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Effect of Income Diversification on Financial Sustainability of Church Related Organizations in Kenya

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ABSTRACT

The purpose of this study was to examine the effect of income diversification on financial sustainability of church related organizations 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 income diversification strategies are effective in tapping international funding streams to a moderate extent, expansion of fund-raising activities directed at the general public to a moderate extent and in tapping new corporate donors for monetary and in-kind support to a moderate extent. Income diversification strategies are effective in social entrepreneurship to a little extent, redesigning program implementation strategies to include cost-recovery components to a little extent, holding one-time events to a little extent and in owning and managing, businesses such as restaurants, tour companies, banks and clinics to a little extent. The study therefore recommended that the CROs should establish various social enterprises that serve as a strategy to diversify their funding base, decrease reliance on donors, and recover or subsidize program costs. Leaders play an important role in shaping the necessary change processes related to diversity and the Church Related Organisations need to reinforce awareness around the range of activities they undertake and the added value they create for society, helping potential partners to evaluate funding options as well as tapping international funding streams.

Keywords: *Income Diversification, Financial Sustainability, Church Related Organizations*

1. INTRODUCTION

Financial sustainability of NGOs has become a global concern in the wake of global financial crisis which has reduced donor funds from developed economies to developing countries. Financial institutions generate increased portion of their income from non-intermediation

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activities and this could be associated to financial liberalization policies (Ebenezer, Musah & Ahmed, 2020).

In church related organizations (CROs), the issue of income diversification and financial sustainability is not new. CROs, especially in developing countries, continue to face numerous financial crises due to declining financial support from their traditional funders. The net worth of most of these organisations is shrinking, a factor accompanied by chronic unmanageable budget deficits. The reduced funding has been attributed to the world-wide economic recession, to changing domestic and international priorities in the north which in turn have affected the volume and nature of available aid. Even CROs that had established successful local fundraising strategies can no longer be complacent due to the pressing demands of poverty and the need for local fundraisers to attend to social needs.

Church and its related organizations at national and continental levels in leadership development and stewardship of resources, he has always been troubled by the fact that African Churches depend heavily on external funding for any semblance of sustainability. This dependency has more or less reduced Bishops and other leaders to the status of ecumenical beggars. During visits to Churches across the continent, incidents of funding cuts were observed, resulting in pain and introduction of 19 despondencies followed by the loss of jobs in projects supported by donors.

In response to these challenges, some Churches in Kenya, like Churches in other African countries, are turning to new sources of income generation, giving importance to their social ministry and economic development among the faithful; in the absence of such initiatives, it will be difficult to proclaim Christ to people who are daily becoming poorer (The Economy of Kenya, Pastoral Letter of Kenya Episcopal Conference, 1999). Already, Churches like the Anglican Church of Kenya and the Methodist Church of Kenya are embarking on social entrepreneurship initiatives like real estate developments, and guest houses. Christian managers of small enterprises see participation in business as opportunity to “incarnate” Christian values into business aspects (Evans, 2010).

For financial sustainability to succeed, effective financial management including funds flow control systems, financial planning, budgeting systems, asset management systems, accounting policies and procedures, internal and external auditing systems, reporting and monitoring systems, information systems, financial analysis and plan implementation, are required. Gunderson confirmed that the goal should be to manage revenues as carefully as expenditures, and to foster financial stewardship as well as cost containment (Gunderson, 2008). Most studies have been conducted on income diversity and financial sustainability in different fields. Such studies have failed to provide adequate information on income diversification in CROs. This study therefore intended to examine the effect of income diversification on financial sustainability of church related organizations 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

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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)

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

$= \mathbf{384}$

Determination of Sample Size for Finite Population

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

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Source: Godden, 2004
Where: pop = population

384

(1 + (384-1))

298

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 of the respondents

Only16.8% of the respondents indicated that they had an experience of 5- 7.5 years, another 16.8% of the respondents had an experience of 7.5-10 years, as well as 16.8% of those who indicated that they had an experience of 10-12.5 years and 16.8% of the respondents who indicated that they had an experience of 15-17.5 years. 13.7% of the respondents had an experience of 12.5-15 years, 9.2% of the respondents indicated that they had an experience of 17.5-20 years, 3.8% of the respondents indicated that they had an experience of 20 years and above, while 3.1% of the respondents indicated that they had an experience of 0-2.5 years and 2.5-5 years in each case. This shows that 93% of the respondents had worked in their respective

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organizations for a period of over five years which means that they had the necessary knowledge with regard to the operations of their respective CROs and were able to assess the performance.

3.2 Effects of Income Diversification on Financial Sustainability of CROs

The study sought to establish the respondents' level of agreement with various statements that relate to the effect of income diversification on the financial sustainability of the CROs. The distribution of responses is shown by Table 1

Table 1

Effect of income diversification on the financial sustainability of the CROs

Statement	SA	A	M	D	SD	Mean	Std. Dev.
High fragmentation of donor funding exacerbates this issue, with different donors often having complex and different rules and requirements	6	45	63	13	5	0.3053	.88486
Diversification of funding sources increase the sustainability of church Related organizations income streams	29	62	18	12	7	0.6031	1.02791
With the funding challenge the church Related organization respond with entrepreneurial spirit, good planning and hard work that has brought success in the core activities	18	39	41	26	4	0.5038	.95574
The CRO have various social enterprises that serve as a strategy to diversify their funding base, decrease reliance on donors, and recover or subsidize program costs	23	48	41	15	1	0.6565	.87505
Social enterprise offers a means to reduce program deficits and employ resources more efficiently in the CRO	18	54	34	20	2	0.5496	.99393
The church leadership project a vision and build the case for diversification activities, as well as engage the broader church community in the process	31	38	39	17	3	0.5191	.98724
leaders play an important role in shaping the necessary change processes related to diversification	20	56	26	21	5	0.6641	.89107
Church Related organizations need to reinforce awareness around the range of activities they undertake and the added value they create for society, helping potential partners to evaluate funding options	27	34	49	11	7	0.6718	.86329

Key: SA - Strongly Agree; A - Agree; M - Moderate; D– Disagree; SD – Strongly Disagree

According to the findings of the study, a majority of respondents agreed with statement that CROs could ensure financial sustainability by diversification of income and other resources. A majority of the respondents, with a mean score of 0.67 indicated that there was need to reinforce awareness around the range of activities CROs undertook and the added value they create for society, helping potential partners to evaluate funding options. The proposition that diversification of funding sources increases the sustainability of CROs income streams had a mean score of 0.6031.

Other high mean scores were recorded with reference to the following statements: the CRO have

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various social enterprises that serve as a strategy to diversify their funding base, decrease reliance on donors, and recover or subsidize program costs as shown by a mean score of 0.6565, leaders play an important role in shaping the necessary change processes related to diversification as shown by a mean score of 0.6641 and CROs need to reinforce awareness around the range of activities they undertake and the added value they create for society, helping potential partners to evaluate funding options as shown by a mean score of 0.6718.

3.3 Correlation between income diversification and financial sustainability of CROs

Further, a correlation was done between income diversification and financial sustainability of CROs. Table 2 shows the summary of the results.

Table 2

Correlation between income diversification and financial sustainability of CROs

Pearson Correlation		Financial Sustainability
	Financial Sustainability	1.00
Income Diversification	Reducing the impact of exchange rate fluctuations on income in local currency	.33
	Being able to make choice on how to generate and spend financial resources without restrictions	.29
	Expanding fund-raising activities directed at the general public	.32
	Tapping new corporate donors for monetary and in-kind support	.26
	Owning and managing businesses or social enterprises	.30
	Engaging broader community in the process of resource diversification	.26

Source: Survey data (2012)

The study established some level of association between income diversification and the sustainability of CROs in Kenya. The association for various attributes of income diversification rated variedly: An organization being able to reduce the impact of exchange rate fluctuations on income in local currency (.33), make choice on how to generate and spend financial resources without restrictions (.29), expand fund-raising activities directed at the general public (.32), tap new corporate donors for monetary and in-kind support (.26) and own and manage businesses or social enterprises (.30). Although there was some level of correlation between various attributes of income diversification and the sustainability of CROs, the association was weak.

Further, the R model summary revealed the adjusted R squared to be .284. This shows that income diversification only explain 28% of sustainability of CROs. This shows that 72% is left unexplained and therefore can be attributed by other factors which are not income diversification. To some extent influences the variability of financial sustainability. Thus, various income diversification attributes can be used to predict financial sustainability of CROs in Kenya.

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4. DISCUSSION

The findings of the study showed that majority of the respondents were positive on the effect of resource diversification on financial sustainability of CROs. Majority felt that diversification of funding sources increased the sustainability of income streams of CROs. Further, they felt that CROs should have social enterprises to reduce program deficit and employ resource more efficiently, should also decrease reliance on donors, and recover or subsidize program costs. They also indicated that that leaders should play an important role in shaping the necessary change processes related to diversification for financial sustainability of CROs.

The study found that income diversification is moderately important in increasing the longer-term reliability of the income stream as shown by a mean score of 0.2824, mitigation of negative consequences of a sudden drop in income as shown by a mean score of -0.3969, fueling further growth of the church's activities as shown by a mean score of -0.4046, being able to decide how to generate and spend financial resources without restrictions as shown by a mean score of 0.4122 and reducing the impact of economic downturns as shown by a mean score of 0.4275.

The study further established that income diversification strategies are effective in tapping international funding streams to a moderate extent, expansion of fund-raising activities directed at the general public to a moderate extent and in tapping new corporate donors for monetary and in-kind support to a moderate extent. Income diversification strategies are effective in social entrepreneurship to a little extent, redesigning program implementation strategies to include cost-recovery components to a little extent, holding one-time events to a little extent and in owning and managing, businesses such as restaurants, tour companies, banks and clinics to a little extent. The study findings appear to be in line with Abubakar (2017) whose study revealed that income diversification is a costly affair for commercial banks since it has a negative impact on financial performance. Abubakar also observed that the size of capital adequacy had a positive impact on performance while liquidity had a negative effect.

5. CONCLUSION

Income diversification strategies is being less important in being able to fund projects according to your priorities as shown by a mean score of -0.5038, risk management as shown by a mean score of 0.6412, being able to say no to some sources of income because they do not fit in the organization’s values as shown by a mean score of 0.6565, gaining more flexibility in their internal financial management as shown by a mean score of 0.6718, reducing the impact of exchange rate fluctuations on income in local currency as shown by a mean score of -0.7939 and reducing the danger that a withdrawal of funding forces the organization to close down as shown by a mean score of 0.8321.

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