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# Evaluation of the role of strategic planning in the operationalization and financial management of non-profit organizations in Kenya

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**EVALUATION OF THE ROLE OF STRATEGIC PLANNING IN THE  
OPERATIONALIZATION AND FINANCIAL MANAGEMENT OF  
NON-PROFIT ORGANIZATIONS IN KENYA**

**ERASTUS KWAKA OMOLO  
MBA/0225/2008**

**A Research Submitted in partial fulfilment of the requirements for the Degree of  
Masters in Business Administration at Strathmore University**



**School of Business  
Strathmore University  
Nairobi, Kenya**

**June, 2018**

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**Erastus Kwaka Omolo**

June 2018

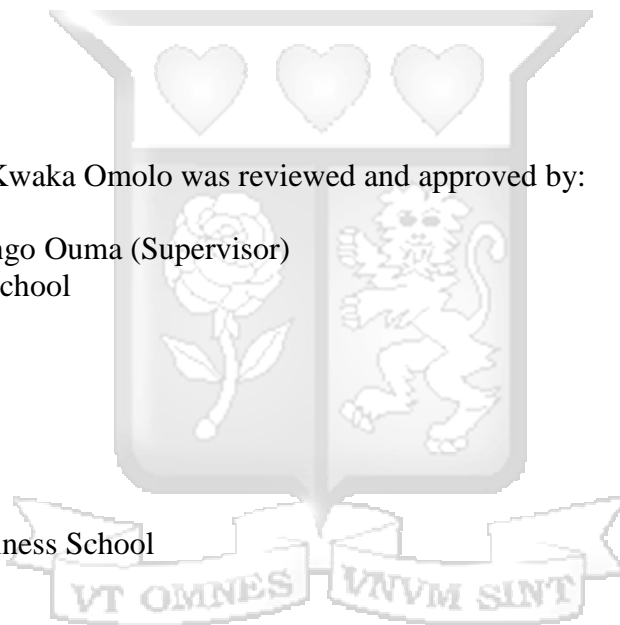
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## **Abstract**

Strategic Planning has generally been held by not-for-profit organizations as a key success factor for achieving short term and long term goals. These organizations generally consider themselves successful if they are able to attract funding to execute their mission. It is believed that not-for-profit organizations which are successful in terms of financial management outcomes achieve such success as a result of effective implementation of strategic plans. However, little information is available on the relationship between strategic planning and implementation and not-for-profit organizations' management and financial outcomes. This study evaluated the extent to which strategic planning contributes to the success of management of not-for-profit organizations. Management success was measured in terms of staff knowledge and innovation capacity, operational efficiency, financial management efficiency, and income growth. The study involved five NPOs namely; African Medical and Research Foundation, Christian Health Association of Kenya, LVCT Health and Training, Kenya Red Cross Society, and Undugu Society of Kenya. Members of the respective Board of Directors and top management were interviewed while a survey questionnaire was administered to senior and middle level managers. Financial data including income, cash operating reserve, and current ratio were computed from the respective organization's financial statements covering years 2005 to 2016. Content analysis was used to analyze the interview data while the survey data was analyzed using descriptive and regression statistical methods. Further, financial data was analyzed using time series analysis. The results showed compelling evidence indicating that strategic planning and implementation had significant positive impact in the operation and financial management of the study not-for-profit organizations and hence in their success. The study provides a strong foundation on effective management of strategic planning process and implementation. This study would also be useful to not-for-profit organizations' management in the decision to invest in strategic planning process for better operational and financial outcomes of their organizations. In addition, creates new grounds for further work by scholars in the study of the relationship between strategic planning and financial management.

### **Key Words:**

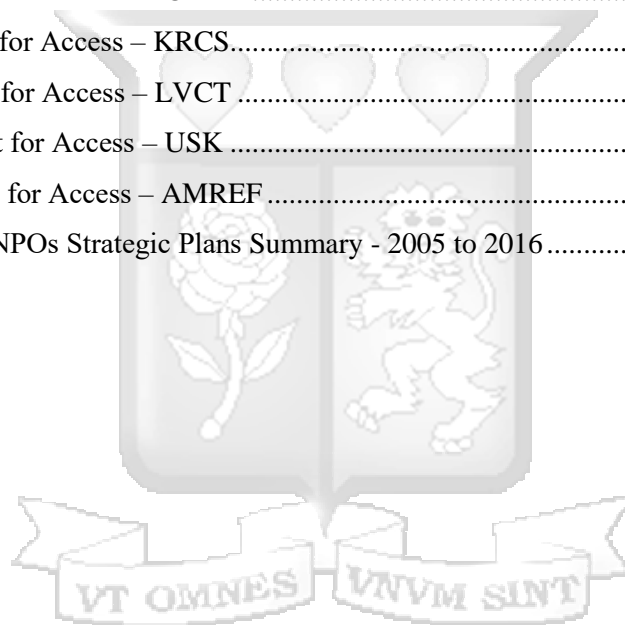
**Operation / Strategic Planning / Financial Management / Role and Impact**

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## Operational Definition of Terms

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**Back-Donor:** a donor who is an original charitable resource owner and gives the resource in question to an intermediary who in turn becomes the secondary donor and manager of the funds subsequently donated to a NPO.

**Case Study Research (CSR):** detailed holistic empirical investigation into a complex entity that emphasizes the uniqueness and situationality of the case and typically draws on a variety of data sources.

**Fiscal Year:** refers to the financial year of the Kenyan Government which runs in twelve month cycle from 1<sup>st</sup> July of each year to 30<sup>th</sup> June of the following year.

**Financial Management:** the efficient and effective management of money (funds) in such a manner as to accomplish the objectives of the organization. It is the specialized function directly associated with the top management. ([https://en.wikipedia.org/wiki/Financial\\_management](https://en.wikipedia.org/wiki/Financial_management) / 27<sup>th</sup> May, 2018)

**Gross Domestic Product (GDP):** the total value of goods and services produced in a country in a given fiscal year.

**Non Profit Organizations (NPOs):** a generic / general terminology used to refer to non-profit organizations generally regardless of how any was set-up and regardless of the law under which any was registered or is recognized for legal purposes. The terminology (NPOs) as used in this study and in the context of non-profit legal registration regimes in Kenya, therefore includes Non-Governmental Organizations (NGOs) / Public Benefit Organizations (PBOs) under the Kenya NGOs Co-ordination Act of 1990 / the PBOs Act of 2013, Trusts under the Trustee Perpetual Succession Act, charitable entities registered under the Kenya Companies Act, those under the Societies Act and other forms of legal recognition as more particularly explained under the background paragraph of Chapter 1 to this study.

**Non-Governmental Organization:** a non-profit organization registered under the Kenya NGOs Coordination Act No. 19 of 1990. Defined as a private voluntary grouping of individuals or associations, not operated for profit or for other commercial purposes but which have organized themselves nationally or internationally for the benefit of the public

at large and for the promotion of social welfare, development charity or research in the areas inclusive of, but not restricted to, health, relief, agriculture, education, industry and the supply of amenities and services; (<http://kenyalaw.org/kl/fileadmin/pdfdownloads/Acts/Non-GovernmentalOrganizationActNo19of1990.pdf> / 27th May, 2018)

**Mission-Based Management:** a philosophy that says “I will use all the best tools at my disposal to help my organization excel in the pursuit of its mission”, Brinckerhoff (2000).

**Strategic Planning:** is an organizational management activity that is used to set priorities, focus energy and resources, strengthen operations, ensure that employees and other stakeholders are working toward common goals, establish agreement around intended outcomes/results, and assess and adjust the organization's direction in response to a changing environment (<http://www.balancedscorecard.org/BSC-Basics/Strategic-Planning-Basics> / 27th May, 2018)

**Strategic Management:** is the process of shaping, implementing, and managing an agency's strategic agenda on an ongoing rather than episodic basis and employs purposeful incremental approach to strategy formulation and execution. Emphasis is placed on ongoing processes and brings together strategic planning and other systems of management.

**Sub-Sector:** term used in this research paper to denote a section of non-profit / charitable organizations falling under a particular legal regime as explained more fully under the background paragraph under Chapter 1 to this study.

**Third Sector:** A term generally used to refer to non-profits as an economic block separate from government (the first sector) and the commercial or market (the second sector).

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## Dedication

To my late mother Truphosa Awiti Omolo (Nyar Amala) and my late father Sephenia Omolo Madanji. I learnt from both of you the value of perseverance, you were a great inspiration to me and I got to know that one can win against all odds. Also to a virtuous woman, my dear wife Agnes Teresa Kwaka (Min Akinyi) – her price is far above rubies (Proverbs 31.10). I also dedicate this work to all those who purpose and would not relent in pursuing their dreams in life, and to those who may not have had opportunities in life but have kept their dreams alive. Finally, I dedicate this work to all those who are kind enough to support others who have the will to succeed.



# CHAPTER 1: INTRODUCTION

## 1.1 Study Background

### 1.1.1 Non-profit Sector in Kenya and legal frameworks

It is estimated that Kenya has over 500,000 non-profit entities registered under different legal regimes in Kenya which are diverse in terms of activities and sector coverage (Kanyinga & Mitullah, 2007). The main legal regimes under which non-profit organizations (NPOs) are registered in Kenya are four; namely: the Non-Governmental Organizations Co-ordination (NGOs) Act, No.19 of 1990 {to be repealed by the Public Benefit Organizations (PBOs) Act 2013}; the Companies Act, No. 17 of 2015 (earlier, under the repealed Companies Act, Chapter 486, Laws of Kenya). The Companies Act provides two avenues for registration as a NPO – as a company limited by guarantee and not having a share capital and as a foreign branch if the NPO originates from outside Kenya. The third legal regime is the Societies Act, 1998, Chapter 108, Laws of Kenya while the fifth one is the Trustees (Perpetual Succession) Act, 1981, Chapter 164, Laws of Kenya.

Outside the four main legal registration frameworks mentioned above, several key NPOs have been created directly by or under Acts of parliament while others have been created by being granted body corporate status directly by the government of Kenya through “Headquarter Location Agreements”. From a legal and a demographic point of view, the NPOs sector in Kenya is thus highly diverse and reference to the sector should not be based on the narrow and highly limiting definition of what an NGO in Kenya is. The broader, wider and more inclusive terminology - “non-profit-organizations” - has therefore been used in this study. Exceptions being in cases where a quoted author has used the term “NGO(s)” in a general sense.

The largest but non-formal grouping of non-profits organizations in Kenya however exist as Community Based Organizations (CBOs) and are registered by County governments. The regulatory framework under the PBOs Act, 2013 (when operationalized to repeal the NGOs Coordination Act of 1990), shall provide an umbrella regulatory oversight over all entities engaged in charitable (public benefit) work in Kenya.

In this study, bilateral donor agencies in Kenya operating under various Embassies or under any other bilateral agreement with the government of Kenya are not included when reference is made to the non-profit organizations sector in Kenya.

### **1.1.2 Non-profit sector economy in Kenya**

The non-profit sector in Kenya is a large dynamic economy. The data that can form the basis of a full and proper study of the sector is scarce, disjointed, and incomplete in many aspects. Data obtained from the NGOs Co-ordination Board in Kenya covering a five-year period (years 2007 to 2011) confirmed that there was a very low compliance rate with annual statutory filing requirements by NGOs registered under the NGOs Co-ordination Act, No.19 of 1990. Five-year statistics (2007 to 2011) showed that there was a filing compliance rate of only 42% - equivalent to 2,290 NGOs in terms of compliance as against approximately 5,417 NGOs which had been registered as at 30<sup>th</sup> June, 2011 (NGOs Co-ordination Board, 2010 and 2012).

Despite low statutory compliance statistics, the annual income reported by compliant NGOs rose from Kshs 43.8 billion in 2007 to Kshs 103.9 billion in 2011, an increase of 137% over the five-year period (NGOs Co-ordination Board, 2010 and 2012). Income extrapolation statistics show that the sub-sector income of active NGOs rose from Kshs 85 billion in the year 2007 to Kshs 223 billion in the year 2011, an increase of 162% (Appendix "A"). With such resources, the NGOs sub-sector in Kenya invariably plays a major role in the economic development of Kenya accounting for 4.76% of the country's GDP hence the need for a better understanding of tendencies and trends in financial management in the NGOs sector in Kenya.

NGOs are also a major employer in Kenya. Compliant NGOs reported a 36% increase in the number of employees as at the year 2011 from year 2007 (NGOs Co-ordination Board, 2010 and 2012). NGOs are therefore also key players in employment creation in Kenya apart from the multiplier effect from the movement of large volumes of money in the economy in both local and foreign currency.

The large amount of cash resource inflows to NGOs as a key sub-sector of the non-profit sector in Kenya calls for good and effective management structures, better and more focused strategic targeting, sound accounting, financial management and reporting systems. These systems should be deeply anchored in the ethos of every non-profit organization in Kenya.

Consequently, there should be emphasis on the importance of strategic planning and good governance.

Given the significant amount of cash resource inflows and employment figures from compliant NGOs (only those registered under the NGOs Coordination Act, 1990) (42%) it is conceivable that if cash resource inflows and employment numbers from all the other NPO registration regimes are added, the NPOs sector statics would jump upwards by several billions of shillings in resource cash inflows and hundreds of thousands in direct and indirect employment numbers.

### **1.1.3 Strategic planning and operationalisation in non-profit organisations**

Financial management is a special and critical part of strategic management of a non-profit organization. It is a staff function which transforms legal and stakeholder accountability requirements into accounting and working policies in the context of the mission of the non-profit organization. Strategic plan of any organization, which is a step by step guide for achieving an organisation's goals over a defined period, provides the basis on which strategic management is exercised. However, as noted by Raffoni (2008) and Mutuvi (2013), the most creative, visionary strategic planning is useless unless it is translated into action. Whereas translating strategic plans into action is often a problem, the more fundamental issue is the actual work of applying the strategies in ways and contexts that produce desired strategic outcomes.

Often, strategic planning exercises in non-profit organizations are undertaken in blocks of three to six years with six to twelve month sub-strategic milestones throughout the strategic planning period. The strategies formulated out of the strategic planning exercise, are expected to continuously drive all management functions and actions including financial management throughout the strategic planning period. Non-Profit Organizations (NPOs) that successfully execute strategic plans are expected to have sound financial management systems that are responsive to the mission and strategic objectives of the organization (David, 1997; Wagner, 2006).

As noted by Ongonge (2013), the time between strategic planning exercise and the period when formulated strategies get applied is a great challenge to many organizations. This is due to lack of effective process ownership and structures that can effectively transmit and successfully transform the strategies into strategically useful and mission relevant actions.

The challenge in strategy execution is a phenomenon that confronts organizations immediately after the initial strategic planning exercise when theory has to be transformed into actual strategy execution. Whether in the public, commercial or non-profit (mission based) sectors of the economy, the challenges rotate around the actual application of the strategies in order to achieve the short, medium and long term objectives of the organization (Akolu, 2004; Mutuvi, 2013).

#### **1.1.4 Management challenges in non profit organizations**

Abok *et al.*, (2013) argue that the way in which a non-profit entity is managed is intractably intertwined with whether or not the entity can be perceived as successful or not. In order to keep its focus on social value propositions, non-profit organisations routinely engage in strategic planning exercises. These organizations face challenges that are largely in reverse to those faced by commercial and public sector organizations. Some of these challenges include legitimacy, motivation, short term orientation of activities and lack of efficient public accountability mechanisms (Anyango, Chelogy, & Odembo, 2004; Arasa & Kioko, 2014; Lekorwe & Mpabanaga, 2007). NGOs sub-sector in Kenya also suffers from credibility questions. The lack of credibility is largely attributed to lack of financial accountability, and this has serious effects on the image and activities of the sector (Anyango *et al.*, 2004). The search for legitimacy is not restricted to Kenyan NGOs only but is a worldwide non-profit sector stigma (Lekorwe & Mpabanaga, 2007).

Internal and external stakeholders are expected to create demands on NGOs to be more accountable. A key internal force is a properly constituted and effective Board of Directors. A Board of Directors is likely to be more effective if it is one that holds regular meetings, recruits qualified staff, receives and interrogates financial statements regularly, reviews work plans, takes a keen interest in monitoring and evaluation reports, and holds management accountable for results (Binder-Aviles, 2012). Such accountability arrangements help to address agency problems both for internal and external stakeholders (Muriithi, 2014).

#### **1.1.5 Benefits of strategic planning**

In an effort to improve on accountability systems, NGOs periodically undertake strategic reviews and planning exercises (Binder-Aviles, 2012). Strategic reviews and strategic plans primarily serve as a means of improving performance in the non-profit sector organization. Another major purpose served by strategic planning in NGOs includes improvement of internal governance structures in order to refocus and realign the structures to the objectives

of the NGO (Muriithi, 2014). It also serves to recapture and re-evaluate an organisation's stakeholders' views which re-sensitize the entity to changes taking place in the society at large. It is a re-envisioning exercise, which an NGO uses to demonstrate its good citizenship standing, strengthens it to comply with relevant statutory requirements and generally improve the management of the entity. The impact and effect of strategic planning should be expected to permeate every section and structure of the organisation, lift and better its performance, and generally improve its outlook (Ongonge, 2013).

Muturia (2009) and Ongonge (2013) argue that every NGO that has undergone a strategic planning process ought to exhibit a strategic posture in all its departmental operations including its financial management function. The empowering nature of a strategic planning process needs to be visible and demonstrable through financial management systems and other management arrangements in place. Strategic planning enables organisations to self-appraise, evaluate environmental changes and decide in that light, the strategic moves to adopt in its next strategic age (Binder-Aviles, 2014). Like commercial entities, NGOs receive, collect and process information that shape their future courses of action (Ongonge, 2013). This study evaluates the role of strategic planning processes on the financial management of non-profit organizations in Kenya, specifically the link between strategic planning, operations and financial management of non-profit organizations.

## **1.2 Statement of the problem**

NPOs primarily rely on the goodwill as well as generosity of others to meet the costs of their activities through grants and donations. Often these funding sources are insufficient and therefore cannot adequately meet growing needs of humanity as well as the associated costs of running projects. These problems are coupled with the uncertainty of these funds over time, which make it difficult for these organizations to do long-term planning or offer services that meet their objectives, or optimize their capabilities (Hayssen & Viravaidya, 2001). As such, NPOs consistently work to find new sources of funds by developing innovative fund-raising strategies to reach out to new donors. Therefore efficient management of financial resources is crucial for sustainability and growth of this important sector of the Kenyan economy.

A few studies have explored the relationship between strategic planning and NPOs performance. Performance in this case is defined in terms of efficiency in financial

management, operations and service delivery (Ongonge, 2013), and income growth (Muriithi, 2014; Okorley & Nkrumah, 2012; Smith, 2010). Many studies which investigated this relationship in Kenya have mainly focused on for-profit organisations or government institutions (Arasa, 2008; Muturia, 2009; Ong'ayo, 2012). Ongonge (2013) explored the relationship between strategic planning and NGO performance but examined only one international organisation, (Action Aid). Thus, the study did not provide generalizable results in the Kenyan context. Besides, there was little focus on the relationship between strategic planning in financial management and NGO financial performance. Kitonga, Bichanga and Muema (2016), have also investigated this issue; however, the study mainly focused on the impact of strategic leadership on NGO performance in terms of fundraising efficiency, revenue growth and expenditure efficiency. This study evaluates the role of strategic planning and implementation in organisational performance of non-profit organizations in Kenya. The organisational performance areas evaluated in this study are financial performance, income growth, operational efficiency, and knowledge and innovation capacity.

### **1.3 Research objectives**

#### **1.3.1 General objective**

The objective of this study was to evaluate the role of strategic planning in the operational and financial management of non-profit organisations in Kenya.

#### **1.3.2 Specific objectives**

- i. To find out the relationship between strategic planning and operational management in NPOs.
- ii. To examine the relationship between strategic planning and financial management in NPOs.
- iii. To investigate the relationship between strategic planning and NPOs' income growth.
- iv. To investigate critical factors that have impact on strategic planning and implementation outcomes.

### **1.4 Research questions**

In line with the objectives of the study, the study sought to answer the following questions:

- i. What is the relationship between strategic planning and operational management of NPOs?
- ii. Does strategic planning improve financial management in NPOs?

- iii. Does strategic planning and implementation enhance NPOs' ability to grow income?
- iv. Which factors influence strategic planning and implementation outcomes?

### **1.5 Significance of the study**

The findings of this study inform NPOs sector players on the role of strategic planning and implementation on organisation performance aspects such as operations efficiency, financial management efficiency, and income growth. It outlines factors that contribute to successful strategic planning and implementation, as observed by experienced managers in established NPOs in Kenya. Thus, the findings are expected to provide a basis for improving management practices in NPOs and aid individual NPOs to better position themselves to attract and maintain donors and partners and lay a stronger and more long term foundation for financial sustainability.

Evaluating the role of strategic planning and its influence on the operational and financial management of a non-profit organization is also expected to inform policy makers in developing new regulations and guidelines to enhance sector efficiency and growth through adoption of better operations and financial management strategies.

Another contribution of this study is to expand the body of knowledge in the study of the link between strategic planning, operations outcomes and decision rights, information flow, motivators and structure as well as the indicators of good financial management. The foregoing make this study very significant since a number of studies failed to establish a significant link between the perceived importance of planning and organizational performance (Awino et al, 2012; Fulmer and Rue, 1974, Kudla, 1980; Leontiades and Tezel, 1980; Unni, 1981).

## CHAPTER 2: LITERATURE REVIEW

### 2.1 Introduction

The literature review covers the history of strategy and strategic planning in NPOs and other entities. It also covers how the application of strategic planning in turn affects financial management. The debates around models of measurement as proposed by various authors and researchers have also been explored.

### 2.2 Strategic planning

Strategic planning concept was inspired by the desire for a new way of “thinking and doing” following the severe attack on classical School of Management Theory in the first half of the 20<sup>th</sup> century (Zhao et al, 2008). Classical thinkers championed by Fredrick Winslow Taylor’s scientific school of management revolution in 1903, for example, had come up with the idea that there was “one best way to accomplish a task”; while under the Hawthorne studies, it was the theory that social attitudes and relationships of work groups had effect on performance as was brought to the fore by Elton Mayo (1933) and later the principles of the “ideal type” bureaucracy by Max Weber (1946) were propounded.

The planning process results in the creation of a strategic plan, which essentially is a tool that guides the processes and activities of an organization towards the fulfilment of its mission with maximum efficiency and impact. A good strategic plan must therefore be a working document which articulates specific goals and describes the action steps as well as resources needed to achieve them. It must be able to inform an organization’s activities. Thus, strategic planning is synthesis more than analysis, and, above all, planning should be pointed toward action (Poister, 2010, Vieg, 1942) and its long-term view, and must be able to guide meaningful improvements in effectiveness, capacity, as well as relevance.

Strategy is the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competencies with the aim of fulfilling stakeholder expectations (Johnson et al., 2008). Strategy is formulated through strategic planning processes which allows for the formalization and differentiation of strategy tasks and also encourages long term thinking and commitment (de Wit & Meyer, 2006). Strategic planning takes a big picture approach that blends futuristic thinking, objective analysis, and subjective evaluation of values, goals, and

priorities to chart a future direction and courses of action to ensure an organization's vitality, effectiveness, and ability to add public value (Poister, 2010).

In non-profit organizations, all strategic plans are expected to flow naturally from its mission (Mittenthal, 2002). This is due to the fact that the mission of every non-profit is essentially its "social contract" with members, target groups or the society at large. The mission statement, as broad as it may be, is thus a critical constraint to all plans and activities the non-profit can undertake, with or without committing resources to. It also reduces position bias and enhances goal convergence, thus acting as an integrative mechanism (Castaner & Ketokivi, 2004; Grant, 2003; Mazzola *et al*, 2008). Drucker (1992) stated that strategy converts the mission and objectives of a non-profit into performance. He added that strategy commits the non-profit executive and the organization to action and that the tests of strategy are results. Strategic plans of non-profits should therefore not only reflect but also target the accomplishment of the mission of the non-profit entity.

At the end of all plans, missions and activities are financial results. These form the bridge between theory (*plans*) and reality (*outcome of execution / actions taken*). Pearce, Freeman, and Robinson (1988) argued that from an inductive point of view, if high quality plans produce high levels of financial performance, it would be important to determine the characteristics of formal strategic planning that produce both high quality and effective plans. According to Mittenthal (2002), development of an effective strategic plan begins with a clear and extensive examination of external opportunities and challenges because these have great impact on an organization's mission and the services it offers. The organization's programs, services, as well as operations have to be reviewed in light of current realities as well as future projections (Binder-Aviles, 2012; Hove, Jengeta, & Mufudza, 2013). This should be followed by comprehensive assessment of the organization's capabilities and strengths, weaknesses, as well as limitations. Basically, the plan must take various elements into consideration, including: the funding climate, the expectations of service recipients as well as other stakeholders, the exigencies of the organization's programs and operations, and the competitive landscape (Mittenthal, 2002). The plan must be derived from a clear vision that the organization intends to accomplish at specific timelines in the future.

The planning process must take an inclusive approach, meaning that all important stakeholder groups should be involved in the planning process although a small planning committee is entrusted with the core work (Harrington & Ogbeide, 2011). The stakeholder groups include

the current and incoming board members, organization staff, funders, partner organizations, as well as service recipients. The involvement of these stakeholders is very important as it ensures that there is strategic clarity among all important stakeholders (Bradach & Stid, 2009) that enables the organization to align its systems and structures around its main goal (Muriithi, 2014). For example, the Board of Directors would help frame the plan and define the organization's mission and goals because they have a clearer sense of the organization's programs; the staff would restructure programs within the defined framework; and program managers would deal with program costing and budgeting because they are more aware of what their programs actually cost (Mittenthal, 2002).

Lower levels of conflict as planning and the planning process facilitate a forum for healthy debate over resources, discussions over direction, and airing of disagreements over policy and the shape of the organization in the future (Brinckerhoff, 2000). That way, it becomes possible to run measurement-driven programs. Participation by all important stakeholder groups increases the likelihood of the strategic plan implementation success (Muriithi, 2014). It also ensures that the planning process yields clear priorities as well as an implementation plan. These are the activities that have to be accomplished in order to fulfil the desired aims of the organization and are organized in terms of which take precedence. Another very important element of strategic planning is the commitment to the implementation of the strategic plan (Bradach & Stid, 2009; Muriithi, 2014; Mutuvi, 2013).

### **2.3 Theoretical foundation**

The underlying belief behind strategic planning is that the associated processes can create or manipulate situation to influence a more favourable outcome for an organisation. This is because strategic planning involves coming up with strategy or strategies and planning based on environmental scanning (Leslie, 2008). Strategy enables organisations to anticipate and respond appropriately to changes in the environment because it offers a guideline and/or tools for decision making. The practice is founded on several management theories such as the behavioural theory of the firm.

The behavioural theory of the firm is a complex blend of business and management theories that contribute to better understanding of organisation's management. It offers economic view on strategic management of an organisation. According to Ongonge (2013), the theory complements the transaction cost theory and is also an important building block of the

dynamic capabilities theory as well as evolutionary economics. It views an organisation as a coalition of individuals or groups, including managers, workers, suppliers, stakeholder groups and beneficiaries among others. The strategic management theory acknowledges that behind every organisation is a management team that comprises professionals who are empowered to make decisions about strategic alternatives, internal resources allocation, directions on an organisation's activities, and so on. This means that the strategic behaviour and practices of an organisation in this context is represented by strategic choices of managers (Todeva, 2007).

However, according to Cyert and March (1992), an organisation becomes successful when all these groups participate in setting goals as well as in making decisions. This is because priorities as well as information held by these groups may vary by group, and could be an important source of conflict. As such, they have to be reconciled by engaging in collective goal setting or planning of organisation process such as production, keeping inventory, sales, and so on. They also define expected and accepted behaviour under a given set of circumstances to achieve the best possible outcome, a concept known as bounded rationality.

According to behavioural theory of the firm, a financial measure is used to assess the availability of the needed funds given existing and expected resources before any plan is approved. This means that strategy and plan development processes rely on information in order to make the most appropriate decisions. The financial measure aspect is based on the transaction cost theory. Transaction cost economics usually involves examining strategic responses to organisation activities or choices within cost control limits of the organisation. As such, strategies and plans as well as rational choices are based on cost calculations.

The theory emphasises that decisions need to be interpreted as a sequential process (Todeva, 2007). The core concepts related to this theory include an organisation's competencies and capabilities, organisational learning, accumulation of knowledge, motivation, as well as relationship with external environment. According to the theory, an organisation is a dominant unit of strategic decision making as well as planned coordination that integrate differentiated skills, capabilities and knowledge. These are put together to transform human as well as material resources into productive services. The basic elements of an organisation's economic actors are therefore the governance structure, delegation of control, goals and objectives to be achieved within certain level of resource constraints, coordinated activities and capabilities through appropriate communication, and so on. Coordinating all these

elements and goal-directed activities must come from a deliberate design or plan developed through shared understanding among participants who work together to come up with rules and procedures for coordinating and managing organisation processes and activities as well as the behaviour of actors (Todeva, 2007).

## **2.4 Paradigms and experiences on strategic planning approaches**

This section reviews some works of various actors in the field of strategic planning and brings into focus perspectives and experiences of scholars, practitioners and entities that have applied long range or medium term strategic planning approaches in practice or a mixture of both. The section has been divided into three main parts, the Public Sector (Governments and related agencies); the Commercial Sector or the Market – which itself is divided into two parts, Large Businesses and Small and Medium Sized Entities (SMEs) and finally, the Non-Profit Organizations (NPOs) Sector.

### **2.4.1 Strategic planning in the public sector**

Strategic Planning which is primarily a product of the private sector; it took some time before it reached the public sector in the 1980s (Denhardt, 1985; Zhao *et al.*, 2008). In context of public institution, strategic planning was defined by Bryson (1995) as a disciplined effort to come up with fundamental decision as well as actions that shape and guide an organization's direction and operations. Strategic planning concepts are being adapted for use in the public sector as government organizations at various levels turn to strategic planning over more traditional public sector planning methods (Poister, 2010). Strategic planning and subsequent strategic management in public institutions is closely related to the overall concept as well as culture of public administration, where the government basically serves the citizens and therefore follows the changes in society, its values, as well as needs.

The purpose of strategic planning in public sector organizations is to promote public interest (Poister 2010, Veig, 1942). Three primary factors led to the introduction of strategic planning in the public sector according to Koteen (1997) and Zhao *et al.* (2008). First was the need to change government service delivery to constituents in efforts to “re-invent government” and make them more responsive to changing public expectations and demands. The second reason was to influence and re-direct local government agencies to be more forward looking and goal-driven. The third was to foster a new philosophy of employee empowerment and participation in decision making. These three factors drive from the realisation that citizen

participation are essential to the success of public service delivery (Koteen, 1997; Zhao *et al.*, 2008).

A strategic plan of a public institution refers to a management as well as a budgetary planning document that assures medium-term planning for the government department or ministry, explaining institutional policies, commitments, as well as measures to be adhered to at the institution's level (Dinu, 2007). As such, strategic planning in the public sector mainly consists of the management component and the budget component. The former constitutes the institution's "mission, vision, values, internal and external environment analysis, medium-term priorities, directions of activities, monitoring and evaluation, and reporting procedures" (Muravska, Nartisa, & Putans, 2012, p. 242). There is great emphasis on strategic planning of the management process; however, putting the plan into action to achieve the intended results is often missed (Muravska *et al.*, 2012). The latter on the other hand, comprises current situation analysis, objectives, results and performance indicators, as well as funding programs.

Studies have brought forth evidence linking budgetary strategic plan and organization overall performance when the strategic budgetary plan is used to drive organization performance management systems (Poister & Streib, 2005; Poister & Van Slyke, 2002) and when used as a performance measure for monitoring and evaluating the implementation of strategic initiatives (Hendrick, 2003; Poister & Streib, 2005). Measured by self-reported data in the USA, strategic planning is now commonly found everywhere in the public sector in the USA as opposed to the years preceding 1980 (Poister, 2010). Bloom (1986) reported that strategic planning is being used in the USA by state governments to address state problems, in municipalities and other local government structures for budget planning and in finding ways to respond to social problems.

#### **2.4.2 Strategic planning in the private sector**

Strategic planning which has been practised in the private business sector since mid-1950s (Muravska *et al.*, 2012). In the private sector, it is tied to strategic management. Strategic management document contains enterprise mission, objectives, development direction, the resources, as well as the long-term management decisions for implementing the strategic plan. Abdalkarim (2013) described this type of management as a technique that identifies strengths and weaknesses as well as anticipated challenges and opportunities, and defines

how to achieve the organization's vision. It focuses much on the organization's long-term goals, determines its capabilities to achieve the set goals, examines environmental factors that could affect the organization's operations, and identifies ways to move the organization forward. The strategic plan must give the organization's management answers on how to meet and fulfil customer needs, achieve competitive advantage, increase market share, as well as improve the internal environment of or reorganize or restructure the enterprise (Muravska *et al.*, 2012).

Strategic planning is mainly used in the private business sector to achieve efficiency and to engage in result oriented actions. As such, entrepreneurs often take on short term goals to obtain results in small every-day actions (Muravska *et al.*, 2012). Abdalkarim (2013) observed that strategic planning is mainly used in private organizations to achieve competitive advantage. It is therefore recommended that when developing a strategic plan for a company, it is important to analyse the following market opportunities and competition; the company's experience, ability, and resources; the external environment; possible threats/risks and opportunities; as well as the company's philosophy and values (Muravska *et al.*, 2012; Mott, 2008).

Determining how to measure the performance of a company is always difficult due to the problem of finding useful definitions of concepts such as competitiveness or performance and the problem of how to operationalize these concepts (Philips & Moutinho, 2000). However, it is generally agreed that a good product flows only from a good process (Feltenstein, 1992; Philips & Moutinho, 2000). In the food processing industry in the USA, the relationship between formal strategic planning and financial performance was measured using a multiple indicator measurement instrument that was developed by Boyd and Reusing-Elliot (1998). The instrument was designed to test the utilization of seven strategic planning tools namely: mission statement, trend analysis, competitor analysis, long-term goals, annual goals, action plans, and continuous evaluations. The study concluded that formal strategic planning can be used as a tool to enhance firm performance for a broad range of food processors (Baker, 2000).

In another study conducted in Jordan to examine the organizational characteristics and the practice of strategic planning in hotels, Aldehayyat (2011) concluded that larger hotels have longer time horizon for planning, which is consistent with other literature that has suggested that larger businesses tend to have longer planning horizons. The study further concluded that

the involvement of a range of people beyond top management in strategic planning, such as middle level managers, has benefits for companies. The benefits include enhanced communication within the organization, stronger organizational commitment and greater job satisfaction.

On the contrary, some studies have failed to find positive relationship between strategic planning and organization performance in the private sector. In Brazil for example, a study by Tanabe *et al.* (2003) considered the effectiveness of strategic planning with regard to competitiveness of the supermarket sector. The study used two test variables, which are: sales revenue per square meter and sales revenue per employee and fluctuations in the economy. The study established that economic changes affect the performance of firms more. It concluded that generally, management did not proactively affect the competitive outcomes by taking advantage of the threats and opportunities required to achieve superior qualitative and quantitative performance. This contradicted the view that strategic planning per se will always lead to superior performance by firms.

For multinational corporations (MNCs), strategic planning plays a critical part in relating the entire firm and its components to the goals and strategies chosen (Herbert, 1999). MNCs however face various challenges including the fact that strategic plans are first prepared at branch level but with the headquarters in mind, and then culturally get modified with local conditions in mind in order for each foreign subsidiary to achieve a strategic fit with local conditions. The challenge of having to modify and culturally filter the head office strategic plan also means that measuring success is much more difficult in the case of MNCs. Despite that, a study by Mohdzain *et al.* (2007) found evidence indicating that strategic planning increases an MCN's success. The study was focused on information systems strategic planning (ISSP) which included planning for the success of information systems. Semi-structured interviews were used in the collection of data. The research found out that for certain classes of multinational companies, the focus is on cost control and scale economies nevertheless there was no focus on promoting knowledge transfer in any of the companies studied. The study concluded that the success of information systems implementation was likely to have been significantly influenced by the success or otherwise of the systems implementation.

In a study on strategic planning and financial performance in UK SMEs that questioned whether formality mattered, McKiernan and Morris (1994) examined the relationship

between the formability of strategic planning and financial performance among SMEs. The study concluded that formal planning systems act to simplify some of these tasks and provide the foundation for calculated opportunistic moves. However, formal planning systems on their own were not found to be a sufficient condition for superior performance. These scholars postulated that “it is likely for the general managers in SMEs to adopt a judicious balance of the formal and informal systems in their planning systems” (McKiernan & Morris 1994, p. 38).

Gibbons and O’Connor (2005) studied influences on strategic planning processes among Irish SMEs. It was concluded that the strategic posture was identified as an important determinant of the approach to planning adding there was significant association between structure and process. Organically structured firms emphasised incremental and emergent approaches to strategy development reflecting an overall pattern of mutual adjustment. High growth family firms extensively involved their boards in strategic planning activity (Felon, Teal, & Upton, 2001; Gibbons & O’Connor, 2005), and this was consistent with an earlier finding by Rue and Ibrahim (1995) that found that high-performing small companies involved their boards in systematic business planning more frequently than poorer performers.

The studies concluded that reviewing the basis upon which strategy is founded was of critical importance as comprehensiveness of the decision process had a positive association with the performance of the firm. According to them, the most important finding was that entrepreneurial firms employ relatively formalized methods of strategic planning. Such methods help firms learn about their environments and their capabilities and emphasized that such insight would help SMEs maintain an edge over their competitors. On the contrary, the research also pointed out that while an entrepreneurial posture was important in SMEs, introducing formal comprehensive strategy development processes in owner managed firms has potential difficulties. The difficulties tend to manifest from owner managers showing a poorer understanding of strategic management terms and the fact that they used strategy tools less extensively than did professional managers.

#### **2.4.4 Strategic planning in non-profit organizations**

The general objective of every non-profit sector player is to “do public good” for no apparent profit or gain. It is the state of being charitable or acting out of love with no other motivation to the benefit of the public. NPOs use strategic planning in one form or another to aid short

and long range planning. Strategic planning is essential for both the short-term success of the event as well as the long-term benefits which can accrue to the community (Swart, 2005). Strategic planning helps to achieve a common broad long term view of hallmark events and aids in achieving a well-co-ordinated unified approach which helps to avoid the creation of “white elephants” after events have been completed (Getz, 1986; Swart, 2005). According to Ruohong (2010), for NGOs to develop, it is imperative that each NGO has a foundation based on a sound culture, structure, and management. He further argued that as each NGO grows, the NGO must respond and adjust in a timely manner to changes in the internal and external environments.

The mission statement of a charity takes the grand stand of a social contract between itself and stakeholders (Hayssen & Viravaidya, 2001). Stakeholder relationships in the work of NPOs are often ill defined. The most visible form of contracting is by and large that between the NPO and its funding partners (donors). Whereas theoretical ideological claims of having public interest at heart in setting up government structures in the public sector may be said to bridge the connection between the governed and the rulers, social contracts are much more difficult to see as they are based on judgements, feelings, emotions, passion, desire, appeasement efforts and other charitable foundations which are often intangible and sometimes get clouded by “what the real intentions of the charitable act or efforts may be” (Bryce, 2000). Social contracting in the non-profit sector context is therefore a much more difficult construct to define.

The concept of “social contract” however compels every non-profit to align its strategic planning processes to its existing vision and mission. Due to the fact that social needs are complex and stretch well beyond the resources of any one organization, it is important for each non-profit to identify a specific gap that it may be able to fill (Bryce, 2000) within the limits of its mission. It is imperative that the need gap(s) identified is defined in the context of social programs and in turn be translated into specific programmatic actions and funding (financial) budgets. Zietlow *et al.* (2007) noted that non-profit organizations present unique managerial problems they also stated that six complex factors namely: intangibility of service; weak service respondent influence; strong professional rather than organizational commitment by employees; management interference by resource contributors; restraints in the use of rewards and punishments and lack of the influence of a charismatic leader and/or organizational mystique on choices affect decision making in non-profit organizations.

In the context of non-profit organizations, Bryce (2000) defined strategic planning as the process through which the organization may do any of the following: identify needs, (ii) define its mission, (iii) evaluate its capabilities, (iv) assess its external environment, (v) set objectives, (vi) select strategies, (vii) design programs, (viii) determine a budget, and lastly (ix) evaluate performance. The building blocks of the strategic planning process in non-profits are thus broadly more or less the same as those needed for strategic planning processes in commercial (for-profit) entities. Steiner (1979) argued that strategic planning has become “inextricably interwoven into the entire fabric of management; it is not something separate and distinct from the process of management.”

According to Smith, Bucklin & Associates (2000), effective implementation of strategic plans is the essence of strategic management. They have, among other arguments stated that strategic plans often fail due to lack of development of operational plans thus there is no carry-through on the plans. Further, they have reasoned that as leaders change, there are no mechanisms in place to gain commitment and continue the strategic plan, thus, again, there is no carry-through on the plan. They recommended that mechanisms should be established through a committee or staff assignment to monitor and assess impending threats or opportunities to the course of the strategic plan.

Strategic planning followed by subsequent strategic management has been noted to have positive impact on organizational performance (David, 1997) although Wagner (2006) noted that the relationship between strategic planning and organizational performance remains inclusive. A major advantage of a strategic plan is that it makes organization members or decision makers know where to expend most efforts to be able to accomplish both the short-term and long-term goals of the organization. It shapes an organization’s strategy choice by providing systematic and logical guide to achieving planned targets (Dusenbury, 2000). Ongonge (2013) examined the impact of strategic planning on the performance of ActionAid, Nairobi, Kenya. The study found that strategic planning has an impact on the organization’s performance at the national and global levels. It also noted that the organization’s strategic plan spells out activities that entrench value creation goals which lead to organizational learning, enhance operational capacity, enable the organization build legitimacy, support and enhance the organization’s value creation on strategy as well as identity over the long-term. The study also found massive evidence indicating that there is positive relationship between strategic planning and strategic management and organizational financial performance. The

researcher reported that as a result of strategic planning the following things happened: expenditure fell marginally by 5% between 2002 and 2003; the ratio of expenditure on other community development work increased over the same period; income from the new Commonwealth Education Fund grew by KShs. 20 million over the same period; and the organization entered into a new partnership scheme with the Development Corporation of Ireland resulting in income of KShs. 17 million.

## **2.5 Importance of strategic planning to organizations**

Wolf (1999) stated that sustainability and the ability to adapt to a rapidly changing world are related challenges that non-profit organizations face. These organizations are forced to cope with increased competition, more diversity among constituents, higher expectations from the public and from funders, increasing costs, declining support, rapidly changing technology, and substantially different ways of conducting business (Mittenthal, 2002). Sustainability in this kind of environment depends on the ability of each NPO to maintain attractive public benefit posture.

According to Brinckerhoff (2000), there are four reasons why an organization should spend time, money, energy and political capital to develop a plan. The whys include: success without a plan is just by chance; a strategic plan allows all other planning (budgets, staffing, fund raising) to be coordinated; a plan allows an organization's management to delegate responsibilities more effectively; and a plan is good for business stewardship. In addition, if the planning process is inclusive and the plan is regularly evaluated, one can expect at least the following benefits: better and more effective services by focusing resources on what is important and higher ownership and morale if one follows the inclusive planning model among others benefits. Abdalkarim (2013) also added that strategic planning helps identify and align an organization's strategic initiatives so that the organization's units or departments can work systematically towards the organization's goals. In other words, it strengthens the fit between departmental goals and the organization's mission and vision.

## **2.6 NPOs financial sustainability**

Despite the numerous differences among the world's NGOs, most of them share a common challenge which is inadequate funds (Hayssen & Viravaidya, 2001). It is a problem that affects international to the smallest local NGOs, compromising the quantity and/or quality of the services they offer. Basically, these organizations face many challenges, including the

volatility of the funding environment, potential for improved services, as well as insufficient resources (Smith, 2010). NGOs are increasingly finding donations and grants insufficient to meet current program needs, implying the impossibility of expanding them. This is because the public and corporate organizations have very many worthy causes that address genuine needs to fund, yet resources are limited. The problem for NGOs is further compounded by the fact that many donations as well as grants are tied to specific activities or programs that they cover. In some cases, donations/grants only cover program costs excluding overhead costs or costs of support services (Hayssen & Viravaidya, 2001). This also means that NGOs do not have the autonomy to choose program activities to undertake because donors often want their agenda to be prioritized.

Even NGOs that have their current operations or programs being funded fully by donors face uncertainty over future funding. These provide case for strategic planning for sustainability. Muriithi (2014) noted that financial stability for NGOs has been a major challenge for organizations operating in Kenya. Generally, they do not have sufficient financial capacity. According to Bowman (2011), financial capacity for non-profit organizations comprises resources that enable the organization to seize opportunities and respond to unanticipated threats while maintaining the normal operations of the organization. Organizational capacity is a very important dimension of NGO sustainability, according to Smith (2010), because it concerns the operations of the organization as well as its ability to function effectively. Establishing financial capacity as well as financial sustainability is therefore very important for NGOs because it gives them financial agility in the long-term considering the fact that they serve high-need communities that require consistently available services (Muriithi, 2014). It gives an organization the ability to fulfil its mission. To ensure that an NGO's activities and programs are aligned with its mission, Smith (2010) argued that the organization must have a strategic planning process that is incorporated with decision-making as well as planning.

The goal of financial sustainability for non-profit organizations, according to Muriithi (2014), is to maintain or expand their services while developing resilience to occasional economic shocks in the short-term. For example, financial stability would enable an NGO to cope with short-term loss of program funds or seasonal variability in donations. This is why non-profit organizations, regardless of their size, would always engage in consistent efforts to sell itself as well as its mission to its current and potential donors to appeal to the donor community

and as a result enable them raise money and other resources (Floyd & Shrestha, 2008). Just like for-profit organizations, non-profit organizations need financial growth and stability to be able to maintain their ability to serve their various missions and meet the needs of the growing population and demographic compositions. Okorley and Nkrumah (2012) emphasized that an NGO's Board of Directors should develop as well as use various methods of fundraising to be able to improve the financial sustainability of the organization. Smith (2010) observed that some NGOs tend to focus more their mission than financial sustainability as long as funding allows them. This however can only be an option in the short-term for organizations that have abundant funding because over the long-term it puts their viability at risk. Consequently, the author emphasized that regardless of an organization's funding situation, all NGOs should make long-term sustainability their priority, borrowing from the private sector.

NGOs have often applied several strategies to achieve financial sustainability, including: asking service recipients to pay nominal/membership fee; engaging in cost recovery, which includes charging (often, a nominal) fee to recipients for service, partnering with the government, and so on; raising funds from donors; fund-raising; cost containment along with strong financial management; and other measures. A key component of NGO financial viability strategy, according to Smith (2010), is to diversify donors as well as to build financial management capacity.

## **2.7 Drivers of successful execution of strategy**

Identifying an effective strategy and an optimal implementation plan can be directly related to the success of the business. A brilliant strategy or breakthrough technology can put one on the competitive map, conversely only a solid execution of strategy can keep one there. Chien *et al.* (1999) emphasized that before working out their strategic plan, managers must consider various feasible alternatives and contemplate various factors behind each of them. They admitted that it is difficult to select the best strategic plan. But taking a profit maximization view rather than an argument that places faith on the strategic planning process itself - given that it was difficult to select the best strategic plan, they concluded that the best strategic plan is one that best utilizes the annual budget of the organization to maximize the potential profit generated from the strategic plan.

Poister (2010) argued that there must be fundamental changes in the way in which organizations are managed. The changes called for include moving from strategic planning to strategic management, shifting from performance measurement to performance management and ensuring that strategy is effectively linked to the management of performance. Consistent with Poister's (2010) views, Ugboro, Obeng, and Spann (2011) noted that certain principles have to be followed: one, Board members and Executive Directors, who are often inclined to take a hands-off approach (Mittenthal, 2002), must play active roles by taking ownership of the strategic planning process; two, organization mission and strategic objectives must be clearly defined; three, the plan must undergo a realistic evaluation four, top management must limit bureaucratic constraints; five, the strategic plan must fit the management culture of the organization; six, the organizational culture and workplace environment must allow top management, unit managers, and strategic planners to work well to develop and implement the plan.

In Hong Kong, Wong *et al* (2010) studied strategic planning for sustainable development of the construction industry in Hong Kong and identified the six factors as (i) basic resources and institutional infrastructure, (ii) financial and human resources, (iii) techniques and technologies supporting high production; (iv) long term vision and policy for the industry; (v) thinking the best and behaving the best, and (vi) a learning culture. Wong *et al.* (2010), emphasised the need to develop a comprehensive and effective strategy and implementation plan for training human resources at all levels for the Hong Kong construction industry. This is consistent with the findings of Mutuvi's (2013) study conducted among NGOs in Nairobi, Kenya. The study revealed that NGOs were adopting staff training programs, incentive schemes, continuous monitoring and evaluation of organization operations and programs, involving all staff groups in important decisions, establishing systems for effective communication, and committing efforts to resource mobilization for budget allocation to functional units and programs.

Four fundamental building blocks that executives can use to influence a more effective execution of strategy, according to Neilson *et al.* (2008), include: (a) clarifying decision rights; (b) designing information flows; (c) aligning motivators, and (d), making changes to structure (decision rights, information, motivators and structure). They argued that in addressing structure specifically, one is only attacking what is a visible symptom of poor performance but not the underlying cause, which is how people make decisions and how they

are held accountable. Similarly, Raffoni (2008) outlined what she termed ‘three keys to effective execution’ – first, communicating key points; second, developing tracking systems that facilitate problem solving, and third, setting up of formal reviews.

### **2.7.1 Effective monitoring system**

As noted by Raffoni (2008), successful implementation strategic plan requires tracking systems that facilitate problem solving. The purpose of developing tracking systems to facilitate problem solving is to document what works and what does not work. It creates a mechanism for linking issues that come up to responsible persons accountable for a particular activity. Formal reviews of plans and personnel who are involved in the execution of the strategic plan are a must if the strategic plan is to succeed. Raffoni (2008) noted that the odds of successfully executing a plan that is not regularly reviewed are slim.

According to Smith (2010), an organization must have both business and financial plan, which is regularly reviewed and updated with input from key staff, management, as well as Board of Directors throughout the life of the organization, and that is used as a guideline for achieving sustainability. Okorley and Nkrumah (2012) further suggested that an organization’s management must establish an accountability system which is consistent with standard accounting principles and policies. The management also has to establish systems for monitoring and evaluating the use of funds in an organization’s programs and the performance of the organization (Muriithi, 2014). Smith (2010) also added that an NGO must establish systems as well as policies that ensure good governance, transparency, as well as public accountability. These emphasize the importance of having a well-functioning Board of Directors and a clearly defined management structure.

### **2.7.2 Staff involvement in strategic plan development**

Everyday decision of managers can create, maintain strengthen or even destroy a company’s strategy (Mutuvi, 2013). Bower and Gilbert (2007) found out that the way a business really gets done has little connection with the strategy developed at corporate headquarters. They argued that strategy is crafted step by step as the managers of the company commit resources to policies, programs, people and facilities. They added that because the assertion that strategy is crafted step by step is true, senior management might consider focusing less attention on thinking through the formal strategy of the company but focus more on the processes by which the company allocates resources.

The argument about a step by step approach to the crafting of strategy is consistent with the theory that strategies do not develop on the basis of some grand plan (intended strategy) but tend to emerge in organizations over time (emergent strategy). This perspective runs contrary to the theory of rational (or analytic or design view of strategy) development of strategy which posits that firms strictly follow the strategic objectives they set out to pursue (Johnson et al., 2008).

### **2.7.3 Resource allocation**

According to Bower and Gilbert (2007), the cumulative impact of the allocation of resources by managers at any level has more real-world effect on strategy than any plans developed at headquarters. This view was shared by Akolu (2004), Muriithi (2014), Mutuvi (2013) and Ongonge (2013). NGOs have at least four types of resources, namely: human resources, financial resources, physical resources, as well as technological resources (Akolu, 2004; David, 2003). As managers commit resources to policies, programs, people and facilities, so do the immediate strategic objectives of the entity get addressed. The operating level must have the resources required to undertake each part of the strategic plan. This means that in the strategic plan development process, the available resources must be taken into consideration so that it is possible to implement strategies with the resources available (Harvey & Butcher, 1998; Mittenthal, 2002).

### **2.7.4 Compatibility with organisational structure**

Akolu (2004) argues that organizational structure determines the types of strategies used by an organization. It determines the ways used by organization members to pull together in their activities to promote effective strategic plan implementation. This means that the strategic plan must be compatible with the organization's structure. However, if they are incongruent, adjustments have to be made either on the structure or the strategic plan itself or both (Koske, 2003). Also, a strategic plan must be able to facilitate coordination of the organization's functional units, programs, and operations. It must also specify the allocation of responsibilities for specific tasks so that the tasks are undertaken efficiently and in a way that reinforces the implementation of the strategic plan (Mintzberg & Quinn, 1991).

According to Mankins and Rogers (2010), nearly half of all CEOs launch a re-organization within the first two years on the job and some preside over multiple restructurings. These in pursuit of better performance or simply seeking to shake the culture of the organization in

order to better focus it on its strategic objectives. According to them, most re-organizations fail, have no effect, and some actually destroy value. They believe that such failures are rooted in a profound misunderstanding about the link between structure and performance. Consequently, Gulati, Puranam, and Vermeulen (2010) argued that an entity should not rely on only one type of change nor change for change's sake but must know when to push through what they called "a corporate cholesterol test". They argued that periodic changes help companies avoid coronary-inducing reorganization.

Successful implementation of a strategic plan requires proper alignment with the organizational structure and administrative systems. It becomes easy, for example, to achieve operational efficiency if different strategy levels are compatible with different organization units/departments to the extent that it facilitates communication between various actors within and outside the organization (Kagumu & Njuguna, 2016). The structure should therefore be compatible with the strategic plan otherwise the structure can constrain the implementation of the strategy. Restructuring an organization to make it compatible with strategy is believed to have the potential to improve efficiency, promote communication and teamwork, create synergy, and reduce costs by reducing redundant units and/or personnel. Thus, strategic plan helps an organization define and build its organizational structure, which is essential for improving operational efficiency and accountability.

#### **2.7.5 Decision making rights**

With regard to decision rights, everyone must have a good idea of the decisions and actions for which he or she is responsible. Once made, decisions are rarely second-guessed as action required is clear and no doubt is left to linger as to which manager is to be responsible for execution. On the other hand, information has to flow freely across organizational boundaries. When information does not flow horizontally across the different parts of the organization, units within the organization behave like silos. That posture leads to hidden and huge opportunity costs - forfeiting economies of scale and the transfer of best practices which in turn lead to departmental dysfunction (Neilson *et al.*, 2008). Management should also ensure that most staff are clear about their roles in achieving the most critical 80% of the plan. Clear communication helps to bridge the gap between understanding and action. It aids in securing of meaning and understanding and if effectively handled, evokes desired responses.

The way decisions are made has far reaching consequences for strategy implementation. Bower and Gilbert (2007) argued that everyday decisions of managers create or destroy strategies. They further argued that the way business gets done has little connection to the strategy developed at corporate headquarters. This lends weight to the theory that supports emergent strategies argument and suggests that strategy is crafted step by step. Processes are iterative and real-time. With the recognition that knowledge and power span organizational levels and that managers at each level are likely to have an impact on strategy, decision rights must be clear to every manager so as to know the decisions and actions for which he or she is responsible.

### **2.7.6 Governance and organisational leadership**

Good governance, according to Lekorwe and Mpabanaga (2011), is the key to the functioning of NGOs. This is because it leads to effective management of NGO resources and in a manner that is transparent, accountable, equitable, and responsive to the needs of the communities served by the organization. Good governance is enhanced by good leadership, which is one of the most important elements that affect organizational performance because it ensures that organization efforts are united towards achieving its goals (Koske, 2003). It is especially important if sustainability is to be achieved. Yukl *et al.*, (2008) suggest that good organisational leadership is characterised by three types of behaviour from the leaders: task-oriented behaviours, relations-oriented behaviours, and change-oriented behaviours. Task-oriented behaviours such as short-term planning and scheduling, resources allocation, tasks assignments, setting priorities, directing and coordinating activities, operations monitoring, and so on are important for improving efficiency; change-oriented behaviour such as monitoring internal and external environment, interpreting events and explaining observations to organisation members, articulating an inspiring vision derived from the strategic plan, determining the best way to implement plans or new initiatives, taking risks to promote the change agenda, and building teams for change are mainly useful for effecting adaptation to changes; while relations-oriented behaviours such as showing support as well as positive regard to organisation staff, promoting team work and cooperation, consulting work team members about decisions, building a network of information sources within and outside the organisation, offering coaching and mentoring, and so on are mostly important for managing human resources and relations.

Ongonge (2013) and Poister (2010) emphasized that strong leadership is required to overcome a range of institutional, bureaucratic, and cultural factors that reinforce the tendency to continue managing on a day-to-day basis while drifting into the future rather than guiding the organization into the future in a purposeful direction. In order for public institutions to succeed, there is a critical need for leaders who are organizational entrepreneurs not only in the sense of creating visions of success for the future, but also those who fully appreciate the value of basic management systems and demonstrate a personal commitment to utilizing them to implement strategy and effectively manage performance (Poister, 2010). Neilson, *et al.* (2008), argued that one has to be able to deliver on intent.

Lekorwe and Mpabanaga (2011) proposed three ways of ensuring good governance in NGOs, including: (a) stating clear mission, values, and objectives and putting in place systems, policies, and procedures to ensure that they are followed; (b) empowering managers, staff, and volunteers through human resource development and training; (c) establishing adequate management process and financial management, accounting, and budget systems. The leadership should be able to motivate and inspire organizational staff and volunteers towards the organization's vision. It should also recruit qualified people who are also committed to the organization's mission and goals (Bryson, 1995). An organisation achieves greater success when leaders' efforts are coordinated at all levels in the organization (Yukl et al., 2008).

Strategic planning always influences strategic management, leadership as well as direction for the organization. The leadership modifies the existing governance structure and practices to fit the current strategy. It is the role of the leadership to identify the needs of the community served by the organization, decide on the type as well as the extent of services and activities to be offered, develop a plan for providing the services, mobilize and direct financial as well as human resources to support the programs and initiatives. Actions and decisions taken by the leadership must support the goal of the organization's strategic plan. Good governance and leadership helps an organization secure community and organizational members support for all aspects of the strategy implementation. It also ensures that strategy implementation progress is monitored consistently and that proper organizational structure of management, resources, systems and people are in place (Howe, 1997). Proper leadership also ensures that organizational climate as well as management style are conducive to strategic planning and implementation process. As such, the success of strategic plan

implementation is largely dependent on organizational leadership and governance (Kitonga *et al.*, 2016).

### **2.7.7 Compatibility with organizational culture**

Organization culture refers to the set of assumptions, shared values, and beliefs about the primary mission as well as purpose of the organisation, the essential qualities of services offered by the organisation, as well as how organisation members should be treated (Yukl, 2008). Thus, organisation culture is often unstated but is highly valued by organisation members (Akolu, 2004). To a great extent, organization culture determines how the members act or behave and can influence organisational performance especially when the shared beliefs and values are consistent with the organisation's strategic plan (Gordon & DiTomaso, 1992; Yukl, 2008). It also provides the social context in which an organization offers its services. Akolu (2004) noted that it influences organization members' decision-making, facilitate or hinder communication and teamwork/commitment, determines how time and effort are invested in organization activities, and determines priorities. A strong organisational culture can even substitute direct influence of leaders. As such, it is important that an organization's culture is compatible with its strategic plan.

### **2.8 Challenges to strategic plan implementation**

Strategic planning processes involve many ideas of change. Strategic plan implementation, according to Abdalkarim (2013), is a course of action being steered by the management to put the plan into effect, which is basically the process of transforming strategic intentions into actions. It may involve reorganization and restructuring of internal activities to achieve the set goals, which would then be followed by appropriate resource allocation. Essentially, it involves designing the structure of the organization, making sure that unit as well as functional managers have the right information, knowledge and skills, and allocating resources (Jean-Charles, 2012).

Regardless of how articulate the strategic plan is, some factors would always affect its implementation (Abdalkarim, 2013; Mutuvi, 2013). In a study conducted among NGOs operating in Nairobi, Mutuvi (2013) identified several factors which affect strategic plan implementation. The factors include: capabilities and skills of organization staff and managers needed in each functional area, organization capacity, organizational structure limiting strategic operations, limited resources for budget allocation, constraints embedded in

organization policies and procedures, lack of rewards and incentives, low top management commitment to strategic plan implementation, and workplace culture. The most common factor among the organizations surveyed in this study was limited resource allocation in the budget, with about 85% of the respondents indicating that it was a major problem in the strategic plan implementation.

Drawing from previous studies and existing literature, Akolu (2004) summarized factors leading to failures in strategic plan implementation in NGOs as: “weak management roles, poor communication, coordination, sharing of responsibilities, low commitment to strategy, unawareness or misunderstanding of the strategic plan, inadequate capabilities, unaligned organization systems structures and resources, competing activities, and uncontrollable factors in the external environment”. Other factors noted in Akolu’s (2004) study of AMREF include: inadequate resources, slow acceptability, incompatible organizational structure, inadequate staff training, program champions leaving the organization, and long implementation duration.

In a study of strategic planning in Iranian educational organizations, Tohidi *et al.*, (2010) found that Iranian educational institutions seldom use specific strategic planning approaches and those who do, suffered from miscommunication of strategies to lower level management in the organization they also suffered from lack of alignment of strategies with people, lack of commitment and insufficient resource allocation for the strategic planning process. Kaplan and Norton (2006) observed that strategic dreams often turn into nightmares if companies start engaging in expensive and distracting restructurings. Neilson *et al.* (2008), also argued that enterprises fail at execution of strategy because they go straight to structural reorganization and neglect the most powerful drivers of effectiveness – decision rights and information flow. Empirically, it was established that execution of a strategy is as a result of thousands of decisions made every day by employees acting according to the information they have and their own self-interest. Other than the internal forces, external forces can also have a strong impact on how resources are allocated and in turn how the strategy evolves. The most powerful of these are the organizations’ service recipients (for NGOs, target communities) and the funding partners (Bower & Gilbert, 2007).

Change is often resisted but resistance can always be reduced with a measure of proper planning. Proper planning includes the human dimension which Schaffer (2010) described as elusive. According to Kotter (1995), many transformation efforts fail miserably because

many do not realize that transformation is a process and not an event. The author emphasized that transformation advances through many stages that build on each other. Often, the reason for wanting change is the desire to make fundamental changes the business is conducted in order to help cope with a new, more challenging market environment. To avoid being corralled by the forces that generated the crisis in the first place, an organisation must be able to depart from the default habits of authoritative certainty (Heifetz, 2009).

Kotter (1995) argues that getting a transformation program requires the aggressive cooperation of many individuals and that without motivation, the effort goes nowhere. Moreover, in failed transformations, one often finds plenty of plans and directives and programs but no vision. Even if they are not happy with the status quo, employees will not make sacrifices unless they believe that useful change is possible (Ruohong, 2010). Consequently, it is up to the management to ensure that new behaviour is rooted in social norms and values of the organization shared otherwise these concepts are subject to degradation as soon as the pressure for change is removed (Kotter, 2001).

## **2.9 Measurements of success of strategic plans**

Drucker (1992) pointed out that non-profit institutions tend not to give priority to performance and results. The author argued that performance and results are far more important and far more difficult to measure and control in non-profit institutions than in a business. He added that in a business, there is a bottom line which - to some extent, provides a means of measuring results, however in a non-profit there is none. Wolf (1999) explained that because of the abstract nature of “public service” that non-profits do, the problem with measurement of success is a challenge that is rooted in the description of what a non-profit is. That problem with measurement also contributes to why managing them is such a difficult task fraught with challenges.

Whereas the commercial sector has several feedback and performance measurement avenues, the non-profit sector has few. Letts *et al.* (1999), noted that the non-profit board must often substitute for many of the feedback systems available in the marketplace. Compounding the lack of marketplace signals is that non-profits often undervalue organizational capacity and tend to view compassion and performance as wholly unrelated. They further opined that without the benefit of clear performance indicators, many non-profit organizations and their

funders use inputs, process, and outputs as surrogates, simply tracking the amount of service provided on the assumption that it makes a difference.

Non-profit organizations are founded to operate on the basis of targeted social themes (or objectives). Those objectives are, by and large, given expression as strategies in line with the mission and vision of the entity. Such plans are often divided and summarized into four to six strategic aims (or themes). Ansoff (1988) defined an objective as a criterion by which a firm's success (or failure) is determined. It is agreed that measuring success (effectiveness) in non-profit entities is far more difficult than it is in profit making organizations (Sawhill & Williamson, 2001). In a case study of The Nature Conservancy's Family of Measures, Sawhill and Williamson (2001) argued that before designing a new measurement system, they needed to clearly define and articulate the linkages between the organization's mission, vision, goals, strategies, programs and measures in order to narrow down the number of required indicators.

To date, the non-profit literature does not contain adequate measurement techniques to assess the value of outputs. The Financial Accounting Standards Board (1980), in its Statement of Accounting Concepts No. 4, noted that such measures are needed for non-profits (Tinkelman & Donabedian, 2007). Success for non-profits should be measured by how effectively and efficiently they meet the needs of their constituencies (Kaplan, 2001). A measure of current efficiency is broken down into factors measuring (1) how much of current revenue are actually used that year; (2) of the money spent, how much the organization allocates to programs; (3) how many units of output were produced from that spending; and (4) how many units produced met quality standards. Additional effort in clarifying related aspects of strategic planning is warranted (Boyd and Reuning-Elliott, 1998).

Scholars in strategic management have advocated for various measurement models on the role and impact of strategic planning in NGOs as well as in commercial entities. Models include the Balanced Scorecard, the Public Value Scorecard, CCESS Reporting Standards Framework, and the Multidimensional Integrated Model of Non Profit Organizational Effectiveness (MIMNOE). Due to the objectives of this study, the Balanced Scorecard will be adopted. The Balanced Scorecard requires organizations to develop measures that could be fitted within four different perspectives; the financial perspective, the customer perspective, the operational perspective and the learning and growth perspective (Moore, 2003). The

success for non-profit organizations is therefore measured by how effectively and efficiently they meet the needs of their constituencies (Kaplan, 2001).

In a study which sought to establish the effectiveness of the Balanced Scorecard in measuring the performance of NGOs operating in Kisumu County, Kenya, Ouko (2013) found a Balanced Scorecard to be an effective performance measurement tool. The customer perspective correctly measured 52.46% of the stakeholder satisfaction; the internal business process perspective correctly measured 42.19% of organization efficiency; the learning and growth perspective correctly measured 55.08% of organizational capacity in terms of knowledge, innovation, corporate culture, and internal communication; and the financial perspective correctly measured 56.87 of organization financial performance. Ndiba (2016) also found the four perspectives of the Balanced Scorecard to be good measures of NGO performance. In this study, particular attention will be paid to financial management.

Not-for-profit organizations have limited funds to support their numerous projects and programs implementation. They require high level of efficiency to successfully work within their budgets. Donors also put pressure on them to be accountable for the funds that they receive. Financial performance is gauged on successful completion of projects and implementation of programs within the set budget. Consequently, the level of financial accountability of any organization is believed to be very important for maintaining and attracting donors. The relationship between strategic planning and financial performance has been studied and debated for a long while. Studies have however been plagued by methodological inconsistencies (Pearce, Freeman, & Robinson, 1987; Boyd, 1991). Despite intellectual interest, little consensus has emerged, either theoretically or empirically, as to what constitutes organizational effectiveness and how best to measure it (Forbes, 1998; Goodman, Pennings & Associates, 1977; Rainey & Steinbauer, 1999). Indeed, for a private enterprise, measuring success is often as simple as reading a profit and loss statement. However, for a mission driven non-profit however, measuring success is far more difficult (Sawhill & Williamson, 2001).

Inextricably linked to good financial management practices in non-profits is financial empowerment. The latter has been defined by Brinckerhoff (2000) using eight characterizations grouped under three main measures. The first performance measure is measurable or quantified outcomes. These include: (i) having more revenue than expenses in at least 7 out of 10 consecutive years; (ii) having cash operating reserve of at least ninety

days (iii) getting at least 5% of its annual operating income from own endowment(s) (iv) and having other sources of revenue other than the traditional and non-governmental funds, such as business income, to support its mission without relying solely on traditional sources of revenue. The second measure is that of financial management. This includes financial information sharing among staff and bottom-up budgeting practices and the level of financial leverage as well as whether or not this allows the organization to acquire credit. The third measure entails the factors that have direct impact on the ability of the organization to carry out its mission. These include availability of rapid response mission reserve funds, which is cash set aside to allow the organization to respond quickly to local needs as they occur; and the extent to which the organization is financially flexible to accommodate changes in service delivery patterns.

Financial sustainability is very important for both short-term and long-term survival as well as effectiveness of any organization (Muriithi, 2014; Smith, 2010). NPOs generally depend on donor funding from foundations, trusts, individuals, other NPOs, companies and even governments. This means that they have to work hard to grow their income by retaining existing donors and attracting new ones. The objective is to ensure financial sustainability. An NPO's ability to maintain and grow its financial capacity is an important indicator of successful management and strategy implementation (Arasa & Kioko, 2014).

The degree of efficiency of operations greatly determines the extent to which an organization achieves its goals and mission. Operations efficiency is the degree to which an organization minimizes the cost of workers and resources needed to implement essential operations, and processes are carried out without unnecessary delays and errors. According to Yukl (2008), an organization's financial performance depends on its efficiency of internal processes as well as timely adaptation to external threats and opportunities. Ebben and Johnson (2005) provided evidence indicating that reducing or eliminating unnecessary costs can improve an organization's performance. There are many ways of improving operations efficiency, including redesigning work processes, using new technology, controlling costs, responsible use of resources, adherence to rules and procedures among others (Miron, Erez & Naveh, 2004).

A strategic plan helps streamline an organization's operations and aspects of operations, processes, programs and activities in the most cost-efficient way. It helps avoid task overlaps and workforce confusion, which create confusion, inefficiencies as well as lack of

accountability because no employee or office has a clear responsibility over tasks and/or resources. Therefore, a strategic plan is expected to lead to more appropriate departmental adjacencies and improvement in information technologies and work equipment, better trained staff, clear operations and implementation plan among many other positive changes (Hejna & Hosking, 2004). Efficiency of operations therefore has an important impact on financial performance of any non-profit organization.

A related measure of organization performance is level of organization knowledge and innovation capacity. According to Hasnain (2015), the role of knowledge on organization performance is widely recognized because it leads to development of competency. Once a strategic plan has been formulated, management programs and systems put in place enhanced leadership behaviors and encourage innovative thinking as a result of intellectual stimulation (Yukl, 2008). Structural reforms carried out to align organizational structure with the strategic plan can also influence innovation and adaptation (Birkinshaw & Gibson, 2004).

An organization can use various programs and processes to support collective learning as well as diffusion of the new knowledge across the organization, and to facilitate development of new services and processes. Some of the ways in which structural reforms can facilitate innovation and adaptation include creation of research and development team or department, establishment of cross-functional service delivery steering committee, appointment of service managers, as well as creation of semi-autonomous service divisions (Mintzberg, 1979; Yukl, 2008). The skills of an organization's personnel have to be aligned to the objectives and mission of the organization once a strategic plan is in place. The strategic plan outlines the set skills needed to successfully carry out the activities of the NPO and manage operational processes. As such, it prompts review of the skills of the current staff and retraining and/or hiring of employees with the needed competencies to fill the gaps. The employees are also encouraged to work as a team to achieve the main goal of the organization, share knowledge, and come up with creative solutions. As such, it is expected that the implementation of a strategic plan would improve an organization's staff's knowledge and innovation capacity as a core part of strategic alignment (Arasa & Kioko, 2014).

## 2.10 Theoretical model

From the literature review, the model (Appendix “B”) summarizes the elements and linkages that need to exist in order for the required relationships to operate in a Non-Profit Organization. The model is designed to run from left to right and has five blocks (parts) starting from the mission and vision through to financial management outcomes in the fifth block. Taken as a whole, it does not have any breaks due to three key overarching conditions: the environment, leadership and communication. These three elements react and continuously influence each other helping to keep the focus on success of financial empowerment.

The environment consists of factors that are both internal and external to the organization (positive and negative), and which must be taken into account at all times during all strategic planning periods if the NPO is to succeed. The importance of leadership and communication is illustrated by showing both as running horizontally along the entire model as linked by arrows at and after every block. As the model shows, leadership must have certain key characteristics e.g. must have and cultivate a culture of readiness, must establish a common purpose, uphold the core values of the NPO, must have and practice the principles of emotional intelligence among other attributes, but finally, must never stop learning. Those attributes have been placed below the leadership bar with forward pointing arrows to emphasize that the leader must always be forward looking. Practiced, those attributes will positively impact the strategic planning process, the execution of the strategic plan and finally result in measurable successes outcomes.

Bryce (2000) gives the fundamental pillars of non-profit management and discusses the unique challenges that non-profits face. The base for effective management and the elements of strategic efficiency in non-profit management have been discussed. Of key importance, the text argues that the mission and finance of the non-profit entity are interrelated and the mission of the entity must be viewed as a key constraint in the operation of the non-profit. The text strongly argues that the performance of the management can and should be measured. The author presents a strong case that strategic planning can be a management tool for growth and survival for a non-profit organization.

Zietlow et al (2007) laid the ground for the understanding of non-profit organization finances arguing that strategic management is an ongoing process. Therefore, an organization’s structure, accountability and ethics must be managed. From the foregoing, a five stage model was developed (Appendix “B”).

## 2.11. Conceptual framework

The conceptual framework for this study is described below.

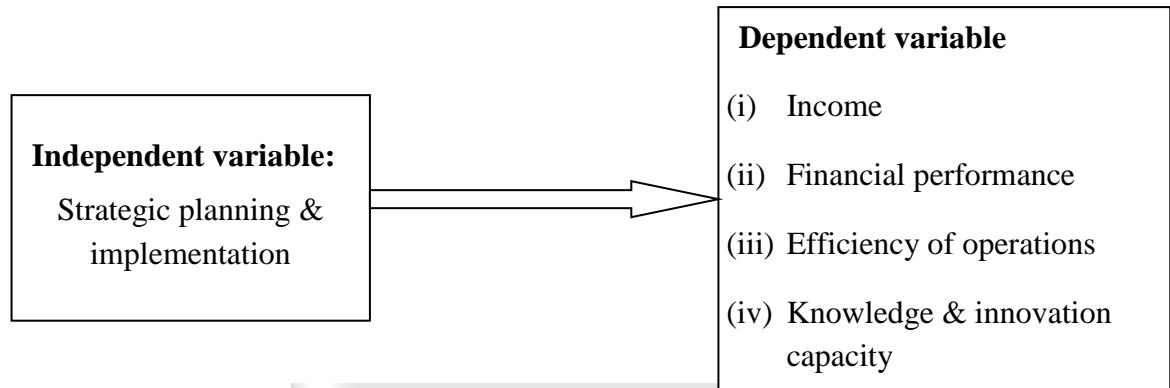


Figure 2.1: Conceptual framework

## 2.12 Operationalization of Variables

Table 2.1: Variables measured in the study

	Variable	Unit of measure
1	Strategic planning and implementation	Reported degree of commitment to strategic planning and implementation as well as controls, monitoring, and evaluation
2	Income growth	Donor income of NPOs in KShs; at least 5% of annual operating income from own endowment(s); income from other source
3	Financial management performance	Cash balance at the end of the financial year; revenue less expenses ratio; and current ratio from the financial statements.  Reported level of efficiency in financial management; financial audits; financial information sharing; and reputation that makes fund-raising easy.
4	Efficiency of operations	Reported level of commitment to efficient operating procedures and practices
5	Knowledge and innovation capacity	Reported level of staff creativity, innovativeness and competency

## **CHAPTER 3: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter presents the research methodology used which includes the research design, the sample frame chosen for the study, sample population, data collection and data analyses and techniques.

### **3.2 Research design**

The methodology applied in this research was correlational research design. In line with the purpose of this study and the research design, mixed research method was adopted. This means that both quantitative and qualitative research methods were used. Qualitative research method was used to explore the way the staff of NPOs, particularly managers, and members of the Board of Directors interpret and make sense of their experiences of strategic planning and management at their organizations. Quantitative research design method was used to collect data through survey and secondary sources relating to corporate performance of the sampled non-profit-organizations.

### **3.3 Data collection methods**

In this study, both primary and secondary data were used to attain the objectives of study. Qualitative data was collected through focused interviews. This also included structured questionnaires that were used to collect relevant data for this study. On the other hand, quantitative data was collected through survey. Secondary data on financial performance of the selected organisations was obtained from their annual financial statements for the years 2005-2016.

### **3.4 Research instruments**

Two research instruments were used: interview guide and structured questionnaire. The interview guide comprised both demographic information and interview questions on strategic planning and implementation, and organisation performance based on information derived from the literature; as well as contributors to successful strategic planning and implementation, challenges and recommendations. Content validity was achieved through peer review. The survey questionnaire contained questions on the position of the respondent and survey items on strategic planning and implementation, organisation culture, governance

structure and leadership, staff training, staff knowledge and innovation capacity, organisation's relationship with external environment, financial management performance, income growth, and operations efficiency. Financial management and income growth survey items were based on Brinckerhoff's (2000) financial performance measures for not-for-profit organisations while the rest of the items were based on existing literature on strategic planning and implementation.

### **3.5 Sample frame**

The case study involved five Non Profit Organizations (NPOs) operating in Kenya; AMREF, Kenya Red Cross Society (KRCS), LVCT Health, Christian Health Association of Kenya (CHAK) and Undugu Society of Kenya (USK).

AMREF was officially founded in 1957 to deliver mobile health services and to provide mission hospitals with surgical support. A medical radio network was developed to coordinate the service, and provide communication. The idea of setting up AMREF was conceived in 1956 by three doctors – Michael Wood, Archibald McIndoe and Tom Rees. The three founded the Flying Doctors Service of East Africa which led to the formation and registration of AMREF. AMREF has grown over the years and has built a very strong brand. With time, Country program units evolved to become fully fledged entities in their own rights. The Kenya Country Unit got registered as an NGO in 2015 and operates under its own separate Board of Directors from that of AMREF Africa (main office). The work of AMREF is driven by its mission statement “We are committed to improving health of people in Africa by partnering with and empowering communities and strengthening health systems: under its vision “Lasting Health Change in Africa”. AMREF Kenya got registered as an NGO under the NGOs Coordination Act of 1990 on 5th March, 2015 but having operated before (in legal terms), all along as part of AMREF main office (AMREF Africa) since 1957. AMREF Africa was and remains registered in Kenya under the Kenya Companies Act. AMREF Kenya undertakes ten year strategic plans. The most recent strategic plan was for years 2007 to 2017, the next strategic plan being envisaged to cover same number of years - 2018 to 2028.

KRCS was created directly by an Act of Parliament (Cap. 256) in December 1965. KRCS in the context of its registration is therefore a non-profit organization created by a statute. KRCS charitably offers various humanitarian services which include the provision of clean water,

health and emergency ambulance services, food to those faced with hunger and many other responses to human crisis situations. The mission of the organization is to work through their networks and with communities to prevent and alleviate human suffering as well as to save lives of people who are most vulnerable. The goal is to deliver these services in the most effective and efficient manner. Its vision is to become a self-sustaining humanitarian organization in the country, delivering excellent quality service to those affected by disaster and at risk. In order to work effectively towards its mission and vision, KRCS operates on the basis of its strategic plans with the immediate past one having been for years 2011 to 2015; and currently implementing 2016-2020 strategic plan (Kenya Red Cross Society, n.d.).

LVCT Health was established in 2001 under the NGOs Co-ordination Act No. 19 of 1990. The organization works towards HIV / AIDS prevention in Kenya, with the ultimate goal of reducing HIV infections to zero. It offers integrated HIV services and engages in sexual and reproductive health research, which forms the basis for its policy and practice. Its services are largely focused on those with greatest vulnerability to infections as well as those with special needs, including survivors of sexual violence, persons living with disabilities, sex workers, youth, and men who have sex with men. The mission of the organization is to sustainably provide equitable HIV, sexual and reproductive health services to the most vulnerable (LVCT Health, n.d.). LVCT is currently implementing its year 2017 to 2022 strategic plan; the immediate past one having been for years 2012 to 2017 (first quarter).

CHAK is a faith-based organization of protestant churches that have health facilities, as well as health programs all over Kenya (Christian Health Association of Kenya, n.d.). The organization has been in existence since 1946 and was registered under the Companies Act (then Cap. 486 of the Laws of Kenya), as a company limited by guarantee and not having a share capital. Its main goal is to promote access to quality health care. CHAK has activities that include malaria and diabetes programs, emergency response program, reproductive health program, HIV / AIDS programs and TB programs. The most recent strategic plan of the organization was for 2011-2016, revised in 2014 (and became 2014-2016 strategic plan). Its current strategic plan is for years 2017 to 2022

USK was founded by a Catholic Dutch Missionary Father Arnold Grol in 1973 and was first registered in Kenya – as a Community Based Organization (CBO); upon coming into force of the NGOs Coordination Act of 1990, USK got registered under the NGOs Coordination Act

on 11 March, 1993. USK is a child centred non-profit community development organization which was founded in the early 70's to help address the increasing numbers of children living and working on the streets of Nairobi. Since its formation, USK has been implementing development interventions focusing on, rescue, rehabilitation and re-integration of children and youth living or working on the streets. Further, USK also works on socio economic empowerment of poor urban and rural communities in Kenya. USK implements integrated community development interventions targeting not only children, but also youth and women. Besides rescue and rehabilitation work, USK undertakes interventions aimed at combating sexual exploitation of children, promotion of children's rights and rehabilitation from harmful practices.

USK pursues various strategies, amongst these, direct poverty alleviation, capacity building and lobbying and advocacy. USK contextualizes its interventions to the uniqueness of various target groups, while embracing international best practices. The mission of USK is "to facilitate care and formation of vulnerable children and youth through socio-economic resilience building and influencing "and its vision is a society where all children, youth and families lead decent lives". The values of USK are guided by the following ideals of solidarity, justice, courage of conviction, accountability and integrity. Its immediate past strategic plan was for a five year period 2012 to 2016 but having had none covering year 2011. Its current strategic plan is for years 2017 to 2021.

### **3.6 Sampling method**

Non-probability sampling method was applied. In particular, convenient sampling method was adopted due to the managers' and Board members' tight work schedules and movements. In each of the 5 NPOs sampled, members of the Board of Directors and top managers who also sit in the respective boards were interviewed. The selection of respondents for interviews was based on availability. Top and middle-level managers were covered under the survey using questionnaires. The criteria for participation in the survey was based on having been in the organisation long enough to understand the organisation's strategic planning and implementation processes and outcome as well as availability to participate in the survey.

### 3.7 Sample size and characteristics

Fourteen members of the Board of Directors and top management of the five organisations were interviewed: three at AMREF; one at Kenya Red Cross Society; three at CHAK; four at LVCT and three at Undugu Society of Kenya. The population characteristics are presented in Table 3.1 below.

Table 3.1: Population characteristics

NPO	Population in Governance and Management Positions		
	Board of Directors	Top Management	Senior and Middle Level Managers
AMREF	9	14	48
CHAK	9	5	44
KRCS	13	11	20
USK	7	3	14
LVCT	7	3	51

Only senior and middle level managers were considered for the survey. The total sample population was 177. Cochran (1963) developed a formula for determining a representative sample:

$$n_0 = Z^2 pq / e^2$$

where:  $n_0$  is the sample size,

$Z^2$  is the abscissa of the normal curve that cuts off an area  $\alpha$  at the tails,

$e$  is the desired level of precision,

$p$  is the estimated proportion of an attribute that is present in the population, and

$q$  is  $1-p$

Based on Israel's (1992) guide for sample size determination, population of 175 people would be adequately represented by a sample size of 122 at 95% confidence level and  $\pm 5\%$  precision (sampling error) or a sample size of 64 at 95% confidence interval and  $\pm 10\%$  precision). The assumed degree of variability,  $P = .5$ . The sample size for each organisation was calculated as a proportion of the overall population.

Table 3.2: Survey sample characteristics

NPO	Senior and Middle Level Managers	Sample size = 122
AMREF	48	33
CHAK	44	30
KRCS	20	14
USK	14	10
LVCT	51	35

The survey was conducted over two periods. The first round of survey yielded 55 responses. However, the data demonstrated low reliability below the minimum acceptable level ( $\alpha = .60$ ) for some factors. Consequently, a second round of survey was conducted. This yielded 31 more responses. The overall response rate was therefore 70.49%. The entire data yielded good reliability for all the factors.

### 3.8 Validity and Reliability of survey instrument

Content validity was achieved through peer review. The Likert-scale survey items yielded a very strong reliability, with alpha ( $\alpha$ ) = .908. The reliability of the individual factors is presented in table 3.3 below.

Table 3.3: Reliability

Factor	Cronbach's alpha ( $\alpha$ )
Strategic planning and implementation	.881
Organisational culture	.741
Governance structure and leadership	.804
Staff training	.701
Staff knowledge and innovation capacity	.821
Organisation's relationship with external environment	.758
Financial management performance	.760
Income growth	.728
Operations efficiency	.922

### **3.9 Ethical considerations**

Several ethical research guidelines were followed during the research process. First, the research acquired permission from the management of each of the five NPOs selected for study. Secondly, participation in the research was voluntary and each participant was clearly explained to what the research was all about and that the Chief Executive of the NPO had given consent. In addition, each participant was assured that his/her confidentiality would be protected. This was done by ensuring that any information that could reveal their identities was not directly quoted or linked to the respondent in question. The results have been generalised and not discussed in a manner that can identify any study participant.

Other than the foregoing, at individual participant level, organizational level ethical issues were considered. The study collected twelve years of financial data from each of the five NPOs that together totalled to sixty years of financial information. Sensitivity to the findings arising from the analysis of the financial information was protected by using alphabetical letters (“A” to “E”) to denote and associate a particular NPO with the data and results without giving the name or key as to which letter represents which NPO. The alphabetical notations are also not in the same order as they were in the paragraphs where the study NPOs were referred to by name. These steps were necessary in order to remain faithful to the notion of confidentiality with respect to the study NPOs.

Finally, in the letters asking for access, mention was made that the study would cover ten years but the study ended up covering twelve years (in financial data) due to the overlaps in strategic planning periods noted during the study (Appendix “M”). No additional request to the study NPOs were made as the additional data was available in the financial information which had already been provided / access granted by the respective NPOs.

### **3.10 Data analysis**

Qualitative data content analysis was used to analyse qualitative data to answer the first, second, third and fourth research questions. To achieve the first objective, which was to determine the relationship between strategic planning and operational management of NPOs, content analysis was used to analyse transcribed interviews. This was followed by stepwise linear regression analysis of the survey responses. The analysis on the relationship between

strategic planning and operational management of NPOs also involved exploring the relationship between strategic planning and staff knowledge and innovation capacity since the latter is a major driver of operational efficiency. Both content analysis and stepwise linear regression analyses were applied to determine relationship between strategic planning and staff knowledge and innovation capacity.

The second objective was to determine the impact of strategic planning on financial management in NPOs. This was achieved through content analysis of transcribed interviews, trend analysis of data derived from financial statements, as well as stepwise linear regression analysis of the survey responses.

The third objective was to investigate the relationship between strategic plan implementation and NPOs income growth. This relationship was analysed through trend analysis of financial data obtained from financial statements of the organisations. Explanation of the observed trends was achieved through content of the interview data. Lastly, stepwise linear regression was performed using the survey data. Statistical methods such as single and multiple linear regression analysis were used to analyse survey responses to answer question one, two and three.

The fourth objective was to investigate factors that affect successful implementation of strategic plans. This objective was achieved through content analysis of the interview data to determine the factors that contribute to and those that hinder successful implementation of a strategic plans. Descriptive analysis of the survey data was performed to establish the level of importance placed on factors such as information flow, decision rights, organisational structure and motivation. The role of other factors like staff training, organisational culture, organisational structure and leadership, as well as relationship with external stakeholders on strategic planning and implementation outcomes were determined from the model coefficients of the various regression models for predicting outcomes.

## CHAPTER 4: RESULTS AND DISCUSSION

This chapter presents results of the data analysis. The results presented are based on the three data types that were collected to answer the research questions. They include interview results, financial data results, and survey results.

### 4.1 Demographic statistics

#### 4.1.2 Sample characteristics of interviewees

Table 4.1: Sample characteristics

	Characteristics	Count	Percent
Gender	Male	12	85.7
	Female	2	14.3
Age	29-38 years	1	7.1
	Over 38 years	13	92.9
Years of service at the NPO	0 – 5 years	3	21.4
	6 – 10 years	5	35.7
	11 – 20 years	5	35.7
	Over 20 years	1	7.1
Position in the NPO	Management	7	50
	Director	7	50

Analysis of the demographics indicate that the male gender dominates the middle to the top management positions in the participating NPOs at 85.7% against the female gender at 14.3% of those who participated in the research. The majority of those who were in the middle to top management positions were over 38 years old (92.9%) while the rest (7.1%) were aged between 29 to 38 years. In terms of length of service, those who had worked for their respective NPOs for between 6 to 10 years were equal to those who had worked in their respective NPOs for 11 to 20 years at 35.7% each, followed by those who had worked for up to 5 years at 21.4% and only 7.1% those who had worked for more than 20 years in the NPO. All participants had at least a minimum of university education. The number of Board members and those in management positions who participated in the research were equal.

## **4.2 Interview results**

### **4.2.1 Impact of strategic planning on organization performance**

All the interviewees stated that strategic planning improves the performance of their organizations. Strategic planning directs focus on the mission of the organization, vision and its goals as well as program users' needs based on priority. It also improves general efficiency and accountability. This is because a new strategic plan prompts the organization to review its policies, processes and systems to ensure that they are aligned to the strategy in a way that increases efficiency and accountability. The areas for improvement are identified during organization's performance review. The involvement of staff in the strategic planning process enables the management to acquire broader perspective of organizational processes and program beneficiaries. This often makes it easy for the organization to undertake system and processes improvement.

Managers interviewed stated that a strategic plan provides an important management guideline and work plan that is used for reference to ensure consistency in operations and program implementation. As such, it offers a template and guideline that an organization can use to design and implement strategies to maximize on its strengths while minimizing its weaknesses. It directs focus on strategic objectives of the organization. As stated by one of the interviewees, "the conversations have evolved a lot more on strategic objectives that need to be achieved to build into the overall corporate strategy." This improves accountability for each strategic objective by instilling discipline in staff because it provides work and program implementation guideline.

#### **Operations efficiency**

All managers interviewed agreed that strategic plan implementation improves operational efficiency. This comes from initiatives implemented to make it possible to achieve the strategic objectives such as staff development and systems improvement meant to enhance organizational capacity and efficiency of business processes. In other words, strategic planning prompts strategic investments in people as well as automation of certain business processes, making the organization operationally more efficient. In one of the organizations, a member of the board interviewed stated that strategic plan had influenced adoption of ICT at their organization. According to him, the information technology has improved data

management, financial management, and more, and as a result, donors take the organization seriously. Besides, it guides resource allocation and focus on thematic areas and targets.

All interviewees shared the belief that a strategic plan provides an important performance monitoring tool. Strategic plan outlines measurable performance targets and defines how the targets are to be achieved. It provides clear and measurable targets and milestones. Quality management approaches are employed to ensure that performance targets are tracked and met. Employees use this to review progress regularly, identify factors contributing to program setbacks, and design intervention strategies to ensure that deviations are corrected and programs remain on track taking into account the prevailing environment. Besides, it reinforces the spirit of teamwork in an organization.

Strategic plan helps develop internal capacity of the organization which includes, knowledge and skills of employees. In other words, it provides a framework for human resource planning as observed by one of the managers interviewed. Information derived from the interviews show that NPO managers acknowledge that once a strategic plan is developed, staff skills and knowledge as well as behaviour must be aligned to the competencies required to successfully implement the plan. One of the interviewees identified the discovery of new developments in the sector in which the organization operates, as one of the most important advantages secured out of a strategic plan.

All managers interviewed agreed that strategic plan improved service delivery at their organizations. It helps an organization to pick thematic priorities and design targeted interventions. This makes it possible for the management and staff to focus on priority areas and allocate resources based on priority. In addition, a strategic plan ensures that staff adhere to standard service delivery processes and engage in effective monitoring of service delivery activities. According to a director in one of the organizations in the sample, a strategic plan ensures periodic reviews of service delivery programs to enhance efficiency in service delivery. Improved services delivery comes from the use of quality improvement system through tool kits with targets and indicators in a matrix which ensure continuous and improved tasks, processes and program coordination. One of the interviewees also observed that if well packaged, a strategic plan can be used to formulate various service offerings.

## **Financial management**

As a financial management and a reference tool, a strategic plan guides budgetary processes and the development of the annual operating plan. From the interviews, NPOs adopt a business approach to planning and managing the organization. In every organization included in this study, the management developed a project performance dashboard to monitor both implementations and financial performance. A unit or department within an organization is assigned the role of monitoring annual plans and budgets and provide a performance report against set targets to the board on a regular basis for action.

## **Income growth**

All managers interviewed reported that their organization's strategic plan and implementation contributed to income growth or ensured stability of financing from donors. According to the interviewees, strategic plan helps direct resource mobilization. This is because it increases an NPO's visibility locally and internationally. It also helps improve external relations with partners and donors because they are able to understand the vision and goals of the organization both in the short- and long-term as well as how the organization plans to achieve those goals and the resources and support required to achieve them . An important point that came out of the interviews is that a strategic plan helps attract donors and other stakeholders (organization and individuals) to support their programs. One of the managers interviewed stated that the strategic plan helps the organization to "get partners to walk the same path with us". Four out of the twelve managers interviewed stated that having a strategic plan increases an organization's opportunities for funding and partnerships.

A board member of one of the organizations interviewed stated that strategic planning makes donors to view their organization positively. He added that the strategic plan enabled their organization achieve the budgeted income for year 2017. Another interviewee summarized the link between strategic plan and income growth, stating that "funding is continuing because funding agencies are convinced on productivity and appropriate programming". Another interviewee added that a well-developed strategic plan has the effect of attracting new partners and donors, which can contribute to income growth. As noted by the interviewees, an important strategy for maintaining donors and partners and attracting more funding is to involve them in the strategic plan development. This is because this process it enables an organization to align its strategic plan with donor priorities where need be. A strategic plan also informs donors of priority areas of the organization and how relevant the

priority areas are to the donors and target groups. In the end, these two groups identify with the organization and are willing to support implement its plan. Because donors and partners often track the implementation of the strategic plan, successful implementation retains old donors and attracts new ones. This is because they are able to demonstrate prudent use of resources to deliver needed services to target populations.

#### **4.2.2 Factors that impact on implementation of strategic plans**

##### **Drivers of organisation performance**

The results of the interviews revealed that NPOs adopt various strategies to enhance the implementation of their strategic plans and therefore performance. For most (4 out of 5) of the organizations, the planning process starts from the bottom and is cascaded upwards. During the planning process, the planning team reviews annual reports, evaluation reports of previous programs and the lessons learnt. The past information is used to inform the planned interventions for the new plan. Views of stakeholders are also taken into account such that strategic plans are a response to the issues raised by stakeholders in the communities they serve.

During strategy development, these organizations do analysis using various models such as SWOT analysis, PESTEL analysis, resource-based view, multidimensional integrated model of non-profit organizational effectiveness (MIMNOE), balanced scorecard, and so on to understand their position in terms of strengths, weaknesses and threats, and review the macroeconomic and social environment to ensure that the strategy is focused on serving the vulnerable members in the community. Critical success factors and best intervention approaches are also identified during these reviews. At the Kenya Red Cross Society, the identified conditions are taken through stress test simulations in order to formulate an appropriate strategic response. Once strategy is formulated, the organization structure is reviewed and re-aligned with the strategy. Strategy formulation is followed by diversified resource mobilization.

The interviewees identified communication as a very important element in strategy implementation, stating that appropriate communications systems have to be adopted to ensure efficiency in communications. A manager interviewed emphasized the important role of effective communication and direct consultations with all stakeholders in ensuring successful strategy implementation. At least one interviewee from each NPO in the sample

mentioned that his/her organization valued information sharing among members. For example, at CHAK, the CEO widely shares information about key events - visitors expected, new developments in the sector, walling of strategic plans, issue of annual reports and sharing of information through weekly memos. The organization (CHAK) has an information system that links all its centers and partners. CHAK management reports to the central information unit at its headquarters. Some of the information shared among members include strategic objectives, activities, performance indicators, performance target reports, program outcomes, financial markets behaviour, and market research reports. The organization uses various information sharing channels or platforms to communicate, including organization website and social media platforms, intranet, periodic memos shared via emails, regular/periodic staff meetings, stakeholder forums, monthly newsletters, annual conferences, and report publications. These communications are meant to make staff understand the expected results or performance indicators as well as the level of performance needed to achieve the expected results.

The interviewees indicated that their organizations engage in direct consultations with the staff and stakeholders especially on thematic focus areas and relevance to target groups. The interviewees noted that communication should not be limited to just internal stakeholders but it should be shared with external stakeholders also. They emphasized that external stakeholders are equally important stating that there has to be direct and adequate engagement with such stakeholders who include donors, the government and beneficiaries. The managers interviewed stated that their organizations shared their reports with external stakeholders though such reports were not as detailed as those shared with staff.

NPOs acknowledge that implementation of organization strategic plan and mission is in the hands of the staff. Staff training is therefore a major priority for these organizations. For organizations that rely on volunteers, the training is also offered to volunteers. The goal is to ensure that all members of staff have consistent set of values, behaviours and attributes associated with the organization. In some cases, the strategy requires change in the organization's cultural practices. The management in each of the five NPOs is always quick to lead cultural transformation to align organization cultural practices with strategy.

### **Contributors to successful implementation of strategic plans**

A plan is considered successful if its execution leads the organization to achieving most of its organizational goals. The interviewees reported that the strategic plans of their respective organizations were successful to some extent. They mentioned several factors that had contributed to the level of success achieved by their organizations, including: having the CEOs as the change champions, senior management's commitment to the strategic plan implementation; disciplined, committed and focused staff; work experience of long serving staff; having staff with the right skills set to implement the plan; consistent monitoring and evaluation of plan implementation; support from donors and partners; availability of finances to facilitate activities; commitment to accountability to stakeholders; goodwill from the target community/groups; and openness to new approaches for delivering services.

### **Challenges in implementing strategic plans**

The interviewees acknowledged that strategy implementation is not without challenges. The mistakes that cause failure of strategic plan implementation begin right at the start of the planning stage. The interviewees reported that one of the causes of failure is lack of proper involvement of staff and service beneficiaries in the planning. It was noted that most often, the objectives are not translated to clear measurable tasks resulting in lack of clarity. In some cases, the plan is over ambitious in terms of the area of coverage as well as number/type of services. However, in most cases, managers are so overwhelmed with the demands of daily operations resulting in loss of sight of the strategic goals.

A common problem for all the NPOs sampled is that they largely rely on donor funding to implement their strategic plans. This comes with several challenges. One, the inability to meet the overall strategic plan budget. Occasionally the projected funding does not always come through as envisioned leading to a situation where alternative funding opportunities are given priority instead of looking at strategic choices. This occasionally derails the implementation of strategic plans as outlined in the approved plan. Two, short funding cycles of program activities sometimes hinder achievements of lasting impact. Three, finding donors to fund specific strategic objectives which are not considered priority areas for funding by certain donors can be challenging. This often leads to prioritization of strategic objectives and leading to only implementing the well-funded ones, while leaving out others. Four, some donors have agreed to come on board to support an organization but with different focus or agenda to accomplish which may not be the priorities of the organization. It is difficult

changing donor priorities even though they may be aligned with the strategic priorities of the organization.

NPOs also face other challenges other than that of funding. One of the major challenges is related to human resource management. The first challenge is assembling of staff with relevant skills set and knowledge needed to implement the plan. Strategic objectives that revolve around building the organization's capacity always remain partially achieved. There is also the problem of having HR systems that do not provide staff with clear measurable targets. The foregoing is compounded by poor program design not tied to a good monitoring and evaluation system that incorporate learning and taking corrective measures (i.e. lack of a systems approach to managing the NPO). In some organizations, a lower level staff member or a middle level manager may identify a problem but may not have authority to make an independent decision on the appropriate intervention required. They have to wait to discuss the issue with higher authority. Another problem is in the ability to retain employees. There is intense inter-sectoral competition for talented staff - particularly middle level managers who were reported to be highly mobile. One of the factors that contribute to high middle level managers' turnover in this group is the lack of systems to identify and reward top achievers. The ability to reward top achievers is however constrained by restricted funding meaning that competition for such staff aggravates the situation for NPOs.

The third major challenge is poor leadership to steer the organization towards the achievement of the strategic objectives. It becomes even more serious when there are governance weaknesses at board levels such that there is no one to hold the management accountable. The leadership often fails to take its place in guiding employees towards priority areas as well as in motivating staff who are expected to implement the plan. Such a failure introduces the problem of a management and / or staff that are less committed to the strategic plan implementation. Some managers tend to treat the strategy as separate from the daily business and therefore focus on daily tasks instead of strategic objectives. One of the managers interviewed observed that most NPO's engage in strategic planning as a formal procedure and do very little both at management and board level to monitor execution and milestones. For such NPOs, even their most critical staff have no idea of the direction the organization is moving to and whether it is indeed dictated by a strategic plan.

A fourth challenge that is also associated with poor leadership is in weak monitoring and evaluation systems including accountability systems on performance. Most of the

interviewees observed that poor board and management oversight is often due to poor monitoring and evaluation systems. This often leads to another problem, which is failure to undertake regular internal reviews and reflections to allow for adjustments within the strategic period. In some cases, the management does not outline appropriate strategies for measuring progress thus appropriate feedback and feedforward systems are never in place in such NPOs.

The fifth challenge is related to uncertainties in the external environment. The interviewees mentioned changes in government policy and changes at donor level such as a donor closing down or stalling funding and program activities mid-stream. Change of regimes in donor organizations or governments has also been a major challenge to NPOs. This often significantly changes the priorities of the donor and consequently affecting the implementation of the strategic plan.

### 4.3 Financial data analysis

#### 4.3.1 Income growth

The graph below presents analysis of income growth among the five NPOs measured in terms of income attracted from donors over the period 2005 to 2016.

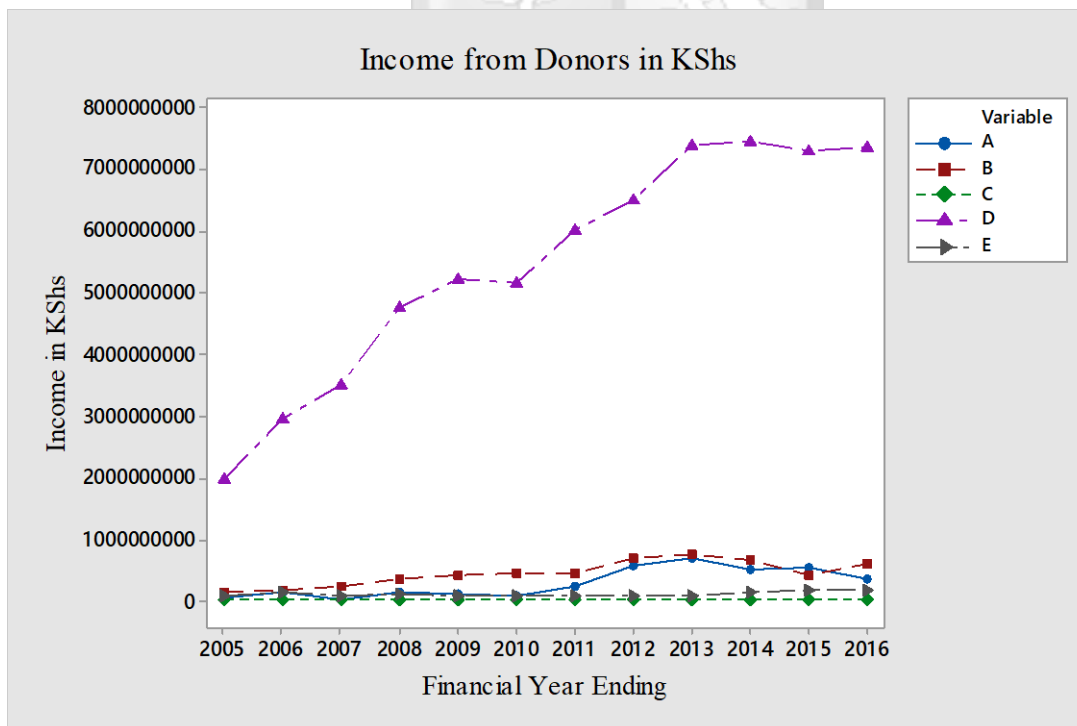


Figure 4.1: Trend analysis of Income from donors from the financial period ending 2005 through to 2016

Figure 4.1 above shows the data for income from donors' derived from each organisation's end year audited financial statements. This data shows that four organisations out of the five recorded significant growth since 2005.

Organisation A recorded inconsistent income from donors between the financial year ending 2005 and 2010. This was followed by serious, consistent growth over the next 3 years and a fall over the following 3 years. A clearer picture of donor income growth is shown in the figure below. The executive interviewed at organization A agreed that strategic planning leads to increased income in not-for-profit organizations. The significant growth in income beginning the 2010/2011 financial years coincided with the implementation of the strategic plan 2011-2015. The executive interviewed stated that the strategic plan attracted new donors and helped retain the old ones, which explains the growth in income over those years. Maintaining new donors and attracting news was achieved because the strategic plan enabled the organization to demonstrate successful implementation of their programs. The head of finance at the organisation who participated in the survey stated that through strategic planning, the organization has been able to create super brand, currently number 3 in Kenya. All those surveyed supported this view by indicating that strategic planning has enabled the organization to build a brand/reputation that makes fundraising for the organization easy.

Organization B also recorded consistent growth between 2005 and 2013 but fell in 2014 and 2015 before picking up in 2016. Two executives interviewed pointed out that the income growth through donors has been possible because strategic planning has kept the organization relevant to donors by showing the relevance of its programs and activities. Strategic planning has also enabled to organization to inform donors of its priority areas of work. As explained by one of the board members interviewed, the organization has been able to attract donors to fund each of its areas of focus or programs.

Organization C has not recorded any real growth since 2008. Donor income keeps fluctuating between KShs 46 million and KShs 55 million. Two members of the organisation's board of directors who were interviewed stated that it is the strategic plan makes them relevant in the eyes of its supporters. The strategic plan makes the organization's supporters to identify with the organization in what they plan to do and therefore help them achieve it. Despite these reports, some issues were identified during the survey which could explain the organisation's inability to consistently attract new donors or more donor funds. The administration officer

and grants and compliance officer who were surveyed indicated that the organization does not always ensure that expenditure is incurred only as budgeted. Two finance officers at the organisation surveyed also observed that the organisation does not have proper financial reporting structures adequately aligned to the strategic plan. These could be affecting how potential donors view the organisation. Consequently, the administration officer did not believe that strategic planning contributes to effective financial management at their organization.

Organization D has experienced the most consistent growth from about KShs 2 billion in 2005 to between KShs 7.3 billion to KShs 7.4 billion over 2013-2016 period. A member of the board of directors of the organisation who was interviewed summarised the reason for growth of income from donors by noting that funding continues to come and grow because funding organisations are convinced about productivity and appropriate programming of activities of the NPO. As a result, the organisation has not experienced any major decline in its income from donors.

Donor income for organization E fluctuated between 2004/2005 and 2008/2009. However, beginning 2009/2010 financial year, donor income grew gradually up to the financial year ending 2013. This was followed by consistent significant rise in donor income over the financial periods 2013/2014 - 2015/2016. A member of the board of directors interviewed stated that strategic planning enabled the organisation to connect with its local and external partners, allowing the organization to increase its donors and donor income. As explained by an executive of the organisation who was interviewed, strategic planning allowed the organisation to make strategic choices in programming to accommodate donor requirements for obtaining funds from the donors.

The figure below show NPO's income from own income-generating activities.

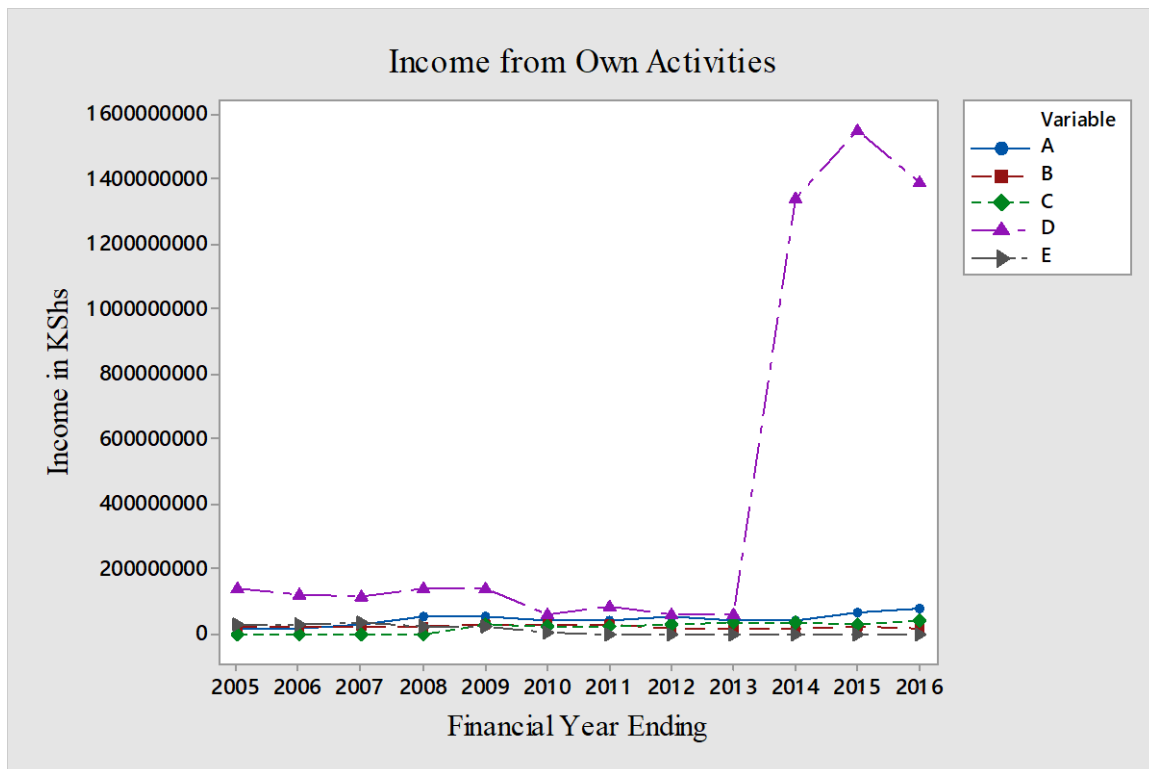


Figure 4.2: Trend analysis of income from organisations' own income-generating activities

Apart from donor funds, the NPOs also source funds from their own income generating activities. Organization E discontinued its income generating activities in 2010, leaving it to depend on donor funds and income from other sources. Other than organization D which recorded sustained growth in income from own activities between 2013/2014 and 2015/2016, the rest have had alternating periods of growth and decline.

The figure below shows NPO’s income from other sources (endowments).

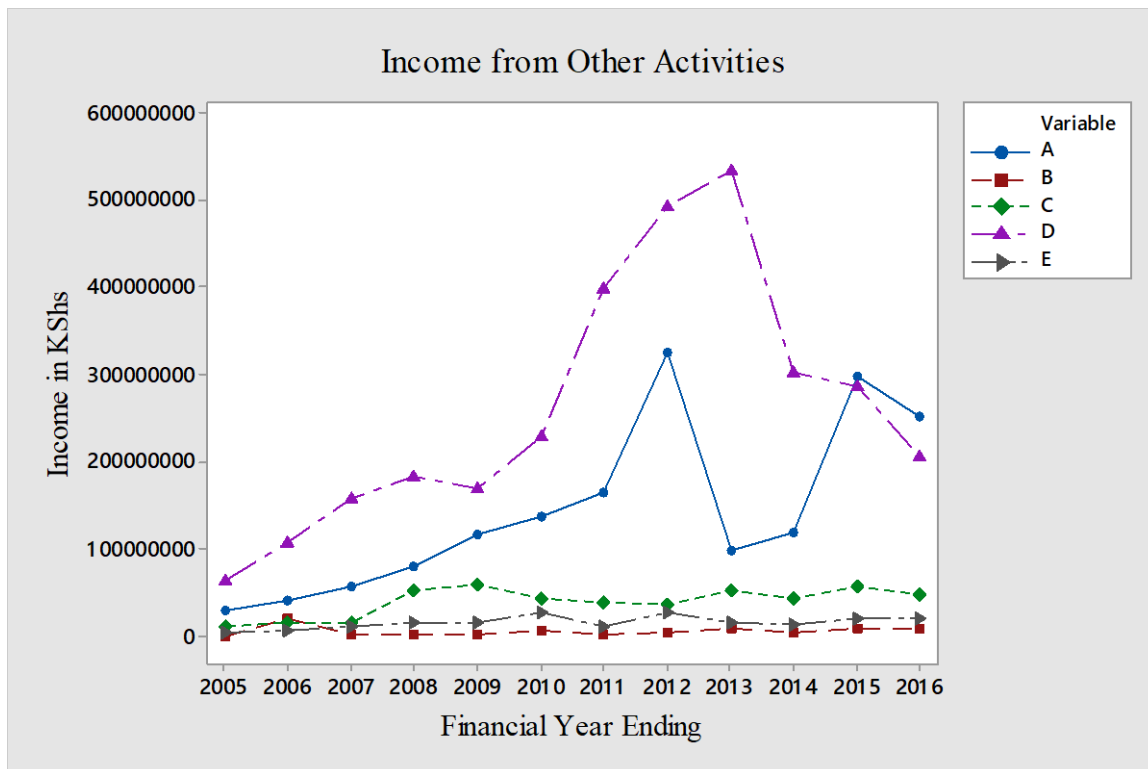


Figure 4.3: Trend analysis of income from other sources (endowments)

From the figure, Organization “D” had the highest growth in income from other activities between the financial year ending 2005 and 2013, although with a slight dip in 2009. However, the organization’s income from other activities has been on a free-fall since the 2013/2014 financial year. Another organization that is doing well on this front is A, which recorded consistent, significant growth between 2005 and 2012 before experiencing a deep in 2013 and picking up in the subsequent years. Organisation “C” and “E” experienced growth in other sources of income between 2005 and 2008 but have since posted oscillating results. Similarly, organisation “B” recorded alternating growth and decline over short periods.

In terms of financial empowerment as defined by Brinckerhoff (2000) NPO “A” and “C” consistently achieved at least 5% of income being generated from own endowments, while “E” achieved it 11 times out of the 12 years but “B” and “D” managed it only 1 out of 12 and 3 out of 12 years respectively suggesting that it is “A”, “C” and “E” which are the stronger NPOs using this criterion.

### 4.3.2 Financial management performance

Financial performance was measured using four indicators: at least 5% of annual operating income from own endowment(s); cash balance at the end of the financial year; revenue-expenses ratio; and current ratio.

Organization “A” is the only one among the organizations sampled that had maintained at least 5% of its annual operating income from own endowment(s), with income from own endowments ranging between 5% and 23%. Organisation “B” 6%-14% between 2005 and 2011; however, since the implementation of the 2012-2017 strategic plan, it has mainly relied on donor income which grew tremendously on the study period only recording a deep in growth once. Organization “C” struggled to grow income from own income-generating activities in the first 3 years of its 2005-2010 strategic plan implementation. However, from the fourth year of the strategic plan period (2009) through to the financial year ending 2016, which was the first year of the 2016-2020 strategic plan, the organization maintained 19% to 29% annual operating income from own endowments. Similarly, after mainly relying on donor income between 2005 and 2013, organisation “D” began to grow income from own activities in 2014, maintaining a 15% to 17% over 2014 - 2016. Organization E on the other hand stopped generating income from own activities in 2010, leaving it to rely on donor income and income from other sources (endowments).

The high income from donors, own income generating activities and other sources enabled organization “D” to maintain positive cash balance at the end of every financial year over the period examined. All the other organisations also recorded positive cash balances in at least 8 out of the 12 years examined. Organisation “E” recorded positive cash balance in 11 out of the 12 years, organization “B” and “C” in 10 years, and organisation A in 8 years.

Revenue-expenses was determined by subtracting annual expenses from annual revenues for each financial year. Revenue-expenses ratio point of reference was set at 7 out of 12 (70%). Despite struggling to attract donor funding from other sources or growing revenues from existing donors, the number of times organization’s “C” revenues have exceeded expenses (revenue-expenses ratio) over the 12-year period examined is 8. This is an indicator of good financial performance, which is second only to organization A whose revenues were higher than expenses in 10 out of the 12 years. The other organizations recorded moderate revenues-

expenses ratio (below 7 out of 12 times). Organisations “B”, “D” and “E” recorded 5/12, 5/12 and 4/12 times respectively.

In terms of the current ratio, all the five organizations reported current ratio above 1. This shows that the not-for-profit organisations selected have relatively good financial health because their current assets fully cover their current liabilities. Current ratio was calculated as:

$$\text{Current ratio} = \text{Total current liabilities} / \text{Total current assets}.$$

From the analysis over the 12-year period, organization “A” recorded current ratio ranging from 2.3 to 17.3; organisation “B” recorded current ration ranging from 1.6 to 95; organisation “C” recorded current ratio ranging from 2.1 to 12.6; organisation “D” recorded current ratio ranging from 1.1 to 1.5; and organization “E” recorded current ratio ranging from 3.5 to 13.4. These show that the not-for-profit organizations selected have relatively good financial health because their current assets fully cover their current liabilities and hence are able to meet maturing obligations.

With regard to having cash reserves enough to cover ninety days operating requirements, analysis of figures from the audited financial results indicate that only NPO “C” had such reserves in each of the twelve years analysed, while NPOs “A”, “B” and “D” respectively had 90 days cash reserves only 1 out of 12, 2 out of 12 years and 5 out of 12 years. NPO “E” did not manage the 90 day cash reserve ratio criterion in all the 12 years.

#### **4.4 Survey results**

##### **4.4.1 Relationship between strategic planning and operations management**

Operations management efficiency was measured using the following indicators: Monitoring and evaluation procedures are followed strictly; The organization has well-defined and functional procurement procedures; Functions and responsibilities are clearly defined such that there is no overlap in my department; Work equipment and technologies are appropriate to our work and functions; Strategic planning has led to appropriate departmental adjustments and improvement; Strategic planning has led to important job redesign at my department/organization; and strategic planning has streamlined organization operations and processes at my department/organization.

Table 4.2: Tests of normality of distribution of operations management performance

	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Operations management performance	.122	49	.196*	.933	86	.106

There was no significant outlier in the data. The Shapiro-Wilk test for normality distribution of operations management indicators also showed that the assumption of normality of distribution was not violated (Shapiro-Wilk statistic (86) = .933,  $p = .106$ , which is not significant at 5% level of significance).

Table 4.3: Strategic planning vs. operations management efficiency regression results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics			
					F Change	df1	df2	Sig. F Change
1	.525	.276	.261	.56205	16.283	1	84	.000
2	.776	.602	.534	.45684	9.476	3	81	.000

Model summary for the first regression show that on its own, strategic planning is has significant influence on operations management. It explained 27.6% of the variance in operations management efficiency. The second model shows that appropriate organization structure and leadership, organization culture, and staff training increases strategic plan outcomes (operations management efficiency). When factors associated with strategic plan implementation, such as organizational culture, organizational structure and leadership and staff training, were added to the model, the strength of the relationship increased. The combined effect of the four factors explains 60.2% of the variance in operations management. Table 4.4 below shows the magnitude of the effect of strategic planning and the associated factors on operations management.

Table 4.4: Model coefficients for predicting operations management efficiency

Model		Unstandardized Coefficients	Std. Error	t	Sig.
1	Constant	2.672	.418	4.554	.000
	strategic planning & implementation	.482	.144	5.273	.000
2	Constant	.027	.563	.048	.962
	strategic planning & implementation	.183	.129	1.424	.162
	Organizational structure & leadership	.545	.132	4.120	.000
	organizational culture	.041	.098	.416	.680
	staff training	.209	.107	1.956	.057

From the second model coefficients, it is evident that the effect of strategic planning diminishes when the effect of organizational structure and leadership, organizational culture, and staff training are controlled. The only statistically significant influence on operations management comes from organizational structure and leadership.

Two items were used to measure staff knowledge and innovation capacity: the organization staff have acquired highly level of creativity and innovativeness; and the organization's leaders and management-level staff possess the competence and skills needed to undertake their responsibilities. Pearson product moment correlation coefficient was calculated for the relationship between operations management efficiency and staff knowledge and innovation capacity. This revealed a strong, positive relationship between staff knowledge and innovation capacity and operations management efficiency ( $r = .630, p < .05$ ).

Normality of distribution of staff knowledge and innovation capacity data was tested using Shapiro-Wilk test. One significant outlier was identified and excluded from further analysis. However, the assumption of normality of distribution was still violated even after excluding the outlier. The test results are presented below.

Table 4.5: Tests of Normality of distribution of knowledge & innovation capacity

	Kolmogorov-Smirnov			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
knowledge & innovation capacity	.407	85	.017	.924	85	.035

Shapiro-Wilk statistic (85) = .924,  $p < .05$ , meaning that the assumption of normality of distribution was violated. This is probably due to the bias in NPO selection and sampling technique.

Table 4.6: Strategic planning vs. staff knowledge & innovation capacity regression summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics			
					F Change	df1	df2	Sig.
1	.522	.272	.259	.48273	17.369	1	84	.000
2	.745	.555	.537	.37174	11.001	3	82	.000

The regression results summarised in first model show that strategic planning explained 25.9% of the variance in staff knowledge and innovation capacity. This suggests a strong, significant relationship between strategic planning and staff competency and innovation capacity at 5% level of significance. The relationship increased when factors associated with strategic planning, including organizational culture, organizational structure and leadership, and staff training, were added to the model. The combined effect of all these factors explained 55.5% of the variance in staff knowledge and innovation capacity. The magnitude of impact of each of the factors is presented in table 4.7 below.

Table 4.7: Model coefficients for predicting staff knowledge and innovation capacity

Model		Unstandardized			
		Coefficients	Std. Error	t	Sig.
1	Constant	1.705	.532	2.789	.003
	strategic planning & implementation	.708	.147	4.870	.000
2	Constant	.982	.691	.698	.127
	strategic planning & implementation	.486	.138	2.855	.007
	Organizational culture	.200	.083	2.134	.014
	organizational structure & leadership	.141	.078	1.089	.256
	staff training	.421	.088	4.693	.001

From the model coefficients table above the effect of strategic planning and implementation on staff knowledge and innovation capacity remained statistically significant at 5% level of significance even after controlling for the effect of organizational culture, staff training, and organizational structure and leadership. Training offered to staff and volunteers to enable an organization meet the objectives of programs in the strategic plan was also found to be a

significant predictor of staff knowledge and innovation capacity ( $p < .05$ ). Organizational culture was also found to be a statistically significant predictor of staff knowledge and innovation capacity at 5% level of significance. This is because it involves regular needs assessment of priority areas, participatory approach in project design and planning as well as participatory approach in monitoring and evaluation, which help identify learning needs and create learning opportunities during project implementation processes.

#### 4.4.2 Relationship between strategic planning and financial management

Financial management efficiency was measured using four items/indicators: expenditure is incurred only as budgeted; yearly expenditure rate is always within the acceptable variance; the organization conducts financial audits each year without fail; and to achieve the goals of the strategic plan, the organization shares financial information among staff and the public at large. The respondents' ratings on these items were averaged and regressed against strategic planning and management scores. Staff training, organizational culture (regular needs assessment of priority areas, adoption of participatory approach during project design and planning, and adoption of participatory approach in monitoring and evaluation) and governance structure and leadership (governance structure that promotes communication, accountability, transparency, and responsiveness; and leadership that instils confidence in donors, staff, and other stakeholders) were controlled. No significant multicollinearity was noted between the independent/control variables.

Shapiro Wilk test for normality of distribution of financial performance indicators was performed. One significant outlier was identified and was excluded from the analysis. However, the assumption of normality was still violated as shown below.

Table 4.8: Tests of normality of distribution of financial performance indicators

	Kolmogorov-Smirnov			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
financial performance	.422	86	.011	.978	86	.112

The Shapiro-Wilk statistic ( $86$ ) = .978,  $p = .112$  shows that the assumption of normality of distribution was met even after excluding the outlier. The data was just slightly, negatively skewed (skewness = -.110).

Table 4.9: Strategic planning vs. financial management regression summary

Model	R		Adjusted R Square	Std. Error of the Estimate	Change Statistics			
	R	Square			F Change	df1	df2	Sig.
1	.528	.279	.258	.54126	16.468	1	84	.001
2	.697	.486	.441	.47724	7.129	3	81	.004

The first model represents the regression of financial management efficiency on strategic planning and management without controlling for the effect of other factors. As shown in the table, strategic planning explained 27.9% of the variance in the organization’s financial management efficiency. After adding other factors associated with strategic plan implementation including staff training, strategic planning culture, and organization structure and leadership to the model, strategic planning and implementation explained 44.5% of the variance in financial management efficiency. The model coefficients presented in table 4.10 below shows the magnitude of the effect of strategic planning and implementation on financial management.

Table 4.10: Model coefficients for predicting financial management efficiency

Model		Unstandardized			
		Coefficients	Std. Error	t	Sig.
1	Constant	1.089	.455	1.239	.037
	strategic planning & implementation	.780	.164	3.3663	.001
2	Constant	.869	.758	1.447	.258
	strategic planning & implementation	.233	.138	1.085	.056
	Organizational culture	.302	.107	2.830	.007
	organization structure & leadership	.401	.140	2.863	.007
	staff training	.182	.115	-1.116	.087

The coefficients show that the influence of strategic planning and implementation on financial management efficiency slightly reduced after controlling for the effect of the associated factors ( $p > .05$ ). Associated factors such as organizational culture and governance structure and leadership were noted to be significant contributors to efficient financial management ( $p < .05$ ) while staff training was not. This shows that financial performance of not-for-profit organizations examined depend more on good governance structure and leadership as well as right organizational culture than just strategic planning.

Further analysis showed that the important part of the strategic plan associated with efficient financial management are the specific aspects of financial management controls outlined in the strategic plan. The items selected include: the strategic plan outlines adequate monitoring and evaluation procedures; the strategic plan is properly aligned to adequate financial management procedures and policies to guide the organization's management of funds; the strategic plan is aligned to clearly spelt-out financial internal control systems; the organization has proper financial reporting structures adequately aligned to the strategic plan. On their own, they explained 31.4% of the variance in financial management performance, which is higher than when strategic planning is considered in general. The effect remained statistically significant at 5% level of significance even after controlling for the effect of organizational culture and organizational structure and leadership which were noted to be significant contributors to financial management performance. When organizational culture and organizational structure and leadership were included, the three factors explained 54.3% of the variance in financial management PERFORMANCE. Staff training was not included because it did not contribute anything to the model in the previous regression. The summary statistics are provided below.

Table 4.11: Financial control planning vs. financial management regression summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics			
					F Change	df1	df2	Sig.
1	.560	.314	.292	.54386	19.534	1	84	.000
2	.737	.543	.526	.46898	10.758	2	81	.000

Table 4.11 above shows the regression results summary for financial management performance of the organizations against financial management and controls outlined in the strategic plan. The first model has financial control plans in the strategic plan as the only predictor while the second model also has control variables such as organizational culture and organizational structure and leadership. The magnitude of their effect is shown in table 4.13 below.

Table 4.12: Model coefficients for predicting financial management efficiency

Model		Unstandardized Coefficients	Std. Error	t	Sig.
1	Constant	1.870	.344	3.129	.000
	strategic planning & implementation	.595	.133	3.983	.000
2	Constant	.782	.643	.550	.219
	Financial controls planning	.245	.128	2.165	.021
	Organizational structure & leadership	.271	.096	2.837	.007
	organization culture	.359	.130	2.764	.008

The model coefficients for the second model shows that including financial control plans in the strategic plan significantly increases financial management performance even after controlling for the effect of organizational structure and leadership as well as organization culture ( $p < .05$ ).

#### 4.4.3 Relationship between strategic planning and income growth

Five indicators were used to measure income growth. They include: the organization always has cash operating reserve of at least ninety days; the organization has other sources of revenue other than donor funds, such as business income (income generating activities), to support its mission; since the implementation of successive strategic plans, the organization has gained financial leverage that allows it to acquire credit (loans if needed); since the implementation of the strategic plan, the organization has rapid response mission reserve funds which allow it to respond quickly to urgent program needs as they arise; and since the implementation of the strategic plan, organization has become financially flexible such that it can accommodate changes in the service delivery patterns. The normality of distribution of the average income growth score was performed and the results are shown below.

Table 4.13: Tests of normality of distribution of income growth indicators

	Kolmogorov-Smirnov			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Income growth indicators	.137	86	.028	.959	86	.161

The Shapiro-Wilk test for normality distribution of income growth indicators shows that the assumption of normality of distribution was not violated (Shapiro-Wilk statistic (86) = .959,  $p = .161$ ) at 5% level of significance.

Those surveyed in each organization generally agreed that strategic planning has enabled their organization to develop reputation/brand that makes fund-raising easy for them.

Table 4.14: Strategic planning vs. income growth regression results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics			
					F Change	df1	df2	Sig. F Change
1	.303	.092	.087	.60891	4.346	1	84	.022
2	.489	.239	.194	.58625	3.408	3	81	.061

The first model summary shows that strategic planning had statistically significant relationship with income growth among the organizations sampled in the study ( $p < .05$ ). Strategic planning explained 9.2% of the variance in income growth. The relationship is weak though and diminished once associated factors like staff training, strategic planning culture, organization structure & leadership are controlled.

Table 4.15: Model coefficients for estimating income growth

Model		Unstandardized Coefficients	Std. Error	t	Sig.
1	(Constant)	2.512	.561	4.480	.000
	strategic planning & implementation	.286	.132	2.085	.022
2	(Constant)	1.408	.722	1.949	.058
	strategic planning & implementation	.178	.165	.358	.437
	Organizational culture	.009	.126	.071	.944
	organization structure & leadership	.375	.170	2.206	.033
	staff training	.310	.137	1.363	.054

The second model shows that the effect of strategic planning diminishes after controlling for the effect of organization culture, staff training, and organization structure and leadership. The p-values of model coefficients in the second model shows that organizational structure and leadership is the only significant contributor to income growth at  $p < .05$  after controlling for the effect of strategic planning and implementation, organizational culture and staff training. The effect of strategic planning on income growth at 5% level of significance diminished after controlling for these factors.

#### 4.4.4 Practices that impact on strategic plan implementation

Table 4.16: Correlations

		1	2	3	4	5	6	7	8
Strategic planning culture	Pearson Correlation Sig. (2-tailed) N	1  49							
Organization structure & leadership	Pearson Correlation Sig. (2-tailed) N	.245 .090 49	1  49						
Staff training	Pearson Correlation Sig. (2-tailed) N	.266 .068 48	.275 .059 48	1  48					
Relation with external stakeholders	Pearson Correlation Sig. (2-tailed) N	.384** .007 49	.606** .000 49	.216 .141 48	1  49				
Knowledge & innovation capacity	Pearson Correlation Sig. (2-tailed) N	.538** .000 49	.581** .000 49	.510** .000 48	.689** .000 49	1  49			
Financial performance	Pearson Correlation Sig. (2-tailed) N	.529** .000 49	.620** .000 49	.141 .338 48	.724** .000 49	.614** .000 49	1  49		
Income growth indicators	Pearson Correlation Sig. (2-tailed) N	.159 .275 49	.441** .002 49	.226 .123 48	.259 .072 49	.343* .016 49	.369** .009 49	1  49	
Operations management performance	Pearson Correlation Sig. (2-tailed) N	.312* .029 49	.695** .000 49	.397** .005 48	.419** .003 49	.552** .000 49	.552** .000 49	.561* .000 49	1  49

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

All the control variables including staff training, organisation culture, organisation structure and leadership, as well as relationship with external stakeholders were all found to have

positive influence on strategic planning outcomes. The survey participants indicated that information flow, followed by decision rights, organizational structure, and staff motivation in that order determine the effectiveness of strategy implementation.

Information flow was considered to be the most important for successful execution of the mission of an organisation, having technological savvy staff, marketing an organization, and driving the vision of an organisation. It is also important for updating the knowledge and competency of staff and for attracting funds to an organisation.

Decision rights was the most important factor for ensuring successful establishment of business-like board of directors and achieving financially empowered organization (attracting funds to the organization). Decision rights was also noted to be important in implementing tight controls, driving the vision of an organization, executing the mission of an organization, and in transforming the organisation into a social entrepreneur.

Organisation structure was particularly more important in implementing a tight set of controls. It was noted to be important in establishing a business-like board of directors, adopting technology for organization process, marketing the NPO, sourcing funds for the organization, influencing commitment to an organization's vision, and driving an organisation's mission.

The survey also showed that motivation is considered to be the most important factor for ensuring that staff are well-educated about the organization's activities and act like social entrepreneurs. Motivation also influences staff's decision to market the organization.

## **CHAPTER 5: DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS**

This chapter presents discussions, conclusions and areas for recommendations of the research results.

### **5.0 Discussions of the research results.**

#### **5.1 Relationship between strategic planning and organisation outcomes**

The first objective of the study was to determine the relationship between strategic planning and operational efficiency in not-for-profit organisations. Both the interviews and survey results have provided evidence indicating that strategic planning improves operational efficiency in these organisations. Based on Gifford and Dina's (2003) work, the operational efficiency is due to the internal analysis normally undertaken prior to the development of a strategic plan to identify issues that may negatively affect the organisation's ability to achieve its mission. The involvement of staff in the strategic planning process enables the management to acquire broader perspective of organisational processes and program beneficiaries. This often makes it easy for the organisation to undertake system and processes improvement. The survey results showed strong relationship between strategic planning and implementation and operations efficiency. This was further supported by the strong relationship between strategic planning and implementation and organisation staff knowledge and innovation capacity.

Strategic plan helps develop internal capacity of the NPOs which includes innovation capacity, knowledge and skills of employees because it provides a framework for human resource planning and development so as to align their competencies with needs of the organisation. The level of knowledge that the staff possess about their roles and the organisation processes and innovation capacity is expected to increase operational efficiency in these organisations. Strategic planning helps an organisation to pick thematic priorities and design targeted interventions. This is often followed by strategic resource allocation based on priority, investments in people as well as automation of certain business processes, making the organisation operationally more efficient. Staff development and systems improvement enhance organisational capacity as well as its efficiency in the business processes.. For example, investment in the right information systems can improve data and financial management (demand modelling, budgeting, cost optimisation, service valuation and

investment analysis, charging, tracking expenses, etc), enhance tasks, processes and program coordination through linkages between the departments of the organization and branches in various locations as well as business processes at a relatively low cost.

The use of quality improvement system through tool kits with targets and indicators in a matrix leads to improved service delivery. This is consistent with Gifford and Dina's (2003) observation that strategic planning helps not-for-profit leaders and staff set priorities to better meet the organization's mission. It enables it to continuously improve quality services to its constituents by instilling processing improvement culture (Lassiter, 2007) while demonstrating to the community and its funders that it has positive impact on those who use its services (Gifford & Dina, 2003).

The second objective of this study was to establish the relationship between strategic planning and financial management in not-for-profit organisations. NPOs positive cash balance at the end of the financial year and current ratio as well as revenue to expenses ratio for some of them over the 12-year period show that they have maintained good financial health most of the time. All the five NPOs reported positive cash balances at the end each year at least 8 times over the 12 year period and current ratio above 1 throughout the period. Besides, two of the NPOs reported positive revenue to expenses ratio at least 8 times over the period while the rest reported positive revenue to expenses ratio of 4-5 times over the same period. Besides, survey data revealed a strong relationship between strategic planning and implementation and financial management performance in the NPOs. This was attributed to the fact that strategic plan outlines adequate monitoring and evaluation procedures and is properly aligned to adequate financial management procedures and policies to guide the organization's management of funds.

Most of the organisations have strategic plans which are aligned to clearly spelt-out financial internal control systems and have proper financial reporting structures adequately aligned to the strategic plan. In each of the five NPOs in this study, the management developed a project performance dashboard to monitor both implementations and financial performance. A unit or department within each of the five organisations has been assigned the role of monitoring annual plans and budgets so that they report performance against set targets to the board on a regular basis for action.

The third objective of this study was to establish the relationship between strategic planning and income growth in not-for-profit organisations. The survey data revealed significant relationship between strategic planning and income. This was supported by the views of the members of the board of directors and top management interviewed as well as the financial data extracted from the annual financial statements of each of the organisations. All of the organisations' Board members and top managers who were interviewed reported that strategic planning had contributed to income growth for their organisations or ensured stability of financing from donors. It is therefore fair to assert that a well-developed strategic plan has the effect of attracting new partners and donors, leading to income growth.

Strategic planning increases an NPO's visibility locally and internationally and helps improve external relations with partners and donors because they are able to understand the vision and goals of the organization both in the short- and long-term. A strategic plan informs donors of priority areas of the organisation and how relevant the priority areas are to the donors and target groups. It also gives existing and potential donors opportunity to understand how the organization plans to achieve those goals and the resources as well as the support required for the achievement of the goals. This increases an organization's chance for securing funding from donors and attracting partners to support implementation of its programs. A good strategy adopted by the organizations to maintain donors and partners and to attract more funding is to involve partners and donors in strategic plan development. This enables an organization to align its strategic plan with donor priorities. This makes the partners and donors identify with the organization and become willing to support the organization implement its plan.

Since donors and partners often track the implementation of the strategic plan, successful implementation retains old donors and attracts new ones. Accurate financial reports on activities and programs within the strategic plan make donors to view the organisation positively. This is because they are able to demonstrate prudent use of resources to deliver needed services to target populations. According to Ongonge (2013), all these enable an organisation to build legitimacy. As a result, donors and partners become convinced on productivity and appropriate programming in the organisation, making them to continue funding the organisation.

The fourth objective was to establish factors that contribute to successful implementation of strategic plan as well as those that derail implementation. The interviews and survey revealed

several factors that contribute to successful implementation of a strategic plan. A plan is considered successful if its execution leads the organization to achieving most of its organizational goals. Indicators of success include: availability of financial resources to facilitate activities; support from donors and partners; having staff with the right skills set to implement the plan; consistent monitoring and evaluation of the implementation of the plan; senior management commitment to the strategic plan implementation; disciplined, committed and focused staff; having CEOs as the change champions; having staff with long work experiences; commitment to accountability to stakeholders; goodwill from the target community/groups; and openness to new approaches for delivering services.

The study has also provided evidence to support Neilson *et al.* (2008) four fundamental building blocks that executives can use to influence a more effective execution of strategy, including information flow, decision rights, organizational structure redesign, and alignment of motivators to a strategic plan. Although the survey results showed information flow (communication) as the most important among Neilson *et al.* (2008) building blocks, the survey supported Raffoni's (2008) assertion- all of them are almost equally important for successful implementation of the strategic plan. Communication is a very important element in strategy implementation and therefore appropriate communication systems has to be adopted to ensure efficiency in communication. The communication strategy and organization structure should facilitate direct consultations with all stakeholders and information sharing among organization members in ensuring successful strategy implementation.

There has to be direct and adequate engagement with external stakeholders who include donors, the government, and beneficiaries. The staff on the other hand need to understand the expected results, expressed in terms of performance indicators, as well as level of performance needed to achieve the expected results. They also need decision rights to be able to make decisions in real-time (Bower & Gilbert, 2007), and make them accountable for processes and results. Motivation is also important because it makes staff and volunteers more engaged and committed to their roles and responsibilities. Therefore, successful implementation of a strategic plan requires leadership that is able to motivate and inspire organizational staff and volunteers towards the organization's vision (Bryson, 1995).

The study found that structure of an organization has significant relationship with operations management efficiency, financial management performance, organization's relationship with

external stakeholders, and income growth. This shows how important an organization's structure is to strategic planning and implementation. Organizational structure determines the types of strategy an organization may employ and the ways used by the members of the organization to pull together in their activities to promote effective strategic plan implementation (Akolu, 2004). A good organizational structure facilitates coordination of the organization's functional units, programs, as well as operations for maximum efficiency and therefore reinforces the implementation of the strategic plan (Mintzberg & Quinn, 1991). Thus, if the strategic plan and organizational structure are incongruent, adjustments have to be made either on the structure or the strategic plan itself or both (Koske, 2003).

The study also found that organization culture has a significant relationship with organization performance indicators such as operations management efficiency and financial management performance. According to Akolu (2004), organization culture influences the decision making of the members and determines priorities as well as how time and effort are invested in organizational activities. It can also facilitate or hinder communication, teamwork, and commitment. As such, it is important that an organization's culture is compatible with its strategic plan. In some cases, the strategy requires change in the organization's cultural practices. The management has to lead cultural transformation to align organization cultural practices with strategy.

Raffoni (2008) adds that successful implementation of a strategic plan requires establishing tracking systems that facilitate problem solving and setting up systems formal reviews. Similarly, Lekorwe and Mpabanaga (2011) noted that successful implementation of a strategic plan requires establishing adequate management process and financial management, accounting, and budget systems. This can be achieved by establishing a unit or department within the organization to consistently monitor implementation of the plan and budgets or financial performance so that the management can easily track financial performance against set targets on a regular basis for action.

Finally, it is essential to acknowledge that implementation of an organization's strategic plan and mission are in the hands of the staff. This means that during strategic planning, staff competencies have to be reviewed to determine their ability to successfully implement the plan and to identify knowledge and skills gaps that may exist. Staff knowledge, skills and innovation capacity is a significant determinant of operations efficiency, and this is why staff re-training is a major fact in successful strategic plan implementation and should be

prioritized. The goal is to ensure that all members of staff and volunteers are empowered (Lekorwe & Mpabanaga, 2011) and have consistent set of values, behaviors and attributes required to implement the strategic plan.

Several factors were found to derail implementation of strategic plans. The organizations sampled experienced several challenges which seem to cut across the not-for-profit sector and can cause failure in plan implementation (Abdalkarim, 2013; Mutuvi, 2013). A common problem for all the not-for-profit organizations sampled is that they mainly rely on donor funding to implement their strategic plans, and this occasionally limits their ability to meet the overall strategic plan budget especially when the project's funding does not come through as was envisioned. This has the potential of divert attention to alternative funding opportunities over strategic choices and limits ability to implement the strategic plan. A related challenge is the difficulty in finding donors to fund specific strategic objectives which are not considered priority areas for funding by certain donors. This often leads to prioritization of strategic objectives and only implementing the well-funded ones, while leaving out others. The second related challenge is the short funding cycle of projects that sometimes makes it difficult to achieve long-term impact. Not-for-profit organizations also have to contend with donors accepting to come on board to support the NPO but with a different focus or agenda in mind that may not be the priority of the NPO. It is difficult to change donor priorities especially if they are not aligned with organization's strategic plan.

The problems that arise from reliance on donor funding are sometimes aggravated by uncertainties in the external environment such as changes in government policy and changes at donor level like donor closing down mid-stream in the implementation process and sudden shift in donor or back donor policy priorities. Change of regimes in donor organizations or home governments has also been a major challenge for not-for-profit organizations. Such have the potential of significantly changing the direction of the strategic plan.

NPOs also face other critical problems other than the funding and funder challenges. One of the major challenges is related to human resource management which includes difficulty in assembling staff with set skills and knowledge needed to implement the strategic plan given the limited financial resources to support effective staff retention schemes; inadequate staff training programs; lack of clear measurable targets compounded by poor program design not tied to a good monitoring and evaluation system that incorporates learning; and taking

corrective measures; and inadequate decision rights delaying intervention when a problem is identified even when the problem requires urgent intervention.

The third major challenge is poor leadership to steer the organization towards the achievement of the strategic objectives. Koske (2003) and Lekorwe and Mpabanaga (2011) identify leadership as key to the functioning of not-for-profit organizations and strategic planning and implementation. Koske (2003) emphasizes that good governance and leadership ensures that organization efforts are united towards strategic goals. Therefore, strategic planning and implementation become difficult when there are governance issues at the board level such that there is no one to hold the management accountable. This kills motivation and commitment among staff since there is no one to guide people towards priority areas and motivate staff who are expected to implement the plan. As a result, managers who are supposed to be directly responsible for strategic plans end up treating the strategy as separate from their daily business. Instead, they focus on the daily routines with little regard to strategic objectives.

An associated problem to poor leadership is weak monitoring and evaluation systems and accountability system for performance. In some cases, the management does not outline appropriate strategies for measuring progress. It was noted that poor board and management oversight is often due to poor monitoring and evaluation systems. This is further compounded by failure to undertake regular internal reviews and reflections to allow for adjustments within the strategic period. In most cases, managers are so overwhelmed with the demands of the daily operations making that them lose sight of the strategic goals.

Inadequate stakeholder involvement during strategic planning can also affect plan implementation. It was reported that one of the causes of plan implementation failure is lack of proper involvement of staff and beneficiaries in the planning. This often causes the objectives not to be translated to clear measurable tasks and/or results in an over ambitious plan in terms of the area of coverage as well as number/type of services.

## **5.2 Conclusion**

The study has provided important insight on the impact of strategic planning on the operational and financial management (performance) of NPOs. It has provided evidence indicating that strategic planning improves many aspects of NPOs management. Organization outcomes like greater operations efficiency, efficient performance management and that

income growth all have significant influence on service delivery and organization sustainability. Almost all the top managers and members of Board of Directors who were interviewed in the course of the study stated that strategic planning helps grow an organization's reputation and attract donors and partners since NPOs greatly rely on donor funding and partners' support to carry out their mission and this is one of the most important reasons for strategic planning.

### **5.3 Recommendations from the study**

From the study, it is recommended that there should be adequate involvement of all staff in the planning process right from the beginning since involving all key staff in formulating the strategic and financial plans gives the organization a better chance to succeed. Other stakeholders, including donors, partners and beneficiaries should also be involved in the planning process. This ensures that the strategic plan is aligned to donor priorities to enhance financial performance. It also increases an organisation's ability to secure funding from donors and attract partners to support implementation of its programs.

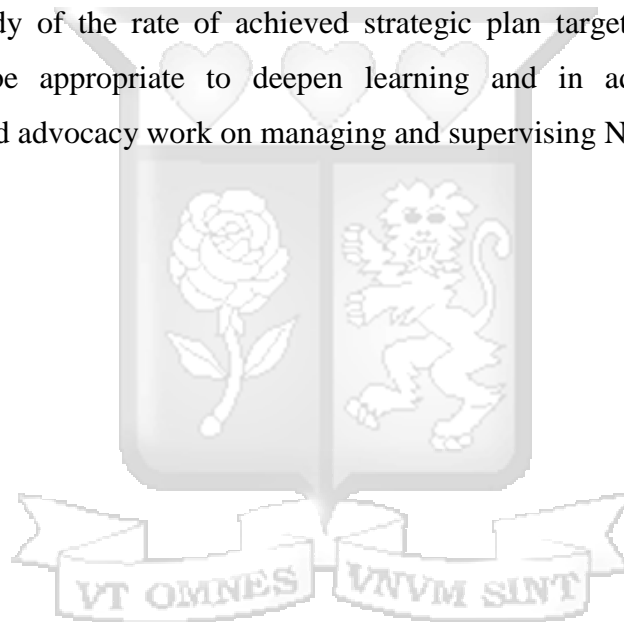
It is also important to design a well thought out monitoring and evaluation system that will inform resource allocation at the very beginning. In other words, monitoring and evaluation must cover financial allocation and performance. This way, the budgets will be realistic and achievable hence strengthening the link between strategy and finance. In addition, the management needs to ensure that the performance metrics in finance are linked to specific strategic objectives so that whatever is being measured has a direct bearing on the strategy and not measuring non-important metrics that have no strategic significance. A balanced scorecard or similar models should be adopted to ensure that the monitoring and evaluation plan covers all aspects of the organization.

There has to be close performance monitoring and evaluation of progress and program impact. The interviewees recommended that regular financial audits of every project / program be undertaken. Budget tracking against the strategic plan should be carried out every 3 or 6 months. The monitoring should be complemented with annual financial audit alignment. Further, NPOs should develop policies and invest in endowments that regularly generate cash in order to go through financially difficult periods as demonstrated by the financial analysis / outcomes observed under NPO "E".

#### **5.4 Recommendation for further research.**

The study focused on evaluation of the role of strategic planning in the operation and financial management of non-profit organizations (NPOs) in Kenya. However, further study should consider incorporating the role of the Board of Directors in the management of NPOs since they play a pivotal role in the success of the operations of the NPO.

In addition, further research work may focus on the success or failure in achieving project targets vis-à-vis strategic plan projections / intentions. The five NPOs studied have programs that are and have been of a continuing nature for many years (three of the five, for over fifty years). Program activities that are of a continuing nature do not provide a direct basis for counting completed, partially completed or failed strategic plan / project initiatives. Thus in all such cases, a study of the rate of achieved strategic plan targets, as against strategic projections, would be appropriate to deepen learning and in addition, could inform government policy and advocacy work on managing and supervising NPOs.



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