

# The Influence of Leadership Competencies on Sustainable Funding of Non-Governmental Organizations: A Review of Literature



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## Abstract

In every organisation, success in one way or the other is attributed to competent leadership. Unlike government or for-profit sectors, Non-Governmental Organisations (NGOs) have to mobilize resources and manage organisations that sustainably provide for the needs of communities that do not pay back like business entities do. The mantle to drive the NGO mission and manage organisational challenges especially funding, creates distinct management challenges for NGOs and hence the need for appropriate leadership to face these challenges.

This paper reviews the existing literature on the influence of leadership competencies on sustainable funding of NGOs. The review has established that most of the NGOs in Africa are highly donor dependent to the effect that the character and role of the majority of NGOs is influenced by the availability of funds and interests of funders/donors. Notably, the review also reveals that funding from external donors is increasingly becoming unreliable and volatile. The review further established that the NGO leader is pivotal to the survival of the NGO since s/he is at the centre of NGO mission and overall strategic leadership. The typical competencies commonly associated with NGO leaders as the ability of a leader missioning and visioning, fundraising, staff empowerment and responsiveness to changing environment. However, most of the leadership traits studies conducted have focused on public and private organisations and least on the NGOs. This paper provides a theoretical review on the influence of leadership competencies and sustainable funding of NGOs, gaps in the literature, lessons learned and conclusions.

**Key Words:** NGOs, leader, competencies, sustainable, funding

## 1. Introduction

Non-profit-making organizations commonly known as Non-Governmental Organisations (NGOs) play an important and growing role within the global economy and are increasingly recognized by governments as important players in a country's social, economic, political and intellectual development (National NGO Policy, 2010: 10). NGO activities help to mobilise, sensitize, consult and aggregate citizen interest and action. NGOs can fulfill these roles at three different levels namely: at agenda setting; at policy development; and at policy implementation, monitoring, evaluation and ensuring transparency and accountability in public office. NGOs, as Non-State actors are, therefore, potent and legitimate partners to governments in nation building. The last decade has been marked by an increased involvement of NGOs that are increasingly becoming more dynamic, innovative and inspiring and is estimated by the Public Interest Registry (PIR) to encompass close to 10 million organizations with the number of UN-accredited NGOs rising from 40 in 1945 to 3,536 by the end of 2011 (Annual Top 100 NGOs Special Issues, 2013). The increasing number and role of NGOs in the development process has been attributed to the failure of development assistance to governments of poor countries to either generate growth or to reach the poor. On the other hand, the success of non-governmental initiatives, especially the Grameen Bank in Bangladesh put forward as a model, has been put forth in development circles as illustration of NGO potential to better deliver the much needed development to the poor (Barr, Fafchamps & Owens, 2003). In the African continent where governments' capacity and revenue are often very limited to deliver the much needed services to the public, NGOs play a pivotal role to poverty alleviation. The international ranking of the Top 100 NGOs by *second edition* of the Annual Top 100 NGOs *Special Issues* (2013) reported increasing global influence and contribution of NGOs in all facets of modern life.

### 1.1 Rational and Focus

In the study of NGO sustainability, it is imperative to consider the influence of organizational mission and leadership which are central concepts in the description of NGOs. NGOs mission



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and drive have been found to be intimately linked to charismatic leadership to the extent that when an individual launches an NGO, the organization's motivation and decision-making often become so intimately intertwined with the leader's personality and character to the effect that the NGO may collapse when the leader departs (Sooryamoorthy & Gangrade 2001, Burger & Owens 2012 and Haveman, 1993). According to research conducted in the UK and sponsored by Association of Chief Executives of Voluntary Organisations (ACEVO), which represents and supports the leaders of non-profit organizations in Britain, NGO leaders exhibited an unusually broad range of competencies compared to leaders in the public and private sectors (Bolton & Abdy, 2003). The varied and modern challenges which NGOs are up against have shifted to developing a new generation of NGO leaders that among other will foster sustainability. This is reflected by the increasing investment of international development agencies such as Save the Children Fund, Organization Development Department of the International Federation of the Red Cross, CARE International, and a consortium of US-based NGOs in Leadership Development Programmes (LDPs). These are not just one-off initiatives but part of a growing awareness of the importance of developing the role and skills of NGO leaders (Lewis 2001; Smillie & Hailey 2001, Hailey & James 2004 and James, 2005a).

As one of the donor agencies in Africa that works with and through NGOs, United States Agency for International Development (USAID) established the Sustainability Index as a tool to assess aid effectiveness to NGOs. The findings of *the NGO Sustainability Index for Sub-Sahara Africa* (2009) revealed that while NGOs' ability to provide service to under-served populations was the highest score in all 19 countries sampled, sustainable funding was the weakness. A common issue for many NGOs in sub-Sahara Africa, Uganda at the heart, is reliance on a single, external source for funding. In this situation, if international funding were to disappear, many of the NGOs would collapse.

The above financial viability challenges have been attributed to inadequate funding of NGOs activities, dependence on external donor funding and absence of alternative donor sources to the extent that some NGOs have a donor dependency syndrome and are unable to sustain their activities when funding from these donors ceases (Wamai, Walera and Wamai 2007, Nana, Apollo and Maureen 2002, Gupta, Powell & Yang 2005 and IMF, 2008). It is imperative to ask whether the donor dependent NGOs will continue attracting more funding or gradually close shop amidst declining and/or volatile economies in developed countries.

## 2. Leadership Competencies

The understanding of and attitude to leadership has developed and evolved over time. The early understanding of leadership was based on personality and charisma since it was believed that leadership was innate and therefore some individuals were born with certain traits that made them effective leaders. These made researchers assume that it would be possible to identify and isolate a definitive list of leadership traits (Stogdill, 1974). The emphasis on individual leadership traits is criticized for overlooking the influence of distinct organisational cultures and other external factors. In the 1970s researchers therefore began to focus their attentions on the way leaders adapted their public persona and leadership style to suit the situation they found themselves in or the people with whom they were involved (Hersey & Blanchard, 1988; Mintzberg, 1998). In the 1980s there was a return to the trait-based analysis of the heroic leader. The renewed interest by researchers was on transformational leaders who actively and successfully championed organisational change that enabled ordinary people to achieve extraordinary results (Peters & Waterman, 1982 and Bass, 1985). The trait-based analysis of the heroic leader focused on a leader's ability to communicate and inspire, or act as a catalyst for change. In the late 1990s researchers discovered new skill-set based around networking, negotiation, delegation and team building. The less charismatic and yet transformational leaders have been described as quieter and humbler leaders with the ability to engage with or inspire others through their thoughtfulness and humility to succeed as a team (Bennis & Nanus, 2004 and Mintzberg, 2006). The constant research on leadership seems to rotate on the efforts to identify the key characteristics and core competencies of successful leaders. This interest has led to what is now referred to as the competency approach to leadership. In this context *competencies* are defined as distinct or unique skills or characteristics found in an individual that lead to, or are causally related to, effective or superior performance (Apostu, 2013). The development of the competency approach has been accredited for facilitating organisations identify and attract talents, skills capabilities that lead to effective performance. The approach further enables development of frameworks that facilitate measuring, monitoring, appraising and comparing core competencies of leaders. Bolden & Gosling (2006) point out the challenge of valuing less tangible leadership behaviors such as intuition or good judgment. The second shortcoming of competency approach is that it paints a picture of leaders as multi-talented individuals and underplays the impact of bad or incompetent leaders emanating out of a



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strong who can exploit their power for their own benefit or agenda. The underlying argument is that the central role of a competent leader more often leads to a degree of dependency among their staff that in turn may lead to their disempowerment and de-skilling. This makes the strong leaders get out of touch with reality, inflexible, ego-centric, and isolated. This in turn breeds resistance from followers and the leader is thus susceptible to poor performance or unethical behaviour such as abuse of power, confusion between personal and organisational interests which finally threaten the viability, credibility and sustainability of any organisation (Kellerman, 2004).

## 2.1 NGO Leadership

In every organisation, success in one way or the other is attributed to competent leadership. Because of the vital role of leadership in organisational success, there have been research on leaders and leadership in various sectors with most attention given to the visible and influential domains of leadership that form and direct society through the often allied powers of politics and of wealth creating business entities. However, most of the research in business and politics has been done in the developed countries without giving adequate attention to the social development leaders in the non-governmental sector. This trend has left the non-profit and its leadership especially in the developing countries relatively unexplored and poorly understood (Fowler, 2000).

Unlike government or for-profit sectors, NGOs have the distinctive mission and challenge of social change as they tend to focus on people whose challenges have not been addressed under either the government or private sector programmes (Hailey, 2000). The NGOs have to mobilize resources and manage organisations that sustainably provide for the needs of communities that do not pay back like business entities do. In addition, NGOs are vulnerable to the exigencies of donors, the political sensitivities of governments, and the needs and imperatives of the local community and yet they are susceptible to the unpredictable demands of an uncertain development environment. Thus NGO leaders have to work for long hours with limited resources in uncertain and volatile political and economic environment to help the most marginalized and disadvantaged members of their communities. The mantle to drive the NGO mission and manage the individual and organisational challenges creates distinct management challenges for NGOs that create the need for appropriate leadership that is crucial to face these challenges. There has however been very little research to analyze the role and characteristics of NGO leaders and how these competencies influence sustainable funding of NGOs (Apostu, 2013).

In developing countries where NGOs have become the main service providers in countries where the government is unable to fulfill its traditional role, the question for the future is, how will such organisations find or develop a new generation of managers or leaders who can meet these challenges. Therefore developing capacity of NGO leaders has become a priority issue on the NGO agenda that needs to be addressed (Arora, 2012).

## 2.2 The Leadership Gap in the NGO Sector

There are worries about leadership deficit in the non-profit sector as a result of lack of leadership talent (Tierney, 2006). It is further anticipated that the leadership deficit will become a matter of urgency as the sector expands over the next twenty years (Tierney, 2006). The forecast puts estimates in the US alone to over half a million new senior managers that will have to be developed for leadership positions in the period 2007-2016. With only 40 per cent of senior management positions in US non-profits filled by internal appointments and the remainder recruited externally, many of the jobs will be filled by individuals recruited from outside the sector who will have had limited experience of running non-profits at a senior level. In the 1990s, CIVICUS and the International Forum on Capacity Building, which was an international coalition of NGOs charges with building the organisational and managerial capacity of the NGO sector as a whole, argued strongly for increased investment to develop a new generation of NGO leaders due to what was envisaged as the increasing need for quality and appropriate leadership. CIVICUS, an international alliance of civil society organisations identified the lack of NGO leadership talent which was partly caused by rapid turnover of senior staff and the difficulty in replacing them as a matter of particular concern (CIVICUS, 2002). Studies of the way leaders work and what motivates them is based on research into the role and character of leaders in the business, political or military sectors and not the non-profit sector. Furthermore, much of this research is based on studies in the developed industrialised countries of the North leaving the South especially Africa less attended to especially when it comes to the non-for profit sector (Kotter, 1996, Adair, 2002 and Bennis & Nanus, 2004). Hailey & James (2004) emphasize that much of the current leadership research is not relevant to the different social, cultural and political environments in which NGO leaders work.

### 3. Leadership Competencies and Sustainable Funding of NGOs

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The NGO sector is increasingly becoming more dynamic, innovative and inspiring and is estimated by the Public Interest Registry (PIR) to encompass close to 10 million organizations with the number of UN-accredited NGOs rising from 40 in 1945 to 3,536 by the end of 2011 (Annual Top 100 NGOs Special Issues, 2013). The NGO sector in Uganda in 1998 alone accounted for approximately \$89 million in expenditure and is estimated to account for one-and-a-half times of the public sector workforce (Nyangabyaki 1999 and Ssewakiryanga 2013).

Despite the above contribution, the NGO sector remains highly dependent on external donor funding. A study by the Office of the Prime Minister (2003) on the NGO sector in Uganda, between 15-30% of the NGOs that register annually, go operational (Barr, Fafchamps & Owens 2003). This was attributed to failure to successfully mobilize funding to commence operations. For an NGO, sustainable funding is paramount as it enables it to survive so that it can continue to serve its constituency. This means that an organization will be able to fulfill commitments to its clients, its patrons, and the community in which it operates so that the groups who depend on it can place their trust in that commitment (Weerawardena et al., 2009, p. 2). The research findings on *The Role of Non-Governmental Organizations (NGOs) in Social Development* in Uganda (Wamai, Walera, and Wamai 2007) revealed that the major limitations of NGOs Contribution to Development to be inadequate funding of NGO Activities, NGO dependence on external donor funding and non-sustainability of NGO activities. The same findings had been noted by Nana, Apollo and Maureen (2002) who revealed that NGOs in Uganda are highly dependent on external sources of funding for their programmes/agendas and activities which undermines their independence and the sustainability of their programmes. The study findings of NORAD (2002) indicate that the character and role of the majority of NGOs in Uganda is influenced by among other factors, the availability of funds and interests of funders/donors. In Uganda, availability of donor funds is a stronger pull factor for individuals starting an NGO and has a more dominant influence on sustainability (Gupta, Powell & Yang 2005; IMF 2008).

*The NGO Sustainability Index for Sub-Sahara Africa* (2009) findings revealed that a common issue for many NGOs in sub-Sahara Africa, Uganda at the heart, is reliance on a single, external source for funding. In this situation, if international funding were to disappear, many of the NGOs would collapse. Additionally, the NGO Sustainability Index (2011 P.145) revealed that the financial viability of Uganda's NGO sector remained vulnerable due to continued reliance on external donors. According to the National NGO Policy (2012) NGOs in Uganda are still donor dependent especially in respect to funding which impedes their contribution to development and sustainability of the NGO sector activities.

#### 3.1 Competencies of NGO Leaders

The general attitude to, and understanding of leadership has developed and evolved over time. Early thinking about leadership was based on individual traits that account for personality and charisma of what came to be known as heroic leaders. In this case, researchers assumed that it would be possible to identify and isolate a definitive list of leadership traits. Modern research in leadership has established typical competencies commonly associated with leadership as the ability of a leader to communicate vision or strategy, inspire teams, motivate individuals, and identify opportunities and initiate transformation (Stogdill, 1974).

##### 3.1.1 Responsiveness to changing environment

According to Hailey (2006) NGO leaders demonstrated an unusually broad range of competencies that include self-awareness and self-management of own behavior and attitudes in a dynamic environment that enable them to bring about change. In this regard, leaders have to change themselves, not just try to change the organizations. As Nelson Mandela famously commented you can never change society if you have not changed yourself. It is the self-awareness and self-management competencies that give the NGO leaders capacity to play different roles and balance competing demands, as well as develop strategies that enable them to cope with the exigencies of complex and difficult external environments that appears to be one of the hallmarks of many successful NGO leaders. Research in both the private and non-profit sectors reinforces the point that such personal change is crucial. For example:

- Quinn (2000: 116) notes that:  
*The bottom line is that they (leaders) cannot change the organization unless they change themselves.*
- Edwards and Fowler (2002: 42) writing about developments in civil society note that:  
*It is rarely possible to generate substantial change in human behavior simply by altering the rules and institutions that govern our lives. The missing*



*ingredient is personal change which acts as a well spring of change in other areas .*

- James (2003) his research among local NGO leaders in Malawi also noted that *behavioral changes are preceded by highly personal internal changes !*

According to research conducted in the UK and sponsored by ACEVO, which represents and supports the leaders of non-profit organizations in Britain, NGO leaders exhibited an unusual broad range of competencies such as the ability to communicate NGO vision, identifying and exploiting opportunities, inspiring teams, motivating NGO staff, creating and managing donor relationship as compared to leaders in the public and private sectors (Bolton & Abdy, 2003). Bolton and Abdy (2003) assert that the NGO leaders need a rare balance of inward-looking (management) and outward looking (influencing) skills, with exceptional communication and networking skills, as well as resilience and emotional attachment. The ability to manage self and others; ability to influence the environment around them (leaders) to achieve organisational goals is what Coleman (2000) referred to as Emotional intelligence. *Emotional intelligence* has been described as the intangible aspects of leadership that represent one's innate ability to feel, use, understand and learn from own emotions and those of others and of groups. The higher the leader's emotional maturity and ability to mobilize emotional intelligence the higher the performance (Goleman, 2000). According to Hailey (2004) and Apotu (2013), NGO leaders exhibit the following characteristics:

- *A willingness to learn and experiment* which enables them to comfortably apply new technologies or developing innovative organizational work methods, and keen to draw on science or other sources of applied or professional knowledge.
- *The ability to balance competing demands* on their time and manage the pressures from a range of different stakeholders.

### 3.1.2 Institutional visioning and missioning

Due to increasing role of leadership in the not-for-profit sector, many international NGOs for example, the International Federation of the Red Cross and Save the Children Alliance have created assessment tools that try to capture leadership competencies based on the individual leader's ability to create and communicate vision and strategy and identify and apply appropriate tools, processes, and people to execute the strategy (Hailey 2004 & Apotu, 2013). Accordingly, NGO leaders characterized as developmental leaders have the following characteristics:

- A clear vision and a firm personal value-set that gives them a strong sense of commitment to helping the rural poor that they are able to share with, and use to inspire others and
- Curiosity and ability to scan the external environment so as to track changes, analyse trends, and identify ways to respond to the changing environment.

While studying NGO survival, research has established the influence of mission and leadership which are central concepts in the description of NGOs. NGOs mission and drive have been found to be intimately linked to charismatic leadership. It was observed that when an individual with a vision launches an NGO, the organization's motivation and decision-making often become so intimately intertwined with the leader's personality and character to the effect that the NGO may collapse when the leader departs (Sooryamoorthy and Gangrade 2001, Burger & Owens 2012 and Haveman, 1993).

### 3.1.3 Staff empowerment

Leadership is not so much about individuals, it is more about relationships - it is a dynamic process of mutual influence between leaders and followers. Research into South Asian NGOs shows that strong leadership and participatory management can be complementary and compatible and that such participatory management needs a particular mindset and specific management competencies that require successful leaders to lead teams, inspire and convince the skeptical (Smillie & Hailey, 2001). Research findings among NGO leaders in Uganda reveals a more participatory leadership style where traditionally dominant leaders are increasingly sharing decision-making with their staff and encouraging a more participatory culture in their organizations (James et al., 2005).

According to Hailey (2004), NGO leaders have the ability to develop effective teams, empower, energize, communicate and inspire members through personal leadership. This role is achieved through strong communication and interpersonal skills that enable NGO leaders to motivate staff and engage with a cross-section of society in a proactive and positive manner. Research conducted into NGO leadership in Kenya, Malawi and Uganda indicates that NGO leaders' role have been evolving and that the leaders have to adapt to stresses arising from pressure of work, and the demands of organizational crises commonly around financial shortfalls, internal



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conflicts or tensions between the staff and the Board (James, 2005a). In addition, the NGO leaders are constantly faced with pressure caused by unrealistic and artificial demands placed by aid donors in form of tight project schedules, over-hasty timeframes and quick results is both unrealistic, developmental bad-practice, and which has a negative impact on the credibility and confidence of NGO leaders. Accordingly, such demands have a detrimental effect on the ability of many NGO leaders to pursue long-term goals or develop a degree of financial sustainability of organizations they lead and subsequently the beneficiary communities. However, the above research findings do not clearly reveal the actual contribution of the competencies of the NGO leader towards sustainable funding of the NGOs. Nonetheless, the NGO leaders character has a bearing on sustainable funding of the NGOs and thus their contribution to development and overall sustainability of the NGO sector activities.

Despite the fact that individual NGO leaders possess unique competencies that make them successful leaders, the success of such leaders is dependent on their relationship with the followers and the teams they lead. It is believed that the followers can play a crucial role in growing and reinforcing the power of individual leaders, influencing their behaviour, and crafting internal systems and structures that act to enhance the internal and external status of those they see playing a leadership role (Howell and Shamir, 2005). Put simply, the success of the leaders mirrors in part the resources, energy, expertise and knowledge mastered by the followers. Although the Leaders may attempt to control or manipulate followers through fear or coercion, more often than not, they will work with their followers or colleagues in a democratic and co-operative manner and always seek their technical and social support as a team (Apostu, 2013).

According to Day (2001) successful leaders build strong teams through what is termed as a team-based approach to leadership. The team-based approach to leadership is supported by the concept of distributed leadership in which there is a shared sense of purpose, ownership of issues, shared decision-making and delegated authority at all levels of the organisation. By creating a sense of ownership, the leader builds social and human capital and enables organisation members to interact and work together in cordial and productive way.

### 3.1.4 Fundraising

#### a) Income diversification

In order to reduce the effect of economic crisis that comes with decline in disposable income from which non-profits tap their charitable income, diversification of income is essential to securing sustainable funding. Lewis (2011: 5) defined income diversification for NGOs as the securing of funds from as many sources as possible including from local business communities, the public, national and local government, and not just limiting funding sources to external institutional donors. In most cases financing from donors, whether external or local, was restricted, meaning that the NGO can only use the resources for specific purposes (Lewis, 2011: 6). This limited the ability of the organisation to have flexibility on how it could use funds. Therefore, sustainable funding can be defined as the capacity of the organisation to generate and/or attract funds to implement its development agenda irrespective of reduction or withdrawal of external funding.

With the global financial crisis and dwindling donor funding, NGOs have had to work hard to increase their base of international donors as well as introducing more robust planning, programming, and cost recovery measures where beneficiaries of their programmes have had to contribute or pay some portion of the costs of programmes (Ali, 2012: 11-12; Waiganjo *et al.*, 2012: 74). Waiganjo *et al.* (2012: 74) added that apart from facing fierce competition for dwindling external donor resources, NGOs were also confronting increased government power in determining which organisations get funding in countries such as Kenya as donors had shifted from supporting individual organisations and were pooling resources on a programme sector-wide approach where government played a role in the allocation of funds. This has led to a number of NGOs in Kenya beginning to look at other players, such as the corporate sector, for funding (Waiganjo *et al.*, 2012: 74).

Lewis (2011: 13) advised that when local NGOs are mapping out their funding strategies they should ensure that the strategies will enable them to diversify funding in such a way that they do not depend on one donor as this gave too much control of their operations to that donor agency. NGOs should also strive to ensure that they get adequate local support as organisations that are wholly dependent on international donor funding risked being viewed suspiciously by local communities and governments (Lewis, 2011: 14; Waiganjo *et al.*, (2012: 75). Lewis (2011:14-15) explained that income diversification for NGOs can be looked at from a standpoint of funding types that included general financing, core financing, project financing and



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programme funding. A financially sustainable NGO should be able to have the right mix of these types of funds. General funds are generated from general fundraising activities and are short-term and relatively unrestricted income that can come from events such as one-off public donations. These are useful for building reserves that could complement other funding sources where project funding, for example, fails to support an activity fully (Lewis, 2011: 15). Project funding, on the other hand, is restricted funding which is short-term and mainly made available by institutional donors for specific projects of between 1-3 years (Lewis, 2011: 14). Programme funding is longer term funding that may have some restrictions and is normally given by donors where good relations exist with the NGO and where grants are based on programme themes. Core financing is funding raised for core operations of the organisation, is highly flexible, and can be depended on. The more core financing an NGO has, the more sustainable it is. Organisations with high levels of core financing were more able to continue with their activities when external funding ceased (Lewis, 2011: 15). Thus, a good financing strategy for an NGO is one that leads to the organisation having a diversified finance base with the right mix of general, project, programme and core financing.

Waiganjo *et al.* (2012: 75) noted that in their pursuit to diversify funding sources and tap from local funding sources, NGOs were faced with an identity crisis, as they were traditionally perceived to be well funded by external donors. Rawlings (2011) and Waiganjo *et al.* (2012:75) noted that efforts by NGOs to diversify funding in Kenya were facing challenges and competition from foundations and trusts formed by private corporate companies and banks as part of their corporate social responsibility. Funds that could have been freed up for NGOs by these private entities were diverted to the trusts and foundations. Notwithstanding the challenges, many studies USAID (2010), Amagoh and Kabdiyeva (2012), Ali (2012), Manyeruke (2012) and Waiganjo *et al.*, (2012) - found that income diversification had a strong positive relationship with NGO financial sustainability. Based on the studies reviewed above, income diversification can be defined as having at least 60 percent of an organisation's income coming from at least five sources (Leon, 2001) and having the right mix of core financing, project financing, programme financing and general/reserve funds (Lewis, 2011). Norton (2009) defined an ideal funding mix for an NGO as being 50 percent from international donors, 20 percent from membership fees, 20 percent from community fundraising and 10 percent other income. The response to funding challenge for the NGOs is vested in hard work, good planning and entrepreneurial spirit (Barrett, Bezuneh, Clay and Reardon, 2000). This means that NGOs must redesign their program implementation strategies to include use of low cost technologies to cut operational costs; embed cost-recovery components whereby the program beneficiaries pay part of, and sometimes all program costs (Henin, 2002). The NGOs must therefore need to expand their fund-raising activities directed at the beneficiaries first, then, the general public and then tap new corporate donors for monetary and other support in-kind. This is termed as income diversification.

Income diversification refers to an increase in the number of sources of income and/or the balance among the different sources of income. Accordingly, an NGO with two sources of income would be regarded as more diversified than an organization with only one source, and the same way an NGO with two income sources, with each source contributing half of the total revenue, could be regarded as being diversified than an organization with two sources, one that accounts for 80 percent of the total revenue (Jenkins and Yakovleva, 2006; Joshi *et al.* 2002 and Ersado 2003). Income diversification is a process that entails strategic analysis of existing income streams, evaluation of the institutional strengths and opportunities vis-à-vis the weaknesses and threats in relation to the external competitive environment (Lavie, 2006). The income diversification process ought to get a blessing from the NGO leadership that is charged with providing overall direction and reserves the mandate to unlock resources to facilitate the process (Reisch, Spash and Bietz, 2008). As one way of building sustainable funding capacity, many NGOs run social enterprises that serve to diversify their funding base. The social enterprises decrease reliance of the NGO on donors in times of crisis when the request for funding is not honored, disbursement is delayed or the budget is reduced because of reason beyond the applicant's capacity. In these cases, NGOs set modest financial objects that are within the financing range of the social enterprises and employ resources more efficiently and effectively (Rao and Holt, 2005). The success of social enterprises will largely depend on the relevance and competitiveness of products and services offered by the enterprise. The ability of the NGO leadership to market effectively the enterprise especially its uniqueness of plowing-back the income to support development programs of the society (Hargrave and van de Ven, 2006).

#### *b) Own income generation*

Own income is also a major pillar of financial sustainability as own funds are unrestricted and flexible. NGOs can generate own funds through contributions to a trust/endowment fund,



fundraising for institution building operations, sale of goods and services, financial management and corporate alliances (Leon, 2001: 18-20). Lewis (2011: 7) asserted that an organisation was more financially sustainable if it raised own income (unrestricted funds) that gave it the freedom to implement projects the organisation wanted, even those which local and international donors were reluctant to fund. Raising own income enabled an NGO to build reserve funds that are normally shown separately in the annual financial statements and can be used for unexpected events and help reduce donor-dependence and cash-flow shortages as well as strengthening the NGO's ability to withstand external financial shocks (Lewis, 2011: 6). Many studies (Leon, 2001; USAID, 2010; Lewis, 2011; Ali, 2012; Manyeruke, 2012) found that the ability of NGOs to raise own income helped the organisations create flexible fund reserves and supported their financial sustainability.

Challenges faced by many NGOs in trying to generate own income included identity problems where members, stakeholders and government began to view the organisations as for-profit and accused them of mission drift. Other challenges included lack of capacity to do profitable business activities as NGO staff were used to and trained for non-profit activities (Lewis, 2011). Balancing the profit generating activities and the non-profit charity activities of the organisation also came with legal problems as issues such as tax exemptions by some governments could be revoked once the NGO started profit-making income generating activities (Lewis, 2011; Ali, 2012; Waiganjo *et al.*, 2012). Based on Norton's (2009) definition of an ideal NGO funding mix, about 40 percent of a NGO's funding should be from own funding activities i.e. membership fees and community fundraising.

#### *c) Donor relationship management*

Lewis (2011) and CI (2011) noted that the key to financial sustainability was being able to build good relationships with donors with an eye to the future as well as meeting present needs. Ali (2013: 54) concluded that donor relationship management contributed the most to NGO financial sustainability, followed by sound financial management practices, then income diversification and own income generation. Waiganjo *et al.* (2012: 76) also established that there was a strong positive relationship between good donor relationship management and financial sustainability of NGOs. However, Leon (2001) asserted that all the four factors discussed in this chapter required attention as they were pillars of one concept and neglecting one would have negative impacts on the overall financial sustainability of the organisation.

Fafchamps and Owens (2008: 26-28) concluded that good donor relationship management was also key in sustained donor funding for NGOs in Uganda. Fafchamps and Owens (2006) noted that in some cases donor funding crowded out the ability of NGOs to raise own funding as less effort was expended in generating own income. However, in their 2008 study they noted that income from member fees increased as NGOs received more donor funding (Fafchamps and Owens, 2008). Donor relationship management also entailed NGOs being able to understand donor priorities and adjust their systems and processes to be able to be attractive to diverse donors. Waiganjo *et al.* (2012: 76) concluded that NGOs that were able to strategically align their programmes and processes to donor requirements were more financially sustainable. Many donors were now funding NGOs in coalitions, networks and consortiums (Waiganjo *et al.*, 2012). Waiganjo *et al.* (2012: 76) found that there was a strong positive relationship between being part of networks and strategic alliances with other NGOs and good relations with donors. It was therefore important for an LNGO to belong to some of these strategic programmatic alliances in order to bolster relationships with donors. CI (2011) noted that some measures of good donor relationship management included having an updated database/contact list or tracking system for all donors funding NGOs in the country. The number of donor-organised events the LNGO was invited to attend was also an indicator of how strong donor relationship management practices of the organisation were. The number of different projects or programmes funded by one donor was also a signal of the strength of the relationship the organisation had with that donor (CI, 2011). Leon (2001) and Lewis (2011) added that repeat funding by donors and availability of funding for long-term programmes by a donor were also measures of good relationships the organisation had with the donors.

## **4. Gaps and Lessons Learnt**

### **4.1 Gaps**

Based on the literature review, the main and evident gaps are as follows:

- Most of the research in business and politics has been done in the developed countries without giving adequate attention to the social development leaders in the non-governmental sector, a trend that has left the non-profit and its leadership especially in the developing countries relatively unexplored and poorly understood. In addition, much of the current leadership research is not relevant to the different social, cultural



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and political environments in which NGO leaders work and

- Most of the studies into leadership traits have overemphasized a single driver and influence of leadership competencies, with the personality and charisma leading, followed by organisational cultures and least of external factors. Most of the leadership traits studies have focused on public and private organisations and least on the NGOs. In particular there re has not been a specific study on how the competencies of the NGO leader contribute to sustainable funding of the NGOs.

#### 4.2 Lessons Learned

The major lessons leant from the literature review are as follows:

- Although Leadership competencies can be innate, they also emanate and shaped by organisational cultures and external factors. Therefore, a wholistic approach to addressing deficiency in the leadership competences has to address the innate, organisational and external factors.
- A competent leader more often risks breeding a very high degree of dependency among staff who inadvertently come to believe that the leader is everything which in-turn may lead to their disempowerment and de-skilling as the strong leader gets out of touch with reality, becomes incompetent and is later isolated by followers thus undermining the leader s credibility and sustainability of the organisation.
- The NGO leaders, unlike leaders of government or for-profit sectors, have the distinctive mission and challenge of social change since they focus on people whose challenges have not been addressed under either the government or private sector programmes.
- As one way of building sustainable funding capacity, NGOs may run social enterprises that serve to diversify their funding base. However, the income diversification process ought to get a blessing from the NGO leadership that is charged with providing overall direction and reserves the mandate to unlock resources to facilitate the process

#### 5. Conclusion

NGOs continue to play an increasingly important role in development of third world countries. Most of the funding for NGOs is sourced from external donors and this funding is increasingly becoming unreliable and volatile. Some of the challenges associated with external donor funding noted in the literature included, short-termism of the funds, funds being used to pursue the agendas of donor countries at the expense of the priorities of the NGOs, and abrupt shifts in funding as donor priorities change. From the literature review, the main competencies of NGO leaders are institutional missioning and visioning, fundraising, staff empowerment and responsiveness to changing environment. Secondly, most of the leadership traits studies have focused on public and private organisations and least on the NGOs. In particular there re has not been a specific study on how the competencies of NGO leaders influence sustainable funding of the Local NGOs.

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