INFLUENCE OF FINANCE PRACTICES ON STRATEGY IMPLEMENTATION IN INTERNATIONAL NON GOVERNMENTAL ORGANISATIONS IN NAIROBI, KENYA

MARTHA WANGARI NGIGI, DR. MAKORI MORONGE
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Martha Wangari Ngigi¹, Dr. Makori Moronge²

¹Jomo Kenyatta University of Agriculture (JKUAT), Kenya
²Jomo Kenyatta University of Agriculture (JKUAT), Kenya

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ABSTRACT

Many NGOs today are focusing on becoming more competitive by launching competitive strategies that give them an edge over others by developing strategies. However, most of the non-government organizations have not been able to implement the strategies as required to gain competitive advantage. The study therefore examines the influence of finance practices on strategy implementation in International Nongovernmental Organizations (INGO’S) in Nairobi, Kenya as the main objective of the study. The four specific finance practices studied included; Resource mobilization and Financing. The study adopted a descriptive research targeting a population of 383 INGOs and a sample survey design was used to collect primary data. The sample comprised of 195 INGOs. The study involved use of questionnaire method to collect data. The data was analysed by use of both qualitative and quantitative methods with the help of Statistical Package for Social Sciences (SPSS) version 22 and Ms Excel. The descriptive and inferential statistics (correlation and regression analysis) was used to show the relationship of the independent variables and dependent variable at 5% level of significance. It was found that Financing and Resource Mobilization significantly and positively influences strategy implementation.

Other finance related challenges highlighted included no segregation of duties, delayed funds from the donors, manual systems, lack of information sharing between program implementing teams and Finance teams, delayed payments to service providers, some staff are not competent/unqualified, forex exchange losses, budget cuts by the donors and delays in approvals. It suggested that further research should be done on the same area but a larger sample should be used, more research should also be done in other sectors like the parastatals and private sector.

Key Words: Resource Mobilization, Financing, Strategy Implementation
INTRODUCTION
Strategy is defined as large-scale, future oriented plans for interacting with the competitive environment to achieve company objective (John, Richard & Amita, 2007) or the direction and scope of an organization over a long term: which achieves advantage for the organization through its configuration of resources within a changing environment, to meet the needs of markets and fulfill stakeholders expectations (Wilson, 2005). Although formulating a consistent strategy is a difficult task for any management team, making that strategy work – implementing it throughout the organization – is even more difficult (Hrebiniak, 2006) Strategic management is the art, science and craft of formulating, implementing and evaluating cross-functional decisions that will enable an organization to achieve its long-term objective (Thompson & Strickland, 2003).

Strategy implementation seeks to provide solutions to these issues by maintaining a long term focus to anticipate and deal with issues facing the organization with a view of long term growth, profitability and survival (Robbins and Coulter 2004)

INGOs have various strategies in place in order to achieve their objectives. They all have set implementation strategies on how to reach their targets and make a positive impact for that matter. Implementation of strategy has financial practices challenges which include the fact that implementation takes long than anticipated in many cases, insufficient coordination within the organization, other matters that arise which take resources away from the implementation phase, insufficient capabilities of the management and employees to implement the changes, lack of training for management and employees in order to implement the changes, external factors that affect the implementation which were no anticipated and management failure to take lead (Cunningham & Harney, 2012).

Every organization exists to achieve certain goals and objectives as highlighted in its mission statement. The achievement of these goals is however dependent on several factors including resource availability and how well the organization positions itself in its environment. Money is one of the most important resources for INGOs. The great value of money is that it can be interchanged with other needed resources. Finances are therefore very critical to the success and survival of any organization whether for profit or non-profit making organizations. Like the blood stream in a living body, cash is viewed as the life blood of organizations (Neale, 2009).

Over the past several decades, INGOs have become major players in the field of international development. Since the mid-1970s, the NGO sector in both developed and developing countries has experienced exponential growth. From 1970 to 1985 total development aid disbursed by INGOs increased ten-fold (Malena, 1995). The structures of NGOs vary considerably. They can be global hierarchies, with either a relatively strong central authority or a more loose centralized arrangement. Alternatively, they may be based in a single country and operate transnational. With the improvement in communications, more locally-based groups, referred to as grass-roots organizations or community based organizations, have become active at the national or even the global level.

From the resource based view theory of the firm, competitive advantage arises from the strategic resources that an organization has. Finances are such resources. In this study it is hypothesised that how INGOs carry out practices related or targeting financial resources influences the success of their strategy implementation. The financial resource based practices that the researcher reviewed are: resource mobilisation, sources of finance, expenditure management and auditing (as a control measure).
NGOs in China employ nearly six million people according to the World Economic Forum report (2013). Therefore delayed, underperforming and failed projects represent a tremendous cost not only for the affected organizations but also have huge economic effects to the county. These include the money invested in cancelled projects, cost of failing to deliver the required services or products, costs of running inefficient project financing etc. Failed projects present tremendous personal cost to the project teams, members, managers, sponsors and other stakeholders and these underscore the importance of projects and organizational sustainability.

The NGO sector in Kenya has made enormous contributions to the development process. NGOs are in all development sectors of the economy providing basic services that include education, economic empowerment, employment, environment & natural resource conservation, agriculture, health, credit facilities, technical co-operation, training and awareness. Kameri-Mbote (2002) reported that NGOs agenda and existence has been multifaceted and the following specific societal changes have spurred the formation, growth and development of NGOs; worldwide economic recessions, emergence of new diseases, recurrence of armed conflict, environmental degradation, climate change and dwindling job opportunities due to population explosion.

Jillo and Kisinga (2008) agreed that NGOs have experienced increased economic importance in Kenya as providers of health, educational, social and environmental services. In addition Fowler (1997) agrees that NGOs have a lot of potential that had been exploited and unexploited. They are seen as better able to enable the people to produce their own development than the state.

**Statement of the Problem**

From the resource based view theory of the firm, competitive advantage arises from the strategic resources that an organization has. Finances are such resources. In this study it is hypothesised that how INGOs carry out practices related or targeting financial resources influences the success of their strategy implementation. The financial resource based practices that were reviewed are: resource mobilisation, sources of finance, expenditure management and auditing (as a control measure). Many NGOs today are focusing on becoming more competitive by launching competitive strategies that give them an edge over others by developing strategies (Karuga, 2013). According to Kagendo (2010), major international development partners such as the World Bank (WB), EU, IFC, GIZ, DANIDA, SIDA and others exert enormous influence on national and international approaches to project development and implementation. However, most of the NGOs have not been able to implement the strategies as required to gain competitive advantage. Harvey (2005) points out that 80% of organizations directors believe that they have good strategies but only 14% believe that they implement them well. Mintzberg and Quinn, (1979), over 65% of organizational strategies fail to get implemented effectively. Bridging the gap between strategy formulation and implementation has since a long time been experienced as challenging for many organizations. Hrebiniaik (2006), notes that formulation of strategy is a difficult task for any management team, but implementation of the strategy throughout the organization is even more difficult.

Strickland and Thompson, (2003) have stressed that implementing strategy is the most complicated and time-consuming part of strategic management and it appears that only less than 30% of strategies developed are implemented (Miller 2002, and Raps, 2005). Several studies have been carried out on strategy formulation and implementation.
challenges among organizations. Muthuiya (2004) studied strategy formulation and its challenges in non-profit organizations in Kenya using the case of AMREF. His findings was limited in scope as the focus was on only one NGO. Other Kenyan scholars including Mundia (2010), Kimeli (2008) and Wanyama (2004) studied strategy in state corporations. From the review of the above mentioned studies, it is apparent that studies focusing on finance practices on strategy implementation in the INGOs in Kenya have not been carried out hence this study sought to fill this gap.

Research objective
The purpose of this study was to establish the influence of finance practices on strategy implementation by INGOs in Nairobi, Kenya. The specific Objectives were:-

- To establish how resource mobilizing affect strategy implementation in INGOs in Nairobi, Kenya.
- To find out how financing affect strategy implementation in INGOs in Nairobi, Kenya.

LITERATURE REVIEW
Theoretical Framework
Financial Literacy Theory
Financial literacy theory argues that the behaviour of people with a high level of financial literacy might depend on the prevalence of two thinking styles according to dual-process theories: intuition and cognition. Dual-process theories embrace the idea that decisions can be driven by both intuitive and cognitive process. Dual process theories have been applied to several fields, including reasoning and social cognition (Evans 2008). Financial literacy covers the combination of investors’ understanding of financial products and concepts and their ability and confidence to appreciate financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being (Atkinson and Messy, 2005).

Financial literacy empowers investors by educating them to acquire relevant knowledge and skills in financial management. Financial knowledge helps to overcome most difficulties in advanced credit markets. Financial literacy allows the investors to encounter difficult financial times, through strategies that mitigate risk such as accumulating savings, diversifying assets, and purchasing insurance. More importantly, financial literacy enhances decision making processes such as payment of bills on time, proper debt management which improves the credit worthiness of potential borrowers to support livelihoods, economic growth, sound financial systems, and poverty reduction. Financial literacy leads to more effective use of financial products and services, greater control of one's financial future and reduced vulnerability to overzealous retailers.

Financially literate investors are able to create competitive pressures on financial institutions to offer more appropriately priced and transparent services, by comparing options, asking the right questions, and negotiating more effectively. Investors are able to evaluate and compare financial products, such as bank accounts, saving products, credit and loan options, payment instruments, investments, insurance coverage, so as to make optimal decisions (Miller et al 2009). Greenspan (2002) argues that financial literacy helps to inculcate individuals with the financial knowledge necessary to create household budgets, initiate savings plans, and make strategic investment decisions. Proper application of that knowledge helps investors to meet their financial obligations through wise planning, and resource allocation so as to derive maximum utility.
The Theory of Resource Mobilization

Resource Mobilization Theory (RMT) attempts to explain social movements by viewing individuals as rational actors that are engaged in instrumental actions that use formal organizations to secure resources and foster mobilization (McCarthy and Zald, 1987). RMT can be broken down into two parts. First, RMT attempts to explain people joining social movements with rational actor theory. Secondly, RMT attempts to explain the actions of the social movement organizations (SMOs) that are formed by these rational actors by viewing the SMOs as an organization which functions for self-preservation and to market its products.

Rational actor theory states that people will join social movements when the benefit of joining these groups outweighs the cost to that individual. This benefit cannot just be the possibility of achieving the social movement's purported goal (McCarthy & Zald, 1987). The goal a social movement is to achieve some collective good. Because the benefit is collective, few individuals will on their own bear the costs of working to obtain them. It does not benefit individuals to work towards the common good because they can free-ride and allow someone else to act for them while taking in the benefits. According to RMT, the possibility of free-riding means that we must explain why individuals join social movements by looking at incentives, cost-reducing mechanisms, and career benefits of such behavior (McCarthy & Zald, 1987). Individuals must join social movements for a resource gain other than that promised by the social movement's end goal. Individual participation in social movements is explained only by a cost/benefit analysis of resources, cultural things such as grievances and mechanisms for social cohesion of groups are not the deciding factors for when social movements will arise. Grievances are considered to be a background factor (Beuchler, 1993). Because they are always present in a society they have no explaining power for predicting social movements. In fact, grievances and discontent may be created and manipulated by issue entrepreneurs trying to form SMOs for personal resource gain (McCarthy & Zald, 1987). These social movements arise when an elite class has the resources available to mobilize a group. People do not become involved in these groups because they have a cause, they become involved to incur personal resource. The purpose of these groups is to aggregate resources for themselves (McCarthy & Zald, 1987). RMT presumes that such aggregation of resources requires some organization, and so it focuses on understanding the SMOs that are formed.

The success and failure of SMOs is determined by external factors affecting resource flow to and from the organization (McCarthy & Zald, 1987). A supply and demand model can be used to describe resources in and resources out. Each SMO is part of a social movement industry and produces a product, just like any other industry (McCarthy & Zald, 1987). This product is the purported target goal of the SMO. The resource flow into the SMO is dependent on individuals 'purchasing' the product of that SMO (i.e. giving resources to that SMO to help it achieve its goal). The products of different SMOs within a social movement differ depending on the extremity of the solution, the means, and the efficiency of the organization (McCarthy & Zald, 1987). Adherents to a particular social movement purchase the target goal product based on a conception of product quality (McCarthy & Zald, 1987). The perceived quality of the product depends on how successful the SMO is perceived to be and is heavily dependent on the media.

Resource Mobilization Theory works very effectively to explain social movements because it explains the actions of individuals by just looking at selfish behaviour and does not some sort of deviant, unexplained mechanism to force individuals to behave altruistically. However there are a few
problems with RMT when it is applied to certain social movements. One problem is that RMT focuses almost solely on social movement organizations. Many New Social Movements (NSMs) do not have any traditional organization. Instead they have what could be better called a social movement community (Beuchler, 1993). The social movement is decentralized and cannot be fit into the SMO framework provided by RMT. RMT also discounts the necessity of the formation of a collective identity. For a SMO to form and be effective, the individuals within it need to form some sort of collective identity so that they can act with some degree of social cohesion (Beuchler, 1993). This collective identity is not always formed; therefore it is necessary to look at collective identity formation to determine when SMOs will arise. The collective identity of an SMO also affects the methods that it will use, and so it is necessary to look at the collective identity of an SMO to understand its actions (Beuchler, 1993). In NSMs, the collective identity formed often dictates very specifically what sorts of actions can be taken.

Owing to the fact that RMT focus on a centralized organization and its lack of consideration of the role of the collective identities that are formed it has difficulty explaining the activities of many NSMs. These factors could possibly be accounted for if RMT was expanded to take the role of collective

**Conceptual framework**

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**Independent variables**  **Dependent variable**

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**Figure 1: Conceptual framework**

**Resource Mobilisation**

If an institution cannot raise adequate resources, it means that it cannot fulfill its mission, and it is up to the leadership to ensure that in some way or other, those resources are available (Kiiru, 2010). Resource mobilization is giving people the opportunity to give. It is not an end in itself but rather the process whereby resources are transferred from those who are able to give to those who have the need to receive. Resource Mobilization facilitates this process. It is the enabler of the activity that not only satisfies the need, but also satisfies the giver that the resources have been wisely and effectively used. Resource mobilization is all about building relationships with donors – whether individuals or major corporations.

**Financing**

Within the NGO sector organizations, the public management function of financing is substantially different with that of organizations in the public sector (Frumkin & Gelaskiewicz, 2004). At the central, provincial or counties, and local levels, governmental units collect revenue through both the charging of fees and the levying of taxes. The financing of non-governmental units through fees and taxes is normally inadequate for most developing countries (Chihi and Normandin, 2013). These unsustainable financial positions normally require external financing interventions to fund the deficits. Unlike external financing in private sector organisations, in addition to borrowing through loans and issues of debt instruments, governmental units can also be funded through donations, either from local or international organizations. There is also a new financing concept within governmental units referred to as public-private partnerships (PPP) (Meidutė and Paliulis, 2011).
Strategy Implementation

Researchers have realized the need to develop a sound strategy and then reorganize the structure, systems, leadership behaviour, human resource policies, culture, values, and management procedures of the company in order to ensure successful strategy implementation, (Seltzer, 2001). A problem does not so much seem to exist in the development or formulation of strategies (Dannenmaier & Dannenmaier, 2007) but is realized in its execution. Companies have the awareness of the importance of proper strategy development and they can refer to lots of appropriate methodologies, such as Gaelweiler’s concept on strategic and operative corporate management, Hamel’s and Prahalad’s model on future-oriented strategy development, Porter’s Five Forces and generic strategy types or Puempin’s Strategic Success Positions or SEPs (Eschenbach et al, 2003). But the challenge in strategic management lies in the effective implementation of the developed strategies after their successful formulation (Lewis & Sheppard, 2006). Particularly, strategy implementation includes designing the organization’s structure, allocating resources, developing information and decision process, and managing human resources, including such areas as the reward system, approaches to leadership, and staffing (Barnat, 2005).

Project effectiveness has been addressed in the performance measurement literature of INGOs. According to Sowa et al. (2004), effectiveness in NGOs can be divided into organizational effectiveness and project/program effectiveness. Organizational effectiveness is associated with structure, process, management systems and other organizational functions. This term is closely linked to strategy implementation drivers. On the other hand, project effectiveness, which is the main highlighted variable in this study, can be defined as a measure aimed at determining how a project is meeting the stated objectives successfully. It is about how an NGO fulfil its mission, short and long term objectives. Morley et al. (2001) defined it as outcomes or “a specific desirable result or quality of an organization’s services.” It is a qualitative based-measure of whether a project produces the required outputs or results (UWI, 2006). Moreover, the term outcome or project effectiveness has been used by several researchers in their proposed performance measurement frameworks of NGOs such as Buckmaster (1999), Poole et al. (2000), Poister (2003), Tom and Frentzel (2005), Epstein and Buhovac (2009).

A vision statement and a mission statement, along with goals of the current year, filed, unimplemented in a cabinet or computer is a serious source of negativity and poor employee morale (Kodali & Chandra, 2001)

Empirical Review

The competitive environment dominating the various sectors of NGOs call for effective project financing strategies and organizational sustainability, yet the main problem of project managers is the effects on organizational sustainability brought about by these project financing strategies. A study by Mehdi and Bayrami (2010) on the effect patterns on organizational stability from project financing strategies plans such as: leadership, organizational structure, human resources, information systems and technology, on successful implementation of strategies in service sector.

The survival of NGOs is crucial especially in developing nations like Kenya. According to an article by Health NGOs Network (HENNET) (2013) when objecting to the Proposed Miscellaneous Amendment to PBO Act 2013, the organization noted that 47% of health care in Kenya is delivered through private sector including NGOs and Faith Based Organizations, 55% of the national health
budget is funded through NGOs by external funding, NGOs accounted for KSH 152 billion (or 15% of the National budget) in 2012 and over 90% of the 152 billion was received in foreign currency making the sector a substantial foreign exchange contributor in the country. AMREF report, pointed out that CSOs in Kenya and Malawi offer over 40% of medical services.

**RESEARCH METHODOLOGY**

This study was a descriptive survey designed to establish influence of financing practices on strategy implementation in INGOs in Nairobi, Kenya. The target population in this study comprised 383 INGOs registered by the NGO Coordination Board to operate in Nairobi, Kenya as at 30th August 2014. Specific respondents were selected through the random sampling technique. This research employed the questionnaire method of data collection where both structured and unstructured questions were used. A total of 5 respondents were selected for pilot testing that is 2% of the targeted population. The researcher sent 5 questionnaires to each of the pilot test participants and followed up with a phone call to secure the respondents’ responses. This study gathered both quantitative and qualitative data which was coded and analysed using Statistical Package for Social Sciences (SPSS) version 22 computer software.

**DATA ANALYSIS, RESULTS AND DISCUSSION**

The researcher distributed a total of 195 questionnaires to the staff of the sampled INGOs and 120 of them were filled and returned, representing a response rate of 62%. Out of the 120 respondents, 31 (26%) had worked with the respective organizations for less than five years, while 89 (74%) had been with their respective organizations for more than five years. The research sought the number of projects completed in the last five. 118 who responded, 78 (66%) have completed over 6 projects, 35 (29.7%) have completed 3-5 projects. Only 5 (4.2%) had completed 1-2 projects. The majority of respondents’ organization had completed over six projects in the last five years.

**Effect of Resource Mobilization on Strategy Implementation**

Figure 2 showed the extent of various methods used to create awareness by INGOs.

![Figure 2: Extent of use of different methods of resource mobilization](image)

From the pie chart (Figure 1) most organizations create awareness through websites. Other methods used to create awareness as cited by the respondents (in the open ended section of the questionnaire) included; By organizing forums and workshops community advocacy and training, giving free samples, global and national celebration events, networking forums, partnership with other organizations, holding trade fairs and expos, social media and by word of mouth.
Resource mobilization deals with how to obtain sufficient funding to meet a desired goal. Before any action can begin, the resources required will have to be procured. More substantive dialogues should follow up on the informal contacts initially made, either directly, or through the local aid co-ordination body. The aim would be to align expectations with the latest prospects and receive advice from the potential funding sources on how to proceed. (Danish, 2004). This means that resource mobilization is very important for projects to be implemented.

Effect of Financing on Strategy Implementation

The various sources of finance available to INGOs is shown in Figure 3.

![Figure 3: Funding Options Available](image)

From the Figure 3, out of the 120 respondents 78 (65%) use grants only as the source of finance, the other 42 (35%) used crowd sourcing, taxes and fees and corporate social responsibility as sources of finance. Most of the organizations use Grants as the major source of finance.

Robinson (2007) suggest that the lack of sufficient funds for investment generally translates into lack of sufficient funds to buy equipment and machinery which are used in the production process thereby hampering an organizational ability to implement its strategy.

This suggests that funding is necessary for strategy implementation in INGOs.

Strategy Implementation

Strategy implementation is about meeting the objective of the organization, being future oriented, and about how to gain the competitive advantage, this was assessed using the three key determinants including completion of projects on time, completion of projects within budgets and meeting the targets. The three questions were posed to the respondents and the results are as indicated in the figure.

![Figure 4](image)
Figure 4: Project Success Determination

Figure 4 showed that the respondents agreed that time; budget and meeting targets are important aspects in determining projects success hence successful strategy implementation. It can be seen that most of the respondents stated that meeting targets is the most important aspect in project success determination.

Among the other finance practice related challenges cited by the respondents (in the open ended section of the questionnaire) included; no segregation of duties, delayed funds from the donors, manual systems, lack of information sharing between program implementing teams and Finance teams, delayed payments to service providers, some staff are not competent/unqualified, forex exchange losses, budget cuts by the donors and delays in approvals.

Another open question the researcher posed was on the recommendations on the best finance practices that will ensure successful strategy implementation. Some of the recommendations given included; Automation of finance processes and systems, routine meetings between finance and implementing teams, constant trainings to the staff to build their capacity, strong internal controls, reduced delays in funds release/budget approvals, simplify some procedures to reduce bureaucracy and regular reviews of the budgets versus actual spending. All this will ease the implementation.

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

It was found that Resource Mobilization and Financing significantly and positively influenced strategy implementation.
Other finance related challenges highlighted included no segregation of duties, delayed funds from the donors, manual systems, lack of information sharing between program implementing teams and Finance teams, delayed payments to service providers, some staff are not competent/unqualified, forex exchange losses, budget cuts by the donors and delays in approvals.

Conclusions
This research examined the influence of finance practices on strategy implementation on INGOs in Nairobi, Kenya. It was established that the finance practices and Resource mobilization had significance influence on the strategy implementation.

It also established some other finance related practices which have an impact on the implementation including: Automation of finance processes and systems, routine meetings between finance and implementing teams, constant trainings to the staff to build their capacity, strong internal controls, reduced delays in funds release, budget approvals, simplify some procedures to reduce bureaucracy and regular reviews of the budgets versus actual spending. All this will ease the implementation.

Resource mobilization is critical, an organization has to get the required resources for the implementation of their projects. Other methods used to create awareness included workshops and networking events.

Finance is a vital resource for any organization. The study established that for strategy implementation to be successful, there has to be enough finances. Grants was the major source of finance, other sources include; corporate social responsibility, crowd sourcing and taxes and fees. Other ways in which auditing affects project implementation includes; ensures that goals are met as expected, provides ways of coming up with better criteria from the learnt lessons, enhances internal controls, advices on cost reduction policies, provides independent view of the reports, it raises implementation standards and also it helps in unearthing fraud.

The study established that time, budget and meeting targets are important aspects in determining projects success. If all the three are met there will be successful strategy implementation. The study established that that meeting targets is the most important aspect in project success determination.

Recommendations
Based on the findings of this study the recommendation for policy and practice and for further study are as follows:

INGOs operating in Kenya have evidently ensured high standards of project implementation in order to achieve their strategic objectives. The employment of two finance practices (Resource mobilization and Financing) had had a substantial impact in the implementation of projects implemented by INGOs in Kenya. Consequently there is need for concerted efforts and resources to be employed to ensure that the finance practices adopted by an INGO result in a positive contribution to the projects being implemented. These additional measures should include hiring of trained finance staff and the continuous development of personnel involved in finance functions. There is need to determine minimum qualifications required in order for any staff to be engaged as a finance staff in the INGOs. Membership to Accounting professional bodies should be mandatory to ensure that finance staff continues to gain Continuous development. These finance practices should continually be reviewed.
and updated to reflect the changing dynamics of project implementation including providing more flexible practices that accommodate emergency response projects such as those responding to disasters.

Emphasis should also be placed in the standardization of finance practices across various donors, this will ensure consistency in application of this practices, this will ensure that all INGOS implementing donor funded projects adhere to uniform finance practices particularly those relating to auditing and expenditure management.

Recommendations for Further Study
This study had established that the four finance practices contribute to the successful implementation of projects implemented by INGOS in Nairobi. This study only focused on INGOS operating in Nairobi, therefore more research in this area should focus on increasing the sample size and cover a larger number of INGOS operating outside Nairobi, and also to cover Local NGOs. This study only dwelt on INGOS, hence more research should also be done in other sectors like the parastatals and private sectors.

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