

**Gordon Institute  
of Business Science**  
University of Pretoria

**Exploring the funding challenges  
and financial sustainability trends of  
selected non-profit organisations in South Africa**

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A research project submitted to the Gordon Institute of Business Science, University of Pretoria, in partial fulfilment of the requirements for the degree of Master of Business Administration.

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## Abstract

Non-profit organisations are constantly concerned about their ability to continue implementing their programmes in a sustainable manner. This is so their work in addressing socioeconomic challenges can continue to benefit the vulnerable members of society. Their interventions require sustainable donor funding from, which they often have no control over, and organisations can find themselves financially vulnerable, so that the sustainability of their organisations is at risk.

This research aims to understand the factors that affect and influence the financial sustainability of non-profit organisations. It explores the approaches that NPOs have pursued in order to become financially sustainable. Recognising financial sustainability as one of the key contributors towards organisational sustainability, the report covers the role of governance structures in enabling organisations to be financially sustainable.

Senior managers from ten non-profit organisations operating in South Africa were interviewed. Qualitative research methods were applied to conduct data collection and analyse the interview responses, using an empirical interpretivist philosophy. The researcher used Atlas.ti software to analyse and develop findings.

The results indicated that non-profit organisations prefer to have a combination of long term donor funding, a capacity to develop income generating sources, and a good reputation that allows them to attract collaboration partners in order to deliver on their missions. The results also showed that there is a need to develop strong governance structures that enable the organisations to recruit resourceful board members that can provide an oversight on organisational strategy and control, participate in their fundraising efforts, and enable the organisation to invest in ideas for income generation by increasing the risk appetite of the organisation.

A preliminary framework is presented that can be used by organisations to design financial sustainability strategies. The research concludes by proposing recommendations for non-profit organisations, academic literature and management of non-profit organisations, as well as recommendations for future research.

## Keywords

financial sustainability

donor relations

non-profit organisations

funding challenges

corporate governance

## Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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Mmabatho Maboya

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Date:

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# Chapter 1: Introduction

## 1.1 Introduction

Non-profit organisations (NPOs) are often seminal in addressing the challenging social issues that plague society. Their positive impact with respect to dealing with such challenges has been recognised in the social development sector (Ilhan, 2013). For example, international aid organisations operating in developing countries prefer to support NPOs rather than for-profit organisations, partly due to their less bureaucratic processes and their flexibility in entering into contracts, and also because they are likely to be less partisan (AbouAssi, 2013; Hershey, 2013; Ilhan, 2013).

However, NPOs are often financially vulnerable, especially when they are funded by independent donors or with grants from civic groups such as churches, universities or private companies. Many NPOs find it hard to survive in the absence of donor funding as they are primarily operating not for profit and are seldom in a position to generate their own funds or have capital to draw on in times of crisis (AbouAssi, 2013). Being an NPO that is dependent on donor funding therefore inhibits their ability to be financially sustainable (Stecker, 2014; de Andrés-Alonso, Garcia-Rodriguez & Romero-Merino, 2015) and renders them vulnerable to changing donor commitments (AbouAssi, 2013). It can therefore be posited that NPOs need to move into a position of financial capability and sustainability in order to continue their important work (Carroll & Stater, 2009; Stecker, 2014; AbouAssi, 2015). Reith (2010), and McKay, Mbanda and Lawton (2015) go further, maintaining that donors often impose funding conditions based on their own development plans, so that NPOs find themselves committed to the a donor's agenda, regardless of whether that is what local people need or want (Wallace, 2004). Achieving financial sustainability by reducing dependence on donors and developing multiple income streams is therefore an important coping mechanism that NPOs must develop in order to become resilient, independent and enduring.

For purposes of this study, South African non-profit organisations are defined according to the Non-Profit Organisation Act No 71 of 1997. This act defines NPOs as organisations established for the public benefit and “the income and property are not distributable to its members or office bearers except as reasonable compensation for services rendered” (Republic of South Africa 1997, p.2). Their defining feature is therefore that their purpose

is not to make profit for shareholders (Department of Social Development, 2009; 2011). This understanding of NPOs is further supported by the regulations in the Income Tax Act No 58 of 1962 Section 30, which pertains to public benefit organisations (PBO) in which NPOs generate taxable income. This implies that any profits that NPOs generate must be reinvested to further their mission (Department of Social Development, 2009).

## 1.2 Research Motivation

According to the John Hopkins Comparative Non-Profit Sector Report of 2013, the non-profit sector is a significant provider of employment opportunities and contributor to the gross domestic product (GDP). Non-profits contributed, on average, 4.5 percent of the GDP in the fifteen countries that the John Hopkins Sector Report covered. Their workforce (including volunteers) makes up, on average, 7.4% of the total workforce of the countries where they operate (Salamon, Sokolowski, Megan, & Tice, 2013). This places the NPO sector ahead of other sectors, for example, finance or transport. In addition to this strong economic footprint, the NPO contributes to economies by aiding social transformation and assisting in reducing inequality. Thus, the work of NPOs is extremely important, especially where state-led development is weak (Reith, 2010).

However, these organisations remain financially vulnerable as they are usually dependent on donor funding for survival (Hershey, 2013). This situation has worsened over time as the availability of donor funding has dwindled. In addition, many NPOs have been forced to change their focus to match the intentions of their donors, regardless of the value of making such changes (Reith, 2010). In the light of this, some NPOs have developed alternative strategies to boost their revenues (Yang, Lee, & Chang, 2011). To that end, NPOs have become more professionalised and are pursuing active fundraising so that they can be more financially stable and independent of both governments and donors (Haltofová & Štěpánková, 2014).

Yang et al. (2011) note the growth in commercialisation strategies by non-profit organisations; they also report that in 2002 non-profit organisations based in the United States (US) had a funding model split of 54% commercial activities, 36% government subsidies and 10% from public donations. This approach has resulted in a growth in venture philanthropy in the global NPO space: this is aimed at establishing socially philanthropic organisations that are immune from donor funding dependence. Furthermore Mayer, Wang, Egginton and Flint (2014) argue that revenue diversification

is an important factor influencing the revenue stability of organisations, especially during tough economic times when there is increased competition for donor funding. However, many non-profit organisations in developing countries have not been able to overcome their dependence on funders for financial support (Akintola, Gwelo, Labonté, & Appadu, 2016).

Akintola et al. (2016) noted that the response of South African non-profit organisations to the global economic recession since 2008 was survivalist in nature, as sustainability and operational effectiveness were negatively impacted. Many organisations responded by restructuring, rationing services to beneficiaries and reducing incentives to staff, while others simply closed down. Among those that have survived, it is imperative to create revenue diversification, even though it can lead to an increased exposure to market risks and requires a good balance between internal and external organisational resources (Gras & Mendoza-Abarca, 2014).

Pursuing market-based opportunities reduces reliance on traditional sources of income and can also enable an NPO to further its agenda in a more independent manner than is possible when donors dictate terms (Grasse, Whaley, & Ihrke, 2015). Furthermore, Gras and Mendoza-Abarca (2014) and Aschari-Lincoln and Jäger (2015) argue that successful non-profits are those which diversify their income sources and have a comprehensive management approach that focuses on both revenue sources and their social mission. This is because NPOs often use a market-based approach when they are trying to manage their dependency on donors.

There is an emerging body of academic literature which aims to unpack the main factors affecting financial sustainability in non-profit organisations. This study therefore seeks to establish the drivers behind the switch to social entrepreneurship to achieve financial sustainability outside of the sole donor funding model, with particular emphasis on how this has interacted with and been informed by the entrepreneurial worldview and good governance principles.

### **1.3 Research Problem**

The objective of this study, therefore, was to explore and develop an understanding of how various NPOs in South Africa have sourced alternative funding mechanisms, developing a sustainable financial footing and adopting a more social entrepreneurship

approach. From a theoretical perspective, the study draws upon resource dependency theory within the content of governance in non-profit organisations and their financial sustainability (Froelich, 1999; Pfeffer & Salancik, 2003) as one of the theoretical basis for addressing issues of resources, notwithstanding the contributions of stewardship and stakeholder theory.

#### **1.4 Research Objectives**

The objective of this research project was to explore and gain an understanding of how South African NPOs manage financial sustainability issues, in order to meet the following sub-objectives:

- Establishing the impact of sole reliance on donor funding on the mission and activities of selected NPOs
- Determining the extent to which alternative revenue streams by the selected NPOs under study have been cultivated
- Determining the impact of diversifying and developing alternative revenue streams in assisting the NPOs under study to be financially sustainable
- Drawing up a description of the kind of leadership required within the NPO context to successfully implement alternative revenue streams and achieve financial capacity and sustainability.

#### **1.5 Research Scope**

This study sought to explore how various NPOs operating in South Africa attained financial sustainability. However, the entire spectrum of NPOs was not covered due to time and financial constraints. The researcher therefore selected specific organisations with the purpose of achieving a balanced sample over a range of sectors (such as education, environment and social areas and organisational types (large and small; national and international, well-established and emerging)). In addition, the study was limited to NPOs of more than five years old.

## Chapter 2: Literature Review

### 2.1 Introduction

Non-profit organisations emerge when governments are unable or unwilling to resolve chronic social issues, or are slow to do so, such as quality and access to education, health care and welfare, poverty alleviation and human rights issues (Hershey, 2013; Lu, 2015). However, as Warshawsky (2016) commented, NPOs cannot, alone, fulfil all of society's needs and must be supported by governments and private sector donors. Consequently, NPOs have usually relied on donor funding, but have often had to deal with donors that imposed specific (and sometimes onerous) funding conditions on them. This gave rise to 'donor control', whereby the activities of the NPO were tailored to meet the needs of the donor and so, over time, the NPO became dependent on the donor, not just for money, but for a *raison d'être* (Reith, 2010).

At the same time, donors often revised their funding objectives independently of the NPOs and a mismatch in objectives between the donor and the NPO might have led to the donor exiting the relationship, which could have had catastrophic financial consequences for the NPO (AbouAssi, 2013). It could also have happened that donors, negatively affected by the prevailing economic environment, withdrew their funding. In such cases, drastic changes resulted in the NPO funding landscape (Unerman & O'Dwyer, 2010; Mayer, Wang, Egginton, & Flint, 2012; Stecker, 2014; De Andrés-Alonso et al., 2015 and Aschari-Lincoln & Jäger, 2016). NPOs that continued to rely solely on donor funding found themselves in a difficult position post-2008, when donors were unable to continue a 'business as usual' funding approach (Chikoto & Neely, 2014).

NPOs therefore needed to review their financial resourcing models and focus on revenue diversification (Chikoto & Neely, 2014; Stecker, 2014). Some NPOs reacted by developing strategies to create or increase alternative revenue streams so as to bolster their financial sustainability and long-term survival (Yang et al., 2011). Thus, NPOs increased their commercial activities as a portion of their funding strategies (Kerlin & Pollak, 2011). However, Child (2010) and Kerlin and Pollak (2011) indicated that the increase in commercial activities did not reduce the need for government contributions. A strong organisation, well-rooted in the community and tailored to addressing social needs, was originally regarded as the main mechanism by which NPOs could sustain

themselves. However, this was found to be inadequate, and NPOs came to the realisation that they can only fulfil their mandates if they had long-term financial sustainability (Bowman, 2011; Mayer et al., 2014).

Thus, NPOs had to develop attractive value propositions in order to find space to successfully participate in the new funding environment. In particular, a new approach of multi-stakeholder initiatives to meet sustainable development goals required NPOs to develop the capabilities to engage and operate in multi-partner relationships. This included choosing their partners well, and as a result, NPOs needed to adapt to a more collaborative approach to sustain their missions and organisations (Fowler, 2016).

## **2.2 The Evolving Non-profit Funding Landscape**

Internationally, the non-profit funding landscape has evolved significantly since the end of the Cold War in 1989, as non-profits became a preferred channel for aid and social welfare (Banks & Hulme, 2012; Hershey, 2013). Funding for NPOs from formal international bodies such as the World Bank and the European Union has increased significantly, from 0.7% in 1975 to 5% in 1995 (Hershey, 2013). In addition, NPOs came to be viewed as a key conduit for developing and strengthening democracy and good governance (Habib, 2005; Banks & Hulme, 2012; Hershey, 2013). However, their social development roles were viewed as over-arching and paramount compared to their political roles, so NPOs only participated in political reforms when the outcomes were obviously linked to their social agendas (Banks & Hulme, 2012).

Development aid from the United States of America (USA), European Union (EU), World Bank and International Monetary Fund (IMF) was allocated to governments through a market-based approach and usually came with conditions that involved the restructuring of economies and the development of democratic institutions. The donor funding landscape supporting non-profit organisations took a directional shift and began to focus more on poverty alleviation than on the broader empowerment agenda, a shift that strongly influenced the development agenda of NPOs (Banks & Hulme, 2012). The World Bank and IMF, for example, elevated the roles of non-profits to those of mainstream partners, as NPOs were viewed as more efficient, flexible and reliable than government-run services (Hershey, 2013). In some ways, this distanced NPOs from their roots, sometimes risking their legitimacy at the local level, where they began to be viewed in the same light as governments, which were often seen to be failing to deliver adequate

services (Banks & Hulme, 2012). In addition, financial resources for development have shifted as the global financial base for aid moved towards individual philanthropists who operated mainly outside the norms of development aid processes. It became increasingly necessary for local NPOs to review their main sources of funding in the face of donors' behavioural changes, especially because philanthropists preferred not to engage with intermediaries, but to fund local causes directly. This called for a change in donor relations strategies (Fowler, 2016).

According to Aschari-Lincoln and Jäger (2016), changes in the funding landscape generated a demand for NPOs to be more financially transparent and to practise good governance. Potential funders now demanded access to the NPOs financial data to justify decision-making and to ensure that legitimacy was maintained through rigorous reporting regimes. Consequently, NPOs that claimed to be well-run and to meet their mandates found themselves having to adhere to onerous reporting regimes in order to remain legitimate and credible in the eyes of the donor community (Banks & Hulme, 2012). This led to non-profits being increasingly obliged to serve their donors' mandates (Hershey, 2013). However, due to a lack of capacity, many NGOs adopted a survivalist approach: in order to adhere to the required reporting regimes, some even misrepresented financial information to appease the donors (Banks & Hulme, 2012).

Furthermore, international donors still preferred to fund international NPOs directly. This was partly due to donors' lack of capacity to distribute smaller amounts, and also because of domestic pressures to fund 'home-based' organisations. In addition, donors developed inflexible perceptions about smaller local NPOs, citing issues such as their inability to comply with their complex application and reporting processes.

Consequently, smaller local NPOs suffered funding losses, although some donors did understand that, through local partnerships, the resources they provided could reach many remote organisations (Fowler, 2016).

### **2.2.1 Non-profit Funding Landscape in South Africa**

International donor funding flooded into South Africa in the 1980s, leading to an expansion of the non-profit sector which continued into the 1990s. The motives for this were mainly to support the anti-apartheid movement and subsequently to support South Africa's emerging democracy (Habib & Taylor, 1999; Habib, 2005; Leonard, 2014;

Akintola, Gwelo, Labonté, & Appadu, 2016). The pre-1994 government was lagging behind in providing social services to the marginalised society, who were the black majority and the poor (Habib & Taylor, 1999; Habib, 2005).

After 1994, NPOs were lauded as partners of the new government, working towards delivering on the developmental promises that were regarded as the benefits of democracy (Habib, 2005; Van Pletzen, Zulliger, Moshabela, & Schneider, 2014). In 1996, the newly-elected democratic government established the Transitional National Development Trust (Habib & Taylor, 1999; Government of South Africa, 2009). The argument was that non-profit funding had to be channelled to the RDP programme and subsequently redistributed to different social causes, an arrangement that was consolidated through the Non-Profit Organisations Act No. 71 of 1997 (Husy & Taback, 2005; Government of South Africa, 2009; Van Pletzen et al., 2014).

The new policy required NPOs to register themselves in a national database and submit their annual financial reports in the interests of promoting accountability. International donors also shifted their focus towards government-to-government funding through bilateral agreements instead of funding NPOs directly (Julie, 2010). During this period, many NPOs collapsed and the ones that remained formed networks and coalitions to support one another in navigating the changing landscape. In addition, there was a shift towards financial sustainability through income-generating programmes: the concept of NPOs as purely non-profit was changing (Julie, 2010).

Habib (2005) and Julie (2010) argued that post-apartheid NPOs were formed to alleviate poverty and social challenges such as unemployment, poverty and HIV/AIDS, which were a result of the state's failed macroeconomic policies. In South Africa, Habib (2005) alluded to the fact that more formal non-profits, rather than the survivalist ones, started to emerge. They were supported by middle-class activists who mobilised the poor politically in order to challenge government's political agenda. These were mainly new leaders who came from the corporate sector and state institutions; many of them had previously moved to government and the private sector (Julie, 2010). Leonard (2014), however, argued that the persistent inequality and marginalisation of the poor in post-democratic South Africa has fuelled the formation of manufactured NPOs, which mushroomed as a result of the new availability of external funding.

Equally, legitimate NPOs managed to challenge government on service-delivery issues and on the boundaries of political power (Leonard, 2014), even though these



organisations did not manage to include their grassroots counterparts as active participants in their struggles (Van Pletzen et al., 2014). Legitimacy issues also surfaced from the donor and beneficiary communities, including questions about whether the NPOs that received funding actually offered the poor a voice to hold them accountable (Akintola et al., 2016). Leonard (2014) felt that, ideally, NPOs should be sustainable over a long period of time, and be independent so that their programmes could have a maximum effect on their beneficiaries.

As in many developing countries, South African NPOs that depended heavily on donor funding for financial support were significantly affected by the global economic recession of 2008 onward (Akintola et al., 2016; Leonard, 2014; Van Pletzen et al., 2014). Donor funding and development aid declined sharply in 2009 and remained low. Organisations had to restructure, ration services, reduce staff and some even closed down (Akintola et al., 2016). The response of NPOs to these sudden changes in the economy had a huge impact on the sustainability and operations of the NPOs, which were exacerbated by an already stretched funding landscape (Leonard, 2014). In addition, there was a shift towards the corporatisation of NPOs.

Recently, the main concern has been the financial sustainability of NPOs beyond mission sustainability, and the adoption of an approach more akin to private-sector businesses, something not all the organisations in the NPO sector have been ready to deal with (Julie, 2010). Thus, the challenges of financial sustainability have impacted on the leadership of NPOs. This has meant that the sustainability of NPOs has required a good balance and organisational attributes such as credibility, legitimacy, regulatory and political space, as well as resource mobilisation (Hayman, 2016).

Fowler (2016) outlines further limitations to funding that NPOs need to consider. These include:

- (1) The quality of development finance: the growing challenges have caused donors to redefine what aid is about, and for whom, as well as the geopolitical application of resources;
- (2) Adequate finance for development: the shift in importance between financing for climate change or the eradication of extreme poverty has started to become a reality, with the latter becoming secondary on the radar; and
- (3) The role of the internet and other technologies in development aid have prompted speculation about what digital aid will mean for the accountability systems, as well as its effect on access to information for competitiveness.

## 2.3 Non-profits and Financial Sustainability

Hailey and Salway (2016) explained that sustainable NPOs were those organisations that were able to adapt to a changing external environment by responding strategically and effectively, adjusting and revising their missions accordingly. They were able to mobilise and access new resources and adapt to meet new challenges.

There was an intentional shift towards self-financing by non-profits in order to be more self-reliant (Gras & Mendoza-Abarca, 2014; Stecker, 2014). These approaches included commercialisation strategies, although some now question whether making money erodes the selflessness character of non-profits (Julie, 2010; Yang et al., 2011). Grimes (2010) argued that having a financial mission compromised the social mission. Aschari-Lincoln and Jäger (2016) further asserted that the geographical location and operations of a non-profit organisation, as well as the location of its beneficiaries, had an impact on the availability of diversified revenue sources. Also, the likelihood of organisations that operated in developing countries succeeding in income-generating approaches was far less than for those operating in developed countries (Aschari-Lincoln & Jäger, 2016). Some localities were more attractive to donor funding, regardless of the level of need (Leonard, 2014). Equally, NPOs had a holistic responsibility towards their stakeholders, who included both funders and beneficiaries (Mayer et al., 2014; Gras & Mendoza-Abarca, 2014). It was a responsibility that could enable NPOs that worked in development to be more effective and to remain true to their objectives, so that they could apply flexibility in their approaches to local circumstances (Unerman & O'Dwyer, 2010).

Many NPOs in developing countries have struggled to survive financially and have also lacked the capacity to understand the evolving funding environment. They have had to respond to shortages of funding by dramatically downscaling, cancelling projects and retrenching staff. These moves resulted in reputational damages and the closure of some organisations (Hailey & Salway, 2016). An NPO's ability to remain sustainable depended on a positive reputation and public profile, dynamic organisational systems, processes that attracted resources and the ability to retain good relations with donors. It was also important to have the internal capacity to learn and evolve (Hailey & Salway, 2016). Thus, a misalignment between what the donors wanted and what the NPO was doing, in the context of a highly dependent non-profit sector, could result in financial vulnerability

of the organisation. De Andrés-Alonso et al. (2015) described financial vulnerability by observing the accounting ratios that explained the return from net assets, the costs of operating the organisation as well as the sources of income. The combination of these ratios was then assessed and a non-profit falling in the lowest section was regarded as being financially vulnerable. A financially vulnerable NPO was highly likely to cut back on its programmes and services as soon as it experienced financial difficulty (Bowman, 2011; De Andrés-Alonso et al., 2015; Grasse et al., 2015).

Carroll and Stater (2009); Bowman (2011), AbouAssi (2013; 2015) and Chikoto and Neely (2014) all asserted that high dependence on donor funding could make a non-profit systematically vulnerable if donor commitments changed faster than the organisation's capability to adjust to and cope with the changes. In addition, financially vulnerable organisations found that their leadership and administrative ability to adhere to reporting requirements, as well as their organisational size, was negatively impacted. Funders tended to extend their control to areas beyond the financial (Aschari-Lincoln & Jäger, 2016). However, self-financing was not the ultimate method of enabling non-profits to become self-reliant. For much of the time, self-financing fulfilled short-term organisational sustainability goals or immediate challenges (Yang et al., 2011). Consequently, sustainability remained the most significant issue for NPOs and the strategies that could be developed to generate alternative income and mobilise new and additional resources became central concerns of these organisations (Hailey & Salway, 2016).

## **2.4 Revenue Diversification in Non-profits**

Revenue diversification is a strategy for managing the pressure of external forces on an organisation (Grasse et al., 2015). Revenue diversification allowed NPOs to minimise the impact of changes in their various revenue sources, as well as the inherent risks in the operating localities (Chikoto & Neely, 2014; Aschari-Lincoln & Jäger, 2016). In addition, revenue diversification in non-profits was also viewed as a means of minimising revenue volatility. However, Gras and Mendoza-Abarca, (2014) and Grasse et al. (2015) argued that diversification could also result in exposure to external risks which could impact negatively on existing revenue sources or crowd out some of them. Therefore, the ideal resolution for ensuring the financial longevity of a non-profit could be an inclusive exploration of industry-specific variables and the socio-economic position of the organisation's beneficiaries (Gras & Mendoza-Abarca, 2014). This proposition implied

that the financial sustainability of a non-profit was greatly influenced by external factors which might not have seemed relevant to issues of sustainability and longevity (Carroll & Stater, 2009).

Further, an analysis by Grasse et al.(2015) of modern portfolio theory and non-profits showed that a blanket approach towards diversification could lead to internal inefficiencies. In particular, the belief that revenue diversification could minimise financial risk did not make it the sole element helping to avoid financial vulnerability (Bowman, 2011). Instead, non-profits had to consider revenue diversification as an element of successful revenue management and as part of their financial management strategies. They also continued to monitor closely other enabling attributes such as environmental forces and internal efficiency capabilities (Bowman, 2011; Grasse et al., 2015).

Stecker (2014, p. 349) commented that "...the current funding model of the non-profit sector needs to be disrupted in order to achieve greater levels of financial sustainability and mission drive success". This implied that as a viable disrupter of an approach towards diversification of revenue sources, social entrepreneurship was worth considering for financial sustainability, especially as more and more NPOs fell into survivalist mode due to shrinking donor funding as the economic downturn continued to affect the viability of funders (Carroll & Stater, 2009; Chikoto & Neely, 2014; Stecker, 2014). In the meantime, it became more sensible for local NPOs to establish sustained donations than to develop their own path towards self-reliance, because raising aid in the local context had become more difficult due to the economic environment in many poor countries (Fowler, 2016).

## **2.5 Resource Dependency Theory and Non-profits**

Money directly affected the nature of the relationship between the NPO and its donors, creating resource dependency (Reith, 2010). Donors have often placed funding conditions on their own development agendas and this has given rise to donor control of NPO activities. Therefore, organisations were unable to remain autonomous (Hillman, 2009). The extent of the constraint on an organisation also depended on the importance and concentration of the resources provided (Grasse et al., 2015).

The formulation of resource dependency theory is based on the work of Froelich (1999) and Pfeffer & Salancik (2003): they asserted that every organisation was in pursuit of

resources that would enable it to fulfil its mandate. These resource acquisitions required an understanding that environmental conditions of scarcity and uncertainty influenced the behaviour and availability of resources (Pfeffer & Salancik, 2003; Gras & Mendoza-Abarca, 2014). Most importantly, they required interaction with those that controlled the resources.

It was therefore important for organisations to manage their dependence on different resources. Froelich (1999) maintained that this tactic required decisions about the approach that an organisation adopted in order to manage its dependence on resources. These approaches were either to comply with the demands of the resource owner and provider, managing to avoid controlling demands by co-opting a working power basis, or avoiding over-dependence by having alternative sources to the organisation's resource requirements (Froelich, 1999; Pfeffer & Salancik, 2003). Hence, the decline in donor funding exerted pressure on NPOs to meet the demands of donors over their missions, in pursuit of survival (Reith, 2010).

Fowler (2016) alluded to the relationship between project sustainability and the long-term sustainability of an organisation. This aspect was attractive in explaining this theory, because the relationship between international NPOs and local NPOs could be distorted to explain what they were not. Ordinarily, a local NPO would receive project funding from their international partner. The international partner would have gained access to the resources through a competitive bidding process, on the basis of their ability to implement projects and organise partnerships. The local organisation would be dependent on the project to survive, and this involved paying attention to project sustainability at the expense of organisational sustainability. It therefore became vulnerable to unsustainability, as contributions towards operational overheads were minimal during this process (Fowler, 2016).

However, resource dependency theory is centred on an open system theory that brings forth the critical elements of understanding and acknowledges an organisation's operating environment, both internally and externally (Grasse et al., 2015), mainly because the theory provides an avenue or a possibility for an organisational change influenced by external forces (Pfeffer & Salancik, 2003). Furthermore, resource dependence has focused on the decision-making of organisations about the resources they need, the appointment of boards of directors, the selection of the financial management strategies and the pursuit and internal organisation of resources (Pfeffer & Salancik, 2003; Grasse et al., 2015). The nature of non-profits, in their over-dependence

on donors for funding, has revealed limitations in their capability to manage their resource dependence. Thus, they should start reviewing the applicability of their strategies to managing dependence on resources, such as revenue diversification, as an option.

As Pfeffer and Salancik (2003) explained, there are options for organisations to consider, namely:

- (1) adaptation and avoidance;
- (2) limiting the context of control;
- (3) establishing collective structures of inter-organisational action and
- (4) controlling interdependence through law and social sanction.

Any of these approaches could be expanded into understanding the motives for decisions concerning revenue diversification as a revenue-generating strategy for non-profits, enabling them to cope with an over-dependence on donor funding (Grasse et al., 2015).

Froelich (1999); Carroll and Stater (2009) and Grasse et al. (2015) demonstrated that many non-profits had a resource dependency challenge, and any concentration on one resource could be detrimental to their financial sustainability. This was because the financial stability of a non-profit was a direct contributor to the sustainability of the organisation's programmes, so revenue volatility negatively affected a non-profit organisation's ability to deal with uncertainties and with the long-term view of success in their programmes; a classic example of financial risk from resource dependency (Carroll & Stater, 2009).

## **2.6 Governance and non-profit organisations**

NPOs are diverse organisations and their governance framework can be complex due to their social embeddedness in dynamic environments, which makes it difficult to define characteristics of a well-functioning good governance system and board (De Andrés-Alonso, Azofra-Palenzuela, & Romero-Merino, 2010; Steen-Johnsen, Eynaud, & Wijkström, 2011). In the past, their governance was usually the concern of beneficiaries who looked for sustainability in the services that these organisations delivered, and this was often measured against the board members' experiences and characters (De Andrés-Alonso et al., 2010).

Research into non-profit governance has been focused mainly on the composition of the board, the relations between board efficiency and organisational efficiency, and the specific roles and responsibilities of board members (Chelliah, Boersma, & Klettner, 2015). It has motivated the understanding and unpacking of the board members' powers and functions in the interests of organisations, as well as what the organisations expected of the board (Dent, 2014). Thus, governance in non-profit organisations was explained as being intended to organise stakeholders as well as to regulate the delivery of the organisation's goals (Steen-Johnsen et al., 2011; Greller, 2015), while donors were mostly concerned with how their money was invested in social causes, and used the NPOs as implementing agents. Results were often measured against the donor's social license to operate. The NPOs that were established by families and individuals were more concerned about the reputation of the organisations, and this required the application of good governance principles (Greller, 2015).

Improved ease of governance reporting and management required key governance structures such as the board and its statutory committees, as well as the prescribed processes that guided the interactions of the board and the executive management. Elements of such structures were related to control, ownership, decision-making and resourcing (Steen-Johnsen et al., 2011), which were aligned to the board's responsibilities. These elements also required boards to be responsible for organisational strategy, providing oversight for the managing executives in their delivery of organisational goals and ensuring that there were adequate resources to operate (Chelliah et al., 2015). Byers, Anagnostopoulos and Brooke-Holmes (2015) also commented that control was not only a function of management, but of boards as well. The application of agency theory alone in governance approaches was therefore too narrow to provide adequate responses in terms of the resource base and capabilities of the organisation (De Andrés-Alonso et al., 2010) because organisations should have been able to navigate the delicate balance between stakeholders and the expectations of beneficiaries.

Governance principles were applied differently in for-profit and non-profit organisations and it was imperative to acknowledge the main differences between the two. Non-profit boards operated in the absence of shareholders, and where there were no registered members of the organisation the boards were accountable to no one. In contrast, for-profit organisations were accountable to their shareholders. Most NPO boards were therefore self-perpetuating, especially where there were term limits for directors (Dent,

2014). This core differentiator between for-profit and non-profit organisations was based on their cognitive dissonance concerning governance. Generally, for-profit organisations were concerned with the board monitoring management and tasked with delivering value for shareholders, as well as keeping the size of the board small and mostly independent. NPOs were concerned with the value add they received from their board members, and thus might have benefited more from a balanced diversity of board members, as it opened up for broader cognitive diversity (De Andrés-Alonso et al., 2010).

As a result, there was a renewed interest in civil society's internal and external governance and in how the mutual dependence of the constructs supported and contradicted each other. These had been driven by the growing call for improved transparency, in organisations in all sectors, globally (Greller, 2015; Steen-Johnsen et al., 2011). Thus NPOs have been faced with new, emergent challenges pertaining to governance. They have experienced a spike in the demand for tougher accountability processes as a result of questionable financial accountability that saw the collapse of many companies and the subsequent financial crisis (Steen-Johnsen et al., 2011).

Similarly, the differing levels of compensation for board members between the two types of organisations have resulted in different motivations for the board members. De Andrés-Alonso et al. (2010); Dent (2014) and Bernstein, Buse and Bilimoria (2016) elevated the argument on governance efficiency and organisational efficiencies by highlighting the advantages of cognitive diversity in a board, and the impact of the size of a board for both types of organisations. Non-profits boards that were more diverse and larger in size provided the advantage of diversity in supporting the processes of decision-making, while the for-profit organisations functioned better with a smaller board that was more homogeneous in approach.

Dent (2014) and Bernstein et al.(2016) further linked the motivation of board members to the compensation they earned and the messages they were given when they were recruited onto the boards (such as 'Work is menial, just pitch up for a meeting'), making non-profit boards sound trivial and as though they existed just for compliance, whereas for-profit organisations compensated their board members for their time in the organisation. The approach of non-profit organisations managed to create a false impression for potential board members, because the recruitment, as explained by Dent (2014), down-played the seriousness of the role and the need for clarity of expectations.



Furthermore, (Dent, 2014) suggested that it was the balance between director primacy and shareholder primacy in the governing approaches of the boards that drove the differences between the two types of organisations; in particular, the attitudes towards short-term and long-term goals and performance, which were different in shareholder-driven organisations to those in director-driven organisations.

### 2.6.1 An Alternative Basis for Governance

Chelliah et al., (2015) argued that contingency theory would be the most applicable in resolving the multi-theory perspectives that applied to non-profit governance. These included stakeholder theory, resource dependency theory and stewardship theory. The application of contingency theory to governance in the non-profit sector enabled an organisation to outline both internal and external contingencies that would influence the functioning of their governance systems. However, doing so required a similar approach to outlining the factors of resource dependency theories.

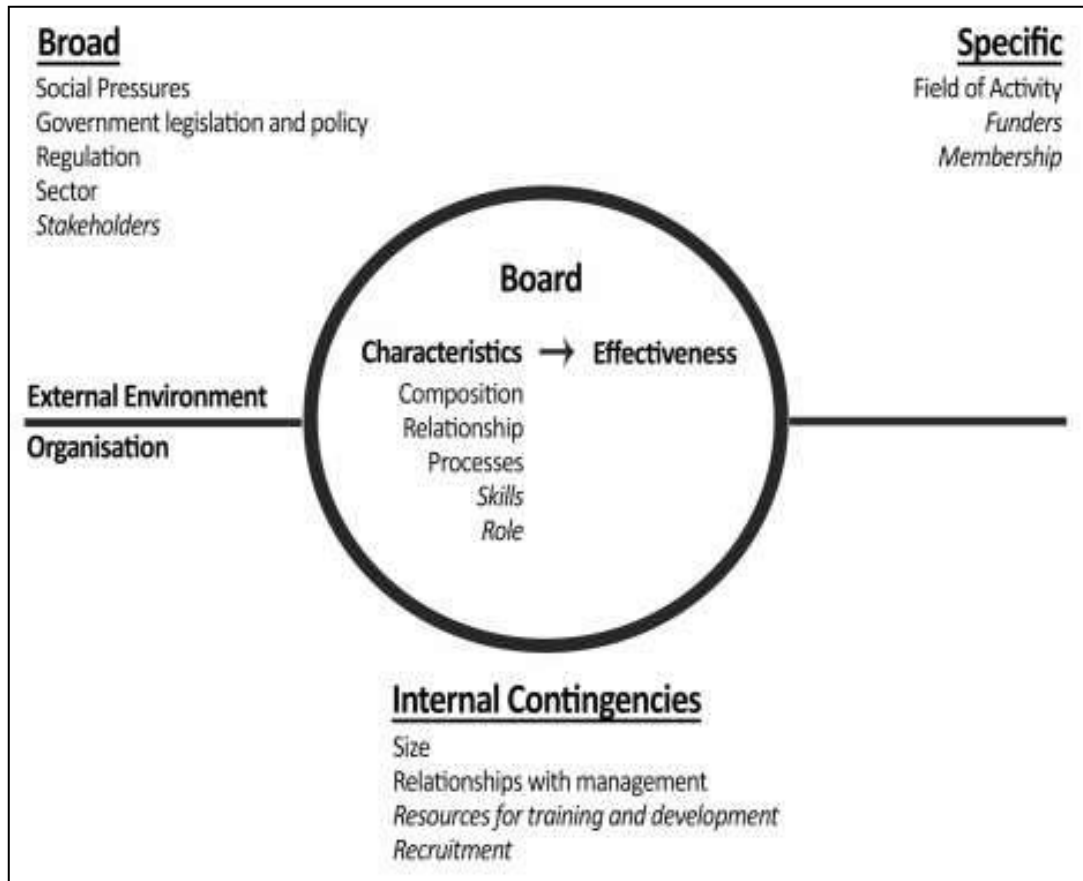
De Andrés-Alonso et al. (2010) found that increasing independent board members might have been detrimental to efficiency, especially because the role of non-profit boards went beyond monitoring and oversight. This suggested that non-independent board members might have offered more value to the board because they were within the organisation and were already compensated for their other internal roles. It was also clear that the degree of activity of a board in the affairs of an organisation could be more beneficial than when board member were completely independent and provided minimum participation in the organisation, as prescribed by the codes of good practice.

**Figure 1** below presents an outline of a contingency framework that could be applied by organisations to highlight the most common contingencies for organisational efficiency and sustainability.

De Andrés-Alonso et al. (2010) found that increasing independent board members might have been detrimental to efficiency, especially because the role of non-profit boards went beyond monitoring and oversight. This suggested that non-independent board members might have offered more value to the board because they were within the organisation and were already compensated for their other internal roles. It was also clear that the degree of activity of a board in the affairs of an organisation could be more beneficial

than when board member were completely independent and provided minimum participation in the organisation, as prescribed by the codes of good practice.

**Figure 1: Contingency Framework**



Source: Chelliah et al., (2015)

## 2.6.2 The King Code and South African NPOs

The King Committee published the King III Report in 2009 as an internationally recognised code of good governance which detailed the best practise standards for companies. It was intended to be applicable to all types of organisations that had governance as an element in conducting their affairs. However, as De Andrés-Alonso et al. (2010); Steen-Johnsen et al. (2011); Dent (2014); Byers et al. (2015) and Bernstein et al. (2016) highlighted, non-profit organisations were different from for-profit organisations, especially in their approach to corporate governance. Their cognitive dimensions on governance were mainly based on their aims as organisations, as well as on the people for whom they provided a service, while for-profit organisations operated on the basis of fulfilling shareholder' objectives for the organisation.

In consideration of the above differences, the King Committee developed a Practice Note for the King III application for NPOs in 2013. These guidelines took into consideration the regulatory environment of non-profits, as well as the intentions of the King III Report for corporate governance principles (Institute of Directors in Southern Africa, 2013). In addition, the new approach of implementing the code on a voluntary basis of ‘apply or explain’ provided the necessary flexibility for NPOs to implement King III. The key benefit for NPOs in implementing the codes was “Sound corporate governance builds reputation and trust so that an organisation is able to source funding and obtain suitable persons to serve on its governance body” (Institute of Directors in Southern Africa, 2013, p. 4).

In terms of the roles and responsibilities of the Board, referred to as governing bodies in the King III Report, they included the control of the assets of the organisation, so they were expected to act in good faith and exercise duty of care. Most importantly, the Report stated the following:

“Members of the governing body should understand their duties in order to avoid personal liability that may follow from breach thereof... Many members of governing bodies of non-profit organisations receive no or minimal remuneration in return for serving as such. Regardless of no or limited remuneration, breach of these duties could still result in accountability and personal liability” (Institute of Directors in Southern Africa, 2013: p. 6).

These duties included providing direction and oversight on strategy, performance, risk, sustainability and stakeholder relations. The King III Report further provided guidance in respect of the composition and appointment of board members. The recommendation was that the balance of powers in the board should be managed through appointing a majority of non-executive directors who were independent. Independence meant that the directors should be individuals who had not had any business dealings with the organisation which they planned to serve as non-executive directors for a period of three years (Institute of Directors in Southern Africa, 2013). Bernstein et al. (2016) also argued that increasing diversity of board members in terms of age, gender and ethnicity were an indication of important elements that contributed to organisational and board efficiency. Moreover, De Andrés-Alonso et al. (2010) concurred that the pattern and processes for decision-making, which was a primary role of the board and which involved an interplay of cognitive conflicts among a group of board members, added value to the organisation, as it could prevent fatal flaws that could arise from ‘group think’ which was a state in

which a group of individuals preferred the peaceful proceeding of decision-making to the confrontational route to decision-making, even if the process resulted in wrong decisions being made. Furthermore, the King Report recommended that the appointment of board members should follow a formal recruitment process similar to that of appointing executive employees. The board should elect a chairperson who should be independent, non-executive and act as a link between the board and the executive management team. De Andrés-Alonso et al. (2010) held the view that the role of board members was also to assist the executive management teams by proactively helping to generate opportunities and implement strategies.

Nevertheless, it was found that increasing independent board members could prove to be detrimental to the efficiency of the organisation, because the role of the non-profit board members often went beyond that of just controlling assets and monitoring (De Andrés-Alonso et al., 2010). Thus Dent (2014) suggested that a non-profit's board should not be charged with developing the NPO's strategy, as the members might not have been conversant with the requisite visionary information to the same extent as the executive management teams who were full time in the organisation. The board members often had inadequate information because it was provided by the executives, with their limitations, thus it was argued that independent board members should only provide oversight. It was also suggested that non-independent board members might offer more value to the board because they were within the organisation and were already compensated for other duties (De Andrés-Alonso et al., 2010). Unfortunately, this clearly contradicted the aims of the King III Report on the balance of powers in the board.

Non-profit organisations often experienced confusion concerning the role of the CEO, in particular where the CEO dominated and overstepped their boundaries in terms of responsibilities. This was because some non-profit CEOs would take over governance roles meant for the board, especially when they did not have confidence in the capabilities of their board members to effect proper governance principles in the organisation. This unfortunate approach was made possible because, most of the time, the CEOs prepared the agendas and reports submitted for the board meetings, whereas the expectation of the board members was to simply attend the meetings. This translated to the managers setting the tone and posture of the organisations and the boards ratifying the agendas by holding meetings (Dent, 2014). This could lead to governance challenges that might have been difficult for NPOs to overcome.

It is important to consider the arguments brought forth by Wyngaard and Hendricks (2010) in relation to the King III Report's application to non-profit organisations. In particular, they advanced the notion that the Report was highly skewed towards for-profit organisations, particularly in regard to the accountability of non-profits. As Robert Lloyd (cited in Wyngaard & Hendricks 2010 p.181) indicated, non-profits were "upwardly accountable to their donors (those who provide financial support); downwardly to their beneficiaries (those on whose behalf they speak), inwardly to themselves and horizontally to their peers".

The Independent Code of Governance for NPOs in South Africa was, therefore, drafted as a response to the anticipated implications of the new King Code III for the NPO sector in 2012. The NPOs saw the King Code III as a threat to their sustainability, as it called for new reporting and functioning systems in the non-profit organisations. The independent code was initiated so as to promote self-regulation in the non-profit sector. It was embedded in the values and principles of NPOs and it was also relevant to the realities of operating an NPO in South Africa. The code also provided recommendations of good practice to the sector through standard principles and values to be adhered to by signatories. The independent code did not have a legal standing in law, so adherence to it was voluntary (Rosenthal, 2012).

The objectives of the independent code were well intended and it aimed to advance the integrity and professionalism of the NPO sector. This was achieved by the provision of standards and guidelines in the code, which assisted organisations in managing and conducting their affairs (Rosenthal, 2012). An organisation had to voluntarily include the principles of the independent code in their board charter and ensure that individuals tasked with looking after governance in the organisation were conversant with the requirements of the code. This approach enabled organisations to overcome challenges that Dent (2014) indicated as director and shareholder primacy issues. The guidelines in the code pertain to the following areas (Rosenthal, 2012):

- (1) **Ensuring adherence to basic values:** This section outlined the eight basic values that organisations had to adhere to. These included fidelity to purpose, altruism and benevolence, Integrity, optimising resources, managing conflicts of interests and self-dealing, equality and non-discrimination, democracy and empowerment, as well as independence and impartiality.

- (2) **Ensuring good leadership in key areas:** These included vision, pursuit of values, accountability and transparency, fundraising, sustainability and risk, collaboration and synergy, optimal board and governance structures, and procedural governance.
- (3) **Ensuring good implementation and compliance in legal and fiscal matters:** These included, in particular, establishment and incorporation of the organisation, compliance with administration and legal procedures governing NPOs, as well as relevant legislative registration for NPOs and PBOs and the benefits they offered.

In 2016 the King Committee sought to update King III and published a draft King IV Report for public comment. The draft document proposed a number of improvements to the current reporting system and proposed the role of governing bodies (boards) be clarified and made more distinguishable from the role of the executive management. The updates were also supported by more practical guiding principles which would serve as focal points for governing bodies as custodians of corporate governance in organisations. This role included providing guidance on strategy, giving effect to strategy through policy development, providing oversight and demonstrating accountability and transparency. The draft King IV Report emphasised the role of ethical leadership in South African organisations and provided for sector supplements to overcome the sector-based governance challenges which existed in the King III Report. The sector supplement for non-profit organisations attempted to remove the burden of application to these organisations by including the following principles (King Committee, 2016a, 2016b):

- Differentiated application according to the size, growth cycle and the nature of the organisation's mandate and objectives;
- Interpretation and application of leadership and ethical issues, including the ethical conduct of individual board members and their legal duty to act in the best interests of the organisation;
- Ensuring good performance and prudent reporting through board members fulfilling their role of ensuring that the organisation remained financially sustainable and delivered on its mandate. Furthermore, the NPOs were encouraged to apply relevant disclosures in their annual reports by following the G4 Global Reporting Initiative, Sector Disclosure for NGOs;
- Ensuring adequate and effective controls, which defined the role of a board as described in the six principles articulated in the Independent Code of Governance for NPOs in South Africa (Rosenthal, 2012). Most importantly, boards should strive to have a balance in terms of diverse skills, gender, race and experience among the board members. The draft codes also acknowledged that NPOs might have

resource constraints necessary for attaining diversity in skills and thus recommended that NPOs partner with relevant professional bodies and recruit professionals willing to serve society at minimum fees;

- Lastly, the codes required the boards to ensure that their organisations adopted a stakeholder-inclusive approach in all their dealings, in order to achieve and maintain a good reputation and legitimacy that would sustain the NPO.

## **2.7 Social Entrepreneurship**

Social entrepreneurs had successfully disrupted the business model of NPOs by introducing more viable ways of securing funding and financial sustainability (Stecker, 2014). Social entrepreneurialism had also enabled entities to review and change their approach in meeting their financial requirements and to consider raising capital through the private sector (Lehner, 2013). Chell, Nicolopoulou and Karatas-Ozkan (2010) provided an overview of social entrepreneurship as a business approach that was applied to solve social challenges. The solutions were driven by the social problem at hand, so that resource mobilisation was targeted towards the required solutions. These social enterprises existed to generate financial resources to support social transformation. They were not driven by profit maximisation, as in other businesses. They generated investment capital to support social causes in a sustainable manner (Chell et al., 2010). NPOs were thus encouraged to consciously establish social enterprises and ventures to attain financial independence and become more entrepreneurial (Stecker, 2014).

However, Lehner (2013) noted that most NPOs were established and led by people who did not have formal business or entrepreneurship experience. Thus, they had limitations when trying to raise finance from traditional investors, due to their business approach of focusing on social causes, and considering that their entrepreneurial motives were to progress in their social mission (Morris, Webb, & Franklin, 2011); and their inability to articulate the financial leverage and liquidity issues that go hand-in-hand with long-term financial planning (Lehner, 2013). Equally, the entrepreneurial orientation of the leadership and senior managers of a non-profit became an important factor in an organisation's positioning of its social enterprise ventures (Coombes, Morris, Allen, & Webb, 2011; Morris et al., 2011).

The strategic role of leadership as an important resource for an organisation could be a contributing factor to the enterprising approach of an NPO, and establishing the leadership's entrepreneurial orientation would be a valuable input toward building an entrepreneurial NPO (Coombes et al., 2011). Nevertheless, there was significant growth in NPOs pursuing commercial activities in order to sustain their social missions (Di Zhang & Swanson, 2013); an approach that was criticised by others as having the potential to dilute the legitimacy of an NPO (Yang et al., 2011).

The additional objective of this study was therefore to understand the leadership orientation of the organisations' understudy, as well as to identify common factors that contributed to successful financial sustainability of NPOs, with the aim of developing a framework for NPOs to follow when preparing to actively participate in the social entrepreneurship space.

### **2.7.1 Social Enterprise Models**

"There is a need for a mind-set shift where sustainability becomes equated with agility rather than a secured partnership" (Fowler, 2016 p. 576).

The challenges of organisational sustainability that resulted from a lack of sufficient funding have fuelled the growth of the concept of social enterprise and civic innovation solutions. The hybridisation of NPOs has gained momentum and a greater scope for social movements has also grown in support of civic innovation. The growth in social enterprises has added pressure in the competition for resources. Therefore, the burden of adjusting to a changing environment has grown much wider than before, and NPOs should be able to adapt themselves without losing sight of their missions (Fowler, 2016).

Social investments, as a new avenue for funding the missions of NPOs, has become a growing trend, although it has not proved suitable for all organisations. The character of these funding avenues was designed to take the form of loans for social goods and services, which were repayable. This meant that an NPO had to have an alternative income source to be able to service its investment commitments. However, social investment funds could be used to fund new social enterprises, as well as overheads which were not normally funded by donors. This form of funding could encourage donor independence and autonomy (Hailey & Salway, 2016). Organisations that succeeded in using social investments had operational strategies in place, as well as funding models



that enabled an organisation to repay its debts. They had a higher risk appetite than was supported by a culture open to borrowing, adequately skilled staff, the ability to engage and manage social investments and appropriate systems to monitor and evaluate the work of the organisation and produce reliable impact figures (Hailey & Salway, 2016).

However, most NPOs were still operating in the traditional sense and had not developed new cultures and capabilities to embrace the new methods of alternative funding, especially repayment finance. NPOs were also establishing enterprises that they used to sell their own expertise in order to support their charitable work. These services ranged from retail, consulting and training initiatives. Some organisations followed an incubation model, incubating a social enterprise in their organisations, operating a separate for-profit organisation or establishing an enterprise through collaboration with the private sector (Kerlin & Pollak, 2011; Gras & Mendoza-Abarca, 2014; Hailey & Salway, 2016; Hayman, 2016).

However, the challenges of attaining donor independence and full financial sustainability lay in the ability to scale these social ventures, which was a unique challenge on its own, given the newness of the approach (Fowler, 2016; Hailey & Salway, 2016).

## **2.8 Conclusion**

Literature on the financial sustainability of non-profit organisations has had a historical evolution since the emergence of charity and non-profit work. At the same time, the changes in the sector and in the world social and political economy has had a significant impact on the functioning of these organisations (Carroll & Stater, 2009). Therefore, the relevance of academic research in this area has been based on the ultimate legitimacy of such organisations to operate in a changing world, to maintain the trust and support of their stakeholders and to ensure their sustainability over time (Unerman & O'Dwyer, 2010; Banks & Hulme, 2012).

In addition, hybrid models of non-profits combined with social enterprises appeared to be more attractive alternatives towards sustainable NPOs. However, the balance in cognitive positioning of these two types of organisations, and how they approached development in alignment with the changes they wanted to achieve in society, could be barriers to success. This was mainly because, while social enterprises strove for growth in perpetuity like for-profit organisations, NPOs aimed to eradicate social challenges and

become irrelevant in the future (Jones & Donmoyer, 2015; Fowler, 2016; Hailey & Salway, 2016; Hayman, 2016).

Thus, this research aimed at articulating the relevance of a changing approach to ensuring sustainability, especially because the work of NPOs in society continues to grow, as does their involvement in the emerging sector of social enterprises. The conceptual approach of the research was a response to the research questions, so that broader research interests could emanate for such a study.

## Chapter 3: Research Questions

The purpose of this chapter is to derive research questions that will enable the fulfilment of the research objectives specified in Chapter 1, in the light of the literature analysis provided in Chapter 2.

### 3.1 Research Question 1

What activities do the NPOs under study pursue in order to be financially sustainable?

This includes the following sub-questions:

- a) What measures do the NPOs under study use to determine their activities and associated costs?
  
- b) What measures do the NPOs under study use to manage their costs down?

The research question aimed to determine the understanding of financial sustainability at a tactical level by the NPO's understudy. It further sought to explore the strategies employed by these organisations to identify and implement alternative revenue streams.

### 3.2 Research Question 2

Which revenue streams have the NPOs under study developed, or what revenue streams are they developing?

This research question sought to address the actual alternative revenue streams and funding methods that the organisations under study have been pursuing.

### 3.3 Research Question 3

What factors and characteristics do the NPOs under study believe are important when developing and implementing alternative revenue streams?

Research question 3 was aimed at pulling out the relevant factors and characteristics that the organisations under study had identified as important when an organisation is developing and implementing alternative revenue streams, as well as the impact of such factors.

### **3.4 Research Question 4**

What leadership attributes do the NPOs under study believe are required for an organisation to successfully identify and implement activities for alternative revenue streams?

This research question sought to examine the value of leadership and the role of good corporate governance processes in organisations when pursuing financial sustainability and alternative revenue sources.

## Chapter 4: Research Methodology and Design

### 4.1 Research Methodology

A research methodology was selected to establish the parameters and characteristics of the research results, as well as how they can shape the research processes in finding answers to the research questions as a critical stage in the research process.

The research was based on an empirical interpretivist philosophy that was concerned with social phenomena composed of social actors in their natural environment. This philosophy was followed in order to achieve the conditions for an exploratory qualitative research method. Saunders and Lewis (2012) describe interpretivism as a philosophy in which the researcher's values play a role in interpreting the research results derived from studying behaviours that inform certain style of management action. It was therefore important, throughout the research processes, to understand the social worlds of the unit of analysis from its point of view.

The concept of interpretivism is central to understanding the context in which the research was conducted, and it is crucial to the interpretation of the data collected. Thus it enabled the researcher to avoid drawing general conclusions about data, for instance, questioning whether results would be the same if conducted in a different setting or environment (Willis, Jost, & Nilakanta, 2007). The approach also viewed all research as subjective to the researcher.

Furthermore, Saunders and Lewis (2012) emphasised the use of the research onion in order to develop a comprehensive and sound research plan. The process of non-profit organisations having to review and adapt their resource dependency to funding resources required a social approach to decision-making. It required participants in the research to consider each other's social roles and the researcher to acknowledge their own social values and interests in the research process (Saunders & Lewis, 2012).

### 4.2 Research Approach

The research followed an inductive, exploratory approach which was implemented through conducting qualitative research interviews. The approach derived interview

questions based on the information requirements to respond to the research questions which emanated from the theoretical constructs that existed on financial sustainability, revenue diversification and the management of resource dependency in non-profit organisations. The research also provided information through its results on the cognisance of non-profits about alternative methods of diversifying their revenues (Saunders & Lewis, 2012).

Qualitative research methods were selected for this study because they were considered the most suitable for developing a contextual understanding about the data collected and could handle multiple sources of influence (in this case, finance, leadership and socio-economic factors) (Willis et al., 2007). The research method was also suited to the investigation of multiple perspectives as sources of information. These were deliberately sought – an important characteristic of interpretivism. The approach was friendly to business research, because often managers in organisations are familiar with the issues that are the subject of the research but require information offering different dimensions from the issues at hand (Zikmund, Babin, Carr, & Griffin, 2012).

Exploratory studies have often been used to obtain a deeper understanding of known theories and facts, and can offer information about further research, therefore this study employed an exploratory approach because evidence was provided through the literature to explain the limited capability of some organisations in managing resource dependency from donor funding. This study was intended to find out the types of options available to NPOs, as well as the factors required to achieve successful financial sustainability of a non-profit organisation.

Zikmund et al. (2012) described the objectives of using exploratory research as being for purposes of analysing a situation, reviewing for alternatives and for identifying new ideas. Furthermore, qualitative research utilises a foundational perspective that is iterative in nature, and allows for new research sequences to be established and followed; in other words, research is not a linear process but a reflective one in which the researcher is central to data collection and analysis (Willis et al., 2007).

### **4.3 Interviewing Approach**

An interview guide was developed for conducting semi-structured interviews with the identified non-profit organisations (see Appendix A: Semi-structured interview guide. The

interview questions were open-ended and allowed respondents to share their own organisations' approach without being directed towards biased responses.

Interpretivist researchers prefer a semi-structured approach to interviewing; however, this often causes conflicts between 'life-world' interview situations and 'analytical framework' situations (Willis et al., 2007). Furthermore, interviewing according to an interpretivist approach can involve factors such as:

- Being allowed to deviate from the study introduction, order of questions and even the wording;
- Allowing interruptions of the interview by other persons;
- Allowing interviewers to suggest, agree or disagree with an answer, so that respondents have an idea of the interviewer's personal views about the topic;
- Interpreting the meaning of a question for ease of answering it;
- Adding categories of answers to the interview.

Moreover, Rubin and Rubin (2011) emphasised an understanding of the interview style that the researcher applied. The choice of style pertained to planning and executing the interview, the use or non-use of follow-up questions, decisions about the recording method to be used, and the analysis of data – whether it would be done after all the interviews were completed, or intertwined with the interviewing process.

Since the purpose of the interview was to create an understanding of how the participant's organisation had gone about managing financial sustainability and sourcing alternative funding mechanisms for their programmes, an interview guide was developed, with carefully crafted interview questions aimed at addressing the overall research questions, as shown in Appendix A: Semi-structured interview .

The interview process therefore followed an approach described in Chapter 5 et al., (2007). It was important to set up the interviews with the interviewees and then to enable them to participate freely. Thus each interview was preceded by a short briefing, which included discussing the background of the organisation as well as the latest and most exciting programmes their organisation had been involved. The study objectives were also discussed. Flick et al. (2007) further recommended that a debriefing of the interview be conducted, which allowed the interviewee an opportunity to ask any clarifying questions about the interview and about the study in general. To round off the interview session, the researcher explained how the rest of the study would progress, the

confidentiality aspect of the interview recordings and how the results would be disseminated.

## **4.4 Population and Unit of Analysis**

### **4.4.1 Universe**

The research universe refers to the population from which the researcher selects their sample. For this study, the universe was the non-profit organisations in South Africa.

### **4.4.2 Sampling Method and Size**

The research applied a non-probability convenience sampling of ten non-profit organisations that operate from offices in South Africa. It was a convenience sample, because the researcher had a specific interest of comparing the differences in approaches to financial sustainability in non-profit organisations of different sizes, operating in different sectors. The researcher had anticipated the limitations of having a near-homogenous sample; however, it was not likely that the financial approach to resource dependency of non-profits would be homogeneous. The focus of the sample was on NPOs that were headquartered in large cities in South Africa, operating in different sectors and having been in operation for not less than five years.

## **4.5 Data Collection**

Data collection for the study was through experience surveys, which were described as ideal for interviews which consist of formal questions, asked of knowledgeable subject or situation experts, and those in which a representative probability sample is not required (Zikmund et al., 2012). Therefore a well-designed semi-structural interview guide was utilised to collect data and this enabled an objective response pattern to the research questions.

The data was collected through personal interviews with relevant senior managers at the NPOs. The interview guide was designed to ensure a balanced interview that could provide content and test the validity of the information. The interview guide was aimed at assisting the researcher in collecting relevant information in response to the research



questions. A qualitative analysis method for the data gathering was implemented: its interpretation processes for dealing with errors and nil responses is articulated in the results chapter (Saunders & Lewis, 2012).

#### 4.6 Profile of Participating Organisations

The study involved participation of non-profit organisations that operated in diverse developmental areas and had bases and operations in Gauteng Province. Ten organisations participated, ranging from international to small local organisations. Table 1 demonstrates the characteristics of the participating organisations, as well as the positions of the interviewees.

**Table 1: Profile of participants**

Unique ID	Participant's Position	Organisation's Mission	Year Established	Annual Budget	Main Source of Funding	Number of Employees
P1	Senior Manager	Social Justice	2006	R 40 million	International Donors	100
P2	CEO	Social welfare	1936	R 23 million	Government Grants	145
P3	Executive Director	Education	2004	R 80 million	Corporate Donors	29
P4	Finance Manager	Social welfare	2006	R 35 million	International Donors	31
P5	CEO	Social welfare	1910	R 44 million	Government Grants	??
P6	Grants Manager	Social Justice	2010	R 27 million	International Donors	38
P7	CEO	Social Welfare	2006	R 1 million	Individual donations	4
P8	CEO	Social Justice	1979	R 12 million	Corporate Donors	42
P9	COO	Education	1985	R 100 million	Dividends from Investments	
P10	CEO	Youth Development	2009	R 4 million	International Donors	7

The choice of the participating organisations was done mainly according to development causes that interested the researcher, as well high-profile organisations in the NPO sector. The response rate for requests for interviews was good - a positive indicator for the non-profit sector. The participants were eager to participate in the study and some extended an invitation for follow-up meetings at which the researcher was asked to present the results, because they believed that the study would add value in their organisational views on financial sustainability and their ambition to attain donor independence.

The participants in the interviews consented to be recorded (a sample consent form is shown in Appendix B: Participant Consent Letter and the interviews were subsequently transcribed into ten separate files for analysis in Atlas.ti. The transcripts were reviewed for quality, converted into rich text format, given unique labels and uploaded onto Atlas.ti.

## **4.7 Data Analysis and Interpretation**

The objective of analysis is to transform data into information suitable for decision-making (Flick et al., 2007; Maxwell, 2012; Zikmund et al., 2012). The central focus of the analysis of the interviews was on meaning, which included categorisation and interpretation of the interviews (Flick et al., 2007). Moreover, the researcher was expected to pay attention to variations in responses and to the levels of meaning and emphasis from different people (Rubin & Rubin, 2011). The qualitative data collected from the survey and interviews was transcribed by an independent service provider and the analysis was conducted through Atlas.ti, which is an open-source software programme that is used specifically for analysing qualitative data. Atlas.ti is useful because it allows the researcher to encode vast amounts of information into workable groups for analysis.

### **4.7.1 Analysis**

Maxwell (2012) recommends that data analysis be conducted immediately after the data have been collected, rather than waiting to finish collecting and analysing them as a large chunk. Thus the researcher reviewed each interview soon after conducting it. The review involved listening to the interview recordings, making notes and reorganising the observation notes taken during the interview. This process allowed the researcher to create the initial categories to be used for actual analysis once the interviews had been transcribed.

Maxwell (2012) also explains the above process as an important step towards the proper analysis of data. Throughout the pre-analysis stage, the researcher was able to decide whether the interview guide was still relevant in enabling the research questions to be answered. Equally, taking observation notes proved important in preparing for analytical thinking about the data.

The analysis followed a categorising strategy; this consisted of grouping common and contrasting aspects of the data through a coding system which was then coded into Atlas.ti. An open coding system was applied and was instrumental in determining which data were important; it also provided insight on the conceptual distinction of the data, be it organisational, substantive or theoretical contributions to the study. The categories arose during the interview process and concurrently enabled the validation of the relevance of a research question. Where necessary, the researcher ensured that the interviewees were probed further to clarify their responses for easy categorisation.

Once the categories were chosen, the researcher coded the data, paying particular attention to those responding directly to the research questions as well to the responses that the interviewees themselves emphasised (Flick et al., 2007).

Organisational categories (which are more descriptive) were used to sort the data into working topics which were then used to organise the chapter on the results. To analyse the exact responses given in the interviews, substantive and theoretical categories were used, as recommended by Maxwell (2012): these could only be identified once the interview responses had all been collected. Substantive categories also provided clarity on what the data were indicating, as well as on how the interviewees understood the information that was elicited. The theoretical categories were generated from insights obtained in the literature review. The responses were then mapped to match the three categories and the constructs they presented were interpreted.

#### **4.7.2 Interpretation**

The coding of the data was done to reduce the responses from different interviews into categories that could be assigned to common identifiers (Zikmund et al., 2012). Flick et al., (2007) explains the intention of coding long interview statements, pointing out that it is useful to reduce them to simple forms of common constructs. The coding process commenced with broad and lengthy sub-categories, to ensure that no data was left behind. Sense-making was a central approach in focusing the responses from the interviews. The researcher was constantly improving unclear responses to be clearer for coding processes (Flick et al., 2007).

The process of coding data in qualitative research is important for the discovery of the information that is carried in the data, as well as for categorising and extracting meaning

to support ideas and relationships that the researcher develops while handling the data (Saldaña, 2015). The coding process involves breaking down the data into segments that can be built up into an interpretive framework by naming, defining and allocating meaning to segments of data to create a common idea (Given, 2008). The researcher employed a manual coding process for one interview, P6, to determine the initial codes for an inductive exploration of the data. The manual coding process in the research was important for establishing the initial codes that would be used in Atlas.ti for the interview transcripts. The manual coding resulted in 39 codes and the final tally, after coding all the transcripts, was 69 codes for the list of primary codes. The process of coding is iterative, and as explained by Saldaña (2015), the recoding of data should be repeated two or more times in order to further filter and reshape the data and extract salient points for critical for analysis.

Thus codes were analysed and cleaned for validity and redundancy, as recommended by Given, 2008; Saldaña, 2015; and Schreier 2014, and this process resulted in 53 final codes (see Appendix C: Results). The process of cleaning codes was conducted manually and also using Atlas.ti. The researcher reviewed each code against similarity and redundancy in meaning and intent, and those found to be similar were merged and the completely redundant codes were removed in Atlas.ti. Of the 69 codes, 16 were deemed redundant as stand-alone codes and were merged, resulting in 53 primary codes to continue with analysis in Atlas.ti. Issues of data saturation were also considered in order to determine the relevance of creating new codes and the similarity of the data.

Once the coding was completed, the transcripts were processed through Atlas.ti. The results are discussed in Chapter 5.

## **4.8 Limitations**

The method of data collection could have been subjected to survey error challenges such as response bias, because of the nature of the sector that was researched. The literature review indicated that non-profit organisations pride themselves on efficiency and the attainment of long-term donor commitment to funding may be viewed as efficiency in the field of financial sustainability.

It was anticipated that there would be response bias from some of the interview respondents so that an organisation did not appear to not be financially prudent and

sustainable. This could have also been a factor, because the organisations feared that the results of the research study might compromise their sector's missions and donor perceptions.

Response bias occurs when respondents deliberately answer the survey with the intention of skewing the research results so that problems are not picked up and issues are highlighted through known literature, or observations could not be triangulated (Zikmund et al., 2012). In some cases, the bias may be the result of unconscious misrepresentation.

Secondly, there was a possibility of collecting nearly homogeneous answers pertaining to financial management and strategies of NPOs because of an internal motive on the part of the interviewees to appease and satisfy potential donors who might have had an interest in the research results.

Lastly, the sample was a non-probability convenience sample, and was therefore not representative of all the NPOs that operate in South Africa, so the results of the study could not be objectively interpreted as a full representation of the views of all NPOs, but only those that were part of the study.

## **4.9 Conclusion**

This chapter on research methodology described the ethical collection of data that would be interpreted in the process of responding to the research questions in Chapter 3, as well as addressing the research objectives in Chapter 1. The ultimate aim was to gather information that could be used to understand the financial sustainability challenges that affect non-profit organisations in South Africa.

## Chapter 5: Findings

### 5.1 Introduction

Data collection for the study was conducted through semi-structured interviews with ten senior managers of non-profit organisations. The interviews provided valuable insights into the functioning of these organisations: they highlighted important factors regarding financial sustainability and the attitudes and approaches of the managers with regard to developing alternative sources of funding for their programmes and initiatives.

The aim of this chapter is to present the findings from the interview processes and to establish a basis for the analysis and interpretation of the results. However, in order to appreciate the context of the findings, this chapter commences with an explanation of the approach to data analysis that was applied in the coding processes.

### 5.2 Coding Approach and Strategies

The codes were organised into code families, which comprised codes that expanded on the identified themes from the research. The research process was inductive, as the themes emerged from the coding process and resulted in seven general themes expressed in the data, as occurs in the case of grounded theory. After that, the families were analysed for occurrence in each interview transcript, as shown in Table 2.

This process enabled the researcher to gauge the importance of each theme to the participants and their organisations and against the research objectives. The themes are also important in organising the presentation of the results of the research, and a hierarchy based on the frequency of their occurrence was used to present the results. The overall themes, in ranked order, are as follows:

1. Donor relations
2. Alternatives from donor funding
3. Successful implementation of programmes
4. Financial sustainability
5. Character of the organisation and its people
6. Corporate governance.

**Table 2: Hierarchy of Code Families per theme – ranked by totals**

Rank	Factor	P1	P2	P3	P4	P5	P6	P7	P8	P9	P10	Totals
1	Donor relations	50	62	39	59	35	78	30	50	51	54	508
2	Alternatives from donor funding	47	50	33	49	41	67	24	34	56	50	451
3	Successful implementation of programmes	38	50	30	43	39	56	32	37	44	55	424
4	Financial sustainability	37	49	36	42	34	48	20	38	36	38	378
5	Funding and financing programmes of the organisation	31	51	29	40	34	45	17	34	42	42	365
6	Character of the organisation and its people	28	36	30	40	38	38	16	35	41	50	352
7	Corporate governance	21	21	19	27	19	40	10	29	35	33	254

In addition, the researcher categorised the data for each theme, according to its importance. This was done by using standard deviation of the totals against the mean. The process enabled the verification and interpretation of the ranking in terms of their levels of importance. Five categories were thus developed, as shown below in Table 3.

**Table 3: Categories of importance**

Totals	Standard Deviation	Category
99 - 125	3	Extremely important
72 - 98	2	Very important
44 - 71	1	Important
43 - 16	-1	Less important
15 - 0	-2	Unimportant

### 5.3 Donor Relations

The relationship with donors emerged as the theme most strongly identified by the participants. Almost all of them described it as important (in different degrees of importance) in ensuring the financial sustainability of the organisation. The most significant contributors to the theme mainly related to donor-relation management, funding methods for programmes, identifying new funding avenues and donors, board oversight, donor trends and behaviour, accountability to donors, fundraising responsibilities and managing finances and investments.

When required to comment on other aspects of financial sustainability, such as relations with donors, the organisation's pursuit of alternative revenue sources and fundraising leads, assistance from board members, impact of donor withdrawal, reputation management, reasons for donors withdrawing their funds, financial reporting, scaling down programmes and the reasons for doing so, and transparency, as shown in

The financial sustainability of participating organisations was shown to be mostly influenced by donor relations, in terms of the approaches and methods employed by these organisations in managing their relationships with their donors. In addition to donor relation management was the manner in which donors influence the choices that organisations make regarding the funding methods they implement for their programmes, as well as their ability to identify new funding avenues for their organisations. The participants indicated that they were all dependent on donor funding, except for Participant 9, who stated that their organisation preferred to ensure that they designed and developed their programmes with guaranteed funding, so that in the case of an untimely withdrawal of funds, their decision was guided by how they could best protect their integrity as an organisation and carry on with their project using their own funding.

Furthermore, Participants 3, 5 and 9 were shown to be less influenced in this regard by how they managed their relationships with their donors. These organisations' financial sustainability in relation to donor relations influenced their methods of funding programmes more than the actual relationship with the donors did. Equally, the successful implementation of programmes did not show a high reliance on the relationship that the organisations had with their donors. In fact, the importance of donor relations as a factor contributing to financial sustainability was expressed in the approach to managing the relationship with donors, and almost no effect was ascribed to their own



general perception of their reputation. The nature of the relationship with donors also influenced the autonomy of the organisation: it was characterised as being independent in thought and practice.

**Table 4** below. These factors have been dominant in organisations that have been over-dependent on donor funding to survive.

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**Table 4: Donor relations – associated codes ranked by totals and level of importance**

Rank	Factors	Total	Category of importance
1	Donor relations management	122	Extremely important

2	Funding methods for programmes	97	Extremely important
3	Identifying new funding avenues and donors	80	Very important
4	Board oversight	52	Important
5	Donor trends and behaviour	51	Important
6	Management oversight	51	Important
7	Accountability to donors	50	Important
8	Fundraising responsibility	47	Important
9	Managing finances and investments	41	Important
10	Successful and good mission implementation	39	Less important
11	Autonomy from donors	37	Less important
11	Reaction to withdrawal of a major donor	37	Less important
12	Board governance	35	Less important
13	Financial environment in South Africa	29	Less important
14	Role of board	28	Less important
15	Changing business model from inception to current	27	Less important
16	Fundraising leads and assistance from board	24	Less important
17	Impact of donor withdrawal	22	Less important
18	Reputation management	18	Less important
19	Reasons for donors withdrawing their funds	16	Less important
20	Scaling down of programmes and reasons why	10	Unimportant

Most participants indicated that they were still reliant on donor relations when identifying new funding avenues for their organisations. Participant 1 mentioned that over 90% of their funding comes from foreign donations and Participant 2 qualified their position by saying:

*“I think as a NGO we never going to be free of having to do fundraising. I mean that's the reality. So what we try to do is get a balance of programs where we like where DSC pays us to do the work together with fundraising”.*

In addition, some of the participants indicated that their current donors referred them to other potential donors who might have an interest in supporting the work of the NPO. As Participant 1 commented:

*“The other donors would serve as pointers. The other donors would say you know what. The other donors would say that there is a, this new donor, their focus is actually on education or on gender or on violence. So it would be nice for you to actually send in a proposal“.*

Participants 3 and 7 indicated that their approach to identifying new funding sources for their organisation’s financial sustainability was not affected by their relationship with donors. In fact, Participant 7 indicated that their major donor had decided not to fund them anymore, having decided to open its own charity organisation, but they were able to access other funding avenues.

Participants 1, 3, 6, 7 and 10 indicated that donor relations did not have a strong influence on their funding methods for programmes. Participant 2 on the other hand, indicated that their funding for programmes depended on their relationship with donors and that trends in the donor environment had more influence over their financial sustainability issues.

Furthermore, oversight by the organisation’s board of directors and their accountability to donors affected donor relations. However, issues of reputation management and financial reporting had a minimal effect on the participant’s relation with donors. The explanations that donors gave the participants when they withdrew funding did not significantly influence relations with the donors, nor did factors that resulted in the scaling down of programmes. Participant P9 described how they managed their reputations and influenced their relationships with their donors. This account has implications for further analysis, especially as it emphasises the ability of organisations to pursue alternative funding sources, the management of their reputations and the behaviour of donors. However, the data collected from participants P2, P6, and P10 confirmed their overall dependence on donor relations with regard to their ability to achieve financial sustainability and pursue alternative funding avenues.

#### **5.4 Alternative Donor Funding**

Finding alternative donor funding came up as the second most important factor that allowed the participants to continue implementing their programmes. They were concerned about issues of funding methods for programmes, about identifying new funding avenues and donors, about retaining adequate skills and capacity to be financially sustainable and to undertake successful strategy planning and monitoring.

These organisations are in permanent pursuit of new sources of funding for their organisations. However, Participant 7 showed the least concern or interest in doing so. In fact, this participant showed little interest in strategy management or monitoring. Their attention was directed more on their ability to find funding for their programmes, as well as on their own ability to manage the finances so that they could maintain their operating momentum. Participant P4 indicated more concern about the adequacy of their organisation in terms of the skills required to manage financial issues and keep them sustainable.

Other participants indicated their concerns about the adequacy of their skills to maintain financial sustainability in correspondence with their approaches towards strategy development and monitoring. However, Participants 2, 7 and 8 indicated the least concerns about strategy development and monitoring in relation to finding alternative revenue sources.

In securing alternative funding sources, the participants were generally more inclined to obtain it from additional donor funding than by increasing the amount of self-generated income sources. All the participants with an exception of Participant 10 indicated that they had no appetite for finding sources of funding other than donor funding. Participants 3, 5 and 8 showed very little interest or appetite for pursuing alternative donor funding, while Participant 10 was enthusiastic about pursuing self-generated funding sources.

**Table 5** shows a summary of the results for this category. The participants expressed their concern about that finding alternative funding from donor funding relied on their ability to find multiple sources of funding for their projects. Interestingly, Participant 9 expressed their organisation's view that finding alternative revenue sources was of paramount importance in maintaining their ability to continue fulfilling their mission. The participant said:

*"We made the decision some years ago that we are going to create a vehicle that would make it easy for us to participate in the development landscape and for us to participate effectively is to have a financial capacity to override our various programmes. So ... financial sustainability means regular inflows of dividends from our investment company. Sustainability, financial sustainability means*

*collaborating funding with like-minded organisations. Sustainable I mean, financial sustainability means ability to conceptualise, implement and complete a process or a programme”.*

However, most participants were concerned about the possibility of not being able to fund their programmes if sufficient donor funding was not secured in a sustainable manner. Participant 8 was particularly affected by the concern to increase the funding capacity for their programmes, either from donor funding or through other means of fundraising. This became clearer when Participant 8 said:

*“I think as an NGO because we have been financially dependent on donors a lot. Our skills are mainly focused on being able to write proposals and sending those proposal ideas to the donors and they fund us but due to the current economic climate and South Africa having been declared middle income country, it has become difficult for International donors to fund especially direct service delivery because it is said that is the responsibility of government but then NGOs need to start thinking out of the box in terms of ideas on how they can sustain themselves beyond the government funding and international donor funding”.*

Moreover, Participants 1, 6, and 10 indicated that it was critical for their success and relevance to identify new funding avenues and donors in order to continue implementing their programmes. The participants also alluded to the different approaches required in order to attract international donors, as compared with local donors.

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**Table 5: Results on alternatives from donor funding – associated codes ranked by totals and level of importance**

Rank	Factors	Totals	Categories of importance
1	Funding methods for programmes	97	Extremely important
2	Identifying new funding avenues and donors	80	Very important
3	Adequate skills and capacity to be financially sustainable	76	Very important
4	Strategy development planning and monitoring	53	Important
5	Types of alternative funding sources	46	Important
6	Alternative funding plans being talked about and not yet implemented	42	Less important
7	Meaning of financial sustainability	41	Less important
8	Autonomy from donors	37	Less important
9	Alternative revenue strategies being pursued currently	35	Less important
9	Board governance	35	Less important
10	Linking income to products and services rendered	32	Less important
11	Financial environment in South Africa	29	Less important
12	Changing business model from inception to current	27	Less important
12	Collaborating with other organisations	27	Less important

13	Appetite to pursue alternative funding sources	25	Less important
14	Financing the generation of alternative sources of income	18	Less important
15	Limitations to pursuing alternative funding sources	17	Less important
16	Legitimacy of the NGO in private business	11	Unimportant
17	Managing the alternative sources of revenue	9	Unimportant

The participants did not show much concern for or comprehension of the limitations that might prohibit them from generating alternative sources of funding. All of them indicated that the influencing factors were more internal than external. This, however, might indicate that their mind-set towards generating alternative income sources could be affected by their ability to manage the funding rather than by, for instance, the depressed financial environment in South Africa.

The organisations have also not changed their business models since inception and have not attempted to generate alternative income sources, but have changed their business models minimally to match donor behaviour and trends.

Participants P9 and P10 expressed concern about the influence of self-generated sources of funding in relation to the legitimacy of their status as NPOs. They said that they sometimes become concerned about raising sizeable alternative income streams as this would affect the image of their organisation, being viewed as a non-profit organisation for tax purposes. To the same extent, they highlighted challenges that could arise in deciding on the management approach and expertise required to manage an alternative income stream successfully. The other participants did not raise issues in this regard, and these responses can be linked to their attitude of not prioritising being autonomous from donors, as well as their approach of not linking their product offering to income.

When asked about the nature of their business in relation to its financial sustainability, Participant 2 said: *“You know our target audience is the poor and the vulnerable. So we are never going to, we are never going to get them to pay.”* This was said in relation to the organisation acting as a service provider for the Department of Social Services and other organisations requiring their services on behalf of their beneficiaries.

Participant 3 and 5, however, indicated another source of alternative funding other than donor funding. Participant 3 said:

*“It’s only now we have looked alternatives revenue where we doing some consultancy to some companies where we charge them a certain fee for the work we do. Its only now, so in the past we haven’t done that as we always depended on donors” (Participant 3).*

Participant 5 appeared to be spending more time discussing alternatives, but these alternatives were not being implemented.

Participants 4, 6 and 10 showed an awareness of alternative funding sources that they could pursue; they discussed them at length and even included them in their strategies for the future. However most of the alternatives were not implemented. In particular, Participant 5 highlighted this factor and said:

*“We aiming to have at least a reserve of a hundred million set side and we’re now looking at investment specialists to come in and help us with an investment strategy. We also seeking BEE deals. We looking at BEE deals. We had a very lucrative one a few years ago but my board was a bit jittery because I’m the risk taker” (Participant 5).*

Participants 2, 6 and 9 have shown an interest in collaborating with other organisations as an alternative means of funding their programmes and protecting the sustainability of their mission. The other participants did not view collaborations as viable alternatives for growing their funding or their projects.

The relevance of alternative funding sources as a means to financial sustainability was also not regarded as an ultimate solution to achieve financial sustainability. The participants did, however, identify a range of approaches that could contribute to financial sustainability, including creating products for enterprise, endowment funds and cash reserves for operations lasting between three months and three years.

Participant 6 and 9 stressed the importance of governance processes in their organisation and of leadership from their board of directors, which would be required when planning to source alternative funding. The other participants ascribed less



importance to the role of board governance in their funding approaches, particularly funding that was not donor driven. This may be a reason why most participants did not consider strategies to develop alternative funding sources.

Participant 7 showed the least inclination towards considering, identifying, or finding out about alternative funding resources that they could pursue. The organisation also showed no active interest in being autonomous from its donors. The role of their board of directors in matters of alternative funding did not come up strongly in the interviews, although they indicated a general concern about funding their programmes.

## **5.5 Successful implementation of programmes**

The objective of NPOs is the successful implementation of programmes that enable them fulfil their missions. Their success, however, is determined by a number of factors which differ in importance and formulation from one organisation to another.

Most participants indicated that the successful implementation of their programmes relies on the relationship they have with their donors. These responses indicated their organisations' extreme reliance on donor funding in order to operate and to fulfil their missions. However, participants 3, 5 and 9 indicated a much lower correspondence between donor relations and successful implementation of their programmes. Their three organisations identified different factors as influencers of successful programme implementation.

Participant 3 indicated that the skills that ensure their financial sustainability while actively pursuing alternative revenue generating programmes impacts their success more than their relationships with their donors. Participant 5, however, did not name an outstanding factor that influenced of the successful implementation of programmes, but cited a combination of all the factors that relate to the implementation of all the different programmes that their organisation has implemented. Participant 9, on the other hand, strongly indicated the management of their financial resources as an important element in ensuring their successful implementation of programmes, as well as a combination of other factors. Participant 9 also indicated that the financial environment of South Africa, collaborating with other organisations, and the retaining of competent and talented staff has had almost no influence on the successful implementation of their programmes.

Participants 4, 8, 9 and 10 indicated the importance of managing their organisation's finances and investments as important aspects of ensuring the successful implementation of their programmes, and conversely, Participant 6 and 7 showed no indication that the of managing finances was important in this regard. Only Participant 2 indicated strongly that management oversight and sustaining the organisation's programmes were important factors in the success of their work; a passion for the work of the organisation was not regarded as important. Participant 9 indicated that ensuring sustainability of their organisation's programmes played a much more important role in ensuring the successful implementation of their programmes, as did the financial environment in South Africa.

**Table 6** below shows the ranking of the factors considered important in the successful implementation of programmes by the participants and their organisations.

Most participants indicated that the successful implementation of their programmes relies on the relationship they have with their donors. These responses indicated their organisations' extreme reliance on donor funding in order to operate and to fulfil their missions. However, participants 3, 5 and 9 indicated a much lower correspondence between donor relations and successful implementation of their programmes. Their three organisations identified different factors as influencers of successful programme implementation.

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**Table 6: Successful implementation of programmes results – associated codes ranked by totals and level of importance**

Ran k	Factors	Tota ls	Categories of importance
1	Donor relations management	122	Extremely important
2	Adequate skills and capacity to be financially sustainable	76	Very Important
3	Board oversight	52	Important
4	Management oversight	51	Important
5	Managing finances and investments	41	Less important
6	Sustaining the interventions of the organisations	38	Less important
7	Alternative revenue strategies being pursued currently	35	Less important
7	Board governance	35	Less important
8	Frequency of planning for financial sustainability	33	Less important
9	Linking income to products and services rendered	32	Less important
10	Financial environment in South Africa	29	Less important
11	Changing business model from inception to current	27	Less important
11	Collaborating with other organisations	27	Less important
12	Passion for the work	25	Less important
13	Important skills for management	24	Less important
14	Character of the leadership	18	Less important
15	Retaining competent and talented staff	7	Unimportant

Participants 6 and 9 also indicated the importance of board governance as a significant influence on the success of programme implementation in their organisations, because “Everyone brings their own strengths and it makes for a stronger kind of voice”, as

Participant 6 said during the interview. This emphasised the significance of collaborating with other organisations to promote the success of programme implementation, as well as strong donor relations.

Furthermore, the participants provided information on areas that are not critical, in their view, to the successful implementation of their programmes once donor relations are taken care of. The participants stressed that passion for the work of their organisations, important management skills, the character of their leadership, the ability to retain competent and talented staff as well as transparency in the organisation are not very important in ensuring successful programme implementation. Participants P4 and P10 indicated that their management team exerts some influence on the skills level, and that this is an important factor in delivering successful programmes.

## 5.6 Financial Sustainability

Financial sustainability is about the organisation's ability to have a positive financial position and have capacity to spend on the successful implementation of their programmes. Thus Participant 5 said:

*“A good NGO spends the money it gets this year especially this year as an eye to next year, it knows what roughly what it's going to get, it spends that next year. So we don't store up huge amounts of reserves the money goes, the money's given to us to spend on the work” (Participant 5).*

The results relating to financial sustainability were complex; the different participants gave varied responses when questioned about the concept, although a common thread could be deduced. The ranking of the factors involved are shown in Table 7 below. A total of fifteen (15) concepts have been used to describe the understanding of financial sustainability expressed in the different interviews.

The ranking of the concepts indicate that most participants associated their understanding of financial sustainability with the funding methods employed for their programmes. Participant P2 related funding methods closely with the financial sustainability of their organisation, and, more than any other participant, associated it with more than any other concept. When asked to explain their understanding of financial sustainability, Participant 2 said:

*“Well, in the perfect world we would have a big enough reserve than to just live off the interest wouldn’t we? I’d dream of a billionaire dying one day, leaving us all this money but that’s not going to happen so I think as an NGO we never going to be free of having to do fundraising. I mean that’s the reality. So what we what we try to do is get a balance of programs where we like where DSC pays us to do to do the work together with fundraising” (Participant 2)*

While Participant 4 said:

*“Financial sustainability is the ability to carry on as an organisation in a credible manner where you able to deliver programs and keep your promises to donors. Whilst keeping the lights on and keeping the staff employed. So it’s basically the ability to continue” (Participant 4).*

In addition to Participants 2 and 4, Participants 8, and 9 also connected a higher importance of financial sustainability with their ability to fund their programmes. As a result, the researcher could draw similarities between the ways in which all the participants understood the concept of financial sustainability, as shown in Table 6 above, and that they all referred to financial sustainability as part of a whole that leads to the overall survival and functioning of their organisations. Participant 5 for instance, stated the following:

*“I think you know that financial sustainability is but one aspect of the sustainability model because if you don’t have the right products you don’t have the right systems, you don’t have an efficient organisation all of that affects sustainability. So if you look at my sustainability strategy, financial sustainability is but one element, one element” (Participant 5).*

**Table 7: Financial Sustainability – associated codes ranked by totals and level of importance**

Rank	Factor	Total	Categories of importance
1	Funding methods for programmes	97	Extremely important
2	Adequate skills and capacity to be financially sustainable	76	Very important
3	Analysis and review of financial position	67	Important
4	Strategy development planning and monitoring	53	Important
5	Fundraising responsibility	47	Important
6	Managing finances and investments	41	Less important
6	Meaning of financial sustainability	41	Less important
7	Sustaining the interventions of the organisations	38	Less important
8	Frequency of planning for financial sustainability	33	Less important
9	Financial environment in South Africa	29	Less important
10	Fundraising leads and assistance from board	24	Less important
10	Requirements for financial sustainability	24	Less important
11	Reasons for donors withdrawing their funds	16	Less important
12	Financial reporting	11	Unimportant
13	Policy changes and uncertainty	8	Unimportant

The participants also highlighted the importance of adequate financial skills, as well as the continuous analysis and review of their organisation's financial positions as important elements in ensuring the financial sustainability and the maintenance of a good financial position. However, contrary to the overall factors identified for maintaining financial sustainability, Participants 5 and 7 indicated the least association with adequate skills and capacity as a factor contributing to financial sustainability. The researcher could attribute the under-rating of these skills to the recent progress made by Participant 5's organisation in building capacity, and the confidence they have in newly-appointed people. Participant 5 stated that they consider themselves fortunate to have recruited

board members and additional managers who are business-minded and understand finances.

Participants 6 and 9 mentioned the analysis and review of their financial position as a less important element for ensuring financial sustainability when compared to the other participants, and valued the development and monitoring of a good organisational strategy as more important. In particular, Participant 9 stated that:

*“Our process is first identifying the sectors that we think are strategic sectors, that we should be supporting as an entity and those sectors as mentioned earlier, they are within the framework of the NDP. At the moment in our view, education and economic transformation and institution building are critical areas that we felt we should make a contribution, and after designing that in terms of a broad framework we then go into the design process” (Participant 9).*

This is in clear contrast to Participants 2, 7 and 8, who rated an understanding of financial position as more important than strategy development and monitoring. Participant 8 explained that their funding strategy looked at current and previous funders, and it was reviewed every three months. They questioned the withdrawal of funding decisions made by their funders in order to determine the reasons why they were no longer be funded by formally requesting for feedback from the donor.

Furthermore, P6 indicated that the responsibility for fundraising, an important element in financial sustainability, is spread between the grants officer, who manages the day-to-day fundraising efforts; the financial manager, who does the financial reporting; the board committee for finance and the CEO, who is central to fundraising efforts. Participants 7, 9 and 10 expressed a contrary view: Participant 7 linked fundraising responsibility to the board of directors, stating that:

*“Without trying to be detrimental to anybody and without trying to blow our trumpet, I'm the one that is looking to that. No one below me and no one above me. So it's very difficult. I think the board knows that we're not in a very good financial situation at the moment because our major funder is gone but they're not, maybe they're expecting me to come up with a new strategy” (Participant 7).*

Reliance on the CEO as the sole member of the organisation with fundraising responsibilities gave an indication of the nature on the growth patterns of the funding that

the organisation was able to raise. It also corresponded to the appetite that the organisation had towards developing alternative funding sources for their programmes. Furthermore, Participants 1, 2, 3, 4 and 7 did not attach a high value to the management of finances and investments as an aspect that could impact financial sustainability, and this could be because of the different interpretations that each participant attached to financial sustainability.

Participant 7 only indicated the importance of financial positions only for their contribution to general financial sustainability: all other factors seemed to have minimal impact on their understanding of the financial sustainability of the organisation. Participant 9 strongly highlighted the financial environment of South Africa as an important factor in the financial sustainability of the organisation, and as an ultimate threat to survival: this view could be related to the organisation's current financial position and priorities. Participant 9, when asked about threats to their organisation's survival, said:

*“Our biggest threat for survival, obviously what happens, what is happening in the economy is a concern because of our resources or our finances are driven by the investment companies or if there is significant policy shifts in the economy it worries us” (Participant 9).*

The participants disregarded the impact of the country's policy changes and uncertainty as important issues that impacted on their financial sustainability. However, Participant 8 outlined the details of what would be required for their organisation to be financially sustainable. The other participants mentioned these requirements in passing, in the same way that the role of board members was not raised as a critical factor in financial sustainability.

A further indication of a minor factor contributing to financial sustainability was also pointed out, namely the nature of financial reporting. Participants 8 and 9 strongly indicated this as a key element in managing finances and investments.

## **5.7 Character of the organisation and its people**

The results that describe the participant's organisations are summarised in Table 8 below. The researcher extrapolated the elements that describe the organisation's character and important elements about their employees from the interview questions,



which related to the softer management aspects and assisted in describing their approaches to financial sustainability.

The results broadly indicated the importance of the character and mind-set of an organisation as factors that played a critical role in determining how they approached issues of financial sustainability and alternative revenue generation.

All the participants highlighted the oversight by their board of directors as an important element in their financial affairs, which can be used to describe the organisation. Participants 9 and 10 indicated a higher reliance on board oversight, whilst Participant 4 indicated a lower reliance. Conversely, the participants that valued board oversight less in their financial sustainability approaches, indicated that their accountability to their donors was more important. For instance, Participant 4 highlighted accountability to donors far more prominently than other participants. This participant overly also weighted the impact of their organisation's brand equity more than the others, as well as their success rate in implementing programmes, which the interviewee regarded as a more important factor, which would influence its financial sustainability approach. When asked about managing accountability to their donors, Participant 4 said that their individual donors require more attention than organisational donors.

Moreover, Participants 3, 4 and 5 showed the least interest in defining clear characteristics for their board members. This result could explain their low regard for board oversight of their financial sustainability approaches. However, Participant 5 assigned more importance to board oversight, although they did not consider the characteristics of individual board members as very important.

Board oversight as a factor for financial sustainability was reported to be more important in organisations that are more inclined to discuss alternative funding plans that are not implemented, as indicated by Participants 5 and 10. When Participant 5 was asked about the willingness of the management to finance new ventures that would enable the organisation to be financially sustainable, they responded by saying

*“You know everybody's talking about sustainability but it cracks my head to understand how can you not be putting money behind a sustainability strategy?...I even said to them if when we become sustainable, you could put the lotto name behind that and the answer was no. I need funding to carry on to expanding at a*

*clinical unit, we need funding to get all the trainers and all the material. People don't want to fund it” (Participant 5).*

**Table 8: Character of the organisation and its people – associated codes ranked by totals and level of importance**

Rank	Factors	Totals	Categories by importance
1	Board oversight	52	Important
2	Accountability to donors	50	Important
3	Important characteristics for board members	43	Less important
4	Alternative funding plans being talked about and not yet implemented	42	Less important
5	Successful and good mission implementation	39	Less important
6	Alternative revenue strategies being pursued currently	35	Less important
7	Board governance	35	Less important
8	Future outlook of the organisation	34	Less important
9	Frequency of planning for financial sustainability	33	Less important
10	Selection of board members	30	Less important
11	Role of board	28	Less important
12	Role of the organisations brand equity	26	Less important
13	Appetite to pursue alternative funding sources	25	Less important
13	Passion for the work	25	Less important
14	Important skills for management	24	Less important
14	Perception of leadership structures	24	Less important
15	Character of the leadership	18	Less important

Participants 3, 7 and 9 expressed their perceptions of leadership structures as lacking a balanced view of what their organisations required to become financially sustainable or to pursue alternative funding sources. Participant 3 specifically mentioned the skills gap to circumvent issues around donor fatigue, saying:

*“Sometimes there is also a donor fatigue, when donors decide, look we not going to our fundraising anymore, we’ve been going for years. So it’s not also*

*sustainable, you need to change. Look at the different models of fundraising. And by doing that you need a strong team, you need to have enough capacity to do that” (Participant 3).*

Participant 7 indicated a lot of confidence in their leadership structures and their ability to enable their organisation to become financially sustainable. The participant mentioned that their organisation had just appointed new board members. They made sure that in their selection processes they covered the critical skills set that would enable them be financially sustainable. Participant 9 also conveyed important views regarding the perception of the suitability of their leadership structures to support the organisation in being financially sustainable through finding alternative revenue sources.

Participant 10 draw out a link between the roles of their board and the oversight that it is expected to provide for the organisation, as well as the rigorous selection process they employ in order to select the most suitable board members. When asked to expand on their selection process of board members, Participant 9 mentioned that their selection process involves both the outgoing board members and the executive management team. The review of profiles in terms of qualifications and experience in the non-profit sector, the private sector and even academia, is a process that they regard as critical.

## **5.8 Corporate governance**

The theme of corporate governance emerged strongly across all the interviews. Some of the participants expressed clear expectations of their corporate governance structures and went so far as outlining ideal qualities that board members should possess to best serve their organisations. Table 9 below depicts the response ranking and level of importance on key elements that contribute to an organisation’s corporate governance approach. The codes that emerged as important in describing the corporate governance structures and characters were the roles of the board in strategy development, planning and monitoring, oversight exercised by board members in the affairs of the organisation and the role of governance structures in supporting an organisation’s accountability towards its donors.

The elements that appeared to be less important in gauging the relevance and importance of corporate governance structures were concerned with the character of the

leadership, reputation management, financial reporting and the impact on the legitimacy of the NGO if it were to pursue private business.

The participants provided a varied indication of areas that matters most for each of their organisations in this regard. For instance, Participant 6 said that their organisation held three board meetings a year; at the beginning of each year they held a strategy-planning board session and progress on the strategy was evaluated at every board meeting. Participant 5 reflected on their corporate governance structures as determinants of the risk appetite for the organisation to pursue alternative income sources. The participant also alluded to the fact that their board of directors is quite risk-averse and that this position might be resulting in the organisation not implementing their bold sustainability strategies at a pace satisfactory to their executive management.

**Table 9: Corporate Governance – associated codes ranked by totals and level of importance**

Rank	Factors	Totals	Categories of importance
1	Strategy development planning and monitoring	53	Important
2	Board oversight	52	Important
3	Management oversight	51	Important
4	Accountability to donors	50	Important
5	Important characteristics for board members	43	Less important
6	Board governance	35	Less important
7	Selection of board members	30	Less important
8	Role of board	28	Less important
9	Fundraising leads and assistance from board	24	Less important
9	Perception of leadership structures	24	Less important
10	Character of the leadership	18	Less important
10	Reputation management	18	Less important
11	Legitimacy of the NGO in private business	11	Unimportant

Furthermore, Participants 2, 8, 9 and 10 indicated that there was a close link between their boards of directors and the oversight they provided for management decisions.

Participant 2 explained the centrality of good governance in the overall sustainability of the organisation, saying:

*“I think we have a very good governance structure because we’ve been, it been a really important focus for us to make sure that people are confident in donate to us so that their money will be used for what’s was intended”* (Participant 2).

Most respondents also alluded to the importance of having properly constituted governance structures and showed a clear link to continuous donor support with good corporate governance practices.

However, when asked about their overall view of their governance structures and the roles of their boards of directors in ensuring the financial sustainability of the organisation, Participant 3 said:

*“I don’t think our board, some board members are quite effective in terms of giving direction on how we can sustain ourselves financially. So it’s all left to the executives to provide that direction”* (Participant 3).

Whilst Participant 5 reflected on the improvements they had introduced in the last two years, they said:

*“If you would ask me this question two years ago I would say it wasn’t. It’s been a massive change. You know it’s the first time this year that I stood in front of the area managers and they said to me, we don’t understand all that you’re saying but tell us what we can do to help. It’s a huge shift, huge shift”* (Participant 5).

This indicates how the maturity of the corporate governance varies between the different organisation, which is not necessarily an indication that the governance maturity is sustained, as it is mainly centred on individuals rather than organisational systems.

Participant 1 indicated that their organisation had the clear intention of attracting individuals that were experienced in the organisation’s sector, bringing credibility and integrity into their board because they provided the organisation with an advantage on which to build its reputation and attract donors.

Overall, there are two issues that preoccupy the NPO leadership (1) donor relations management and (2) funding methods for programmes, as determined by the standard deviation analysis shown in Table 9 above. This is supported by their concern that their organisations are able to account to donors and that management is able to successfully guide the organisations so that they deliver impactful programmes.

## **5.9 Conclusion**

The findings of this research have highlighted important aspects of financial sustainability, governance and organisational culture that influence the non-profit organisations that were interviewed. The factors that emerged in the findings indicated that higher importance was assigned to donor relations, alternatives from donor funding and successful implementation programmes, and lesser importance was placed on the financial sustainability, character of the organisation and corporate governance. These findings will need to be analysed against the objectives of the research and the academic literature: this will be done in the next chapter. This process will involve an in-depth analysis of the findings for insights in the research and academic scope. As the quote from Participant 5 emphasises, the objective is to raise financial resources in order to fulfil the missions of the organisations.

## Chapter 6: Discussion of results

### 6.1 Introduction

This chapter discusses the research results presented in Chapter 5, which were investigated during the semi-structured interview sessions with the participants, as well as in light of the insights derived from the literature outlined in Chapter 2. The inductive process of drawing the results from the data facilitated responses to the research questions outlined in Chapter 3, which involved making linkages to explain the processes that non-profit organisations engage in to address issues pertaining to financial sustainability and alternative revenue sources.

With the evolution over time of the non-profit funding landscape, which resulted in a reduction of available funding in developing countries, the expectation of NPOs to continue delivering on their social transformation roles in a changing socio-political world continues and increases (Habib & Taylor, 1999; Habib, 2005; Banks & Hulme, 2012; Hershey, 2013). Kerlin and Pollak (2011) indicated that there has been an effort by non-profit organisations to increase commercial activities as part of their funding strategies, even though the participants in the research did not show corresponding changes in behaviour, as indicated above. The participants' responses to the changing funding landscape could be attributed more to what Child, (2010) described as an increased dependence on government funding, because the results also indicate an increased association between their financial sustainability and their ability to fund their programmes, irrespective of the source of the funding. This is despite Chikoto and Neely's (2014) finding that the organisations that increased their dependence on donor and government funding have found it difficult to continue with their missions, particularly after the 2008 financial crisis.

This chapter therefore presents a comprehensive analysis of the results of this research in order to draw conclusions that will be of assistance to organisations by providing practical suggestions on how they can successfully pursue the alternative revenue sources necessary for achieving financial sustainability.

## 6.2 Research Question 1

### **What activities do the NPOs under study pursue in order to be financially sustainable?**

The purpose of this question was to gain an understanding of financial sustainability by the non-profit organisations that were investigated. The results, as well as existing literature on the financial sustainability of non-profit organisations, explained the factors that influence these constructs and their impact on the organisation's activities and associated costs.

Different organisations provided multiple interpretations of financial sustainability, but a common idea was that it involves the ability of an organisation to continue operating and fulfilling its mission in a sustainable manner. Most of the participants interpreted financial sustainability as the ability to secure long-term donor agreements and manage the impact of a drastic reduction in funding when donors withdraw resources from their programmes; it also involved avoiding the organisation becoming financially vulnerable. This was because financially vulnerable organisations are likely to cut back and close down their operations when experiencing financial setbacks (Bowman, 2011; De Andrés-Alonso et al., 2015; Grasse et al., 2015).

All the organisations were dependent on finances from donors, and their relations with donors were therefore of paramount importance to their financial sustainability, and consequently to their functioning. Hillman (2009), Reith (2010) and Grasse et al. (2015) maintained that the monetary relationship that exists between a donor and a beneficiary organisation results in the inability of the organisation to maintain its autonomy, as donors tend to impose conditions on the organisation's activities, which may result in their being diverted from their primary missions. The participants indicated that they were all dependent on donor funding, with the exception of Participant 9, so they were highly reliant on the funding decisions made by the donors. This influenced their autonomy in decision-making in relation to their programmes and in seeking new and alternative funding sources.

In addition, the influence of donor relations on financial sustainability came out strongly during the interviews, indicating that the resource dependency theory has a strong bearing on these organisations. The influence of donor relations was shown to impact



on the manner in which organisations manage their approaches to financial sustainability to appease their respective donors and financial partners. Moreover, these findings concur with the literature, which states that resource dependency theory provides for organisational change that is influenced by external forces that the organisation has no control over (Pfeffer & Salancik, 2003).

Fowler(2016) provides further clarity on the impact of resource dependency theory when alluding to the relationship outcomes between international NPOs which support local NPOs financially on specific projects. The contracted local NPO might pay more attention to project sustainability, at the expense of its own organisational sustainability, because of its financial dependence on the international partner. This is because the financial stability of a non-profit organisation contributes directly to the overall organisational sustainability as part of a whole, thus an overdependence on one funding source can be detrimental to an organisation and fail to contribute to the long-term success of the organisation's mission (Froelich, 1999; Carroll & Stater, 2009; Grasse et al., 2015). Thus Grasse et al. (2015) encouraged non-profit organisations to consider revenue diversification as a strategy to overcome donor over-dependence.

Participants in the study concurred with this view by interpreting financial sustainability as the attainment of financial independence from donor funding. This was substantiated by Hailey & Salway (2016) when they emphasised the ability to strategically and tactically adapt to a changing funding landscape by mobilising new financial resources, saying that this was critical to the financial sustainability of an NPO. The results have also shown that financial sustainability is viewed as part of a whole that leads to the overall sustainability of their organisations. The participants also indicated that the availability of financial resources needs to be complemented by other elements, such as financial skills that permit the analysis and maintenance of a good financial position. These skills have been linked to the good governance principles associated with financial reporting as well as management of donor relations, amongst other aspects.

However, diversity in an organisation's approach to governance can make it difficult to clarify its role in relation to financial sustainability. Therefore, the composition and functioning of the board and the oversight provided on finances becomes a basis for analysing the role of governance in striking a balance between donor relations and financial sustainability. The participants raised the status of donor relations as an extremely important element of sustaining the availability of financial resources because of the critical role that reputation management plays in the life of an organisation. This

means they are likely to spend a lot of time, energy and expertise in managing these relations – instead of spending that time, money, energy on their mandates. The participants also alluded to their ability to maintain an impeccable reputation by following good governance principles and financial management standards, including reporting, as they promoted accountability and transparency as important aspects of maintaining donor relationships. These factors became important in understanding the role of the board in financial sustainability to the extent that it was considered more important than finding alternative revenue sources.

The participants stated that, as long as good donor relations were maintained, their organisations could guarantee long-term donor support for their programmes. However, they failed to recognise that approach as a short-term guarantee, and to perceive that in the long term, donor dependence could rob them of their organisational autonomy and actually drain their resources, because they have to divert resources to donor relationship management. The non-profit organisations therefore relied heavily on their good reputation to attract donors, and as was established above, the participants were content to remain donor-dependent. Their strategies for engaging with their donors as stakeholders were thus directed by resource dependency and often took the form of a master-servant relationship.

De Andrés-Alonso et al. (2010) and Steen-Johnsen et al. (2011) were clear in their assertion that governance in non-profits should be the concern mainly of beneficiaries who expected to receive sustainable services from the non-profit organisations. According to these authors, the adequacy of the governance was often measured against the experiences and character of the board members. At the same time, the donors had a significant stake in the effective functioning and sustainability of the organisation, at least as far as their investments were concerned. This meant that, in order to continue receiving donor support, the governance systems of the organisations were vulnerable to the influence of donor relations. Others have described this as being financially sustainable (Steen-Johnsen et al., 2011; Greller, 2015).

Nevertheless, governance principles in NPOs should be evaluated beyond board composition: they should extend to the character of the organisation with regard to reporting and transparency, as well as in meeting stakeholder and beneficiary expectations (De Andrés-Alonso et al., 2010). Thus there has been a renewed interest by non-profit organisations in understanding how their internal and external constructs influence each other in their efforts to achieve financial sustainability, notwithstanding

the self-perpetuating nature of non-profit boards, on which there are no registered members for the organisation (De Andrés-Alonso et al., 2010; Dent, 2014; Greller, 2015; Steen-Johnsen et al., 2011).

There are, therefore, many approaches that non-profits take to ensure financial sustainability, ranging from financial management, donor relations, corporate governance and finding alternative sources of income, which have been indicated by all the participants. The literature in Chapter 2 also contributes to the interpretation of the approaches as similar to many other non-profit organisations.

### **6.2.1 Research Question 1(a)**

#### **Measures used to determine the organisation's activities and associated costs**

The main objective of non-profit organisations was to reduce the level of socio-economic challenges that affect society, especially those that governments were not able to resolve (Grimes, 2010). These organisations employed initiatives that targeted social transformation and pursued funding opportunities to support their work (Unerman & O'Dwyer, (2010), Hershey, 2013; Lu, 2015).

Non-profit organisations often utilised their mandate and mission to determine the activities that they would pursue. However, their selection of activities was only one side of the equation, because successful implementation of identified programmes required adequate funding to achieve the goals set for the programme. Therefore, an organisation's financial position, as well as the financial position of a programme, is important for the factors used to select activities to pursue. Leonard, (2014) highlighted the imbalances in the funding landscape, which occur because they are dependent on the locality of the intervention as well as the location of its beneficiaries (Aschari-Lincoln & Jager, 2016). Most participants strongly indicated that they rely on good donor relationships for support towards fulfilling their missions.

As discussed above, the relationship with donors was also highlighted as an important factor that NPOs utilise to decide on programmes and their associated costs (Hailey & Salway, 2016). For instance, the participants mentioned that some of the programmes are suggested by donors to the NPOs when they have a particular mandate to fulfil in addition to the work they are doing with the NPO. However, Carroll & Stater (2009);

Bowman (2011); AbouAssi (2013, 2015) and Chikoto & Neely (2014) assert that being too dependent on donors can be detrimental to the NPO because they have no control over donor commitments for funding.

The other factors that were mentioned by the participants related to their capacity to implement their programmes and their capabilities to ensure financial sustainability, whether through current donor funding or through securing alternative revenue sources. This confirmed the assertion by Hailey & Salway (2016), who stated that an organisation required dynamic organisational systems and processes in order to attract alternative revenue sources, and these processes required advanced skills, which were often not available in NPOs.

Interestingly, some of the participants indicated that the socio-economic environment in which they operated were an aspect that they considered when developing their organisational strategies and determining the programmes they would pursue. This affirms the position of Grasse et al. (2015) that the best way to persevere through pressures from the external environment was to diversify an organisation's revenue sources. Equally important was recognising that self-financing was not the ultimate solution to successful and sustainable organisations, and that the environment and its resources were important for maintaining meaningful self-reliance (Yang et al., 2011). The participants also noted that the choice of programmes had, over time, arisen from reviewing of strategy and changing their business models to suit their operating environments.

Internal environmental factors, such as the level of the board governance and oversight support for the management teams had also played a role in shaping the activities that the organisation would participate in, as an approach to managing stakeholder expectations (Greller, 2015). These expectations contributed immensely to the strategy of the organisation and the choices that the leadership decided to pursue. Chelliah et al. (2015) emphasised on the significance of this approach, which was based on research into non-profit governance systems that focused on board compositions, and their role in managing organisational efficiency.

Recently, there has been a growing trend of collaborating with like-minded organisations in implementing new programmes. This was specifically raised by Participant 9, who is donor-independent but acknowledged that they did not possess an infinite financial capacity to resolve all the socio-economic challenges facing society. To extend their

financial strength, they sought partners that had vision aligned to their mandate and could contribute their own finances for implementation of a programme. The collaborative approach of NPOs was inculcated into the nature of these organisations, which were often characterised by partnering with communities, governments and private sector entities in their quest to resolve socio-economic challenges.

However, most importantly, the organisation needed to have passion and the will to intervene in a given situation, and would scope and deliberately programme solutions into workable projects which they would implement.

### **6.2.2 Research Question 1(b)**

#### **Strategies to identify, select and evaluate alternative revenue streams.**

The main concern of the participants was their ability to continue implementing their programmes sustainably from a financial capacity point of view. They indicated that finding alternative revenue sources was dependent on their capabilities to adequately manage their finances, as well as developing realistic strategies that were supported by monitoring and planning processes.

The ability to have multiple funders for their different programmes was also highlighted. However, they did not mention the importance of having resources to sustain their operations. This showed a limitation in their thinking around sustainability which might have contributed to their inability to find viable alternative revenue sources.

Most of the participants also neglected to consider that developing funding sources required financial resources, as they simply remarked that they would ask their current donors for the necessary support. A challenge would arise if donors had already been providing the finance for direct project costs and therefore found it difficult to invest additional funds in the participant programmes in order to create additional revenue sources.

Participant 9 indicated that their organisation had utilised loans to participate in Black Economic Empowerment deals in the late 1990s and the returns from those investments had enabled them to function independently of donor funding. The investment route towards alternative funding sources has its own risks, and their organisation had

established a separate investment company thus ensuring that the NPO board provided oversight. However, this approach may not be possible for many grassroots organisations that do not own any assets that can be used as collateral for raising investment finance. Hence Fowler (2016) proposes that local NPOs should seek to develop sustained donations as a financial sustainability approach in the difficult economic environment that prevails in many poor countries.

The new paradigm-shift sweeping the non-profit sector could offer a significant push for NPOs to establish income generating programmes in order to have consistent flow of funding for their programmes. Carroll & Stater (2009); Chikoto & Neely (2014) and Stecker (2014) argued strongly that the most viable approach for ensuring financial sustainability of non-profit organisations was to disrupt the dominant model of financing NPOs by introducing a social entrepreneurship approach. The emergent shifts in approach to finding new financial resources were often intentional and included commercialisation strategies and the establishing of social enterprises (Gras & Mendoza-Abarca, 2014), as well as long-term donor support. There were participants who confirmed the imminent disruption of the financing model because they had experienced near-death situations when large donors suddenly withdrew their funding.

However, most participants were engaged in developing strategies to secure more long-term donors, with long commitment times. This contradicted the theory that non-profit funding was through social entrepreneurship ventures (Carroll & Stater, 2009; Chikoto & Neely, 2014; Stecker, 2014). The argument for securing long-term donors emerged strongly during the interviews and indicated that the NPOs were not yet ready to pursue profit generation on a scale that could fund their missions in a sustainable manner.

The ability of organisations to develop alternative methods of raising financing in other sectors of the economy would depend on social entrepreneurship (Lehner, 2013). However, the participants showed no inclination to link the services that they offered to income and profits, which was a central theme for social enterprises, as described by Chell et al. (2010). The participants were adamant that they would not charge for their services because they were meant to serve the poor, although some of the services they provided could also be offered to clients who could afford to pay for such services, and their social transformation initiatives were not meant for the poor only, but for society in general. It was clear that non-profit organisations often have untapped potential to establish for-profit entities aimed at financially supporting the non-profit entity. Stecker

(2014) argued that social solutions could be resolved by adopting a business-like approach that also created funding for non-profit initiatives.

In general, with the exception of Participant 9, the representative of the participating organisations did not express aims to be financially autonomous or donor independent.

### **6.3 Research Question 2**

#### **Which revenue streams have/are the NPOs under study developed/ are developing?**

Most non-profit organisations are involved in finding additional and alternative revenue sources to support the implementation of their missions. As Gras & Mendoza-Abarca, (2014) and Hailey & Salway (2016) have explained, non-profits that are sustainable are those that continually strive to maintain financial sustainability by remaining agile and responding timeously to volatile funding environments. The participants indicated that they recognised the importance of strategies to generate alternative revenue and had considered the, thus concurring with Chikoto & Neely, (2014) and Stecker (2014) that they needed to look at alternatives. However, they had not adopted practical strategies to pursue alternative approaches.

These organisations had resorted to their tried and trusted ways of building fundraising strategies that aimed at growing their long-term donor bases as well as securing direct project funding for sustainable implementation. This approach aligned with the view of Fowler (2016) that local NPOs should secure sustained donations before embarking on attempts at self-reliance. This was because most NPOs were not ready to adapt to the corporatisation of their organisations (Julie, 2010). This attitude was similar to the reaction of many non-profit organisations in developing countries, who lacked the capabilities to respond fast enough to changing environments and resorted to old-fashioned ways of growing their funding pool through fundraising (Hailey & Salway, 2016).

The participants were also aware of the challenges and risks involved in over-dependence on donors, and confirmed the explanation provided by Carroll & Stater (2009) relating to this. They further reflected that their strategies were to secure multiple large donors, as well as multi-year project funding. Most organisations would not embark

on programmes that did not have committed funding for implementation, and thus agreed with Grasse et al. (2015) that organisations require a good balance of revenue sources to minimise financial and operational risks.

However, Participant 9 indicated that their organisation operated two investment companies which provided funding for their non-profit programmes. This was a unique case, as the organisation was totally donor-independent. They had thus avoided the resource trap that was often placed on organisations by donors, and retained their autonomy (Kaliba, 2014; Reith, 2010). However, they had minimal dependence or limitations on their autonomy in the programmes they were implementing in collaborated partnerships. This approach to funding NPO work had the potential to increase the success of programmes; and they were not subjected to pressure from donors or coerced into working with other organisations, private companies or government (Froelich, 1999; Pfeffer & Salancik, 2003).

The participants were aware of essential role of governance structures in the different organisations, and their perception of the impact that income-generating initiatives could have on their reputation and legitimacy as a non-profit organisation (Bowman, 2011; Banks & Hulme, 2012). The line differentiating financial need from the profits of organisations might have often become blurred when the organisations were generating sizeable income and raising funds at the same time. Grimes (2010) suggests that an NPO's financial mission may compromise its social mission.

Nevertheless, most participants showed an interest in pursuing alternative revenue sources even though they had not yet acted on their enterprising ideas, more so because their cognitive frameworks had prohibited their leadership from thinking of big enough returns to support their projects sustainably. This agreed with Grasse et al. (2015), who believed that developing revenue diversification was an important step that an NPO could adopt in order to adapt to the changing external funding landscape. Furthermore, this agreed with the arguments that changing and diversifying revenue streams resulted in minimising the impact of changes in funding agreements with donors, thus allowing an organisation to achieve financial autonomy (AbouAssi, 2013; Chikoto & Neely, 2014; Aschari-Lincoln & Jager, 2016). Equally, some participants indicated that the level of risk appetite of their organisations boards would involve taking investment risks as opposed to the risk of being unable to continue with their missions. However, boards were required to advise and guide organisations to develop prudent revenue generation strategies that enabled the organisations to survive revenue volatility, even though it was well known



that these strategies could attract more external risks for the organisations (Gras & Mendoza-Abarca, 2014; Grasse et al., 2015).

On the other hand, it was imperative for NPOs to have sustainable financial resources to fund their operations because of the expectations of their beneficiaries that they would assist them in overcoming their challenges. Therefore, the point of view of the resource-dependency theory still applied: that the critical element for organisations was a full understanding of their internal and external environments, and of the associated pressures (Grasse et al., 2015).

The participants also indicated strongly that maintaining a good reputation was more of a necessity than achieving financial sustainability. Ethics and transparency were held to be paramount, and organisations that had doubtful reputations and lacked prudent financial reporting had lost donors; many had closed their doors as a result. This was all the more important because of pressures from international donors and funders, who required onerous reporting processes. These donors often demanded access to financial and organisational data in order to assess practices of good governance and sound decision-making (Banks & Hulme, 2012).

Thus the quest to develop alternative financial resources had forced some of the participating organisations to significantly change their operating models while still servicing the same sectors, but mainly to maintain donors rather than to create their own sources. This could also be linked to the changing scope of the funding landscape, in which donors changed the areas they supported. This was linked to the overall changes in the funding landscape, administrative demands from donors and the need to improve their financial resourcing models to satisfy funding requirements (Chikoto & Neely, 2014; Stecker, 2014).

Furthermore, for the sustainability of their organisations, it was imperative for NPOs to achieve a healthy balance between donor funding and independent financial resources. This would enable organisations to overcome donor pressures and retain autonomy with regard to their mandates (Hershey, 2013). In reiteration of the role that NPOs played in society, and the inroads they had made in challenging socio-economic situations, it was clear that they would continue to be needed to fulfil their important roles.

## 6.4 Research Question 3

### **What factors and characteristics do the NPOs under study believe are important when developing and implementing alternative revenue streams?**

The relationship that the participating organisations held with their donors was highlighted as an important factor that should be considered when an organisation pursued alternative revenue streams. Since the idea of alternative revenue streams was articulated as a funding source that most were not currently pursuing, the general level of thinking about alternatives still included making a distinction between donor types. This was in contrast to the arguments that Stecker (2014) raised with regard to disruption, that needed to be applied to the NPO funding model.

The participants regarded donor relations as an important factor because most of them had grown their financial base from leads and recommendations to other funders from their current donors, therefore the relationship with their donors has been groomed to maturity and resembled more of a partnership for resolving social issues. Resource dependency theory supported this approach of prioritising and interacting with those that controlled resources (Pfeffer & Salancik, 2003; Gras & Mendoza-Abarca, 2014). The approach was also an indication that the NPOs were unable to manage their over-dependence on their donors, and should start developing strategies that would capacitate them to be less dependent (Carroll & Stater, 2009; Gras & Mendoza-Abarca, 2014).

The participants indicated that maintaining a good reputation in their current sector and among their donor partners was important because it served as some sort of guarantee of future funding. Thus Fowler (2016) strongly argued that NPOs should go through a mind-set shift that allowed them to think in terms of agile sustainability rather than their current thinking of secured partnership. The reason for this was because the NPOs would spend valuable resources trying to comply with donor requirements for reporting, at the expense of developing sustainable organisations for the future (Carroll & Stater, 2009; Chikoto & Neely, 2014; Gras & Mendoza-Abarca, 2014; Stecker, 2014; Fowler, 2016). Some of the donor organisations had stringent reporting processes and mastering them had the potential to place an organisation in good stead among its peers, but it was also possible that meaningful reporting and administrative resourcefulness could go unrecognised and the funding process could be derailed.

The other characteristics that were important related to the organisation having good corporate governance structures, as well as clean finances. The role of corporate governance was important because it enabled the organisation to chart new avenues and win legitimate support because their decision-making structures were deemed above board. Increasing socio-economic challenges and the inability of governments to resolve them had fuelled the establishment of unscrupulous non-profit organisations that were not registered to trade. Thus, good corporate governance principles were a growing requirement for NPOs (Greller, 2015). There was sufficient research into non-profit governance, particularly on the composition of the boards, as well as the relation of board efficiency to organisational efficiency (Chelliah et al., 2015), making it easy to apply regulatory frameworks to manage non-regulated organisations (Greller, 2015).

Furthermore, participants indicated that their organisation required support structures to sustain the implementation of good governance principles, simply because a board and its structures were tasked with providing oversight for financial and organisational efficiency. Thus the role and application of the King III Report became important in a non-profit scenario, especially as a result of structural challenges that exist between for-profit (which the King III Report was originally intended for) and non-profit organisations (Dent, 2014). The role of the board members was seen as having a significant impact on the accountability of managers and on programme implementation. This was mainly due to the assurance that the King Report afforded on the oversight role of the boards, as well as the strength that the diverse characteristics of non-profit board was able to bring to an organisation (De Andrés-Alonso et al., 2010; Dent, 2014). Hence, the participants indicated that the character of their leadership and their ability to perform their roles was important for their financial sustainability; because it was important for organisations to have the ability to differentiate their financial requirements in the short, medium and long term. The organisations needed to be clear on the strategic approach that they endorsed in order to achieve financial sustainability (Coombes et al., 2011; Morris et al., 2011; Stecker, 2014; Fowler, 2016).

The other factor that participants identified as important for developing alternative revenue streams was successful implementation of the programmes they were involved in. This was because an organisation that fulfilled its mission successfully was able to develop it further by harnessing additional resources. The participants' were firm about the need to have a good track record in both programme implementation and in managing their finances. This related to the role of governance structures in NPOs, as

explained by Steen-Johnsen et al. (2011) which is to organise their stakeholders as well as to regulate the successful delivery of their goals (Steen-Johnsen et al., 2011; Greller, 2015).

Furthermore, organisations were required to be agile and adaptable to their changing environments. The participants mentioned that adapting to the changing external environment was an important organisational trait because it could protect an organisation from harsh conditions which could result in it closing down. This included the ability to collaborate with like-minded organisations, as well as to implement their models in different environments. This is an approach which has been seen in NPOs that have established social enterprises ( Kerlin & Pollak, 2011; Gras & Mendoza-Abarca, 2014; Hailey & Salway, 2016; Hayman, 2016) and emphasised by Fowler (2016) when stating the need for NPOs to improve their skills levels and focus on a more collaborative approach in seeking to sustain their missions.

Equally, the character and mind-set of an organisation were important factors that contributed to financial sustainability through alternative revenue sources. The manner in which organisations approached different challenges counted as a factor in determining success and sustainability. This included an organisational element that was dependent on the quality of leadership structures, as well as the leaders that an organisation had at board and executive management level, especially, as Coombes et al. (2011); Morris et al., (2011) and Stecker (2014) argue, because an enterprising approach by an NPO relied on the strategic role and character of its leadership cohort. An organisation also required passionate people and leadership that was confident to tackle the socio-economic challenges that the organisation was attempting to resolve. This was an even greater requirement in the changing economic landscape that was busy changing the manner in which organisations operated.

## **6.5 Research Question 4**

**What leadership attributes do NPOs under study believe are required for an organisation to successfully identify and implement activities for alternative revenue streams?**

The participants emphasised the role of leadership in organisations as an important element for an organisation to succeed in fulfilling its mandate. Non-profit organisations were characterised by boards and management levels of leadership which were tasked with the development and management of the execution of the organisation's strategy. The rise of formal non-profits in South Africa in the 1990s attracted new leadership characters that came from the private sector and corporatised the NPOs. This was a positive gain for the sector, which was formalising in a rapid rate (Julie, 2010).

Furthermore, the operating environment of NPOs of absent shareholders and mostly without registered members can make it challenging to manage and monitor the leadership attributes that an organisation requires, especially when a need to change a leader arises (Dent, 2014). Therefore there are calls for leadership that has the ability to carry stakeholders and beneficiaries along, as it is their responsibility to ensure that the NPOs delivers on their mandates (Steen-Johnsen et al., 2011). The main concerns of the beneficiaries and stakeholders in relation to leadership attributes were often based on the positive and negative experiences of previous leaders (De Andrés-Alonso et al., 2010). Equally, an organisation that was over-reliant on board oversight had to ensure that its board members had the skills that were appropriate for providing the organisation with sustainability and ensuring the application of good governance principles (Greller, 2015). Furthermore, they should have the capacity to cope with the responsibilities pertaining to organisational strategy, and to provide oversight to executive managers as well as ensuring that the organisation had adequate resources to continue its operations (Chelliah et al., 2015).

The roles of decision-making structures in the organisation was important in ensuring its longevity, hence, the discussion on the recruitment of board members and the skills set they possessed, as raised by the participants, played a significant role in deciding on the most ideal character for a board member. The organisational and mission-fit tests had to be applied, not only to board members, but in the recruitment of the executive leadership as well. Dent (2014) explains that NPOs often were confused between the role and the control exercised by their CEOs, simply because it was found that the CEOs would take over the governing responsibilities of the boards, especially when they were not adequately skilled for their tasks (De Andrés-Alonso et al., 2010; Dent, 2014). Therefore, an organisation that intended to identify and implement alternative revenue streams would need to have good corporate governance structures in place, which would include the board and guidelines for appointing board members. These guidelines could be utilised to find suitable people to fill roles on the board.

Participants also mentioned the different methods that they employed to appoint members of a board, ranging from casual to systematic processes. However, all the approaches had a central theme: ensuring that they appointed the correct individuals to assist the organisation to set and execute its strategy. Within the ambit of recruitment processes, the participants also relied on current board members and executives to recommend suitable candidates to be considered for leadership roles, and this might have improved or derailed the cognitive diversity of a well-functioning board. This emphasised the importance of preparing the incumbent board member of a non-profit organisation, because the role often went beyond the controlling assets and monitoring of finances. It also involved becoming entrenched in the mission of the organisation and not earning competitive rates for ones services (Chelliah et al., 2015; De Andrés-Alonso et al., 2010). It is necessary to keep in mind the skewed application of King III Report towards the for-profit organisations, and to understand how it might further skew the accountability expectations of non-profits (Wyngaard & Hendricks, 2010).

The next important attribute that participants mentioned was the level of both leadership and technical skills in their leadership structures. For instance, some participants outlined the perceived weaknesses that existed in members of their board committees. These were mainly the lack of technical skills that were relevant to their sectors, as well as business and financial acumen. This might imply that the initial recruitment of board members, especially founding members, was based on passion and trust, and less on skills and ability to fulfil the oversight role expected of the board members. The King III Report argued that organisations should look for a balance in the cognitive diversity in its board members. Therefore, contrary to the King III Report's recommendations on the cognitive diversity, independence and character of the boards, NPOs prefer, for both ease of doing business and practicality, to have more non-independent board members that were familiar with the organisation and genuinely interested in its mission (De Andrés-Alonso et al., 2010; Dent, 2014).

However, the requirements for the executive managers had generally been placed much higher than those for the board. This had resulted in more powerful executives who directed the strategic approach of the organisation and basically informed the board on the level of oversight that was required (Dent, 2014). Nevertheless, the diversity of leadership skills in the organisations had not resulted in the organisations being more assertive on financial sustainability.

Furthermore, the participants expressed their expectation that their board members would assist them in fund-raising for their programmes. They also mentioned their dissatisfaction with the level of participation and guidance provided by their board members in ensuring the financial sustainability of the organisations. This expectation included participating in identifying alternative revenue streams and having a greater risk appetite than the executive management teams. This implied that the boards were expected to apply a more entrepreneurial mind-set in approaching the business of the non-profit. This was confirmed by the Independent Code of Governance for NPOs in South Africa, which stated that one of the expected roles of board members was to provide leads for financial resources and be resourceful in fundraising efforts (Rosenthal, 2012). However, this contradicted the King III Report, which preferred a more independent and distant relationship by board members to the operations of the organisation. This supported the argument that the King III Report might not be applicable to full to non-profit organisations. However, the guiding principles for good corporate governance that were internationally recognised did not accommodate the operating models of non-profit organisations, and most NPOs did not apply the King III principles because they were written for organisations that could afford to pay for the services of board members (Wyngaard & Hendricks, 2010; Rosenthal, 2012; Institute of Directors in Southern Africa, 2013).

NPOs therefore required leadership attributes that met the applicable governance principles that could be fully entrenched in the organisation's mission, with sufficient passion to stick with the organisation for a lengthy period of time, as well as having the technical and financial acumen to ensure the sustainability of the organisation.

## **6.6 Synthesis of the discussion on results**

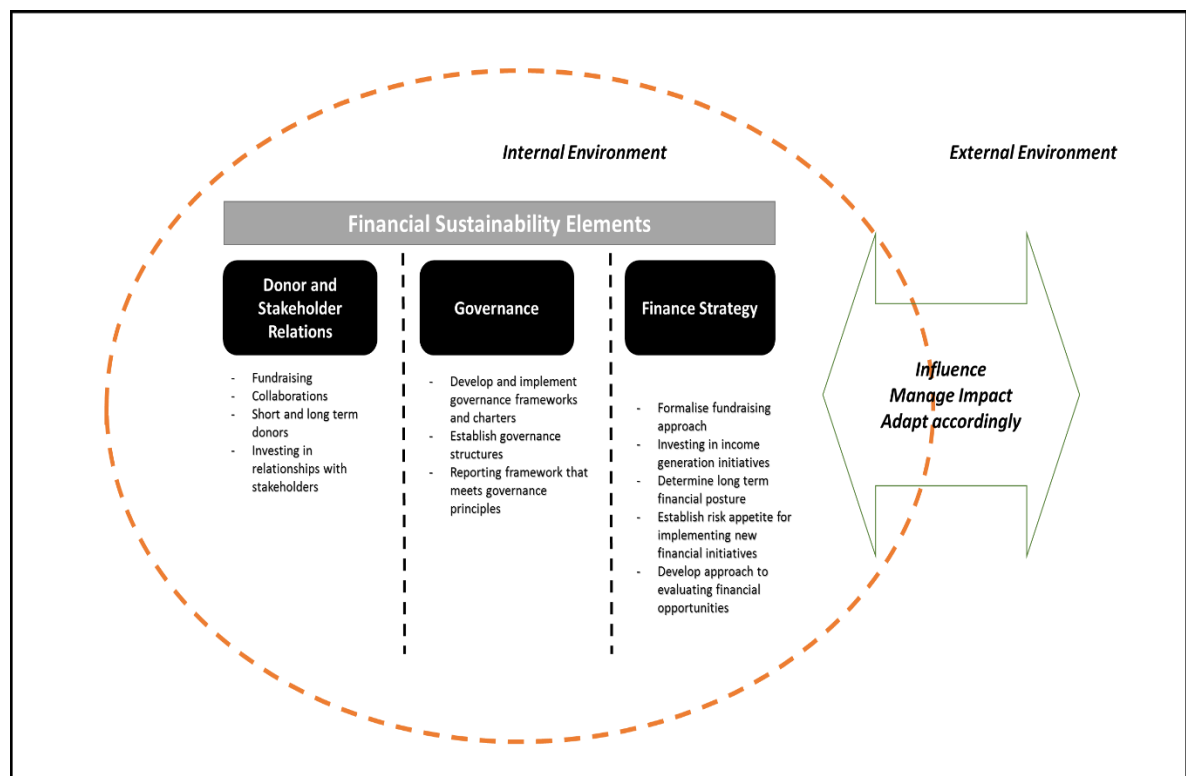
The discussion of results and their application to theory provided a preliminary framework that non-profit organisations could use for planning their approach towards financial sustainability. The framework was developed to bring together the insights from the research that indicated three elements that could contribute immensely to the financial sustainability of non-profit organisations:

- The development of an effective donor and stakeholder relations framework, to be institutionalised through the organisational strategy and corporate governance structures;

- The organisation and restructuring of the governance structures in order to provide cognitive diversity and enable the ongoing delivery of the organisation’s mission by a financially sustainable organisation;
- The development of a financial strategy that outlines approaches for continuing to raise funds from donors, invests in income-generating programmes by recognising the link between the product/service offering and income, according to an appropriate risk appetite, which also involves the recruitment of collaborative partners to extend the financial ability of organisations for both the short and long term.

The framework shows, in particular, that these elements occur in the organisation’s internal environment, which they have autonomy to control, and that the elements for financial sustainability have the potential to influence how the organisation is impacted and reacts to changes in its external environment (such as donor fatigue, donor financial position, economic and political conditions). The framework further indicates that the conditions in the internal and external environment can influence each other equally.

**Figure 2: Preliminary Framework: Key components to attain Financial Sustainability**



Source: Author’s own



## 6.7 Conclusion

The discussion of results involved an interpretation and analysis of results provided in Chapter 5 against the literature provided in Chapter 2, in response to the research questions presented in Chapter 3. The process produced insights that can be applied to a financial sustainability approach that should be developed for non-profit organisations in South Africa. The above discussions also provided the insight that financial sustainability does not equate with donor independence. The discussions also motivated the researcher to develop a preliminary framework covering the important elements that should be considered in working towards the financial sustainability of NPOs.

## Chapter 7: Conclusion

### 7.1 Introduction

The purpose of this chapter is to provide a summary of the research by articulating the main findings, contributions to literature, contributions to the sector and implications for management, and as well as suggestions for future research.

This chapter will also summarise the outcomes of the research in meeting the research objectives highlighted in Chapter 1, as follows:

- Establishing the impact of sole reliance on donor funding on the mission and activities of selected NPOs;
- Determining the extent to which alternative revenue streams by the selected NPOs under study have been cultivated;
- Determining the impact of diversifying and developing alternative revenue streams in assisting the NPOs under study to be financially sustainable;
- Drawing up a description of the kind of leadership required within the NPO context to successfully implement alternative revenue streams and achieve financial capacity and sustainability.

These objectives and the literature review in Chapter 2 were used to design the research questions that are in Chapter 3 which are:

- **Research Question 1:** What activities do the NPOs under study pursue in order to be financially sustainable?
- **Research Question 2:** Which revenue streams have the NPOs under study developed, or what revenue streams are they developing?
- **Research Question 3:** What factors and characteristics do the NPOs under study believe are important when developing and implementing alternative revenue streams?
- **Research Question 4:** What leadership attributes do the NPOs under study believe are required for an organisation to successfully identify and implement activities for alternative revenue streams?

## 7.2 Summary of the main findings

The purpose of the study was to make sense of the approaches that non-profit organisations are pursuing in order to be financially sustainable through alternative revenue sources. From the research findings, valuable themes emerged from the research data, as discussed below.

### 7.2.1 Donor and stakeholder relations

The findings have shown that the NPOs prefer to develop and maintain a large donor base in order to be financially sustainable. The challenges of being over-reliant on a few large donors may compromise the autonomy of an organisations because donors tend to wield significant influence on the delivery of the organisation's mandate when they are aware of their controlling capacity, which is mainly financial dependence.

The ability to secure long-term donors emerged as an important factor towards financial sustainability. The organisations therefore highlighted investing in donor and stakeholder relations as an important strategy for NPOs to master and survive the challenging external environment in which they operate. As a result, it is important for them to develop strong relationships with their donors in order to maintain the relations and form new ones. This is because the non-profit organisations are aware that they need to be financially sustainable, and that they must have enough funding to implement their programmes sustainably, thus confirming that financial vulnerability could lead to mission drift and to organisations losing their relevance and legitimacy in the face of their stakeholders (Bowman, 2011; De Andrés-Alonso et al., 2015; Grasse et al., 2015).

Over-dependence on donor funding is a risky approach for an organisation that intends to fulfil its mission sustainably over a number of years, so it is important for NPOs to provide enough support and resources to achieve financial sustainability through alternatives from donors (Carroll & Stater, 2009; Chikoto & Neely, 2014; Stecker, 2014).

The combination of donor relations and partner collaborations as a means of attaining financial sustainability also emerged as an important trend among NPOs. This strategy for ensuring the long-term viability of successful programmes was viewed as more important than developing independent income-generation strategies. This is very different to the insights expressed in the literature that indicate a growth in the transition

of NPOs towards social enterprise, which Lehner (2013) advocated. Thus, collaboration with like-minded organisations for implementing and scaling programmes has been found to be a growing trend. This finding further confirms the view of Grasse et al. (2015) that it is necessary to diversify an organisation's revenue sources in order to survive the external pressures.

Furthermore, beneficiaries are an important stakeholder group in relation to the governance of an NPO. They are in control of the organisation's legitimacy and relevance and should therefore be considered in any financial sustainability issues that are affected and influenced by the governance systems.

### **7.2.2 Financial sustainability and mission success**

Financial sustainability cannot be managed in isolation from broader organisational sustainability frameworks. Hailey & Salway (2016) raised the point that strategic and tactical approaches to organisation sustainability involve the whole organisation.

The NPOs have deliberated on their organisations' interest in pursuing establishing social enterprises towards donor independence. However, they were not financially prepared to establish social enterprises, which involve decisions that are usually made by their boards. NPOs are unable to view and match the goods and services that they provide to the poor with income generation, especially because the aim of NPOs is to maximise utility rather than to maximise profits. Thus they find it difficult to associate mission success with the bottom line.

The organisations also had limitations on their governance structures, which are not geared towards developing income-generation projects through social enterprises or establishing for-profit ventures to generate income for their non-profit programmes, nor were they in a position to try to change the outlook of their boards and leadership structures or to try to persuade them to embrace self-reliance, with its associated cost and risk benefits, as the tension that exists between financially vulnerable organisations and the support received from their boards has grown over time.

Organisations must be able to commit funds to investing in income-generating ideas and their boards and donors need to be supportive of these moves by increasing the risk appetite of the board and donors so that they allow the organisations to use a percentage

of donor funds to invest and build endowments for future financial security. This can be done through articulating organisational sustainability solutions as a catalyst towards solving poverty.

Some of the participants alluded to the issues pertaining to restructuring their business models in order to be able to operate as social enterprises. They expressed their concerns about the possibility of losing the legitimacy to operate as non-profit organisations, as well as about finding the required skills required to operate successful enterprises, and felt that these issues would have indirect implications for the success of their primary missions. In particular, the notion of taking a business and corporate approach to decision-making had not materialised in fruitful results for the organisations or the sector.

As mentioned above, most NPOs believe in developing and building sizeable, long term donor funding for the sustainability of their programmes and organisation. Their views on sustainability involves the ability to attract and maintain donors who support their missions. This confirms Fowler's (2016) position that local NPOs should try to secure sustained funding before embarking on self-funding programmes, because they may not have the capacity to generate income on a large enough scale to sustain their organisations.

It is thus important for NPOs to create a meaningful balance between donor funding and income generation approaches in order to have autonomy over donors and attain financial sustainability.

### **7.2.3 Non-profit organisations governance**

The question of good governance goes alongside the financial posture of an organisation as well as its determination to fulfil its mission. Effective governance is therefore critical for guiding an organisation towards sustainability, particularly for providing the leadership with a framework for delivering on the mission of the organisation and formulating guidelines for recruiting competent and credible board members and executives who can drive overall organisational sustainability as well as construct a basis for operational integrity.

Most NPOs hold high expectations about the support they expect from their board members. However, the boards operate under the King III guidelines, which are often impractical for non-profit organisations to meet, such as fairly remunerating board members, changing board members through annual general meetings, and the elements relating to professionalism and independence of board members.

NPOs often cannot afford to appoint the most capable talent to serve on their boards and are thus left with members who have served on the boards for many years and cannot be replaced. This means that NPOs can be stuck with the same board members for many years especially when they do not have leadership structure that are aligned to governance principles. However, the upcoming King IV codes are promising the non-profit sector a more flexible set of guidelines; this is because the expectations these organisations hold concerning their boards require the consistent practice of good governance principles. As such, most organisations require a total governance system overhaul in order to cater for the dynamic requirements for a well-functioning organisation.

### **7.3 Contributions to the Literature**

During the interviews with participants, the influence that donors have on the sustainability of the organisations was clear. Organisations are financially dependent on their donors for survival, which illustrates the importance and implications of resource-based theory in this sector. The monetary relationship between the donor and the beneficiary organisation implies that the donors may have a considerable influence on the autonomy of the NPOs they support and compel them to satisfy the donor's development mandates over their own. Therefore, for as long as the donor carries a social mandate to deliver, they would ensure that the NPO is willing and able to assist them in delivering on that mandate, and commit itself to servicing the donor's mandate before engaging in other development work.

The research findings suggest that organisations should continue building donor relationships and developing their financial sustainability strategies, with donor funding still an important element of the funding mix. The research analysis also supports the proposal that the relationship between the donor and the non-profit organisation should be sufficiently flexible for the donor to sanction the use of some of the donor's funds to invest in an income-generation project that can help the organisation be financially

sustainable in the future. By contributing to the financial survival and independence of the NPO, the donor could be directly or indirectly contributing to their irrelevance and loss of control over the NPO when the NPO becomes financially independent. This aspersion would have consequences for the resource-based theory and its influence on the financial sustainability of non-profit organisations.

#### **7.4 Contributions to the non-profit sector**

The non-profit sector is now more exposed than ever to develop financial sustainability strategies that respond to their environments, and the growing notion that non-profits should transition towards social entrepreneurship is not an automatic progression if these organisations are to remain relevant and in operation. Therefore, the non-profit sector in South Africa should engage in more academic research work to develop contextual frameworks that respond to the country's economic environment.

The results of this research have shown that NPOs need to develop comprehensive donor and stakeholder relations capabilities to support their indicated approach towards financial sustainability, which requires that they grow a large and diverse donor base for their programmes.

The era of growing social enterprises will remain relevant but not on a scale that will allow the NPOs to become completely donor independent. Therefore, the sector must develop balanced strategies and common platforms that will enable organisations attain sustainability. It is most important for the non-profit organisations to invest in capacity building in lieu of the social enterprise sector.

The sector's approach towards attaining financial sustainability of organisations should be applied in terms of the preliminary framework towards financial sustainability, as shown in Figure 2 above.

#### **7.5 Implications for management**

The executive management teams in the organisation are an important component in ensuring that the organisation establishes the governance structures necessary for the optimal functioning of an organisation.

The research findings have highlighted the importance of keeping good governance in the organisation. The corporate structures of the non-profit organisations can be varied in accordance with the different legislative requirements of registering such an organisation. As such, others have founding and controlling members, while others may not have any members (from a corporate point of view, shareholders) that own the organisation and have the duty of appointing board members to establish the board. In such situations, the executive management is expected to have the capabilities to set up governance structures and provide an advisory role to the board and an assurance role to the beneficiaries and funders, in order to safeguard the sustainability of the organisation.

Therefore, the literature on non-profits and governance, which reflects the new areas proposed by the King IV Report, need to be adhered to in operations and strategic development, as well as for reporting purposes. Good governance has been positioned as the ultimate reputation protector for an organisation, and the “shareholders” of non-profits (the beneficiaries) require firm support from the executive management. It is therefore suggested that the management teams have a duty to familiarise themselves with the new governance principles that are emerging in both practice and in literature.

## **7.6 Limitations of the research**

The entire spectrum of NPOs was not covered due to time and financial constraints. The researcher selected specific organisations with the purpose of achieving a balanced sample over a range of sectors (such as education, environment and social areas) and organisational types (large and small, national and international, well-established and emerging). In addition, the study was limited to NPOs of more than five years old.

It was anticipated that there would be response bias from some of the interview respondents so that an organisation did not appear not to be financially prudent and sustainable. This could have also been a limitation, because the organisations feared that the results of the research study might compromise their sector’s missions and donor perceptions.

Response bias occurs when respondents deliberately answer the survey with the motive of skewing the research results so that problems are not picked up and issues that are highlighted through known literature or observations could not be triangulated (Zikmund



et al., 2012). In some cases, the bias may be the result of unconscious misrepresentation.

Secondly, there was the possibility of collecting nearly homogeneous answers pertaining to financial management and strategies of NPOs because of an internal motive on the part of the interviewees to appease and satisfy potential donors who might have had an interest in the research results.

Lastly, the sample was a non-probability convenience sample and was therefore not representative of all the NPOs that operate in South Africa, so the results of the study could not be objectively interpreted as a full representation of the views of all NPOs, but only those that were part of the study.

## **7.7 Suggestions for future research**

Research is an iterative process of generating new knowledge to help us understand the solutions from current research that will transform itself into new knowledge in the future. Therefore, the research process provided the following insights for future research in the non-profit environment:

1. Financial sustainability versus mission success: an investigation of whether there should be causality or correlation in the relationship of these elements in non-profit organisations.
2. An investigation on the Perspectives of donors and whether donors should be flexible in order to assist NPOs to achieve financial sustainability and whether they should consider how they can contribute towards the long term sustainability and relevance of donors.
3. Optimum sustainability mix for non-profits: Development of the perfect balance between donor funding, income generation activities and collaborated partnerships to ensure long term sustainability.

## **7.8 Conclusion**

Financial sustainability in non-profit organisations is an important contributor of overall organisational sustainability. The research has shown that the internal and external environments of a non-profit organisation play an important role in the ability of the organisation to attain financial sustainability of its operations and its programmes. The

research results also indicate the important role of the leadership structures of an organisation, which is to ensure sustainability by being organised and managing accountabilities in an orderly and verifiable manner.

Financial sustainability of organisations is an important element of overall organisational sustainability and can be attained through a number of ways, which are both new and old approaches. Most importantly, non-profit organisations are well within acceptable norms by not seeking outright donor independence, but in wanting to have a balanced mix that includes raising funds from donors, raising funds from other enterprises and raising funds through collaboration with other like-minded organisations. With a sustainable organisation, the contributions of the no-profit sectors would continue to reach a number of people in their quest to resolving socioeconomic challenges.

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## Appendix A: Semi-structured interview guide

### Part 1: Funding

1. What are the organisation's financial strengths and weaknesses?
2. Does the organisation have relevant and necessary capacity to be financially sustainable?
3. Who is responsible for ensuring that the organisation is financially sound and sustainable?
4. What accountability systems are in place to ensure financial sustainability?
5. Is the organisation aware of what it needs in order to be financially sustainable / to maintain its good financial status into the future?
6. How often does the organisation review and revise its funding and financial strategies?
7. How would the organisation react to a withdrawal of support from major donor?
8. How does the organisation fund its programmes? Briefly describe the funding and revenue sources (historical, current, future)
9. How does the organisation identify new opportunities for funding?
10. How does the organisation measure, review and evaluate performance of its funding sources against its own objectives and overall strategy?
11. What is the percentage of funds does the organisation receive from its main funding source (donor) of the organisation's total funds?
12. Which alternative revenue sources has the organisation identified in the past 3 years?
13. Is the organisation in a position to develop new funding and revenue sources?
14. What is the nature of the organisation's relationship with its donors?

### Part 2: Organisation strategy

15. Has the organisation ever considered changing its business model/ mission? Why?
16. Has the organisation grown its business since inception? How?
17. What were/ are the organisations challenges when considering scaling up or down its operations?
18. How would the organisation describe its future?

19. What is the organisation's biggest threat for its survival?
20. What would it take to close down the organisation?

### **Part 3: Leadership and Management**

21. How does the organisation choose its leadership at board and executive levels?
22. What is the character of your senior leadership team, in terms of qualifications, age, experience and reputation?
23. Does the organisation's leadership provide support for identifying and sourcing revenue sources?
24. How effective do you perceive your organisation's leadership structures to be?

Thank you.

## Appendix B: Participant Consent Letter



Dear Participant,

I am conducting research to explore and develop an understanding of how various Non Profit Organisations (including NGOs and CBOs) in South Africa have gone about sourcing alternative funding mechanisms for their programmes and missions. Our interview will be a recorded interview and it is expected to last about an hour and a half (1h 30minutes). The outcome of the interview will help build a framework that other such organisations could adopt in order to attain financial sustainability.

***Your participation is voluntary and you can withdraw at any time without penalty.***

Of course, all data will be kept confidential.

If you have any concerns, please contact my supervisor or me. Our details are provided below.

Researcher name: Mmabatho Maboya

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Phone: 073 264 9496

Signature of participant: \_\_\_\_\_

Date: \_\_\_\_\_

Signature of researcher: \_\_\_\_\_

Date: \_\_\_\_\_



## Appendix C: Results

Codes	P 1	P 2	P 3	P 4	P 5	P 6	P 7	P 8	P 9	P 10	TOTALS:
Accountability to donors	5	6	2	12	3	7	2	7	1	5	50
Adequate skills and capacity to be financially sustainable	8	9	8	11	4	8	5	6	6	11	76
Alternative funding plans being talked about and not yet implemented	2	4	3	1	13	0	1	4	4	10	42
Alternative revenue strategies being pursued currently	2	4	7	2	6	0	0	0	5	9	35
Alternatives from Donor Funding	47	50	33	49	41	68	24	34	56	50	452
Analysis and review of financial position	5	12	6	12	8	2	8	6	3	5	67
Appetite to pursue alternative funding sources	0	0	0	0	5	0	0	4	3	13	25
Autonomy from donors	0	3	2	5	3	0	3	5	6	10	37
Board governance	1	3	4	2	2	7	4	2	6	4	35
Board oversight	3	6	3	2	6	6	4	4	9	9	52
Changing business model from inception to current	1	4	2	3	4	2	1	1	4	5	27
Character of the leadership	0	0	0	0	2	0	4	4	4	4	18
Collaborating with other organisations	1	5	1	1	1	8	0	3	6	1	27
Considerations when scaling up or down	5	11	8	6	5	7	6	7	8	16	79
Donor relations management	16	16	5	13	6	21	14	10	6	17	124
Donor trends and behaviour	2	9	2	9	3	0	7	5	6	8	51
Financial environment in South Africa	2	6	0	6	0	3	2	1	8	1	29
Financial reporting	0	0	0	0	0	0	0	5	4	2	11
Financing the generation of alternative sources of income	3	0	0	1	4	0	0	2	6	2	18
Finding alternative sources of income	13	10	9	6	6	8	0	7	5	8	72
Frequency of planning for financial sustainability	1	9	2	5	1	0	3	5	4	3	33
Funding methods for programmes	7	23	7	14	7	6	6	11	11	5	97
Fundraising leads and assistance from board	2	2	4	3	2	3	1	4	1	2	24
Fundraising responsibility	8	4	6	6	3	10	1	8	1	2	49
Future outlook of the organisation	3	5	3	0	3	4	1	3	10	2	34
Identifying new funding avenues and donors	11	9	6	9	5	10	2	6	7	15	80
Impact of donor withdrawal	2	4	0	2	3	0	3	2	0	6	22
Important characteristics for board members	6	6	2	1	2	6	5	4	4	7	43
Important skills for management	0	2	1	7	5	0	1	2	1	5	24
Legitimacy of the NGO in private business	0	0	0	0	0	0	0	0	11	0	11
Limitations to pursuing alternative funding sources	2	1	2	5	3	0	2	1	1	0	17
Linking income to products and services rendered	4	4	0	2	5	1	2	5	0	9	32
Management oversight	2	9	2	5	2	5	2	4	4	5	40
Managing finances and investments	0	0	0	8	5	0	1	10	10	7	41
Managing the alternative sources of revenue	0	0	0	0	0	0	0	0	8	1	9
Meaning of financial sustainability	6	3	3	5	4	5	1	5	4	5	41
Passion for the work	2	3	5	3	4	0	2	3	0	3	25
Perception of leadership structures	1	0	4	1	2	0	6	2	5	3	24
Policy changes and uncertainty	0	2	0	1	0	3	0	0	2	0	8
Pre 1994 nostalgia	1	1	0	1	0	0	0	2	2	0	7
Reaction to withdrawal of a major donor	2	1	3	8	2	6	5	4	1	6	38
Reasons for donors withdrawing their funds	0	2	0	3	1	4	2	2	0	2	16
Reputation management	0	0	0	0	0	0	0	3	11	4	18
Requirements for financial sustainability	0	0	1	4	5	0	0	8	4	2	24
Retaining competent and talented staff	0	3	1	0	1	0	0	1	1	1	8
Role of Board	0	0	2	0	1	5	3	5	4	8	28
Role of the organisations brand equity	1	2	3	6	1	2	2	1	7	1	26
Scaling down of programmes and reasons why	0	1	0	0	1	1	2	0	2	3	10
Selection of Board Members	0	6	4	1	1	1	3	2	3	9	30
Strategy development planning and monitoring	7	3	4	7	6	10	1	3	7	5	53
Successful and good mission implementation	4	7	4	8	4	6	0	2	2	3	40
Sustaining the interventions of the organisations	3	7	3	5	3	0	1	4	9	4	39
Types of alternative funding sources	5	3	2	5	2	11	0	2	6	11	47
TOTALS:	196	280	169	266	206	246	143	234	300	331	2371

