countries, continue to face numerous financial crises due to declining financial support from their traditional funders and mismanagement of available resources. The net worth of most of these organization's 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 need for local fundraisers to attend to social needs (Mawudor, 2016). It is on the basis of this gap that this article examines the effect of strategic financial management on 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).

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/program 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/program 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 for Infinite Population

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

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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)

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

$$= \mathbf{384}$$

Determination of Sample Size for Finite Population

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

Where: pop = population

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

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/program 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).

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RESULTS

Demographic characteristics of the respondents

The length of service/employment in an organization determines the extent to which one is aware of the issues sought by the study. In the wake of technological advancements and globalization, there are likely to be many changes in institutional and operating environment that the respondents should know about when responding to the issues sought by the study. This study is about strategic challenges facing CROs that are likely to impede their financial sustainability and their financial sustainability practices as a means to reducing their dependence on donors. The study sought to establish the length of time that the respondents had worked in the CROs.

Only16.8% 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.

Influence of Financial Management on Financial Sustainability

In order to cushion CROs against financial instability, there is need to opt for effective financial management strategies. In this study, the researcher was interested in establishing the extent to which financial management affected the financial sustainability of CROs.

Extent to which Financial Management affects the Financial Sustainability of CROs

The respondents were asked to indicate the extent to which they felt financial management affects the financial sustainability of CROs. Table 1 shows their distribution.

Table 1

Extent to which Financial Management affects the Financial Sustainability of CROs

Extent	Frequency	Percent
Very great extent	13	9.9
Great extent	51	38.9
Moderate extent	47	35.9
Little extent	19	14.5
Not at all	1	0.8
Total	131	100.0

Source: Survey data (2012)

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A majority of the respondents indicated that financial management affects the financial sustainability of their CROs to a great extent as shown by 38.9% of the respondents, 35.9% of the respondents indicated that financial management affects the financial sustainability of their CROs to a moderate extent, 14.5% of the respondents indicated that financial management affects the financial sustainability of their CROs to a little extent.

Further, the study focused on finding the means and the standard deviation of various statements related to the extent to which financial management affects the financial sustainability of their CROs. Table 2 summarizes the means and standard deviation.

Table 2
Extent to which financial management affects the financial sustainability of their CROs

Statement	Not at all (-2	Little extent (-1)	Moderate (0	great (1)	very great (2	Mean	Std. Dev.
The management should ensure funds are available when needed and that they are obtained and used in the most efficient and effective way to the benefit of the CRO	5	50	51	16	6	-0.25	.931
Financial planning in the CRO seeks to quantify various financial resources available and plan the size and timing of expenditures	18	38	33	36	3	-0.3817	1.21185
Financial management practices requirements can impose a significant burden on the CRO	22	43	42	20	0	-0.4809	1.14590
Managing the movement of funds in relation to the budget is essential for a CRO	29	41	27	22	9	-0.4656	1.06913
The main aim of the process of managing finances is to achieve the various goals a CRO sets at a given point of time	28	40	37	15	8	-0.4046	1.18827
Financial management tools can help an organization to deliver its mission better and to ensure the best and most beneficial use of resources	26	35	35	26	6	-0.3817	1.09163
There is sound organizational planning and the set-up and implementation of workable systems, policies and procedures which can respond to, accommodate and overcome the financial challenges a church Related organization may face	23	39	41	24	1	0.4733	.04018
CBOs are more apt to voluntarily disclose negative earnings surprises preemptively, compared to positive earnings surprises	17	41	54	16	0	0.4656	98682
Sound financial management practices, good governance, and accountability are essential building-blocks for driving improvement and better-value for money in Church related organizations	17	44	38	21	6	0.3817	.07745
Financial management play an important role in supporting new programs to be diffused in practice	14	45	51	13	5	0.5496	96248

The statement of financial management tools can help an organization to deliver its mission better and to ensure the best and most beneficial use of resources had a mean score of -0.3817,

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sound financial management practices, good governance, and accountability are essential building-blocks for driving improvement and better-value for money in Church related organizations had a mean score of -0.3817, the main aim of the process of managing finances is to achieve the various goals a CRO sets at a given point of time as shown by a mean score of 0.5954, managing the movement of funds in relation to the budget is essential for a CRO had a mean score of 0.53.

On whether CROs are more apt to voluntarily disclose negative earnings surprises preemptively, compared to positive earnings surprises, a good number of respondents with a mean score of -0.4046 were negative. The same trend was reflected with regard to whether there is sound organizational planning and the set-up and implementation of workable systems, policies and procedures which can respond to, accommodate and overcome the financial challenges a Church Related organization may face, with a mean score of -0.4733. Another mean score of 0.4809 were agreed that financial management practices requirements can impose a significant burden on the CROs. Majority of the respondents with a mean score of -0.5496 felt that financial management did not play an important role in supporting new programs to be diffused in practice among various CROs.

Correlation between Financial Management and Financial Sustainability of CROs

In order to establish the relationship between financial management and financial sustainability of CROs, correlations, and R squared were computed. The results are tabulated in Tables 3.

Table 3

Correlation between financial management and financial sustainability of CROs

		Financial Sustainability
Financial management attributes	Financial sustainability of CROs	1.000
	Financial Planning	.38
	Budgeting Systems	.31
	Accounting policies and procedures	.36
	Reporting and Monitoring systems	.44
	Plan implementation	.30

Source: Survey data (2012)

The association between the extent to which CRO is able to plan and financial sustainability was .38, budgeting systems (.31), accounting policies and procedures (.36), reporting and monitoring systems (.44), plan implementation (30). Although there was notable association, the correlation between financial management attributes and financial sustainability of CROs was moderate.

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DISCUSSION

Based on the study findings, the association between the extent to which CRO is able to plan and financial sustainability was .38, budgeting systems (.31), accounting policies and procedures (.36), reporting and monitoring systems (.44), plan implementation (30). Although there was notable association, the correlation between financial management attributes and financial sustainability of CROs was moderate. This shows a positive of the effect of financial management to financial sustainability of their CROs. The study findings appear to be in line with the study technocrat expected hypothetical presumption that financial management affects the financial sustainability CROs.

With reference to the effect of financial management on financial sustainability, majority of the respondents felt that indeed financial management affected financial sustainability in the organizations. Failure of CROs to effectively manage finances can therefore lead to financial instability. CRO must therefore be able to create and manage financial resource base which in return generates sufficient funds to ensure that all relevant operations and programs can continue in accordance with an organizational overall mission and strategic direction (Ashmarina, Zotova & Smolina, 2016).

As shown by Table 2, there were a number of factors that were rated negative (below moderate). These included the following: availability of funds when needed, and efficiency or effectiveness of their use, financial planning, financial practices requirements, management of funds flow, were determined as 'below moderate', hence low. From a general point of view, the findings are expected to have been positive based on the fact that the mentioned factors do affect the financial sustainability of CROs. The response could be attributed to either lack of clear understanding of financial management attributes that affect financial sustainability among the respondents or ignorance from their part. However, they were positive about a number of other financial management attributes that affected financial sustainability of CROs. These included: sound organizational planning; disclosure of negative earnings surprises and sound financial management practices.

These attributes, as literature shows, do contribute to financial sustainability of CROs. Page (1984) observes that the process of financial management is associated with various management practices such as financial planning and financial control. For him, financial planning seeks to quantify various financial resources available and plan the size and timing of expenditures. Thus, CROs need to consolidate their efforts in reinforcing various financial management practices such as financial planning and control in order to build confidence and transparency and accountability which are ingredients of sustainability an age of scarcity.

CONCLUSION

In general, the development partners felt that for financial sustainability of CROs, there was need for them to: have visionary leaders with sound values, to place emphasis on social and economic justice, research and development, to establish proper and effective systems in the administration of finance, personnel and property, to gain financial independence (fight against the donor dependence syndrome)

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The study concludes that financial management affects the financial sustainability of the CROs. As such, budgeting systems, funds flow control system, asset management systems, financial planning, reporting and monitoring systems, accounting policies and procedures, internal and external auditing systems, financial analysis, information systems and plan implementation are used.

The study further concludes that various attributes of management of resources such as social capital on the network level, working capital management skills, knowledge-sharing routines, stakeholder involvement, complementary resources, political management capabilities, relationships with external stakeholders and continuous improvement affects the sustainability of the CROs.

CROs should also consider strengthening monitoring and evaluation processes of all financial management practices. Further, the organizations should be able to develop and implement an action plan to ensure regular supervision of financial management processes. This can, to a larger extent, bring about the financial sustainability of these organizations.

The study also recommends that the CROs should establish various social enterprises that serve as a strategy to diversify their funding base, decrease reliance on donors, and recover or subsidize program costs. Leaders play an important role in shaping the necessary change processes related to diversity and the Church Related Organizations need to reinforce awareness around the range of activities they undertake and the added value they create for society, helping potential partners to evaluate funding options as well as tapping international funding streams.

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