

Financial Management Capacities and Sustainability of Community Based Organizations in Turkana County, Kenya

¹ Francis Obondi Abong'o & ² Kennedy B. Mwengei Ombaba

¹Jomo Kenyatta University of Agriculture and Technology, Kenya

²University of Eldoret, Kenya

Type of the Paper: Research Paper.

Type of Review: Peer Reviewed.

Indexed in: worldwide web.

Google Scholar Citation: [AIJMR](#)

How to Cite this Paper:

Abongó F. O. and Ombaba K. B. M., (2018). **Financial Management Capacities and Financial Sustainability of Community Based Organizations in Turkana County, Kenya.** *Africa International Journal of Multidisciplinary Research (AIJMR)*, 2 (3), 59-69.

Africa International Journal of Multidisciplinary Research (AIJMR)

A Refereed International Journal of OIRC JOURNALS.

© With Authors.



This work is licensed under a [Creative Commons Attribution-Non Commercial 4.0 International License](#) subject to proper citation to the publication source of the work.

Disclaimer: The scholarly papers as reviewed and published by the OIRC JOURNALS, are the views and opinions of their respective authors and are not the views or opinions of the OIRC JOURNALS. The OIRC JOURNALS disclaims of any harm or loss caused due to the published content to any party.

Financial Management Capacities and Financial Sustainability of Community Based Organizations in Turkana County, Kenya

¹ Francis Obondi Abong'o & ² Kennedy B. Mwengei Ombaba

¹Jomo Kenyatta University of Agriculture and Technology, Kenya

²University of Eldoret, Kenya

ARTICLE INFO

Article History:

Received 12th May, 2018

Received in Revised Form 24th April, 2018

Accepted 26th May, 2018

Published online 30th May, 2018

Keywords: Financial Management Capacities, Sustainability, Community Based Organizations, Turkana, Kenya

based theory. The study adopted an exploratory research design and stratified proportionate sampling. The population of the research consisted 126 respondents from 42 CBOs in Turkana County. The study used both primary and secondary data. The study utilized self-administered semi-structured questionnaire and content analysis for collecting secondary data using data collection schedule. A pilot test was conducted to confirm validity and reliability of the research questionnaires. Content validity of the research instruments was ensured by consulting supervisors. Reliability was tested using Cronbach's alpha coefficient. The study found that financial management capacities had a positive and significant effect on financial sustainability ($\beta=0.016$, $p<0.05$), in Turkana County, Kenya. The study recommended that CBOs management should consider putting in place the recommended strategies to enhance financial management practices to improve financial sustainability. The study will contribute new dimensions and perspectives to generate policy solutions to the management and CBOs sector stakeholders. The new empirical evidence will form the basis for further studies with the aim of addressing financial sustainability of CBOs through prudent financial management practices.

1.0 Introduction

The history of Community Based Organizations (CBOs) lies way back during the American Civil War, whereby charity groups were designed to offer assistance to those who were displaced, disabled, or impoverished by the war. It was during the period between 1980s and 1990s, when CBOs expanded to a point that they were being referred to as a movement, and the process of community organizing expanded into many community organizations (Fisher, 2002). The main difficulty that emerged during this period was the shifting of power from local communities to regions, nations,

Abstract

The evolution of Community Based Organizations in recent year especially in developing countries has reinforced the new that these grassroots organizations are more effective in addressing local needs than larger charitable organizations due to their penetration, networks and perceived neutrality in their areas of operations. The objective of the study was to determine the effect of financial management capacities on financial sustainability of CBOs in Turkana County, Kenya. The study was founded on resource-

and international corporations. The process of globalization raised issues about the efficacy of local

organizations in addressing problems caused by large-scale financial forces, thus the foundation of national and international organizations (Speer & Perkins, 2002).

The evolution of CBOs in recent years more so in developing countries has reinforced the new that these grassroots organizations are more effective in addressing local needs than larger charitable organizations due to their penetration, networks and perceived neutrality in their areas of operations. Consequently, many international non-governmental organizations are increasingly relying

on CBOs to access the community, hence, in most cases partnering with them for greater development outreach (Fisher, 2002). Accordingly, with the increasing demand on governments in many developing countries to meet the needs of their citizenry, non-governmental organizations (NGOs) are taking active and contemporary roles in harnessing the potential of the people for development (Lekorwe & Mpabanga, 2007).

Community Based Organizations play a critical role in creating a ground for the individuals to share their problems and resources in a manner meant to edify the community (Wanjohi, 2010). Further they could deliver high quality social services and programs to the very poorest sectors of the society in a cost-effective and efficient way for sustainable development (Clark, 1991; Fowler, 1998). Not surprisingly, Kenya had already registered approximately 400,000 CBOs to operate in different parts of Kenya (Waiganjo, 2015).

In Kenya, CBOs began as self-help groups in the years of 1960s when the first president of Kenya, Mzee Jomo Kenyatta began to encourage grassroots growth through coming together in the spirit of what was referred to as Harambee. This spirit was based on the understanding that one could not be able to carry out plans or actions by him/herself but would require a certain contribution from the other members of the society. The Harambee spirit kept most of the self-help groups growing (Waiganjo, 2015).

Community Based Organizations Financial Sustainability Overview.

Financial sustainability reflects the ability of an organization to maintain its diverse capacities (Bowman, 2008). Given the everyday dynamics determined by the economy, politics and technology among other factors, both for profit and non-profit organizations are faced by several challenges. The financial capacity of an organization comprises of resources that provide an organization with the ability to seize opportunities and to react unexpected threats while continuing to manage general operations of the organizations, including CBOs, serve in the high-need communities that requires consistent and continually available services, the challenges are even more pronounced. The goal of financial sustainability for non-profit organizations is to maintain or expand services within the organizations while developing resilience vis a vis the occasional short term economic shocks (Bowman, 2011). However, the extent to which these organizations have been able to create and sustain financial bases has been wanting.

In essence, an organization with sustainable long-term prospects may be sustainable in the short-term, susceptible to the vagaries of cash shortfalls. An

organization with short-term but not long-term sustainability may have adequate cash at hand but inflation will diminish the value of its assets over time (Bowman, 2011). These two conditions elaborated by Bowman apply to both profit and non-profit organizations. In order to counter these challenges, CBOs must be guided by a sustainability strategy. Along this line of thought Bell, Masoka & Zimmerman (2010) maintain that the success of non-profit organizations (including CBOs) cannot be measured only by their high impact program if there is no effective accompanying strategy for sustaining the organization financially.

Financial management capacity forms the basis of sound administration and financial policies this defines the soundness of CBO financial management policies. These help the ability of CBOs to manage resources, anticipate financial standing and leverage existing assets to generate more funds. Efficient procedures for management and administration of finances governed by a series of sound institutional policies help CBO to make the most of its assets and ensure sound financial management. The procedure must be able to help determine the current financial standing of the organization and help in making timely decisions as well as helping in bank and cash management, development of internal control system, staff recruitment and capacity building, financial reporting and analysis, procurement procedures and existing assets management (Lewis, 2011).

The portfolio theory in the field of risk management indicates that financial risk can be reduced by combining a mix of security holdings because it helps to hedge against the loss of any single holding while enabling the growth of the portfolio over time (Fruttero & Gaun, 2005). Revenue diversification as a financial strategy has been broadly embraced within non-profits and there is evidence that a diversified revenue structure may increase the financial health and sustainability of a non-profit. The search for external funding is necessary for the survival and development of local NGOs (Fernard, 2006).

As foreign funding declines, NGOs are increasingly looking to domestic sources of support (Warren, 2008). Internal revenues can have several sources which include: members' contributions, donations from friends and sympathizers and income from investments of reserves. Moore (2005) studied the John Hopkin University Comparative Non-profit Sector Project and published a comparative analysis on global civil society based on research in 35 countries, on the sources of NGOs income. The study revealed that self-generated income was the dominant source of revenue for NGOs accounting for 43 percent of local NGOs total income; private giving - that is individual, corporate and foundation

based accounting for 30 percent while government support constituted 27 percent (Moore, 2005). Executive committee composition of CBOs is the key component of corporate governance besides members and secretariat (staffs). Corporate governance is the mechanism by which corporate managers are held accountable for corporate management and financial management, and the mechanism by which business is organized, directed and controlled (Krivogorsky & Dick, 2011). Strine (2010) provided that corporate governance is about putting in place the structure, processes and mechanisms that ensure that the firm is directed and managed in a way that enhances long-term shareholders value through accountability of managers, which will then enhance firm financial performance.

Financial sustainability measurements have been proposed differently by many authors of NGO management. Pathfinder International (1994) ruled that financial sustainability was measured by the level of net income that is surplus of revenue over expenses and added that liquidity (cash available to make payments) and solvency (the relationship between assets and debts/liabilities). Abdelkarim (2002) and Lewis (2011) defined the existence of a diversified base in an NGO as a measure of financial sustainability. Lewis (2011) added that availability of unrestricted funding and availability of financial reserves were also key measures of NGOs financial sustainability.

Statement of the Problem

Financial sustainability is critical to CBOs for stability and enhancement of growth. It may necessitate CBOs to develop and implement of diverse resource source and prudent strategic financial management practices as it is becoming the case so that CBOs can continue its purpose of plan, implement and monitor social and economic development programs and provide technical and financial help to the communities. However, the social economic development services being provided by CBOs is largely dependent on donations and grants from western donors or their respective governments with little interest capacity for financial sustainability.

Financial sustainability has become something of a buzzword in the CBOs sector given “donor fatigue” in rich nations and increased confidence from developing countries as more and more people are talking about CBOs standing on their own feet and becoming more financially sustainable (Mango, 2017). Closures of donor funded projects have caused sorrows and disillusion to the both direct and indirect beneficiaries as a result of accompanied by job losses. Community Based Organizations depending on external funding are forced to reviews

their structures and operations to comply with the grant agreements conditions imposed by donors (Ali 2012).

The studies conducted have been inconclusive with contradicting results being obtained with regard to the relationship between financial management practices and financial sustainability. Besides, the available literature is not sufficient enough to provide a framework for determining the effect of financial management practices on the financial sustainability. Due to this inconclusiveness and contradicting results this study will seek to find out if another variable is the reason. As such this study sought to address the research gap by looking at the moderating role of the executive committee composition on the relationship between financial management practices and financial sustainability of CBOs in Turkana County, Kenya.

Research Objective

To assess the effect of financial management capacities on financial sustainability of Community Based Organizations in Turkana County, Kenya

2.0 Theory and Hypothesis Development

This study used Resource based theory to underpin it.

Resource Based View Theory

Resource Based View Theory (RBV) was developed by Edith Penrose in 1956. The principal proposition of this theory is premised on the concept of economic rent and the view of the company as a collection of capabilities. This view of strategy has a coherence and integrative role that places it well ahead of other mechanisms of strategic decision making (Kay, 2005). The Resource Based View Theory offers a critical and fundamental insight into why with valuable, rare, inimitable and well organized resources may enjoy superior performance (Barney, 1995). Resource Based View theory suggests that a firm can create sustainable competitive advantage through developing its unique resources and capability (Barney, 2001). Resource Based View Theory (RBV) assumes that a firm within an industry or a strategic group may be heterogeneous with respect to the bundles of resources that they control. Secondly, it is assumed that resources heterogeneity may persist over time because the resources used to implement firm's strategies are not perfectly mobile across firms. This implies that resources cannot be traded in factor market and are difficult to accumulate and imitate (Bridoux, 2007).

Building on the RBV, Hoopes, Marsden and Walker (2003) suggest a more expansive discussion of sustained differences among firms and develop a

broad theory of competitive heterogeneity. The RBV seems to assume what it seeks to explain. This dilutes its explanatory power. For example, one might argue that the RBV defines, rather than hypothesizes, that sustained performance differences are the results of variation in resources and capabilities across firms. The difference is subtle, but it frustrates understanding the RBV possible contributions (Hoopes et al, 2003).

According to Rihan (2014) there are several criticisms of BRV. Firstly, the theory does not sufficiently focus on depreciating resource value. Secondly, the theory completely focuses on achievement of sustainable competitive advantage yet competitive survival is more important. Thirdly, it is difficult to find a resource which satisfies all of the Barney's valuable, rare, inimitable and non-sustainable criteria. Fourthly, the theory ignores external factors concerning the industry which can limit attainment of profitability through exploitation of advantageous resources in a highly competitive environment. Lastly, long-term implication that flow from the premises of theory, the premise of efficient markets, the obsolete concept of rarity and lack of an exact definition of sustainability creates difficulty in the empirical testing of its premise.

Resource-based view theory was relevant to this study as it formed the basis of the conceptualized relationship between financial management capacities and financial sustainability of CBOs. The implication of RBV is that firms should look into their internal resources, both physical and intellectual, for sources of competitive advantage (Allen and Wright, 2008).

Effect of Financial Management Capacities on Financial Sustainability

Leon (2011) defined financial management capacities as looking and taking action on financial issues of a CBO that will have an effect on the organization's overall direction and impinge on its ability to attain current and future objectives. Leon (2011) argues that many NGOs did donor-based accounting which was risky as it did not give adequate controls for regulator automatic reviews and this type of accounting was susceptible to human error. The study suggested that NGOs should pursue cost-centre accounting, which allowed for double entry and coding of donor receipts as well as tight controls. A sound financial and administration system that supports financial sustainability of local NGOs should be able to produce relevant type of financial statements on a regular basis.

Yang (2010) studied the effect of budgeting on financial performance of organizations using survey techniques. The study established that if administered wisely, budgeting drives management planning, provides best framework for financial

performance. The study focused on profit making organizations using profitability ratios as measures of success. These findings may not be applicable to CBOs since financial sustainability is not measured by profitability ratios but by donor dependency ratio. Diamond and Khemam (2006) did a study on accounting systems among businesses using survey research technique in the developing countries, focusing on Africa. The study deduced that budget execution and accounting processes were either manual or supported by very old and inadequate software applications and hardware. The results showed it affects their functions due to consequent lack of reliable and timely revenue and expenditure data for budget planning, monitoring, expenditure control and reporting negatively impacting accountability.

Kwame (2007) conducted a survey on the effect of cash controls on financial performance of business entities and established that the setting up of a cash balance policy that indicates cash controls such as cash reconciliations and cash flow analysis ensures prudent cash budgeting and investment of surplus cash which leads to maximization of the value of a firm. This study is not applicable too since CBOs aim is not to maximize its value and besides banking and cash management ties to assess use of separate current banking accounts for donor project funds; existence of clear signing mandates for each accounts and regular bank therefore the study established the effect of bank and cash management on the financial sustainability of CBOs.

The Asia Pacific Entrepreneurship Development Institute (2014) noted that many NGOs lacked sound financial systems and procedures thus their accounts were maintained in an additive manner, leaving many donors to face problems while trying to settle accounts. The study concluded that due to poor financial systems and procedures the NGOs were less likely to be sustainable.

Wainganjo (2015) studied analysis of factors influencing financial controls practices of CBO in Baringo County, Kenya using survey technique. The study established that auditing played a big role in controlling finances of CBOs thus good controls demands that an organization should be subjected to an audit at least once a year. However, the study did not focus on financial sustainability as this study sought to investigate by focusing on the existence of external audits with broad scope (value for money) and evidence of comprehensive management responses effect on financial sustainability and its effect on the CBOs financial sustainability.

H01. Financial Management capacities has no significant effect on Financial Sustainability of CBOs in Turkana County.

Conceptual Framework

Mugenda (2008) defines a conceptual framework as a concise description of the phenomenon under study by a graphical or visual description of the

major variables of the study. It consists of both independent and dependent variables, with the independent variable presumed to occasion or cause changes in dependent variables.

Financial Management Capacities

- Financial planning & budgeting
- Accounting
- Bank & cash management
- Financial systems & procedure
- Auditing

CBOs Financial Sustainability

- Donors Dependency Ratio

3.0 Methodology

The study used an exploratory research design. According to Saunders et al., (2012) exploratory research design entails merely formative examination into a subject for the purpose of gaining new insights, discovering new ideas and increasing new ideas.

Target Population

Castillo (2009) defines target population as the entire group of individuals or objects to which researchers are interested to a set of specifications. There was 132 CBOs registered by the department of social services as at 31st December 2015 to operate in Turkana County. Accessible population for this study was thus all the 42 CBOs which had complete records for the entire period hence enabled establishment of trend in Turkana County. In each of the 42 CBOs the study will target one executive committee member, one programme coordinator and one finance officer/accountant totalling to 126 respondents.

Sampling Technique and Sample Size

Sampling technique is the architecture or the strategy used to select study participants or respondents (Kothari, 2004). This study used stratified proportionate sampling of all CBOs considered as unit of analysis. The study grouped populations into three strata, that is: executive committee members, programme coordinators and finance officers/accountants.

Data Collection Instruments

Primary data were collected from CBOs executive committee members, programme coordinators and finance officers/accountants using self-administered semi-structured questionnaires. Self-administered questionnaire has a higher response rate (Benchhofer & Paterson, 2008). A five Likert scale questionnaire was used. This study also utilized

secondary data of CBOs using secondary data collection schedule/sheet. The financial sustainability indicator (donor dependency ratios) were gathered from the annual financial statements of the CBOs for the years 2011 to 2015.

Pre-testing of Research Instruments

Pilot study refers to a small –scale rehearsal of the larger research design. It enables testing of the feasibility, equipment and methods (Sreevidya & Sunitha, 2011). A pilot test was done before embarking on actual data collection activity (Eriksson and Kovalainen, 2008). The proportionate sample of 4 CBOs randomly drawn from Trans Nzoia County was used for the study. Therefore 12 questionnaires were administered in pilot testing to test the degree of accuracy of the instrument used to collect data in locations in which the pilot survey took place.

Validity

Validity is the accuracy, truthfulness and meaningfulness of inferences that are based on the data obtained from a tool or scale for each construct in the study (Mugenda, 2008). The study used content validity to test the accuracy of data collection instruments.

Reliability

Reliability is if the analyst measures the same variables several times and the results are approximately the same (Rabianski, 2003). A statistical coefficient Cronbach's Alpha (α) was used as a measure of internal reliability (Cronbach, 1971) with the aid of Statistical Package for Social Sciences (SPSS) software. The value of the Cronbach's alpha coefficients ranges between 0 and 1.

Measurement of Variables

Measurement of Dependent Variable

The dependent variable for the study was financial sustainability of CBOs in Turkana County, Kenya. Mango (2010) and Lewis (2011) proposed “Donor dependency ratio” and “survival ratio” to measure how financially sustainable an NGO is. This research assignment will apply the donor dependency ratio to determine how financially sustainable CBOs to be sampled will be in Turkana County. The study measured financial sustainability as used by (Mango, 2010; Lewis, 2011; Saugweme, 2014). also evaluated donor’s dependency ratio as a measure of financial sustainability.

$$\frac{\text{Total Donors Income}}{\text{Total Income}} \times 100\%$$

(Results expressed in %)

Measurement of Independent Variable

Financial management capacities was measured by evaluating respondent’s opinions on financial planning and budgeting, accounting, banking and cash management, financial systems and procedure and auditing. Thus, the study measured financial management capacities as was measured by Saugweme, 2014 and Mawudor, 2016.

Table 4.1: Response Rate

Response Rate	Frequency	Percent
Returned	120	95%
Unreturned	6	5%
Total	126	100.0

Reliability Test Results

Table 4.2 Reliability of the Research Questionnaires

Constructs	Cronbach’s Alpha	Test Items
Financial management capacities	0.982	6
Income diversification	0.990	6

The results indicated that all variables had Cronbach’s Alpha coefficients greater than 0.7. This implies that the research questionnaire was reliable as all the five constructs had a Cronbach’s alpha coefficient greater than 0.7.

Descriptive Statistics of Study Variables

Descriptive Statistics for Financial Management Capacities.

The respondents were provided with a number of statements on financial management capacities

Table 4.3: Extent to which Financial Management Capacities Indicators affect the Financial Sustainability of CBOs.

N= 120 % Scores	NA	LE	M	GE	VE
	a. Financial planning and budgeting: Budgets are prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor sufficient performance.	5.0	7.5	2.5	17.5

Multiple Regression Model

OLS Equation

$$Y = \beta_{0+} + \beta_1 X_1 + e \quad \dots \text{Equation 3.1}$$

Where:

Y represents financial sustainability of CBOs
 X_1 represents financial management capacities of CBOs
 ε represents Error term (Disturbance factors) which represents residual or values that are not captured within the regression model.

4.0 RESEARCH FINDINGS AND DISCUSSION

Response Rate

From each of 42 CBOs, three questionnaires were issued thus 126 semi-structured questionnaires were administered for data collection. However, 120 questionnaires were properly filled and returned from 40 units of analysis. This represents 95 percent overall successful response rate. According to Mugenda and Mugenda (2003) a response of 50% or more is adequate. The results of response rate are presented in Table 4.1

indicators used by CBOs. The researcher sought the opinions of the respondents on to what extent does those indicators affect financial sustainability of CBOs. The descriptive statistics results for financial management capacities are presented in Table 4.3

b. Accounting: Internationally accepted accounting standards are followed.	10.0	5.0	5.8	10.0	69.2
c. Banking and cash management: Control exists for the collection, timely deposit and recording of receipts at each collection location.	15.0	5.0	5.0	19.2	55.8
d. Financial systems and procedures: There are written policies and procedures covering all routine financial management and related administrative activities.	20.0	2.5	5.0	27.5	45.0
e. Auditing of the entity conducted according to the International Standards on Auditing	15.0	10.0	15.0	16.7	43.3

Where: NA represents Not at all, LE represents little extent, M represents moderate, GE represents great extent and VE represents very great extent.

The study sought to establish to what extent financial planning and budgeting affects financial sustainability of CBOs. Results indicated that majority (75%) of the respondents agreed financial planning and budgeting affects financial sustainability. It was found that 17.5% did not agree with the statement since they rated the extent of effect at little extent or not at all. Those who neither agreed nor disagreed (moderate extent) with the statement accounted for 2.5%. These findings are consistent with Yang (2010) who asserted that if budgeting is well administered it will drive management planning and provides best framework for finance performance. This implies that financial planning and budgeting will form the basis of CBOs operations besides monitoring and evaluating its performance hence the main foundation of financial sustainability.

The respondents were asked to respond to the statement that to what extent accounting affects financial sustainability of CBOs. The results show that (79.2%) agreed with the statement. A small proportion (15%) lowly rated the statement while few 5.8% moderately rated the statement. These findings are in line with Diamond and Kheman (2006) which deduced that poor budgeting and accounting systems among business in developing countries resulted to damage effects on functions due to lack of reliable and timely revenue and expenditure data. This implies that accounting systems in accordance with international financial reporting standards greatly affect CBOs financial sustainability.

The study sought to what extent banking and cash management affects financial sustainability of CBOs. It was found that a total of 75% positively rated the statement. The number of respondents who negatively rated the statement were 20%. Those who moderate-rated the statement were 5%. These results supports those of Kwame (2007) who posits that setting up of a cash balance policy that indicates cash controls ensures prudent cash budgeting and investment of surplus cash leads to maximization of the firm value. This implies that banking and cash management affects financial sustainability of CBOs.

The respondents were asked to respond to the statement that to what extent financial systems and

procedures affects financial sustainability of CBOs. Results indicated that majority 72.5% who positively rated the statement. It was found that 22.5% not at all rated the statement, while 5% moderately rated the statement. These results agrees with the finding of The Asian Pacific Entrepreneurship Development Institute (2014) which concluded that due to poor financial systems and procedures NGOs were less likely to be sustainable. This implies that it is better for to have well documented CBOs financial systems and procedures in order to enhance financial sustainability.

The study sought to establish to what extent auditing affects financial sustainability of CBOs. Findings show that a total of 60% of the respondents positively rated the statement. The number of respondents who little extent was 25% while 15% moderately rated the statement. These findings support the findings by Waiganjo (2015) that auditing played a big role in controlling finances of CBOs. This implies that good controls demand that an organization should be subjected to an audit at least once a year hence auditing affects financial sustainability.

Multiple Regression Analysis Results.

The research used multiple linear regression analysis to determine the linear statistical relationship between financial management capacities and financial sustainability.

Effect of Financial Management Capacities on Financial Sustainability of CBOs.

The objective of the study was to assess the effect of financial management capacities on financial sustainability of CBOs in Turkana. The regression model $Y_1 = \beta_0 + \beta_1 X_1 + e$ was fitted to the data and the model was found to be significant to be significant.

From Table 4.4 shows the degree of the value of coefficient of correlation (R) was 0.672 and coefficient of determination (R^2) was 0.452. The R value showed that there was a positive linear relationship between financial management capacities and financial sustainability of CBOs. R^2 value indicated that the explanatory power of the independent variable was 0.452. This means that 45.2% of the variation in financial sustainability was

explained by the model $Y_{it} = \beta_{0+} + \beta_1 X_1 + e$. The adjusted R^2 is a modified version of R^2 that has been adjusted for the number of predictors in the model by less chance. The adjusted R^2 of 0.438 which is slightly lower than R^2 is an exact indicator of the relationship between the independent and

dependent variables because it is sensitive to the addition of irrelevant variables. However, the typical error when the model is used to predict financial sustainability is 0.02792.

Table 4.4: Multiple Regression Model Summary for Financial Management Capacities

R	R Squared	Adjusted R Squared	Std. Error of the Estimate
.672 ^a	.452	.438	.02792

Dependent Variable: Financial Sustainability

Table 4.5: Financial Management Capacities ANOVA Results

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	.024	1	.024	31.356	.000 ^a
Residual	.030	38	.001		
Total	.054	39			

Dependent Variable: Financial Sustainability

Table 4.5 provided the results of analysis of variance (ANOVA) The F test provides an overall test of significance of the fitted regression model. The F value indicated that all variables in the equation are important hence the overall regression is relevant. An F statistics produced the value of 31.356 indicated that the dependent variable was statistically significant ($F=31.356$; $p < 0.05$). The reported p value was less than 0.05 implying that the coefficient in the equation fitted was equal to zero implying a good fit and therefore considering the simple regression fitted, financial management capacities had an effect on financial sustainability. The results of the coefficients to the OLS model $Y = 0.995 + 0.017X_1$ estimates both were significant at

0.05 level of significance as shown on Table 4.6. The constant term implied that at zero financial management capacities, the financial sustainability of CBOs is at 0.995 units. The coefficient 0.017 implies that improvement in financial management capacities by one unit increases financial sustainability by 0.017 units.

Therefore regression equation model for financial management capacities was as follows:

OLS Model:

$$\text{Financial Sustainability} = 0.995 + 0.017 \text{ Financial Management Capacities} \dots \dots \dots (4.1)$$

Table 4.6: Regression Analysis for Financial Management Capacities and Financial Sustainability

	Unstandardized Coefficients		Standardized	t	Sig.
	B	Std. Error	Beta		
(Constant)	.995	.007		143.580	.000
Financial Management Capacities	.017	.003	.672	5.600	.000

Dependent Variable: Financial Sustainability

Hypothesis Testing of Financial Management Capacities and Financial Sustainability

The null hypothesis stated that financial management capacities has no significant effect on financial sustainability of CBOs in Turkana County, Kenya. The results showed that financial management capacities has a positive and significant effect on the financial sustainability of CBOs ($\beta=0.017$, $p < 0.05$). The null hypothesis H_{01} was rejected suggesting that financial management capacities had a significant effect on financial sustainability of CBOs. These findings are in agreement with the finding of Allen et al., (2008)

which supports Resource-Based View Theory hence it implies that RBV is relevant in explaining financial management capacities in relation to financial sustainability of CBOs. The findings further are in agreement with the findings of Leon (2011) which postulates that a sound financial management capacities supports financial sustainability of NGOs. Further the results agree with the findings of Yang (2010), Diamond et al., (2006), Kwame (2007), The Asian Pacific Entrepreneurship Development Institute (2014) and Waingajo (2015) which postulated that financial management capacities indicators have a positive

and significant effect on financial sustainability (performance) of organization.

5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary of the Findings

Financial Management Capacities

The first objective of the study was to assess the effect of financial management capacities on financial sustainability of CBOs in Turkana County, Kenya. From the results, it was established that CBOs had instituted financial management capacities in their operations. It was agreed that sound financial management capacities increases financial sustainability of CBOs hence reduction in donor dependency.

Conclusion

The objective of the study was to assess the effect of financial management capacities on financial sustainability of CBOs in Turkana County, Kenya. The results showed that financial management capacities had a positive and statistically significant effect on financial sustainability of CBOs in Turkana County, Kenya. From the foregoing it can be concluded that financial management capacities leads to a positive improvement in financial sustainability of CBOs in Turkana County, Kenya.

Recommendations of the Study

Practice and Policy Recommendations

This study provides insights on the relationship between financial management capacities and

financial sustainability of CBOs in Turkana County, Kenya. Based on the results, findings and conclusions the following policy and practice recommendations have been deciphered:

The, CBOs should put in place appropriate financial management capacities mechanisms such as financial planning and budgeting, accounting in accordance to International Financial Reporting Standards, prudent banking and cash management systems, documented financial systems and procedures and annual external auditing. Further, CBOs should computerize financial systems to ensure accuracy and reliability of financial information, periodical amendment of policy documents and conduct frequent trainings on its staff on financial management capacities issues.

Theoretical Recommendations

The study found out that financial management capacities positively impact financial sustainability of CBOs in Turkana County, Kenya. Therefore, the study uphold the preposition of the Resource Based View Theory that the organizational effectiveness depends on the utilization and exploitation of its existing resources which results to enjoyment of superior performance.

Recommendations for Further Research

From the findings the recommends that future researchers should consider carrying out a similar study in a different sector or sectors to assess any variations in responses. It would be worthwhile establishing the extent to which the findings of this study are generalizable to other industries, sectors or settings.

REFERENCES

- Abdelkarim, N. (2002). The Long-Term Financial Sustainability of the Palestinian NGO Sector: An Assessment Study Commissioned by the Welfare Association Consortium.
- Aguinis, H., & Gottfredson, R. (2010). Best-practice recommendations for estimating interaction effects using moderated multiple regression. *Journal of organizational Behaviour*, 31, 776-786.
- Barney, J. B. (1995). Looking Inside for Competitive Advantage. *The Academy of Management Executive Journal*, 9(4), 49-61.
- Bell, J., Masaoka, J., & Zimmerman, S. (2010). Nonprofit sustainability: Making strategic decisions for financial viability. West Sussex: John Wiley & Sons.
- Bowman, W. (2011). *Finance Fundamentals for Non-profits, With Website: Building Capacity and Sustainability* (Vol. 2). John Wiley & Sons.
- Bridoux, F. (2004). *A resource-based approach to performance and competition: An overview of the connections between resources and competition*. Retrieved from http://www.uclouvain.be/cps/ucl/doc/iag/documents/WP_110_Bridoux.pdf
- Castillo, J.J. (2009). Population Sampling Techniques. Retrieved from *Experiment Resources*: <http://www.experimentresources.com/population-sampling.html>, retrieved on 17th March 2018.
- Cronbach, L. J., & Warrington, W. G. (1951). Time-Limit Tests: Estimating Their Reliability and Degree of Speeding. *Psychometrika Journal*, 16(2), 167-188.

- Fisher, R. (2002). Bridging Social Movement and Community Organization Activism: Rethinking Theoretical and Organizational Barriers. In *32nd Annual Meeting of the Urban Affairs Association*. Boston, Massachusetts.
- Fowler, A. (2000). *The Virtuous Spiral: A Guide to Sustainability for Non-Governmental Organisations in Development*. London/UK: Earthscan Publications Limited.
- Fruttero, A., & Gauri, V. (2005). The Strategic Choices of NGOs: Location Decisions in Rural Bangladesh. *Journal of Development Studies*, 41(5), 759-787.
- Hoopes, D. G., Madsen, T. L., & Walker, G. (2003). Guest Editors' Introduction to the Special Issue: Why Is There a Resource-Based View? Toward a Theory of Competitive Heterogeneity. *Strategic Management Journal*, 24(10), 889-902.
- Kay, J. (2000). Strategy and the delusion of grand designs. *Mastering strategy: the complete MBA Companion in Strategy*, 5-10.
- Kothari, C. R (2004). *Research Methodology: Methods and Techniques (2nd ed.)*. New Delhi, India: New Age International (P) Publishers Limited.
- Krivogorsky, V., & Dick, W. (2011). New Corporate Governance Rules and Practices. Law, Corporate Governance and Accounting. *European Perspective* (pp. 33-87).
- Lekorwe, M., & Mpabanga, D. (2007). Managing Non-Governmental Organizations in Botswana. *The Public Sector Innovation Journal*, 12(3), 1-18.
- Lewis D. 2005. *The Management of Non-Governmental Development Organizations an Introduction*. New York: Routledge Publishers.
- Lewis T. 2011. *Financial Sustainability Essentials Course Hand Book: Management Accounting for Non-Governmental Organization (MANGO)*. New York: Oxford Press
- Mango. (2017). Helping NGOs do more with their money. Retrieved from <http://www.mango.org.uk/guide/financialsustainability>
- Mawudor, B. G. (2016). Financial sustainability of church related organizations: an empirical study on Kenya. Retrieved from <http://www.globetics.net/publications/SBN978-88931-081-4.html>.
- Moore, D. (2005). Laws and other Mechanisms for promoting NGO financial Sustainability. *The International Journal of Not-for-Profit Law*, 7(3).
- Mugenda, A. G. (2008). *Social Sciences Research: Theory and Principles*. Nairobi, Kenya: Applied Research and Training Services.
- Pathfinder International (1994). *Fundamentals of NGO Financial Sustainability*. Watertown: Pathfinder International Publishers.
- Penrose, E. T. (2009). *The Theory of the Growth of the Firm*. Oxford university press.
- Polit, D., & Beck, C. (2003). *Research Principles & Methods*, (7 th Ed). Lippincott: Williams & Wilkins.
- Rabianski, J. S. (2003). Primary and Secondary Data: Concepts, Concerns, Errors, and Issues. *Appraisal Journal*, 71(1), 43-43.
- Rihan, I. (2014). Resource-based view, definition and criticism. Retrieved from: <http://www.academia.edu/attachment/34286460/download.file?st=MTQ3NzQ5NTEyMiwxOTY>. Accessed on 10th December 2017.
- Saunders, M., Lewis, P., & Thornhill, A. (2012). *Research Methods for Business Students* (6Ed.) Harlow: Pearson Education Limited.
- Speer, P.W. & Perkins, D.D. (2002). *Community-Based Organizations, Agencies and Groups*. Retrieved January 27 2018 from <http://www.answers.com/topic/community-based-organizations-agencies-and-groups>.
- Sreevidya, U., & Sunitha, K. (2011). *Business Research Methods*. Retrieved from http://www.universityofcalicut.info/SDE/business_research_methods.pdf.
- Strine Jr, L. E. (2010). One Fundamental Corporate Governance Question We Face: Can Corporations Be Managed for the Long Term Unless Their Powerful Electorates Also Act and Think Long Term? *The Business Lawyer*, 1-26.
- United States Agency for International Development (USAID). (2010). *NGO Sustainability Index for Sub-Saharan Africa*. Washington: USAID.
- Waiganjo, E. W., Mukulu, E., & Kahiri, J. (2012). Relationship between Strategic Human Resource Management and Firm Performance of Kenya's Corporate Organizations. *International Journal of Humanities and Social Science*, 2(10), 62-70.
- World Bank. (2013). *The World Bank-Civil Society Relations*: Annual report 2013. Washington, DC: World Bank. Retrieved from: <http://www.worldbank.org>.
- Yang, Q. (2010). *The Impact of the Budgeting Process on Financial Performance of Small and Medium-Sized Firms in China*. Unpublished PhD Dissertation, Netherlands: University of Twente.

