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Influence of Strategic Direction on Financial Sustainability of Non-Governmental Organizations in Kenya

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ABSTRACT

The purpose of this research was to determine the influence of strategic direction on financial sustainability of NGOs in Kenya. The study was anchored on strategic leadership theory and utilized descriptive correlational research design. The study targeted active local NGOs based on the records of NGOs Co-ordination Board in 2019. The study population consisted of 6,028 members of strategic leadership teams (SLTs). A sample of 413 was drawn from the total population using stratified random sampling technique. Data was collected through self-administered questionnaire. Correlation results revealed that strategic direction had a positive and significant relationship with financial sustainability. Ordinal logistic regression analysis indicated a good model, which explained 8.7% of the variance in financial sustainability, and significantly predicted financial sustainability ($\beta_1 = -2.086$, $p \leq .05$). Hence, strategic direction has significant influence on financial sustainability. The study recommends that strategic direction is emphasized in organizational planning in enhancing financial sustainability.

Keywords: Strategic leadership, strategic direction, visioning, strategizing, structuring, financial sustainability

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I. INTRODUCTION

Worldwide, civil society organizations (CSOs) play an important role in development but often face numerous challenges regarding their survival and sustainability (Hayman, 2016). According to Khieng and Dahles (2015), non-profit organizations (NPOs) struggle to achieve financial and social sustainability due to the ever-changing operating environment marked by volatility, uncertainty, complexity and ambiguity (VUCA). Knowles and Wilson (2018) opine that leaders have a crucial function in safeguarding financial future of their organizations. In Kenya, non-governmental organizations (NGOs) contribute enormously to development with annual expenditures of over Kshs. 172.1 billion (NGOs Coordination Board, 2019). However, the local NGOs rely primarily on external funding for their operations. The Kenya National Council of NGOs (2018) contends that the high dependency on foreign donors has not only shifted NGOs' interventions to match donor priorities but also limited their ability to achieve financial sustainability. Indeed, majority of NGOs die in their nascent stages due to funding related problems. Unfortunately, it is not only NGOs that are affected when they cease their operations but also vulnerable communities who are deprived of the much needed services. The Public Benefit Organizations Act, 2013 (PBO Act, 2013) envisages self-sustaining CSOs that are accountable and critical players in sustainable development.

Hitt et al. (2016) contend that creating a sustainable organization requires visioning and agility which is founded on strategic leadership. Resourcing matters and Finkler et al. (2018) argue that financial sustainability is important for NGOs' effectiveness and long-term survival. Becoming financially sustainable drives NGOs towards social sustainability (Eswaran, 2018; McClish & Reeve, 2018), and organizational leadership is expected to envision organizational future and integrate sustainability within overall organizational strategy (Santora et al., 2015). This is the essence of strategic direction. MacLeod (2016) identifies strategic direction as a foundational element of strategic leadership, and Perrott (2015) emphasizes its importance towards sustainability journey.

II. THE PROBLEM

Research has shown that less than 10% of leaders worldwide actually practice strategic leadership actions (Kabetu & Iravo, 2018), and this explains the high rate of failures of organizations today. One of the challenges to achieving sustainability is lack of well-crafted vision and mission statements that provide identity and purpose for the organization (Pandey et al., 2017), and translation of sustainability strategies into actions (Beusch et al., 2017). According to Perrott (2015), a guiding vision is a powerful step of the sustainability journey, which defines an organizational dream and sets the stage for accompanying strategy and structure within which to actualize it. MacLeod (2016) posits that successful organizations are those that are unwavering in pursuit of their vision, consistently true to their mission and steadfast in devotion to their values. Hence, strategic direction provides an organization with a roadmap for long-term success, and lack of it thereof makes organizations perish. In view of the high death rate of local NGOs, it is necessary to examine how strategic direction could influence financial sustainability.

III. OBJECTIVE

The objective of the study was to determine the influence of strategic direction on financial sustainability of NGOs in Kenya.

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IV. LITERATURE REVIEW

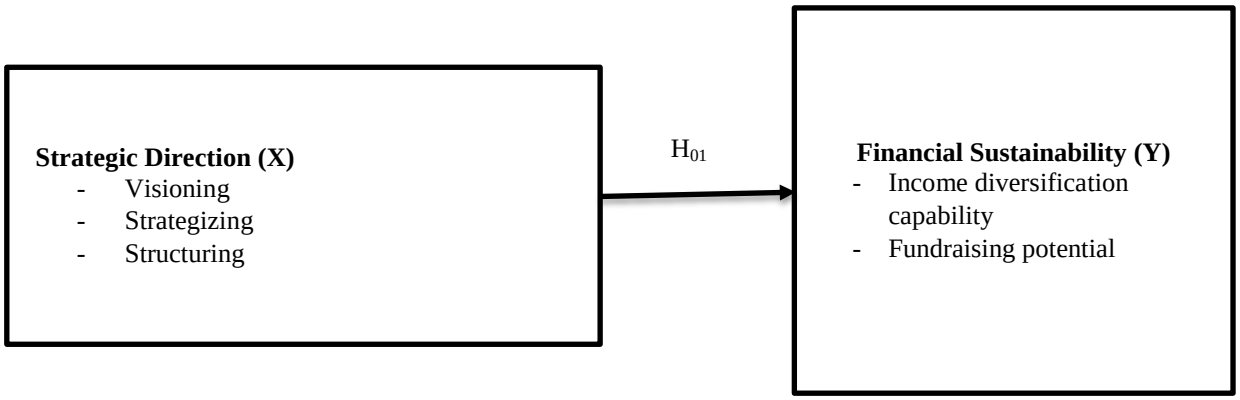

Figure 1: Conceptual Framework: Strategic Direction and Financial Sustainability

A. Theoretical review

The independent variable is strategic direction, and the study was anchored on strategic leadership theory by Hitt et al. (2016). Accordingly, strategic direction is about visioning and this needs to be framed in the context of the operating environment (Hitt et al., 2016). Rahma et al. (2018) suggest that achieving 'long-term success' requires a systematic and structured approach to planning and decision making. Hence, it involves leading strategic management processes including visioning, strategizing as well as structuring an organization to deliver on its overall strategy.

The dependent variable is financial sustainability, and this is underpinned by an operational model originated by Leon (2001) on four pillars of financial sustainability. For this study, the four
pillars are measured by two specific measurements comprising of income diversification capability and fundraising potential. In operationalizing the conceptual framework, therefore, the variables have been broken down into measurable indicators both for independent variables and dependent variables. The resultant framework is given in Figure 1.

B. Empirical review

1) *Strategic Direction and financial sustainability*

Strategic direction is about providing overall guidance and path regarding where the firm intends to go and how it will get there (Hitt et al., 2016). Galpin, Whitttington and Bell (2015) state that "if a firm's sustainability efforts are to provide long-term value to both the company and society, sustainability must be integrated into the firm's strategy in a way that complements the firm's goals and overall mission" (p.7). Strategic direction therefore helps an organization define its broader goals and sets strategies for achieving them (MacLeod, 2016). Consequently, strategic direction of NGOs should spell out their financial sustainability goals and define how they intend to achieve them. Such goals may be seen as the responsibility of top leadership, but the roles ought to be cascaded to individual employees of the organization.

Suriyankietkaew (2016) analyzed strategic leadership using cross-sectional survey and gathered data from 357 corporate leaders in Thailand to determine practices responsible for corporate sustainability. Factor analysis showed that there were eight leadership practices responsible for both long-term corporate performance and sustainability. The eight leadership practices can be condensed based on Hitt *et al*. (2016) model on strategic leadership, and consequently summarized as strategic direction, firm's resource portfolio and ethical practices. Mutia, K'Aol and Katuse (2016) in determining the relationship between strategic direction and the church's infrastructural growth found a strong correlation. This was a descriptive research targeting five main Christian denominations in Kenya with 95 bishops and 368 clergy interviewed. From regression analysis, R^2 was found to be 0.673, indicating that setting strategic direction for the church is responsible for 67.3% variation in the church's infrastructural growth. Their study also indicates analysis of variance (ANOVA) tests of less than 0.05, which shows significant influence with regard to setting strategic direction for the Church.

Kitonga et al. (2016) in their study of 328 NPOs in Nairobi County in Kenya regarding strategic leadership and organizational performance established a significant positive relationship between strategic leadership key actions and organizational performance. The study utilized mixed methods research design with data collected through both questionnaire and interview guide. The results of the study found r-value of 0.730, that is, the Pearson correlation coefficient, which ordinarily takes a range of values from +1 to -1. In this case, there was a strong association between the independent and dependent variables. The value of R^2 was 0.532; R^2 denoting goodness-of-fit measure for linear regression models. Consequently, 53.2% of the change in NPO performance could be attributed to strategic leadership. The results in this study point in the same direction as that by Masungo, Marangu, Obunga and Lilungu (2015) on strategic leadership and devolved government system performance in the context of Kakamega County. Masungo et al. (2015) reveal that performance of devolved government is significantly and positively affected by strategic leadership by up to 52.6% (R^2 = 0.526). This is aligned to the thoughts of Hayman (2016) who clarifies that CSOs ought to have clear vision and mission in order to excel and be legitimized by communities.

Burns et al. (2015) suggest some best practices in leadership development including sustainability education, and cultivating a transformational reflective process. Strategic leadership teams, in embracing learning as a priority, become more connected to their mission and inspired to collaboratively pursue sustainable changes. In a qualitative study of large enterprises in Europe, Haessler (2020) showed that high awareness, commitment and engagement by top management positively impact sustainability for the industry. Olaka et al. (2017), however, in their study of strategic leadership and strategy implementation in 40 commercial banks in Kenya found no significant correlation between leadership capability in determining strategic direction and their academic qualifications. This may imply that educational and training institutions have not internalized their responsibility in empowering leaders to view themselves as facilitators of collective organizational sustainability. Notwithstanding, leadership should be progressive and accountable including taking actions that promote sustainability within their organizations (Burns et al., 2015). It follows therefore that strategic direction as an invaluable element within strategic leadership actions is key in setting vision and subsequent strategic orientation for financial sustainability of their organizations (Khazanchi & Owens, 2018).

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V. METHODOLOGY

The study was aimed at analyzing the influence of strategic direction on financial sustainability. Consequently, the study utilized quantitative research approach in testing the relationship between independent variable, strategic direction, and dependent variable, financial sustainability. Furthermore, the study adopted descriptive correlational survey design to investigate the relationship. In terms of quantitative approach, the research utilized survey research, which provides numeric descriptions using questionnaires for data collection (Creswell et al., 2017). The questionnaires were administered within a sample of the population in order to provide generalized conclusions (Babbie, 2015). The study focused on all national NGOs due to high death rate at their nascent stages particularly within their first 10 years of existence (NGOs Coordination Board, 2017). This dismal survival rate points out to sustainability challenges that curtail their ability to continue with their operations. For this study, the sampling frame consisted of the published list of 6,028 active national NGOs in the register of the NGOs Coordination Board, and a total of 413 CEOs/ board members were sampled. For NGOs, important decisions such as strategic direction, which are crucial to the life and survival of organizations, are made at strategic leadership level (Sargeant & Day, 2018).

VI. RESULTS

A. Correlation between Strategic Direction and Financial Sustainability

Spearman's correlation analysis test was conducted to determine the relationship between strategic direction and financial sustainability. The results of the Spearman's correlation analysis test between strategic direction and financial sustainability are presented in Table 1. The results indicate a positive and significant relationship, r (393) = 0.501, $p \leq .05$.

Table 1: Correlation between Strategic Direction and Financial Sustainability

Variables		Strategic Direction	Fundraising Sustainability
Strategic Direction	Spearman's Correlation Coefficient	1.000	0.501
	Sig. (2-tailed)		0.000
	N	393	393
Fundraising Sustainability	Spearman's Correlation Coefficient	0.501	1.000
	Sig. (2-tailed)	0.000	
	N	393	393

*Correlation is significant at $p<.05$ level (2-tailed).

B. Strategic Direction and Financial Sustainability

Chi-square test (χ^2) was conducted to determine whether there was association between strategic direction and financial sustainability. The results presented in Table 2 indicate that there was a statistically significant association between strategic direction and financial sustainability, χ^2 (16, N = 393) = 291.651, $p \leq .05$.

Table 2: Chi-square Test for Strategic Direction and Financial Sustainability

Chi-square Test	Value
Pearson Chi-Square	291.651
df	16
Asymptotic Significance (2-sided)	0.000
N of Valid Cases	393

Chi-square is significant at $p \leq .05$ (2-tailed)

C. Strategic direction and demographic variables

One-way ANOVA was carried out to determine whether there were any significant differences between the means of strategic direction and demographic variables of position, gender, age group, highest academic qualification, years served as a member of the strategic leadership team, number of years the organization has been in operation and sectors that the organization serves. The results of the one-way ANOVA are set out in Table 3. From the results, significant differences between the means of strategic direction and demographic variables were noted for position in the organization, $F(4, 388) = 2.907$, $p \leq .05$ and highest academic qualification, $F(4, 388) = 3.034$, $p \leq .05$. *(See table 3 in appendices).*

D. Ordinal logistic regression analysis for strategic direction and financial sustainability: assumptions for ordinal logistic regression analysis

1) Dependent Variable (Financial Sustainability) Assumption

The ordinality assumption requires that the level of measurement for dependent variable is ordinal scale. For this study, financial sustainability was measured using two constructs: income diversification capability and fundraising potential whose indicators were on a five-level Likert scale. This depicts ordinal level of measurement, and thus, implying that the assumption was confirmed for this study.

2) Test for multi-collinearity assumption

Multicollinearity test requires a determination that the independent or predictor variables are not highly correlated with one another. Due to the ordinal scale of the study measurements, the assumption requires that the Spearman's correlation coefficient is below 0.8 ($r < 0.8$) to indicate that the independent variables are not highly correlated with each other. Table 4 presents multicollinearity test results for strategic direction, which show that the values for the independent variables were below the threshold of $r \geq 0.8$, hence confirming non-existence of multicollinearity. *(See table 4 in appendices).*

3) Test for proportional odds assumption

For the results of ordinal regression analysis to be valid, proportional odds assumption should be justified, and requires that the relationship between each pair of outcome groups (independent variable versus ordinal dependent variable) as described by the slope coefficients is the same. The proportional odds assumption is examined through the test of parallel lines. For the assumption to be met, the log likelihood ratio Chi-Square test, LR χ^2 should have a significant value, $p \geq .05$ (Harrell, 2015). With respect to strategic direction, the result presented in Table 5 shows LR χ^2 (2) = 0.753, $p \geq .05$, and thus the assumption were not violated.

Table 5: Test of Parallel lines for Strategic Direction

Model	-2 Log Likelihood	Chi-Square	df	Sig.
Null Hypothesis	22.457			
General	21.703	0.753	2	0.686

The null hypothesis states that the location parameters (slope coefficients) are the same across response categories.

E. Ordinal logistic regression analysis and hypothesis testing for strategic direction

The study sought to establish the extent to which strategic direction influenced financial sustainability of NGOs in Kenya. In this regard, ordinal logistic regression model was used to determine the extent to which strategic direction predicted financial sustainability of the NGOs in Kenya. The hypothesis and the test are given below:

H_{01}: Strategic direction has no significant influence on financial sustainability of NGOs in Kenya.

Test: **Logit $[P(Y \leq j)] = \alpha_j - \Sigma\{\beta X\} + €$**
Goodness-of-Fit test criteria: Reject if $p \geq .05$, Fail to reject if $p \leq .05$

1) *Model fitting information*

Model fitting information test uses Chi-square statistic to test if there is significant improvement in the fit of the final model compared to the intercept only model, and whether the model gives adequate predictions. The test results presented in Table 6 show the log-likelihood that there was a significant improvement in the final model relative to the base model [χ^2 (4) = 145.241, $p \leq .05$]. Therefore, it gives better predictions with respect to strategic direction, and consequently indicates that the model fits the data well.

Table 6: Model fitting information for strategic direction

Model	**-2 Log Likelihood**	**Chi-Square**	**df**	**Sig.**
Intercept Only	235.315			
Final	90.074	145.241	4	0.000

Link function: Logit.

2) *Goodness-of-fit*

Goodness-of-fit tests if a model exhibits a good fit for the data and the statistics represented by Pearson and Deviance Chi-square, determine if the observed data is inconsistent with the fitted model. Non-significant test results ($p \geq .05$) are pointers that the model fits the data well, and the Pearson Chi-square has been utilized for the study. Consequently, non-significant test results ($p \geq .05$) offer justification to reject the null hypothesis while significant test results ($p \leq .05$) provide the basis for failing to reject the null hypothesis. The result of goodness-of-fit for strategic direction given in Table 7, shows that Pearson Chi-square statistic [χ^2 (2) = .741, $p \geq .05$] provided non-significant test results. Hence, the results suggest a good model fit, thus leading to rejecting the null hypothesis. This implies that strategic direction has a significant influence on financial sustainability.

Table 7: Goodness of Fit for Strategic Direction

	Chi-Square	df	Sig.
Pearson	.741	2	.691
Deviance	.753	2	.686

Link function: Logit.

3) *Pseudo R-square*

Pseudo R-square provides the coefficient of determination based on the log-likelihood for the regression model, and this is usually compared to the log-likelihood of the baseline model. The results presented in Table 8 show the three values of Pseudo R-Square coefficients for strategic direction. The Nagelkerke R-Square value (R = .087) indicates that 8.7% of variance in financial sustainability was explained by strategic direction.

Table 8: Pseudo R-Square for Strategic Direction

Link function	Logit
Cox and Snell	0.063
Nagelkerke	0.087
McFadden	0.050

Link function: Logit.

F. Parameter estimates for strategic direction

Parameter estimates describe the log-odds ratio with respect to a one unit change in the dependent variable, when all other independent variables are held constant. The analysis results, based on ordinal logistic regression model, provide a reference coding acting as a baseline. As such, other coefficients are interpreted as either an increase or decrease within the log-odds ratio over the baseline. Subsequently, a large coefficient implies there is log-likelihood that the independent variable has a strong influence on the dependent variable. The model for the influence of strategic direction, X, on financial sustainability, Y, is given below:

$$\textbf{Logit } [P(Y \leq j)] = \alpha_j - \beta X$$

The results provided in Table 9 show that the reference point is that the strategic leadership team strongly agreed (log-odds at X = 5) that strategic direction has a significant influence of financial sustainability at the level of very large extent (Y = 5). Therefore, for every one unit increase in those who agreed (X = 4) on the influence of strategic direction, the log-likelihood of financial sustainability being at or below very large extent reduced by a factor of 2.086 within the log-odds scale (β_1 = -2.086), being significant ($p \leq .05$). Similarly, the log-likelihood of financial sustainability decreased by a factor of 5.133 within the log-odds scale, being significant ($p \leq .05$) for every one unit increase in those who strongly disagreed that strategic direction influenced financial sustainability to a very large extent. *(See table 9 in appendices).*

VII. Recommendations and Areas for Further Study

Using ordinal regression analysis, the study established that strategic direction positively and significantly predicted financial sustainability. Local NGOs should therefore clearly define their strategic direction, and specifically have goals around financial sustainability. This implies that NGOs should integrate financial sustainability aspirations within their policies, strategic and operational plans, and provide a role for delivering on its targets within their strategic leadership teams. While the study confirmed the important role strategic direction plays towards achieving financial sustainability, the low value of regression coefficient implies that further research may target international NGOs only that have shown better survival rate.

VIII. Conclusion

Ordinal logistic regression analysis determined that Pearson Chi-square statistic for Goodness-of-Fit test was non-significant for strategic direction [χ^2 (2) = .741, $p \geq .05$] thereby providing justification to reject the null hypothesis. Parameter estimates established a factor of β_1 = -2.086, ($p \leq .05$) within the log-odds scale, indicating the log-likelihood that strategic direction significantly predicted financial sustainability. Hence, strategic direction has significant influence on financial sustainability of NGOs in Kenya. This led to the conclusion that strategic leadership teams should be keen on setting strategic direction for their NGOs in order to achieve financial sustainability.

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APPENDICES

Appendix I: Tables

Table 3: One-way ANOVA for Strategic Direction and Demographic Variables

		Sum of Squares	df	Mean Square	F	Sig.
Position in the organization	Between Groups	2.570	4	0.642	2.907	0.022
	Within Groups	85.741	388	0.221		
	Total	88.310	392			
Gender of respondents	Between Groups	0.718	4	0.180	0.725	0.575
	Within Groups	96.005	388	0.247		
	Total	96.723	392			
Age-group	Between Groups	3.596	4	0.899	1.051	0.381
	Within Groups	331.794	388	0.855		
	Total	335.389	392			
Highest academic qualification	Between Groups	13.466	4	3.366	3.034	0.017
	Within Groups	430.493	388	1.110		
	Total	443.959	392			
Years served as a member of strategic leadership team in any organization	Between Groups	2.688	4	0.672	1.041	0.386
	Within Groups	250.554	388	0.646		
	Total	253.242	392			
Number of years that the organization has been in operation	Between Groups	16.845	4	4.211	2.375	0.052
	Within Groups	688.071	388	1.773		
	Total	704.916	392			
Sector/s that the organization serves/ operates	Between Groups	18.762	4	4.691	0.873	0.480
	Within Groups	2083.940	388	5.371		
	Total	2102.702	392			

The mean difference is significant at $p \leq .05$ (2-tailed).

Table 4: Multicollinearity Test for Strategic Direction

		Visioning	Strategizing	Structuring
Visioning	Spearman's Correlation Coefficient	1.000	0.792	0.712
	Sig. (2-tailed)		0.000	0.000
	N	393	393	393
Strategizing	Spearman's Correlation Coefficient	0.792	1.000	0.745
	Sig. (2-tailed)	0.000		0.000
	N	393	393	393
Structuring	Spearman's Correlation Coefficient	0.712	0.745	1.000
	Sig. (2-tailed)	0.000	0.000	
	N	393	393	393

*Correlation is significant at $p \leq .05$ (2-tailed).

Table 9: Parameter Estimates for Strategic Direction (X = SD)

		Estimate	Std. Error	Wald	df	Sig.	95% Confidence Interval	
							Lower Bound	Upper Bound
Threshold	[Y_{FS} = 1]	-6.859	0.582	138.923	1	0.000	-7.999	-5.718
	[Y_{FS} = 2]	-5.505	0.390	198.812	1	0.000	-6.270	-4.740
	[Y_{FS} = 3]	-3.157	0.274	133.099	1	0.000	-3.693	-2.621
	[Y_{FS} = 4]	0.044	0.204	0.047	1	0.828	-0.356	0.444
Location	[X_1=1]	-5.133	0.746	47.396	1	0.000	-6.594	-3.671
	[X_1=2]	-3.753	0.986	14.479	1	0.000	-5.686	-1.820
	[X_1=3]	-2.469	0.358	47.557	1	0.000	-3.170	-1.767
	[X_1=4]	-2.086	0.274	57.892	1	0.000	-2.623	-1.549
	[X_1=5]	0[a]			0			

Link function: Logit.

a. This parameter is set to zero because it is redundant.