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# Effect of Donor Relationship Management on Financial Sustainability of Church Related Organizations' In Kenya

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**ABSTRACT**

*Long-term financial planning is a vital discipline for creating and maintaining financial sustainability. However, it requires a shift away from short-term perspectives associated with annual budgeting and a shift towards five to ten year perspectives not normally associated with government financial management. Accordingly, long-term planning presents several implementation challenges. The purpose of this study was to examine the effect of donor Relationship Management on financial sustainability of CROs in Kenya. The study employed cross-sectional survey design. Target population consisted of 298 respondents including members of the governing bodies in the selected CROs, development/donor partners, general secretaries and Church leaders in addition to past and executive/program staff. Stratified proportionate random sampling technique was used to select the sample of 168 respondents. Questionnaire was the data collection instrument used by the study. Questionnaire was used to collect data from the members of the governing bodies, general secretaries, past and present executive/program staff. The collected data was analyzed quantitatively. The quantitative method involved both descriptive and inferential analysis. Descriptive analysis entailed summarizing the coded data in frequencies and percentages and presenting in tables and figures. This was achieved with an aid of SPSS version 17. The study findings revealed that financial sustainability of CROs in Kenya does not purely depend on how well an organization manages donors. Rather, there are other external factors or parameters that influence the sustainability of CROs.*

***Keywords:*** *Donor Relationship Management, financial sustainability, Church Related Organizations, Donor relationship*

## 1. INTRODUCTION

Churches in Kenya are by definition considered as part of the not-for-profit or NGO sector. According to the Kenya NGO Coordination Act (1990), not-for-profit organizations (including CROs) are categorized with private voluntary groups or associations operated not for profit or for other commercial purposes. Instead they have organized themselves nationally and internationally for the promotion of social welfare, development, charity or research through mobilization of donor resources.

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Donor relationship management is not just a tool to collect data from donors; it is a holistic strategy, a methodology of collecting, organizing and analyzing every aspect of donors. The field of donor relationship management became the responsibility of the professional staff and the principles of donor relations were integrated into many aspects of the development and institutional advancement programs of charitable organizations and CROs. Dependence on grants and donations can also inhibit the autonomy of CROs when choosing which program activities to undertake and selecting the most effective intervention strategies to achieve program goals (Bekkers, 2005). To a certain extent, all donors have their own views with regard to which problems are important and which are the best intervention strategies to address such problems. CRO managers may be compelled to "follow the money" and allow donors to dictate the scope and direction of their activities, or, alternatively, receive no funds at all.

The various processes and procedures involved in the delivery of aid has made both donors and developing countries realize that development impacts were affected by these overwhelming transactions. Thus, armed with the intention of effectively delivering aid through efficient use of scarce resources, multilateral and bilateral donors together with their partner countries decided to harmonize their operational policies, procedures and practices with the conscious effort of aligning development support with country-owned development framework. Financial sustainability involves all the elements and functions of an organization and every major decision made within the organization. As the work of CROs broadens and becomes more complex, concerns about their capacity and sustainability will loom much larger and have more significant implications for development processes. Nonprofit organizations, like all institutions, wrestle continually with the question of how to keep going and to improve their lot, especially during today's difficult economic times. In short, nonprofits must constantly strive for sustainability. The need to strengthen the financial sustainability of CROs and civil society organizations to fulfill multiple and increasingly complex roles has been identified time and again by CROs themselves, by donor agencies and by governments (Fowler, 2000; Kaplan, 1999). Organizations must recognize that their stakeholders and the need of their stakeholders may change over time, and they must consciously change and adapt as required.

Evidence regarding the cost of intervention is critical for program decision making, because it provides evidence about the potential for sustainability. According to a UNDP representative, CRO financial sustainability is probably the most talked about issue at the stakeholder meetings of nonprofit organizations (PIANGO, 2000). It is one thing to be able to access funds and quite another to have the capacity to deliver what has been agreed to. Alongside finance, CROs recognize the need to develop their own capacity in a number of areas. Fowler (2000) argues that it will be a long time before CROs find avenues of sustainable self-financing to replace official development assistance.

There are two main routes through which funds are transferred to CROs: the indirect route in which resources are provided to CROs which then work with CRO partners in the country concerned; and the direct route in which funds are given directly to CROs via the donor's

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country office.

Donor funding is still overwhelmingly provided through project funding (Gunnarson, 2001). Projects have a finite funding lifetime and within this framework the issue of core administrative costs remains a very difficult area for negotiation. Essentially, the view from the CRO sector is that whilst it is possible to access project funding from donors, it is difficult if not impossible to obtain funding for core administration costs such as salaries, the cost of renting a building, vehicles for project use and so forth. The end of project funding all too often means that beneficial impacts that should have been sustained are lost.

The role of CROs as important determinants of giving and pro-social behaviour is undisputed. The antecedent qualities of religiosity to foster and harness pro-social and giving behaviour are well documented; a full exposition of this work is beyond the scope of this study. Indeed, the concept of charity and the development of pro-social behaviour is a common denominator in global faiths, and therefore religion and charity are often perceived to "go hand in hand" (Bateson et al., 1993; Bateson et al., 2006). Each global religion has its own unique tradition of giving, but all place a strong emphasis on nurturing altruistic ties with charity, and the heart of faith-related giving is often a sense of selflessness, sacrifice and an afterlife in which deeds are accounted for (Emmons and Paloutzian, 2003). Indeed, receiving a return on charity in the afterlife is a powerful driver of religious giving motivations. Christiano (2000) and Brooks (2003) assert that religious establishments have been instrumental in shaping the nature, character and quality of social capital. This is because religious institutions encourage a sense of duty and obligation to maintain and sustain relationships with the needy and the poor (Brooks, 2003). However, Brooks (2004) also highlights the heterogeneity of religious sentiment in giving behaviour and offers several explanations for understanding religiosity's effects on charitable giving.

Seeking demonstrable utility or simply wanting to help those in need and seeing a positive change as a result in the recipient's condition (Sargeant et al., 2006) is considered to be a key motive in religious giving and indeed in explaining general giving behavior (Brooks, 2003). Alternatively, a self-serving principle guiding religious giving, where religious givers seek to enhance the faith condition of the recipient, has also been proposed. Also, a religiously induced altruistic personality may develop into habitual giving behaviour. Brooks (2004) argues that no real consensus in understanding religiosity's effects has been reached and the mere search for a feeling of self-fulfillment through what Andreoni (1989) refers to as warm glow is rather simplistic. Notably, faith-related giving attracts a substantial ratio of overall individual giving in many countries.

In a study carried by Burnett (2002) he recognized the need for what he termed relationship fundraising, dealing with donors individually, recognizing each donor as unique in terms of giving history, motivations for giving, and the overall standard of care expected from the charities being supported. He found that the entire relationship with a donor should be viewed holistically and fundraising decisions taken in light of the perceived value of the overall relationship. The findings of the study also indicated that recognizing the benefit of a future

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income stream, CROs are not afraid to invest in their donors and to allow them greater flexibility over the content, nature, and frequency of the communications they receive which might make people feel important (Burnett, 2002).

Plummer (2009) found that although the initial costs of implementing such a strategy are undoubtedly higher, the benefits in terms of an enhanced pattern of donor loyalty, and therefore the future revenue stream, far outweigh this investment. He also found that donors should be able to choose when communication is initiated and the form that it might take. The study revealed that one way in which CROs might achieve this goal is to ensure that they give ongoing and specific feedback to donors as to how their funds have been put to use, in particular the benefit that has resulted for the beneficiary group. Plummer (2009) concluded that if this feeling of impact on the cause is not strengthened, it seems less likely that donors will view other causes as being more deserving than those they already support.

Matten and Moon (2008) in their study on implicit and explicit corporate social responsibility found that donors viewing the communications they receive as informative, courteous, timely, appealing, and convenient appear to remain loyal for a greater period of time. The issue then becomes how best to achieve this perception. They found that a donor, ideally, should be able to select the pattern of communication he or she wishes to receive. Wilson (2003) indicated that some CROs offer donors the opportunity to specify how frequently they would like to hear from the organization, whether they would like news about how their gift has been employed, whether they would like such news but not additional letters asking for money, and so on. Such practices are likely to improve perceptions of the quality of communication received and thereby enhance loyalty (Wilson, 2003). Furthermore, Hobson (2006) revealed that CROs could also offer donors some choice over whether or not they wish to be asked for a specific sum. Some donors may welcome guidance about the appropriateness of certain gift levels. Others may prefer to take such decisions themselves and not be prompted by the CRO. Obviously, where specific sums are requested, CROs should be sure they are appropriate given the financial ability of the donor (Sargeant & Woodliffe, 2007).

According to Clarke (2006), CROs began to recognize the true value of maintaining and upgrading a donor’s relationship and support, the roles of acknowledgment, recognition, and stewardship shifted from being rote activities to being strategic actions. Many grants and donations carry restrictions on the types of expenses that they may cover. Most common restriction relates to direct program costs, but not the costs of support services or other overheads incurred by the CRO. The CROs must “contribute” these costs on their own, or at least cover an increasing share of these costs over time. The study confirmed that uncertain continuity of donor funding, whether short-term or long-term, makes it extremely difficult for CRO managers to plan and implement their organization’s core activities. It may also force a CRO to lead a project- to-project existence, being unable to make long-term plans to expand core activities or to improve the quality of program services (Bateson, Nettle & Roberts, 2006).

Kisinga and Angila (2006) in their report on Sustainability and NGO Investment in Kenya, posit that the NGO should actively encourage entrepreneurship, so long as those enterprises meet legal

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and tax obligations and the profits are reinvested into the organizations. The difference in orientation, understanding and management amongst CROs is evident in the just reviewed studies. It is therefore, necessary to understand the effect of donor relationship management on CROs financial sustainability in Kenya.

## 2. METHODOLOGY

The study adopted cross-sectional survey design. The selection of this design was deemed to the fact that the study focused on attaining information from a wide range of church related organizations. According to (Wanjohi, 2014) cross-sectional survey aims at describing the characteristics of a large population, makes use of large samples, thus making the results statistically significant even when analyzing multiple variables.

The target population of this study comprised 200 members of the governing bodies in the selected CROs, 32 development/donor partners, 36 general secretaries and Church leaders in addition to past and 30 present executive/program staff. The entire target population consisted of 298 respondents from different church related organizations in Kenya.

Stratified proportionate random sampling technique was used to select the sample of 168 respondents. The study grouped the population into four strata, that is: members of the governing bodies in the selected CROs, development/donor partners, general secretaries and Church leaders, in addition to past and present executive/program staff. From each stratum, the study used simple random sampling procedure to select one hundred and six eight (n=168). Stratified random sampling technique was used since population of interest was not homogeneous and could be subdivided into groups or strata to obtain a representative sample.

The statistical method for sample size determination was used to obtain a study sample

Sample Size Calculator is Survey System (2010):

Sample Size for Infinite Population

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

*Source: Godden, 2004*

Where:

Z = Z value (e.g. 1.96 for 95% confidence level)

p = percentage picking a choice, expressed as decimal

(.4 (40%) was used as the percentage of the targeted members of CROs in Kenya)

c = confidence interval, expressed as decimal

(.04 = ±4)

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

$$= \mathbf{384}$$

Determination of Sample Size for Finite Population

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

*Source: Godden, 2004*

Where: pop = population

$$\frac{384}{\left(1 + \frac{(384-1)}{298}\right)}$$

Ss = 168

This study made use of a number of data collection methods. These included questionnaire and structured interview methods. A questionnaire was used to collect data from the members of the governing bodies, general secretaries, past and present executive/programme staff. Interview guides were used to collect qualitative data from the development partners.

The collected data was analyzed using both quantitative and qualitative data analysis methods. The quantitative method involved both descriptive and inferential analysis. Descriptive analysis such as frequencies and percentages were used to present quantitative data in the form of tables . Data from the questionnaires was coded and entered into the computer with the help of a statistical application known as the Statistical Package for Social Science (SPSS Version 17.0). Closed ended items were coded in order to run simple descriptive analyses to obtain reports on data status. Descriptive statistics involved the use of absolute and relative (percentages), frequencies, measures of central tendency and dispersion (mean and standard deviation respectively).

## 3. RESULTS

### 3.1 Demographic Characteristics

### 3.2 Extent to which Donor Relationship Management Affects the Financial Sustainability

The respondents were asked to indicate the extent to which they thought donor relationship management affected the financial sustainability of the Church Related organizations. Table 1 shows the distribution of the respondents

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Table 1
Extent to which Donor Relationship Management affects the Financial Sustainability

| Extent | Frequency | Valid Percent |
|---|---|---|
| Not at all | 4 | 3.1 |
| Little extent | 1 | .8 |
| Moderate extent | 36 | 27.5 |
| Great extent | 63 | 48.1 |
| Very great extent | 27 | 20.6 |
| Total | 131 | 100.0 |

Source: Survey data (2012)

According to the study, 48.1% of the respondents indicated that donor relationship management affect the financial sustainability of the Church related organisations to a great extent, 27.5% of them indicated that donor relationship management affect the financial sustainability of the CROs to a moderate extent, 20.6% of the respondents indicated that donor relationship management affect the financial sustainability of the Church related organisations to a very great extent, 3.1% of the respondents indicated that donor relationship management affects the financial sustainability of the CROs to no extent, while 0.8% of the respondents indicated that donor relationship management affects the financial sustainability of the CROs to a little extent. Almost half of the respondents indicated that the manner in which CROs managed donors affected their financial sustainability to a greater extent.

**3.3 The Effect of Donor Relationship Management on the Financial Sustainability of CROs**

The study further sought the respondents' level of agreement with the various statements that relate to the effect of donor relationship management on the financial stability of the CROs. Table 2 shows the distribution of respondents.

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Table 2

*Responses on the effects of Donor Relationship Management on financial stability of CROs*

| Statement | SA (2) | A (1) | M (0) | D (-1) | SD (-2) | Mean | Std. Dev. |
|---|---|---|---|---|---|---|---|
| Financial sustainability at the CRO is achieved by dealing with donors individually, recognizing each donor as unique in terms of giving history, motivation for giving, and the overall standard of care expected from the charities being supported | 6 | 54 | 54 | 7 | 7 | 0.4809 | .77808 |
| The entire relationship with a donor is viewed holistically and fundraising decisions taken in light of the perceived value of the overall relationship | 24 | 61 | 26 | 11 | 6 | 0.7405 | .83747 |
| CROs are not afraid to invest in their donors and allow them greater flexibility over the content, nature, and frequency of the communications they receive | 19 | 42 | 38 | 25 | 4 | 0.5344 | .96315 |
| The organization ensure that it give ongoing and specific feedback to donors as to how their funds have been put to use, in particular the benefit that has resulted for the beneficiary group | 19 | 45 | 36 | 22 | 6 | 0.6641 | .90817 |
| Donors viewing the communications they receive as informative, courteous, timely, appealing, and convenient appear to remain loyal for a greater period of time | 16 | 54 | 40 | 13 | 5 | 0.6336 | .75657 |
| The CROs also offer donors some choice over whether or not they wish to be asked for a specific sum | 26 | 45 | 42 | 11 | 4 | 0.7939 | .99782 |
| The real joy in fundraising is being able to talk with donors and prospects about our shared vision for a better community | 18 | 49 | 41 | 13 | 7 | 0.6718 | .97225 |
| *Key: SA - Strongly Agree; A – Agree; M - Moderate; D – Disagree; SD – Strongly Disagree* | | | | | | | |

Source: Survey data 2012

A majority of the respondents agreed that financial sustainability at the CROs is achieved by dealing with donors individually, recognizing each donor as unique in terms of giving history, motivation for giving, and the overall standard of care expected from the charities being supported as shown by a mean score of 0.4809.

The respondents agreed on the proposition that CROs are not afraid to invest in their donors and allow them greater flexibility over the content, nature, and frequency of the communications they receive as shown by a mean score of 0.5344.

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Donors viewing the communications they receive as informative, courteous, timely, appealing, and convenient appear to remain loyal for a greater period of time as shown by a mean score of 0.6336, the organization ensures that it gives ongoing and specific feedback to donors as to how their funds have been put to use, in particular the benefit that has resulted for the beneficiary group as shown by a mean score of -0.6641,

The real joy in fundraising is being able to talk with donors and prospects about the shared vision for a better community as shown by a mean score of -0.6718, the entire relationship with a donor is viewed holistically and fundraising decisions taken in light of the perceived value of the overall relationship as shown by a mean score of 0.7405 and the CROs also offer donors some choice over whether or not they wish to be asked for a specific sum as shown by a mean score of 0.7939.

Almost half of the respondents indicated the manner in which CROs relate and manage donors affect their financial sustainability.

### 3.4 Correlation between Donor Relationship Management and Financial Sustainability of CROs

The study examined the relationship between donor relationship management and financial sustainability of CROs. The results of correlations, and summary model are presented by Tables 3 and 4.

Table 3

Correlation between donor relationship management and financial sustainability of CROs

| Pearson Correlation | | Financial Sustainability |
|---|---|---|
| | Financial Sustainability of CROs | 1.00 |
| Donor relationship management | The financial sustainability of our organisation is achieved by dealing with donors individually, recognizing each as unique. | .10 |
| | CROs are not afraid to invest in their donors and allow them greater flexibility over the content, nature and frequency of the communications they receive. | .19 |
| | The CROs also offer donors some choice over whether or not they wish to be asked for a specific sum. | .11 |

Source: Survey data (2012)

The association between various attributes of donor relationship management and the financial sustainability of CROs was very weak. The attributes with some little association included the capacity of CROs to deal with donors individually, recognizing each as unique (.10), CROs being able to invest in their donors and allowing them greater flexibility over the content, nature

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and frequency of the communications they receive (.19) and CROs being able to offer donors some choice over whether or not they wish to be asked for a specific sum (.11)

In order to establish the extent to which donor relationship management influences the variability of the dependent variable, adjusted $r^2$ was determined. Table 4 shows a summary model.

Table 4
*Model Summary for donor relationship management and financial sustainability*

| Summary Model | | | | |
|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .285(a) | .08 | .028 | .78022 |

Predictor: donor relationship management

Source: Survey data (2012)

As shown by the model summary, the adjusted R squared is .028. This indicates that donor relationship accounts for only 28%. 72% of financial sustainability may be attributed to by other factors outside donor relationship management. This shows a weak influence of donor relationship management on the variability of financial sustainability. Thus, management of donor relationship weakly predicts the financial sustainability of CROs in Kenya.

## 4. DISCUSSION

The study revealed that Financial planning remains one of the core functions of financial management. Burnetts (2002), recognizing the importance of donor management, observes that there is need for organisations to deal with donors individually, recognizing each donor as unique in terms of giving history, motivation for giving, and the overall standard of care expected from the charities being supported. Thus, failure of CROs to effectively maintain good relationship with the donors or key stakeholders can affect their very financial sustainability.

The study further established that some CROs did maintain good communication practices with donors. Along this line, Wilson, (2003) notes that CROs should offer donors the opportunity to specify how frequently they would like to hear from the organization, whether they would like news about how their grants or offer have been utilized. Such practices are likely to improve perception of the quality of communication received and thereby enhance loyalty. Given the importance of donors as key stakeholders among CROs, there is need for these organisations to have not only effective donor management system but also partnership/stakeholders management.

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The findings are in also in hand with Kisinga and Angila (2006) who observes in their report on Sustainability and NGO Investment in Kenya, that the NGO should actively encourage entrepreneurship, so long as those enterprises meet legal and tax obligations and the profits are reinvested into the organisations. The difference in orientation, understanding and management amongst CROs is evident in the just reviewed studies. Wilson (2003) also indicated that some CROs offer donors the opportunity to specify how frequently they would like to hear from the organization, whether they would like news about how their gift has been employed, whether they would like such news but not additional letters asking for money, and so on. Such practices are likely to improve perceptions of the quality of communication received and thereby enhance loyalty

## 5. CONCLUSION

The study concluded that there is no significant relationship between donor relationship management and the financial sustainability of CROs since the *p value* (.17 >.05.) is greater than the significance level. This implies that financial sustainability of CROs in Kenya does not purely depend on how well an organization manages donors. Rather, there are other external factors or parameters that influence the sustainability of CROs. Further, this result is not surprising when on looks at the case of African Independent Churches that have no link with western donors yet they are financially sustainable from the resources raised locally.

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