Effect of Financial Planning on Resource Mobilization of Humanitarian Non-Governmental Organizations in Nairobi County

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Abstract

NGOs in Kenya play major roles in a number of developmental areas; socially, politically, economically and culturally. However, the NGOs in Kenya have been characterized with poor relations towards the citizens, which has been brought about by problems in political, historical and cultural aspects. This study sought to determine the effect of financial planning on resource mobilization of humanitarian non-governmental organizations in Nairobi County. The study adopted a descriptive research design. The target population of the current study was 64 humanitarian NGOs that are based in Nairobi County. While the unit of analysis was the 64 humanitarian NGOs, the unit of observation were two respondents from finance and project management departments of these organizations. The study adopted a census sampling technique where the entire sample size of 128 was used. Primary data was collected using a structured questionnaire. A regression model was used to test the effect of financial planning on the resource mobilization of Humanitarian NGOs in Nairobi County. The results indicated that financial planning has a negative and insignificant effect on resource mobilization of Humanitarian Non-Governmental Organizations in Nairobi County (B = -0.068; t = -0.890 < 1.96, = p-value = 0.375 > 0.05). These results imply that efficient financial planning practices do not improve resource mobilization of Humanitarian Non-Governmental Organizations in Nairobi County. The null hypothesis developed on the non-significance of financial planning on resource mobilization of Humanitarian Non-Governmental Organizations in Nairobi County was not rejected. The study findings led to a conclusion that the null hypothesis on the insignificance of the influence of financial planning on the resource mobilization of Humanitarian Non-Governmental Organizations in Nairobi County was not rejected. The study found that the current financial planning measures adopted by Humanitarian Non-Governmental Organizations do not improve their financial accountability. Thus, the study recommends that there is need for these organization to pay keen attention to their financial planning around budgeting, financial practices, and financial forecasting, in order to improve their financial accountability.

Keywords: Financial Planning, Resource Mobilization & Humanitarian Non-Governmental Organizations

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1.1 Introduction

Financial planning in humanitarian NGOs is an essential process that involves developing a comprehensive strategy to ensure that the organization can fulfil its mission and meet its financial obligations (Chelangat, 2018). It involves setting financial goals, creating budgets, and identifying sources of funding. The goal of financial planning is to optimize the use of resources to achieve maximum impact while ensuring the long-term sustainability of the organization. One of the critical components of financial planning is budgeting. NGOs must develop realistic budgets that take into account their projected income and expenses (Orendo & Muturi, 2017). This process involves reviewing the previous year's financial statements, identifying areas where resources were underutilized, and determining how to allocate resources more effectively in the coming year. The budget should reflect the organization's priorities and be aligned with its overall strategic plan.

Financial planning enables organizations to manage their finances effectively, secure sustainable funding sources, and achieve their mission while maintaining financial stability (Roseland, 2012). Therefore, humanitarian NGOs must develop a comprehensive financial plan that considers their operating expenses, fundraising goals, potential risks, and program priorities.

According to Gyorkos (2003) and McCoy (2013), a project’s financial plan needs to have a succinct and enough funding. Financial plan for monitoring and evaluation should be well separated from the overall budget of the project to ensure monitoring and evaluation gets proper consideration as it plays an important role in management of project. The Program Evaluation Standards also indicates that, evaluation and planning of budget could certainly be more carefully estimated and actual expenditure on the evaluation more carefully monitored (James et. al, 2009).

Sera and Susan (2007), points out that if a plan or strategy for resource mobilization is developed, it can lead to creative ways in using the organizations’ own assets that are locally available in order to support the organization. Several streams of funding may increase the flexibility and independence to implement programs and reduce over dependence on donor or foreign funding. Due to rise in competition for grant resources, coming up with ways and options for other resources and mobilizing several streams of resources can help an organization run its programs without resource challenges (Goetz & Patz, 2017).

NGOs in Kenya play major roles in a number of developmental areas; socially, politically, economically and culturally. As of 2019, the annual NGO sector report recorded that there were 11,262 NGOs in the country. These NGOs are subdivided into various categories, Humanitarian, Governmental, International and Environmental. NGOs are central both public and private development in partnership of countries. In this regard, they enjoy numerous privileges such as waivers and tax exemptions (Karanja & Karuti, 2014). The NGOs thus due to their role in making reforms are considered to be crucial agents in advocating and contributing to dialogues in policy as well as promoting the well-being of Kenyan citizens. However, the NGOs in Kenya have been characterized with having poor relations towards the citizens, which has been brought about by problems in political, historical and cultural aspects (Amutabi, 2013). The current study focused on NGOs that offer humanitarian aid in the country.

The withdrawal of donor funding has led to their reduced activities as a result of financial unsustainability which is the most crucial factor for sustaining operation of NGOs (Chelangat, 2018). Consequently, majority of NGOs in Kenya do not have a guaranteed future. This may be attributed to the fact that they lack adequate funding and if the funding is available, they are unable

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to account for the use of these funds. Recently, there has been an increase in the number of registered NGOs.

In Kenya, the major source of funding for NGOs is donations from philanthropic groups, state or locals. For this reason, financial planning has been prioritized among NGOs, with increased demands from funders, taxpayers, and clients for them to be transparent about how they do their fundraising and spending (Mbuthia & Muturi, 2021). In late 2014, the Government of Kenya shut down 510 NGOs due to misappropriation of funds while 15 of them were linked to funding terrorist organizations (Chelangat, 2018). According to Nuka (2019), most NGOs are unable to perform financially due to inadequate financial accountability systems. Therefore, this study sought to determine the effect of financial planning on resource mobilization of humanitarian non-governmental organizations in Nairobi County.

2.1 Literature Review

Accountability Theory

The accountability theory was coined by Lerner and Tetlock (1999). According to them, the theory proposes several mechanisms that increase accountability perceptions. For example, “even the simplest accountability manipulation necessarily implicates several empirically distinguishable sub manipulations” Lerner and Tetlock (1999), including the presence of another person, identifiability, and expectation of evaluation. Recent research has shown that IT design artifacts of systems can manipulate the four core components of accountability theory and thus improve employees’ felt accountability toward organizational system security without disruptive interventions or training.

Moreover, Vance et. al, (2013), described that a useful way to understand accountability is to distinguish between its two most vital uses: as a virtue and as a mechanism. As a virtue, accountability is seen as a quality in which a person displays a willingness to accept responsibility, a desirable trait in public officials, government agencies, or firms; hence, in this use, accountability is a positive feature of an entity. As a mechanism, accountability is seen as a process in which a person has a potential obligation to explain his or her actions to another party who has the right to pass judgment on the actions as well as to subject the person to potential consequences for his or her actions. Accountability theory focuses on the process of accountability. The theory was relevant to the current study as it speaks more on the financial planning. There is need for NGOs to be accountable on how they spend their funds in order to be answerable to their donors and to keep up to date books.

Financial planning and resource mobilization

Financial planning is an important component of financial management which deals with the management of a firm’s funds with a view to maximizing profit and the wealth of shareholders (Mwaura, 2013). The main aim of financial planning is to determine where the firm has been, where it is now, and where it is going. When examining program implementations, donors would like to see that their money was used wisely and in line with the budget (Roseland, 2012). Comparison of the budgeted cost and actual expenditure, along with the justification and approval of any probable deviation, enables this. Once the donors are satisfied with these, their trust is boosted, and they are more inclined to continue funding the NGO or even to recommend sources of funding, which promotes financial sustainability (Elliot, 2012). It can only be accomplished by making sure the plan is followed to the letter.

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Mwaura (2013) assessed the effect of financial planning on the financial performance of automobile firms in Kenya. The determinants of financial planning used included earnings before interest and tax and the capital employed which comprises of fixed assets and working capital whereas the Return on Capital Employed (ROCE) was used for financial planning. The study adopted a descriptive research design where both qualitative and quantitative methods were used for data collection and analysis of data obtained. A multiple linear regression model used to assess the relationship between the independent and dependent variable. Findings revealed a strong positive relationship between financial planning and financial performance. The current study focused on the effect of financial planning on resource mobilization of humanitarian NGOs in Nairobi County. The study created a conceptual and contextual gap that the current study sought to fill.

Lee and Ali (2011) explored the connection between financial planning and financial performance and found that there is a significant, positive correlation between the two. The goals of financial accountability, as stated in the justifications provided for the findings, were to improve performance rather than assign blame and administer punishments. The study found that procedures of budget reporting have been put in place, accounting for NGO expenses and giving managers, lawmakers, and implementers access to performance data. Poor performance of non-governmental organizations (NGOs) was a result of poor financial management and misappropriation by NGOs' officials. The current study focused on the effect of financial planning on resource mobilization of humanitarian NGOs in Nairobi County. The study created a conceptual and contextual gap that the current study sought to fill.

Orendo and Muturi (2017) evaluated the effect of financial planning on the financial performance of USAID funded International NGOs in Kenya. The indicators of financial planning used were budgeting, financial practice and financial forecasting. Findings revealed a strong positive relationship between financial planning and financial performance. Based on the research findings it was recommended that; participatory budgeting that involves all departments is the way to go for NGOs. Departments should be prepared and then consolidated into one annual organizational budget. Provisions and guidelines for budget revisions during the year should be factored in. The current study focused on the effect of financial planning on resource mobilization of humanitarian NGOs in Nairobi County. The study creates a conceptual and contextual gap that the current study sought to fill.

Ali (2018) examined the relationship between the impact of financial planning and financial performance of commercial banks with particular reference to commercial oriented Commercial banks in Mogadishu. The specific objectives of the study included determining the effect of focus on organization goals, allocation of resources as well as risk management on the financial performance of banks. The study adopted a descriptive survey research design in collecting data from the respondents. The census-sampling procedure was used which involved the use of the entire target population of one-hundred forty-three (143) finance managers drawn from commercial banks. The researcher used questionnaires in collecting data that were analyzed quantitatively and qualitatively. The study established the existence of a relationship between organization goal, allocation of resources, risk management and financial performance. The current study focused on the effect of financial planning on resource mobilization of humanitarian NGOs in Nairobi County. The study created a conceptual and contextual gap that the current study sought to fill.
2.2 Conceptual framework

<table>
<thead>
<tr>
<th>Financial Planning</th>
<th>Resource mobilization</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Budgeting</td>
<td>• Donor funding</td>
</tr>
<tr>
<td>• Financial Practices</td>
<td>• NGO Growth</td>
</tr>
<tr>
<td>• Financial Forecasting</td>
<td>• Maximization of available resources</td>
</tr>
</tbody>
</table>

Figure 1: Conceptual Framework

3.1 Research Methodology

The study adopted a descriptive research design as this provided accurate information of the resource mobilization situation of Non-Governmental Organizations (Saunders et al. 2009). The target population of the current study was 64 humanitarian NGOs that are based in Nairobi County. While the unit of analysis was the 64 humanitarian NGOs, the unit of observation were two respondents from finance and project management departments of these organizations. The study adopted a census sampling technique where the entire sample size of 128 was used. Primary data was collected using a structured questionnaire. A regression model was used to test the effect of Financial Planning on the resource mobilization of Humanitarian NGOs in Nairobi County. The regression model adopted the form:

\[ Y = \beta_0 + \beta_1 X_1 + \varepsilon \]

Where:

\( Y \) = Resource mobilization
\( X_1 \) = Financial Planning

4.1 Results and Findings

The study identified one hundred and twenty-eight (128) respondents. However, only one hundred and twelve (112) questionnaires were duly filled therefore attaining a response rate of 87.5%.

4.2 Descriptive statistics

Financial Planning was identified as one of the independent variables in the study. The indicators were; Project Planning, Project Management and Project Delivery. These were analyzed using a 5-point Likert scale and the following were the descriptive statistics were obtained from the responses;

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Table 1: Financial Planning Summary Statistics

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our Non-Governmental Organization has a board approved budget for every fiscal year.</td>
<td>3.31</td>
<td>1.322</td>
</tr>
<tr>
<td>Expenditure outside the budget requires the organization’s directors’ approval and justification</td>
<td>3.38</td>
<td>1.260</td>
</tr>
<tr>
<td>There is full and accurate financial reporting in our Non-Governmental Organization</td>
<td>3.96</td>
<td>0.953</td>
</tr>
<tr>
<td>Our Non-Governmental Organization has ceilings on administration and overheads expenditure schedule</td>
<td>3.45</td>
<td>1.236</td>
</tr>
<tr>
<td>In our Non-Governmental Organization stakeholders participate in our budgetary process</td>
<td>3.28</td>
<td>1.357</td>
</tr>
</tbody>
</table>

Majority of the respondents agreed that there are measures in place that ensure financial planning is practiced in Humanitarian Non-Governmental Organizations in Nairobi County. The results obtained established that respondents agreed to a moderate extent that their Non-Governmental Organization has a board approved budget for every fiscal year. (Mean=3.31) and agreed to a moderate extent that their expenditure outside the budget requires the organization’s directors’ approval and justification (Mean=3.38). The findings also highlighted that respondent agreed to a great extent that there is full and accurate financial reporting in their Non-Governmental Organization (Mean=3.96). Respondents agreed to a moderate extent that their Non-Governmental Organization has ceilings on administration and overheads expenditure schedule (Mean=3.45) and in their Non-Governmental Organization stakeholders participate in our budgetary process (Mean=3.28). The standard deviation values obtained revealed that the responses did not deviate far away from the mean as the values were small. These finds were consistent with Orendo and Muturi (2017) who evaluated the effect of financial planning on the financial performance of USAID funded International Non-Governmental Organizations in Kenya. The indicators of financial planning used were budgeting, financial practice and financial forecasting.

4.3 Correlation Analysis

This study utilized the Pearson correlation coefficient to establish the association between the variables used in the study. According to Kumar (2011), a correlation analysis indicates the direction and strength of the relationship between variables and ranges from -1 to +1. The results for the correlation analysis are presented in Table 2.
The correlation analysis done highlighted that Financial Planning has a very weak positive and significant effect on Humanitarian Non-Governmental Organization’s resource mobilization ($r = 0.067$, Sig = 0.034, $< 0.05$). This implies that elaborate financial planning activities increase the resource mobilization of Humanitarian Non-Governmental Organizations in Nairobi County though this is to a smaller extent.

### 4.4 Linear Regression Analysis

To establish the effect of Financial Planning on resource mobilization of Humanitarian Non-Governmental Organizations in Nairobi County, a linear regression model was used. The estimation of the regression model has model summary, ANOVA and model coefficients. The results are presented and explained in the sub sections that follow. The model summary results as presented in Table 3.

### Table 3: Regression Model Summary

<table>
<thead>
<tr>
<th>R</th>
<th>R-Squared</th>
<th>Adjusted R-Squared</th>
<th>Std. Error Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.717</td>
<td>0.514</td>
<td>0.501</td>
<td>0.60747</td>
</tr>
</tbody>
</table>

The results in Table 3 showed that the Financial Planning, had a strong correlation with resource mobilization of Humanitarian Non-Governmental Organizations in Nairobi County ($R = 0.717$). This implies that Financial Planning have a strong effect on the resource mobilization of Humanitarian Non-Governmental Organizations in Nairobi County. The R-square value was 0.514 in this study. This implies that up to 51.4% of the variation in resource mobilization of Humanitarian Non-Governmental Organizations in Nairobi County is explained by Financial Planning.

ANOVA shows the deviation of the predicted regression model from the actual regression model. The ANOVA results are presented in Table 4. The F statistic value was significant ($F = 38.109$, P-Value = 0.000 $< 0.05$) which implies that the overall regression model to determine the effect of Financial Planning, on resource mobilization of Humanitarian Non-Governmental Organizations in Nairobi County.

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To establish the beta coefficients, constant and their significance, the regression results were highlighted in Table 5. The study established the model significance using both P values as well as critical t values. For the p-values, a variable had a significant effect on humanitarian NGOs’ resource mobilization if the value was less than 0.05 and critical t value was greater than absolute 1.96. In such a case, the null hypothesis was rejected. The regression model coefficients are presented in Table 5.

Table 5: Regression Model Coefficients

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant)</td>
<td>0.567</td>
<td>0.361</td>
</tr>
<tr>
<td>Financial Planning</td>
<td>-0.068</td>
<td>0.076</td>
</tr>
</tbody>
</table>

From Table 5, the regression equation is given by;

\[ Y = 0.567 - 0.068X_1 \]

Where: \( Y \) = Resource mobilization, \( X_1 \) = Financial Planning.

The regression model indicates that when resource mobilization measures around Financial Planning is held constant, the resource mobilization of Humanitarian Non-Governmental Organizations in Nairobi County is positive at 0.567.

4.4 Discussion of findings

The hypothesis revealed that financial planning has a negative and insignificant effect on resource mobilization of Humanitarian Non-Governmental Organizations in Nairobi County. The results in Table 5 indicate that financial planning has a negative and insignificant effect on resource mobilization of Humanitarian Non-Governmental Organizations in Nairobi County (\( B = -0.068; t = -0.890 < 1.96, = p\text{-value} = 0.375 > 0.05 \)). These results imply that efficient financial planning practices do not improve resource mobilization of Humanitarian Non-Governmental Organizations in Nairobi County. The null hypothesis developed on the non-significance of
financial planning on resource mobilization of Humanitarian Non-Governmental Organizations in Nairobi County was not rejected.

These findings were at par with Fechete and Nedelcu (2014) who conducted a study on financial planning affecting organization performance. The investigation found that measures of financial planning were not significant in determining organizational performance of SMEs in Nigeria. On the contrary, Orendo and Muturi (2017) evaluated the effect of financial planning on the financial performance of USAID funded International Non-Governmental Organizations in Kenya. The indicators of financial planning used were budgeting, financial practice, and financial forecasting. Findings revealed a strong positive relationship between financial planning and financial performance. Additionally, research by Quon, Zeghal, and Maingot (2012) found different results. The research pointed toward evaluating the relationship between firm performance and financial practices of the recorded companies. The investigation found out that financial planning instantaneously affected performance of financial market sectors. There was a slower impact on operational performance and accounting.

5.1 Conclusion

The study findings led to a conclusion that the null hypothesis on the insignificance of the influence of financial planning on the resource mobilization of Humanitarian Non-Governmental Organizations in Nairobi County was not rejected. For Humanitarian Non-Governmental Organizations to ensure proper resource mobilization, financial planning must be prioritized. Based on the results obtained by the study these measures are either missing or inadequate. It could also be argue that these Non-Governmental Organizations lack adequate finances to plan or foretell their future financially.

6.1 Recommendation

The study found that the current financial planning measures adopted by Humanitarian Non-Governmental Organizations do not improve their financial accountability. Thus, there is need for these organization to pay keen attention to their financial planning around budgeting, financial practices, and financial forecasting, in order to improve their financial accountability. To reduce the likelihood of fraud and to raise everyone's awareness of the expectations for adhering to established standards, it is also necessary to have a clear understanding of the significance of financial planning and budgeting in the organization.
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