

Faculty of Humanities
Department of Social Development
Master in Social Policy and Management
By Rochat Ludovic (Rchlud001)
Supervised by Dr. Andre De V Smit

Financial Sustainability and Business Income Generating in the Non-Profit sector



January 2016

*A minor dissertation submitted in partial fulfilment of the requirements
for the award of the degree of Masters in Social Policy and Management*

The copyright of this thesis vests in the author. No quotation from it or information derived from it is to be published without full acknowledgement of the source. The thesis is to be used for private study or non-commercial research purposes only.

Published by the University of Cape Town (UCT) in terms of the non-exclusive license granted to UCT by the author.

Abstract

This study aimed to assess the perceptions of funding practices and level of financial sustainability amongst non-profit organisations in selected parts of the world. Furthermore, the study looked at the degree to which NPOs employ trading activity to help fund and improve financial sustainability.

Utilising a quantitative method, the study used an online survey tool to gather financial information from 72 NPOs in six different countries - Australia, Canada, India, Nigeria, South Africa and the UK. This sample was derived from an international database called Idealist.org. Data was analysed using a Microsoft Excel spreadsheet and presented thematically to reflect the major findings of the research.

It was found that NPOs around the world are crucially in need of extra income and may not survive if new income-generating alternatives are not found. This is largely due to NPOs being overly reliant on a donor-dependency model to raise funds, which is creating more and more financial insecurity. This model has limited financial sustainability, as the competition for funding has dramatically increased in recent years. All of these facts have made NPOs realise that it is necessary to diversify their income sources and become more financially self-reliant.

This study explored one self-financing method, trading activity, which has the potential to help NPOs to become more financially stable. The research found that most NPOs do not perceive trading as negatively as it was once perceived and would consider using it if more support were given to them.

In order to move in this direction, this study has formulated some recommendations that NPOs can use to start their own commercial activity, attain a more prosperous financial situation and fund their social mission.

Key words

Charity, commercial activity, financial sustainability, funding, fundraising, income diversification, non-profit organisation, non-profit sector, trading activity, self-financing and sources of income.

Plagiarism declaration

This work is a minor dissertation, completed in the fulfilment of a master degree in Social Policy and Management [MSocSc] from the Social Development Department of the University of Cape Town.

To refer to the various authors used in this research, I have used Harvard Referencing as the convention for citation and referencing. Each significant contribution to and quotation in, this essay/report/project from the work, or works of other people, has been attributed, cited and referenced.

I have not allowed and will not allow, anyone to copy my work with the intention of passing it off as his or her own work.

I acknowledge that copying someone else's assignment or essay, or part of it, is totally unethical and declare that this research report is the product of my own work.

CANDIDATE 'S SIGNATURE

DATE

Acknowledgment

First, I would like to express my sincere gratitude to the Lord Jesus Christ for providing me with strength, guidance and perseverance throughout the research process. Without His mighty counsel and wisdom, I would never have been able to carry out such an achievement in my life.

Secondly, I would like to acknowledge the precious support of my supervisor, Professor André de V Smit. Throughout all my postgraduate studies at the University of Cape Town, he has been an incredible source of inspiration. His sense of perfection and the rigor he applies to his work have enabled me to reach new levels in my professional and academic development. Furthermore, his vast experience and numerous research papers on the topic of funding in the NPO sector have been extremely beneficial to the writing of this Masters dissertation.

I cannot forget to acknowledge and sincerely thank all of the board members of the Barbour foundation, Switzerland, who believed in my academic ability and trusted me with financial support. Their faithful support throughout the three years of my post-graduate studies has allowed me to remain entirely focused on my work and thus enhance the quality of my research.

Finally, I would also like to thank all of the NPO members in the six survey countries – Australia, Canada, India, Nigeria, South Africa and the UK who have generously sacrificed their precious time for the advancement of this research. Their involvement has brought an inestimable value to the findings and the recommendations of this research.

Table of Contents

Abstract	i
Key words	i
Plagiarism declaration	ii
Acknowledgment	iii
Table of figures	1
Table of graphs	1
Chapter 1: Introduction	3
1.1 Introduction	4
1.2 Background to Study	4
1.3 Study Process	5
1.4 Study Outcomes	5
1.5 Conclusion	6
Chapter 2: Study Intent and Context	7
2.1 Introduction	8
2.2 Problem Statement	8
2.3 Aims	8
2.4 Context, Origin and Significance of the Study	8
2.5 Research Questions	10
2.6 Research Objectives	10
2.7 Research Hypotheses	11
2.8 Concepts Clarification	11
2.9 Conclusion	12
Chapter 3: Literature Review	13
3.1 Introduction	14
3.2 Non-Profit Sector	14
3.3 Policies and Legal Framework	16

3.4 Financial Sustainability	19
3.4.1 Funding	21
3.4.2 Funding Sources.....	21
3.4.3 Competition in Funding	23
3.4.4 Funding Crisis in Civil Society	24
3.4.5 Effect of 2008/9 Economic Recession on NPO Sustainability in South Africa	26
3.5 Trading Activities	27
3.6 The Relationship between the Non-Profit and For-Profit Sectors.....	30
3.7 Linking Business with NPO	30
3.8 Strategies for NPOs involved through Business Activities	31
3.9 Conclusion.....	32
Chapter 4: Research Methodology.....	33
4.1 Introduction	34
4.2 Nature of the Study.....	34
4.3 Research Design	34
4.4 Population and Sampling Framework	35
4.5 Data Collection	37
4.5.1 Instrument	37
4.6.1 Surveying Tool.....	40
4.6.2 Survey Process	40
4.5.3 Web Based / Electronic Survey	42
4.6 Reminders/Follow-up Emails	43
4.7 Data Analysis.....	43
4.8 Study Limitations	44
4.9 Ethical Considerations	45
4.10 Conclusion.....	45
Chapter 5: Findings and Discussion.....	46
5.1 Introduction	47

5.2 Response Rates	47
5.3 Organisation Profile.....	48
5.4 Financial Sustainability in the NPO Sector	51
5.4.1 Income Diversification.....	51
5.4.2 Income Generation	52
5.4.3 Financial Sustainability Threats.....	54
4.4 Financial Cash Reserves	56
5.4.5 Funding Outlook	57
5.5 Trading in the NPO Sector	60
5.5.1 Overall View on Trading Activity	60
5.5.2 NPOs not Involved in Trading.....	63
5.5.3 NPO's Involved in Trading.....	66
5.6 Conclusion.....	80
Chapter 6: Conclusion/Recommendations.....	81
6.1 Introduction	82
6.2 Financial Sustainability	82
6.3 Trading Activity	83
6.4 Recommendations	84
6.5 More Research.....	86
6.6 Conclusion.....	87
References.....	88
Appendices.....	97
Appendix I – Questionnaire.....	97
Appendix II – Email Sender	119
Appendix II – First Reminder.....	121
Appendix IV – Second Reminder.....	122

Table of figures

Table 3.1: Tax exemption limits in the UK..... 19
Table 4.1: Selected countries 36
Table 4.2: Initial and final sample..... 37
Table 4.3: Response rate after first email..... 41
Table 5.1: Final response rates 47
Table 5.2: Geographic areas 51
Table 5.3: Kind of commercial activity 67

Table of graphs

Graph 4.1: Number of survey back by country 42
Graph 5.1: NPO bases countries 48
Graph 5.2: Year of NPO establishment..... 49
Graph 5.3: NPO’s areas of services 50
Graph 5.4: Percentage of sources of income.....53
Graph 5.5: NPO’s views on income generation 53
Graph 5.6: Additional income needed to operate at maximum capacity 54
Graph 5.7: Financial sustainability threats 56
Graph 5.8: Period of financial reserve 57
Graph 5.9: Funding outlook 58
Graph 5.10: Funding outlook 2 60
Graph 5.11: View of trading activity 61
Graph 5.12: View of trading activity 2 62
Graph 5.13: Reason of not doing business 64
Graph 5.14: Trading consideration..... 65
Graph 5.15: Trading consideration 2..... 66

Graph 5.16: How NPOs obtained income to launch their trading 68

Graph 5.17: Difficulty encountered in launching the business 70

Graph 5.18: Requirement for launching the business 71

Graph 5.19: Legal framework for trading 72

Graph 5.20: Difficulty in combining NPO and commercial activity 73

Graph 5.21: Responsible person for commercial activity 74

Graph 5.22: Commercial activity’s surplus or deficit 75

Graph 5.23: Conflicts around commercial activity income spending 76

Graph 5.24: Ways of using the internet..... 77

Graph 5.25: Impact of the commercial activity..... 78

Graph 5.26: Impact of the commercial activity 2..... 79

Graph 5.27: Outlook of trading 80

Chapter 1: Introduction

1.1 INTRODUCTION

1.2 BACKGROUND TO THE STUDY

1.3 STUDY PROCESS

1.4 STUDY OUTCOMES

1.5 CONCLUSION

1.1 Introduction

This chapter presents the general topic of inquiry by providing a background to the study, outlining the study process and briefly describing the main study outcomes. A conclusion will sum up the main points of the chapter.

1.2 Background to the Study

It can be argued that the world is currently in the midst of enormous global issues affecting the economic, political, social and environmental spheres of all societies. For these reasons, non-profit organisations have a vital role to play in bringing about radical and sustainable change as well as addressing some of the most serious issues facing the world today.

Needless to say, to fulfil such a mission and operate at full capacity, these organisations need to have an abundance of resources including large amounts of money. In the non-profit sector, NPOs primarily rely on funding from funding agencies, government grants and individual donors to generate the cash flow necessary for the running of their organisations. In the last decade, the numbers of NPOs around the world significantly expanded, creating a fierce competition in the funding environment as well as a significant increase in the bureaucratic procedures from the various funding agencies.

These changes have made the task of raising funding a constant struggle for many NPOs, leaving countless of them behind due to the constant burden of generating enough income to ensure the organisation's survival. While NPOs need to ensure a sound financial sustainability model allowing them to operate and plan on long-term basis, many start looking at new alternatives of income-generation that could help them to carry on their activity without having to worry whether they will still exist in the future.

This study aimed to assess the level of financial sustainability of NPOs in six countries – Australia, Canada, India, South Africa, Nigeria and the UK – and to provide better insights into the global financial situation of the non-profit sector. The countries selected in this research are broadly representative of NPOs as they are situated in various continents. This study proved that NPOs in every corner of the world are in need of real answers to their financial dilemmas and have started to consider trading as a form of self-generating income. Until now, very little research has been done on the topic of trading, as it was mostly used in the for-profit sector. Nonetheless, this trend is slowly starting to shift and a handful of NPOs are already operating their own businesses to fund their social activities.

1.3 Study Process

In order to explore the topic as wide as possible, an extensive and diverse literature review was conducted to perform background studies on the research topics. Afterwards, a list of research questions was formulated to direct the research and approach the relevant areas of the study.

To ensure global data and a wide range of non-profit organisations, one of the largest global networks of NPOs, Idealist.org, was selected to provide the database for this study. A web-based survey was designed using a sophisticated online survey tool called SoGoSurvey. The research methodology used in this study was a quantitative approach.

This approach allowed the researcher to analyse a large amount of data and standardise the main trends across an important sample group. The questionnaire was sent by email to 1,911 NPOs in the following countries - Australia, Canada, India, Nigeria, South Africa and the UK. The final sample group consisted of 72 NPOs from six countries. Once the data was collected from the survey, it was entered into an excel spreadsheet, which highlighted the main trends and major findings.

1.4 Study Outcomes

The main trends and major findings were discussed in this study and presented using bar graphs, pie charts and tables. The outcomes demonstrated some interesting global patterns and aimed to give impetus to NPOs to generate their own income. In terms of the financial situation of NPOs, this study revealed a global need for more funding in order to ensure greater effectiveness and an expansion of the programmes. It also proved the crucial necessity for NPOs to generate more self-income in order to avoid a high dependency on some donors and enable them to improve long-term planning.

Generally, the non-profit sector realised the necessity for finding new approaches of income generation, as the findings reflect an important increase in funding competition. This study also revealed that although only a low percentage of NPOs are currently involved in trading activity, many view it as a good income-generating tool, which may ensure more financial sustainability for them in the years to come. Lastly, the conclusion and recommendations summarised the most relevant findings obtained in this research and provided insights into trading activity which NPOs can refer to when setting up their own business activity.

1.5 Conclusion

The introductory chapter has outlined the general topic of the research, the background of the study, the study process and the study outcome.

This section has highlighted the need for NPOs to always improve their funding and thus find a new alternative model to do so. As the research shows, trading may be one of the models that could be implemented by NPOs to strive for more financial independence.

In the next chapter the study's intent and context will be presented. The main research questions will be formulated.

Chapter 2: Study Intent and Context

2.1 INTRODUCTION

2.2 PROBLEM STATEMENT

2.3 AIMS

2.4 CONTEXT, ORIGIN AND SIGNIFICANCE OF THE STUDY

2.5 RESEARCH QUESTIONS

2.6 RESEARCH OBJECTIVES

2.7 RESEARCH HYPOTHESES

2.8 CONCEPT CLARIFICATION

2.9 CONCLUSION

2.1 Introduction

This chapter attempts to present the topic of the study by discussing the problem statement and the study's aims and context. It also aims to formulate the research questions, research objectives and hypotheses of this study. Finally, the chapter will clarify the main concepts related to the research field, followed by a brief conclusion.

2.2 Problem Statement

It can be argued that the NPO sector is facing a major crisis in funding and is in need of new income-generating alternatives to provide NPOs with long-term financial sustainability. Increased competition in the NPO sector has proved that the traditional donor dependency model is no longer effective at providing funding resources that guarantee financial stability.

Furthermore, due to the current financial instability and the 2008/09 economic crisis, many NPOs are closing down because of a lack of funding, leaving countless beneficiaries on the side-lines without any kind of support. While a significant number of NPOs have already closed down, many others are under pressure and may follow suit if they do not find other alternatives to generate income. In the long run, this funding problem is becoming a source of frustration to many NPOs and prevents them from effectively fulfilling their organisational goals.

The resultant findings are applicable to NPOs struggling to generate income and seeking an innovative approach to boost their income and become more financially sustainable.

2.3 Aims

First, the study attempted to explore the current degree of financial sustainability of the non-profit sector globally, as the sample encompasses NPOs based in six different countries. The findings highlighted some outlooks regarding the main challenges that NPOs are facing in generating sufficient income.

The second area of focus aimed to evaluate the degree to which trading is contributing to improving the funds of some NPOs and looks at what some of the main difficulties and risks in implementing this commercial activity are.

2.4 Context, Origin and Significance of the Study

Financial sustainability has always been a major concern within the NPO sector because NPOs must raise their own income to be able to survive. Additionally, this sector has been weakened since the global economic crisis of 2008/2009, considered the greatest financial crisis since the Great Depression of the 1930s, as well as by the tough competition in raising funds.

For instance, in a developing country such as South Africa, NPOs are facing one of the most serious funding crises since the end of apartheid. According to Hobbs (2012:4), of a sample of 695 interviewed NPOs, around 80% faced significant funding cuts during the 2011 financial year. Almost half of these NPOs had a funding cut of between 20-50%, whilst 11% had over 80% of their funding cut. The funding crisis in the NPO sector is not only affecting developing countries such as South Africa but has also touched many developed nations. The Australia Council of Social Service's survey (2014:1) showed that "the Australian non-profit sector is in crisis with a lack of funding and uncertainty forcing agencies to lay off staff and unable to fill vacancies".

This financial uncertainty is having a serious impact across Australia, making management unable to plan and the actual staff anxious concerning their future. Thousands of valued workers are already looking for new jobs and quitting the non-profit sector, which cannot provide the same financial guarantees as the profit sector. The Australian Council of Social Service (2014:1) highlighted that "Just like business, the non-profit sector needs the certainty of funding to drive confidence, leading to longer term planning, investments in people and operational assets to foster productivity and growth".

As a result, the voluntary sector urgently needed to respond to this global aftermath of funding cuts by diversifying their sources of income and becoming more and more financially self-sustaining. In this manner, the NPO sector will remain vibrant and effective in its fight to tackle social problems and social injustices around the world.

Hobbs (2012:8) indicated that "... a surprisingly large number of respondents appear to be exploring income generation and social enterprise ideas as a way to address the funding gaps and strengthen their organisations' sustainability". Community-based organisations have recognised the need to generate sustainable income streams to fund their social activities and to reduce their dependence on government grants and various kinds of donations.

Another reality faced by NPOs worldwide concerns the issue of state and corporate dependency. As the competition for funding in the NPO sector constantly increases, NPO programmes must be aligned with donors' and the state's priorities and interests. As a result, countless NPOs around the world are trapped by the social agenda of their government or major donors, which reduces their ability to run their programmes freely and make their own decisions.

Banks, Hulme & Edwards (2014:4) argued that “... high levels of dependency on external funding...” have “... severe constraints on the transformative potential of NPOs”. Furthermore, given the increase of dependence on donors’ funds, “NPOs must prioritise their functional accountability (in terms of targets and outputs) over their broader goals of empowerment for poor or marginalised groups” (Ibid).

This research is significant because it attempted to assess whether NPOs using trading activity are more financially stable. The findings of the research showed that trading activity might have an important role to play in improving overall financial sustainability in the non-profit sector.

Finally, this research hoped to provide a better understanding of trading activity operations and challenges and help the NPO sector to deconstruct their stigma in viewing trading as a revenue stream only reserved for the for-profit sector.

2.5 Research Questions

The following research questions were adopted for this study and provide a formal statement of the goals of this study:

- How financially sustainable are the NPOs located in the six different countries?
- What are the main sources of income utilised by NPOs in order to generate funding?
- To what degree do NPOs engage in trading activity as a form of income generation?
- Is trading activity considered as a viable form of income generation?

2.6 Research Objectives

The research objectives are directly related to the research questions and were adopted as follows:

- To evaluate the financial sustainability of NPOs in six different countries;
- To assess what income sources are utilised by NPOs;
- To evaluate the degree to which trading activities contribute to the financial sustainability of NPOs in the six countries; and
- To determine whether trading activity can become a major resource in the non-profit sector over the next five years.

2.7 Research Hypotheses

Considering the above, the following research hypotheses were adopted to guide the study:

- H1: Most NPOs are not financially sustainable, having few cash reserves available for cases of unexpected expenditures or the withdrawal of funding;
- H2: Most NPOs rely on government grants and individual donors to generate their income;
- H3: Very few NPOs in these six countries are currently using trading activity to sustain their finances and diversify their sources of income; and
- H4: A large number of NPOs are starting to look at trading as a potential source of income as the global economic grows increasingly uncertain.

2.8 Concepts Clarification

This section clarifies the key concepts pertinent to the study.

Developed countries: Developed countries are defined according to their Gross National Income (GNI) and the level of their economy. Developed countries or "... high income economies are defined as those with a GNI per capita above US\$ 12,736 (World Bank, 2015:1).

Developing countries: According to the United Nations, "A developing country is a country with a relatively low standard of living, undeveloped industrial base and moderate to low Human Development Index" (World Bank, 2015:1). "This index is a comparative measure of poverty, literacy, education, life expectancy and other factors for countries worldwide" (Ibid). Developing countries or middle and low-income economies "... are those with a Gross National Income [GNI] per capita of more than \$1,045 but less than \$12,736" (Ibid).

Financial sustainability: Financial sustainability "... is concerned with financial viability or long-term economic growth and it also includes environmental sustainability and addressing issues of climate change, population growth and resource imbalances" (Hailey, 2014:2). Finally, it refers to "... programme or 'intervention' sustainability, with an emphasis on maintaining the quality of a particular service or programme after a targeted intervention has ended" (Ibid).

Financial vulnerability: Financial vulnerability is "... the degree to which a system or subsystem is likely to experience harm due to exposure to a hazard, either as a perturbation or stressor" (Turner et al., 2003). In this context, it represents the vulnerability of an organisation to any external and internal factors that might jeopardise the financial health of an organisation.

Fundraising: Fundraising is “The practice of soliciting funds (and other supports) necessary for the operation of a non-profit organisation or foundation” (Busse & Joiner, 2008:229). “An event that is held primarily for the purpose of raising money for an organisation may be called a fundraiser” (Ibid).

Non-profit organisation: A non-profit organisation is defined as “A trust, company or other association of persons established for a public purpose and of which its income and property are not distributable to its members or office bearers except as reasonable compensation for services rendered” (Non-Profit Organisation Act, No. 71 of 1997, 1997:chap1).

Non-profit sector: “The non-profit sector englobes all agencies and organisations that are neither businesses nor government and that are more or less supported by donations, programme services revenue and volunteers” (Busse & Joiner, 2008:245).

Trade: Trade is “A basic economic concept that involves multiple parties participating in the voluntary negotiation and then the exchange of one's goods and services for desired goods and services that someone else possesses” (Omicsonline.org, 2014). “The advent of money as a medium of exchange has allowed trade to be conducted in a manner that is much simpler and effective compared to earlier forms of trade, such as bartering” (Ibid).

In short, “Trading is the action or activity of buying and selling goods and services, involving the process of buying, selling, or exchanging commodities, at either wholesale or retail, within a country or between countries” (Ibid).

2.9 Conclusion

This chapter explored the study’s intent including the problem statement, the context and the significance of the study. Overall, it highlighted that funding in both developed and developing countries is a crucial issue and can hinder NPOs from fulfilling their mission.

Additionally, this research highlighted the significant role that trading activity could have in the NPO sector especially in terms of financial sustainability as well as decreasing donor dependency. This chapter covered the central research questions, objectives and hypotheses, followed by a definition of the key concepts of the research.

The following chapter will provide a comprehensive review of literature relevant to this research on subjects such as funding, financial sustainability and trading.

Chapter 3: Literature Review

3.1 INTRODUCTION

3.2 NON-PROFIT SECTOR

3.3 POLICIES AND LEGAL FRAMEWORK

3.4 FINANCIAL SUSTAINABILITY

3.5 TRADING ACTIVITY

3.6 THE RELATIONSHIP BETWEEN THE NON-PROFIT AND FOR-PROFIT SECTORS

3.7 LINKING BUSINESS WITH NPO

3.8 STRATEGIES FOR NPOS INVOLVED THROUGH BUSINESS ACTIVITIES

3.9 CONCLUSION

3.1 Introduction

The literature reviews the relevant written works and provides a noteworthy insight into the topic covered by this research. The purpose of this section is to establish a context and research findings related to the subjects of financial sustainability and trading activity within the NPO sector. The chapter also defines the key definitions, while identifying some case studies on the topics of the study. The following literature review reflects an investigation of recent journal articles, books and online resources used to provide the most accurate details concerning the field of study.

The first section covers the topics related to the non-profit sector, its policy and legal framework as well as its financial sustainability which includes funding sources, the funding crisis in civil society and the effect of the 2008/09 economic recession on NPO sustainability in South Africa. It is followed by a review of recent literature covering the field of trading activity, some key features of the relationship between the non-profit and for-profit sectors and ends with reference to two pertinent studies done on the topic. A conclusion follows that summarises the literature review.

3.2 Non-Profit Sector

The non-profit sector has a major impact in societies all over the world. According to a research conducted by SustainAbility (2003:2), the non-profit sector is now considered "... as the world's eighth-largest economy" "... worth over \$1 trillion a year globally". It employs nearly "... 19 million paid workers and countless volunteers" (McArthur, 2013:60). McArthur (Ibid) cited Hall-Jones (2006) in pointing out that NPOs spend about "... \$15 billion in development aid every year each year, about the same as the World Bank".

The term non-governmental organisation was first used in 1945 by the United Nations to differentiate rights for intergovernmental agencies and international private organisations (Keudler, 2009:1). The general understanding is that NPOs first came into existence in developed European and North American countries during the mid-nineteenth century (Ibid).

Nelson (2007:2) underlined that "Over the past two decades the processes of democratization, economic liberalization and technological transformation have led a dramatic growth in the number, diversity and reach-influence of civil society organisation and networks". However, Makoba (2002:1) ascribed "The phenomenal growth of nongovernmental organisations (NGOs) at both international and national levels is due to the changing attitude of donor agencies about development assistance and the increased demand for NPO services in Third

World countries”. He also argued that “... the prevalence of weak states and declining markets in the third world leave development-oriented NPOs as the only viable option for the promotion of grassroots development” (Ibid). As an example, South Africa is known to have “... an extensive and lively non-governmental sector which boasts roughly 100,000 registered non-profit organisations [NPOs] and an estimated 50,000 unregistered ones” (Stuart, 2013a:1). This large number is the result of “... a diverse society including a variety of ethnic groups and a history that has informed the way in which South African society operates as a whole, as well as the way in which the non-profit sector conducts its operations” (Ibid). Because of the increasing number of NPOs, the non-profit sector has developed a strong and increasing partnership with the public and corporate sector leading to more managerial structures and a higher degree of professionalism.

NPOs are no less important in developed countries where they also have a considerable role to play in society. Heintz (2006:1) argued “... the existence of NPOs is proving to be a necessity rather than a luxury in societies throughout the modern world”. In spite of the more developed role of the welfare state in modern societies, civil society is still involved in addressing a wide variety of social needs.

Heintz (2006:1) underlined three major roles NPOs have in modern societies. Firstly, they provide opportunities for society to self-regulate, by promoting initiative and problem-solving across a broad array of fields such as education, the environment, gender equality, disaster risk reduction, food and nutrition, health, poverty alleviation and culture and the arts (Ibid).

Secondly, they preserve a necessary space between the for-profit sector and government. Thirdly, they help to balance the state and the free market, by playing the role of watchdog over both business and government. While free market and private enterprise often thrive because of a decline in social cohesion and an increase of social inequity, NPOs strive to maintain a healthier balance between the excess of capitalism, inefficiencies and limited resources from the state (Ibid).

Finally, NPOs take on challenges such as global warming and the spread of deadly weapons that private and public sectors do not or cannot do. For instance, many government policies and reforms have been adopted following NPOs’ campaigns and models of services delivery. Among all the civil society’s achievements, Heintz (2006:1) cited two of the major ones as being, the international ban on the use of landmines and a huge progress on combating the spread of HIV/AIDS in the world.

3.3 Policies and Legal Framework

NPOs are regulated by policies and legislation that can differ considerably from country to country. In South Africa, the legislation with regard to trading activity has dramatically shifted over the last decade.

The Non-profit Organisations Act (No. 71 of 1997, 1997:chap1) aims to “... provide an environment in which non-profit organisations can flourish; to establish an administrative and regulatory framework within which non-profit organisations can handle their affairs; to repeal the Fundraising Act” (No. 107 of 1978). Chapter 2, paragraph 3 described the responsibility of the state to non-profit organisations as follows, “Within the limits prescribed by law, every organ of state must determine and coordinate the implementation of its policies and measures in a manner designed to promote, support and enhance the capacity of NPOs to perform their function”.

Regarding to generating income through a trading activity, the Non-profit Organisation Act (No. 71 of 1997, 1997: chap3) stipulated, “The organisation’s income and property are not distributable to its members or office-bearers, except as reasonable compensation for services rendered”.

The South African tax laws in relation to NPOs have undergone a number of revisions over the last two decades, from the prohibition of trading before 2000, to trading with a limitation that could not exceed 15% of gross revenues in 2000 and finally, unlimited trading activities from 1 April 2006 (Copley, 2009:1). In terms of section 10 of the South African Income Tax Act (No 58 of 1962), the Public Benefit Organisation [PBO] is taxable on its income-capital, which can include funding, trading and investment income. Nevertheless, the calculation takes into account a “basis exclusion” (a sort of primary rebate) of R100,000 or 5% of gross receipts. Therefore, it follows that the greater the “gross receipts”, the larger the “basic exclusion” and the less tax paid (Ibid). This rebate makes tax exemption for trading activities extremely attractive for NPOs in South Africa.

Not all African NPOs have the same benefits as those in South Africa, particularly concerning tax exemption for generated income. In Nigeria, the Company Income Act (No 60 of 1990, 1990: part II) stated, “Only certain types of income are exempt from income tax. In this case, exempt income includes the profits of any company engaged in ecclesiastical, charitable, or educational activities of a public character as far as such profits are not derived from a trade or business carried on by such company”. In other words, any amount that a Nigerian NPO raises from a trading activity or business is subject to taxation.

The Indian legislation is closer to South Africa's in terms of tax exemption for trading activity. The Old Indian Finance Act (No 18 of 2008, 2008:S3), stipulated that "an advancement of any other object of general public utility will not be considered a "charitable purpose", if it involves undertaking any trade, commerce, or business activities, or rendering any related service for a fee or any other condition (irrespective of use, application, or retention of income arising from such activities)". The 2011 Finance Act (No 18 of 2011, 2011:chap3) however, "limited this exception by exempting the aggregate value of receipts from such activities up to 2.5 million rupees (approximately \$45,000)".

There are no restrictions on commercial or economic activities, as long as the primary focus of NPOs remains on running programmes for "... the relief of poverty or distress, education, or medical relief" (Ibid). Nevertheless, "... all profits must be applied fully towards charitable objects. If this is not the case, the NPO will lose its income tax exemption (mentioned above) and its income will be liable to taxation at the maximum marginal rate (30%)" (Ibid). As a condition of trading activity, NPOs must "... maintain separate account books for business, commercial, or economic activities" (The Institute of Chartered Accountants of India, 2013:1).

There have also been changes to tax legislation in developed countries. In Australia, the government has gradually implemented new legislation for business income tax NPOs. In 2011, the government announced the introduction of what amounts to an unrelated business income tax on the income of NPOs (Taxation Institute of Australia, 2012:1). For doing so, the provision of the unrelated business income tax [UBIT] was implemented with the aim of protecting the integrity of the sector by ensuring that valuable tax concessions are utilised to further the altruistic aims of the sector (Taxation Institute of Australia, 2012:4).

The UBIT was introduced for the first time by the US in 1950 in response to competition claims. With income tax exempt, not-for-profit [NFP] organisations regularly generate income by carrying on business activities unrelated to their core purposes. In short, "... any activity pursued by a NFP entity that is deemed "unrelated" business will not be eligible for the tax concessions that the entity is registered for" (Lewis & D'Apic, 2013:1).

Nevertheless, while the legislation of UBIT has been deferred, the tax start date should apply for all NFPs that start a commercial activity after 1 July 2014. Filter (2013:1) indicated that NFPs in Australia are allowed to undertake commercial activities as long as "... the profits made are used to further the entity's purpose; no benefits are given to directors, members, or employees; and the entity does not simply accumulate wealth for the sake of accumulation without strategies".

In Canada, the Income Tax Act (RSC 1985, 2015, 2015:CPS-019) stipulated that charities can lose their registration if they carry on an unrelated business. By implication, the law allows charities to carry out related business apart from private foundations, which cannot carry out any business. Interestingly, the Income Tax Act (RSC 1985, 2015, 2015:CPS-019) does not define what it intends by related or unrelated business apart from saying that a volunteer-run business is to be considered a related business, even if there is no link between the business and the objects of the charity.

The Income Tax Act (RSC 1985, 2015:CPS-019) mentioned two types of businesses that could be considered related businesses. In the first the business must be run substantially by volunteers, linked to a charity's purposes and subordinate to that purpose. It must also have 90% of its employees serving in the business as unpaid volunteers. In the second type of related business, people employed in the business are "used" by the charity, working under contract or as the charity's direct employees.

Corriveau (2010:7) outlined four conditions for businesses to be considered as related businesses. They must "... receive a minor portion of the charity's attention and resources; be integrated into the charity's operation, rather than acting as a self-contained unit; not dwarf the charity's decision-making so that charitable goals take a backseat to the enterprises; and not involve private benefit" (Ibid).

"In the case of unrelated business, the charity is advised to establish a separate entity (usually a taxable corporation) ..." and thus become a taxable corporation. However, "The corporation can donate up to 75% of its net profits to the charity, and only pay income tax on the remaining net profit after the donation is made" (Ibid).

In the United Kingdom [UK], the Charity Commission for England and Wales will refuse to register charities with the primary object of trading, because trading is not a charitable object. However, charities are able to trade to achieve their primary purposes, such as charging fees for the use of services from schools, hospitals and museums (McGregor-Lowndes, Turnour, & Turnour, 2011:26).

"A charity in the UK will not pay tax on the profits it makes from trade if the charity is making money to help your charity's aims and objectives, known as 'primary purpose trading'; the level of trade is not the primary purpose and falls below the charity's small trading tax exemption limit; and the charity trades through a subsidiary trading company" (Charity commission, 2014:1). However, if the trading activity has nothing to do with the primary object stated in the governing document, the charity might have to pay tax on the profits. "If the charity's small

trading turnover is higher than the exemption limits, then the charity will have to pay tax on all of the profits made from that trade” (Ibid).

As described in table 3.1, the charity’s gross annual income corresponds to the total turnover before deducting tax and expenses. Table 3.1 shows how the small trading tax exemption limits are applied (HM Revenue & Customs, 2015:1).

Table 3.1: Tax exemption limits in the UK (HM Revenue & Customs. 2015)

Charity’s gross annual income	Maximum permitted small trading turnover
Under £ 20 000	£ 5 000
£ 20 001 to £ 200 000	25% of your charity’s total annual turnover
Over £ 200 000	£ 50 000

The charities also pay value-added tax [VAT] on all standard-rated goods and services they buy from VAT-registered businesses. They pay VAT at a reduced rate (5%) or the ‘zero rate’ on some goods and services. In addition, “If the charity’s trading income is above the VAT registration threshold of £ 82 000, it must register for VAT” (Ibid).

3.4 Financial Sustainability

All NPOs need to be financially sustainable in order to ensure long-term survival and provide services to their beneficiaries. Bowman (2011:5) described financial sustainability as “The ability to maintain financial capacity over time”. Hailey (2014:1) defined financial sustainability as NPO’s “... ability to diversify income and access new funds”.

Smit (2014:119) highlighted that financial sustainability “... implies that organisations must prepare adequate long-, medium- and short-term plans, secure a wide range of funding sources to adequately fund these plans, make appropriate financial resource allocation decisions, strategically manage the planned operations, manage finances prudently, maintain a healthy cash-flow and constantly accumulate financial reserves and avoid dipping into these reserves to any significant degree”. In addition to using money for paying the NPO’s expenditures, “Money should also be invested for future projects and running costs to ensure that staff can be secure in their jobs and beneficiaries can be confident of assistance over a longer period” (Inyathelo, 2009:2). In order to measure NPOs’ financial sustainability, this research used the defensive interval ration or the defensive ration. Smit (2014:119) explained that this ratio is a simple formula obtained by the “... organisation’s current assets minus the current liabilities by the preceding annual expenditure divided by 365”. This ratio provides the number of days

that an organisation can survive without obtaining new income (Ibid). Ideally, all non-profit organisations should have several months' worth of financial resources or cash reserves available at all times, to cover any unexpected expenditures or funding withdrawals. Smit (2014:119) suggested the "... minimum period that reserves should cover be 90 days of operations". This cash reserve is vital for the NPO's survival and offers numerous benefits. GreaterGood SA (2014:19) highlighted the following benefits of having a good financial reserve: "Protecting beneficiaries by making sure they receive services provided by the organisation, regardless of changes in funding cycles or funding delays; providing funders with assurance that the organisation has the capacity and financial health to make the best use of grants; creating a safety net to protect the organisation in unforeseen circumstances, such as major funder pulling out suddenly and; providing capital that can be used for future projects".

In South Africa, the majority of non-profit organisations are mainly dependent on donated funds from government agencies, business and other donors. "As a result, NPOs' independence remains vulnerable to funder conditionality and demands and there is a real danger that this dependency may affect their efficient functioning" (Seabe, 2012:1). In one study, Smit (2014:119) found that "... only 53% of NPOs in South Africa could survive more than three months in terms of the defensive ratio". This finding correlated with Kilbey's (2010:73) conclusion that "... 57% of NPOs would not be able to survive beyond three months if they were to lose their income".

Leon (2001:15) outlined the four essential pillars of financial sustainability as "Strategic financial planning, income diversification, sound administration and finance and own income generation". The application of these financial strategies enables the generation of a wider variety of income. NPOs require capacity in these functions to broaden resources, generate new income and realise financial sustainability (Ibid). In the same vein as Leon (2001), Hendrickse (2008:204) said that financial sustainability can be measured by looking at "NPO funding, self-financing strategies, good practices in financial management, financial control measures and fundraising strategies". On the other hand, the financial vulnerability of an organisation is the result of external or internal factors that can jeopardise the finances and operations of an organisation and thus make the organisation vulnerable. Although generating income and thus being sustainable for long periods should not be the main goal of NPOs, they need to invest resources in order to enable the organisation to accomplish its goals and improve the quality of services offered. One of the main factors affecting NPO's financial stability is their dependency on donor funding (Layton, 2006). Therefore, as the famous truism says, it is better to 'not have all your eggs in one basket'.

3.4.1 Funding

Because non-profit organisations have to generate funds in order to carry out their social mission, funding strategies are vital to ensuring an NPO's financial sustainability. Smit (2014:109) argued that "...factors influencing sources of funding are amongst others, legalisation, government funding policies, political interests, social interests and the state of the economy and private funding sources". In order to cope with any unexpected changes in the funding environment, NPOs should have a well-defined funding strategy.

Cook (2002:291) defined a funding strategy as "A strategy formulated to source and maintain sufficient income to meet current and projected revenue needs". Smit (2014:112) described a funding strategy as "a formulation of how the organisation should respond to its funding environment over a given period of time in order to maximise income generation and survival changes". Hendrickse (2008:233) suggested that "NPOs should construct a well-executed fundraising strategy, which contains elements such as diversification, sustainability, creativity and inclusivity".

For NPOs there are different sources of funding available, including government grants, international and national donor organisations, corporate social responsibility programmes and private business sectors.

3.4.2 Funding Sources

Viravaidy & Hayssen (2011:6) identified three main sources of income NPOs can use to obtain funds for running their programmes. The first main source and the mainstay of NPO funding, is grants and donations. Although funding competition is an increasing problem, this way of generating income allows the organisation to devote most of its time and energy to its social mission.

The second manner in which NPOs can finance themselves is by using cost recovery. This means that programmes bring real value to their beneficiaries, who are willing to pay to enrol them. In this case, the staff must adapt to a business environment and learn specific business skills, such as the use of distribution channels and cost accounting.

Finally, the last way for NPOs to raise income and increase their funds is by using commercial ventures or trading activities. Viravaidy & Hayssen (2011:11) argued "... successful NPOs already have most of the skills required for business when they find under-served segments of the population and design products and services to meet the needs of those markets".

Furthermore, the more established NPOs are already "... effective in hiring and training staff, planning and budgeting, managing public relations and other areas of management" (Viravaidya & Hayssen 2011:12). These are all part of the basic skills require to start a business and enable it to generate its own income.

Viravaidya & Hayssen (2001:1) stated "... traditional funding sources are often insufficient to meet NPOs' growing needs and rising costs". They also argued that the "... restrictions imposed on many grants and donations, along with the uncertainty of the funds over time, make it difficult for NPOs to do long-term planning in order to improve their services and reach their full potential" (Viravaidya & Hayssen, 2011:2). Furthermore, donors have their own agendas and can limit the autonomy of NPOs to choose the activities that would be most effective to achieve their programme goals.

In terms of projected outlook, Smit (2005:353) found that "... more than two-thirds of NPOs in his study felt that their organisation's future was not very secure". He also discovered that "... 75% of the organisations in his study with poor financial sustainability claimed that a lack of funding was the cause" (Ibid). Heindrickse (2008:198) proposed that to increase their funding, NPOs "... should have a diverse funding base built on a properly constructed fundraising strategy, fundraising committee, or an assigned fundraiser". He also found that "... self-financing strategies such as business ventures proved a viable funding solution for NPOs to maintain financial sustainability" (Hendrickse, 2008:198).

Kilbey & Smit (2014:491) also argued that "... if NPOs are to improve their financial sustainability, they will have to generate income through business ventures". However, Kilbey & Smit (Ibid) found that "... a worrying 47% of the NPOs in their study would reject any assistance to develop such forms of income".

According to Atkinson & Messing (2002:16), "Self-financing can be defined as the procurement of revenue by internal entrepreneurial methods, in other words, strategies used by NPOs to generate some of their own resources to further their mission".

They provide the following list of strategies for self-financing: "membership fees; fees for services; product sales; use of hard assets, for example equipment rental; use of soft assets, for example patents, copyrights; ancillary business ventures or commercial activity and investment dividend" (Atkinson & Messing, 2002:17). Many NPOs like for instance those in South Africa, have poor funding strategy capabilities. In order to survive in these difficult economic times, NPOs need to be more innovative in their funding strategies, use the latest technology

(innovative website and mobile technology) and become more focused on diversifying approaches (Stuart, 2013b:1).

Although, non-profit organisations are expected to raise funds from different players, the government remains an important funding partner in terms of funding. The practice of governments is to finance specific programmes in accordance with government priorities and norms (DSD, 2011b). The South African government has increased budget allocation over the years for the social development sector and promoted an enabling legal policy framework (DSD, 2011a).

These kinds of policy changes mean that NPOs need to restructure if they want to conform to new regulatory requirements and benefit from all the advantages and assistance to, which they are entitled. Swilling & Russell (2002:4) argued that "... the losers will be the many NPOs in poorer communities who simply lack the capacity and knowledge to access funding". "In developed countries like the UK, the Netherlands and Sweden, donors are now being more selective and careful in providing funding to the enormous number of NPOs competing for less funding" (Khieng & Quak, 2013:1). Furthermore, long-term financial commitments from various partners is continually decreasing, turning more into project-like forms of support with exit strategies (Ibid).

In addition, "... in an increasingly competitive programming and funding environment the corporatisation of the NPO sector, along with its attendant good governance requirements, has been an inevitable outcome" (DSD, 2009:45). The increase of funding competition does not only concern government's grants. Viravaidya & Hayssen (2001:2) argued an overall "... increasingly competitive and restrictive environment for obtaining funds through grants and donations".

3.4.3 Competition in Funding

Due to the significant growth in non-profit organisations in the last decade, the sector is facing increased funding competition and NPOs are perpetually seeking new and innovative financial strategies. Scott (2003:6) stated that "... new strategies are intended to increase accountability, self-sufficiency and competition". Glennie (2012:1) said that "... the constant competition between NPOs for a limited pot of resources is most easily seen in applications for grant money from the major donors" and that "the same dynamic is played out when trying to attract public funds, although in a less obvious way" (Ibid). In their study on NPO funding, Kilbey & Smit (2014:499) found that "... many organisations claimed that the competition for limited sources and amounts of funding was the cause of unsuccessful fundraising endeavours".

Furthermore, "... donors required organisations to comply with stringent funding and reporting criteria" (Ibid).

This intense competition and increase in funder requirements has had a variety of impacts on NPOs' funding. Ly & Mason (2010:3) cited Cooley & Ron (2002) who found that "... NPOs' fierce competition for funding can distort their incentives in ways sometimes detrimental to their primary missions". In South Africa, for instance, the constant increase in funding competition because of funding cuts, has left NPOs struggling to cope. GreaterGood SA (2013:2) indicated "Funding cuts in South Africa have come from all major funding sources, with the National Lotteries Board topping the list at 44%, followed by corporate (39%) and individual (37%) donors".

NPOs are facing increasing competition in raising funds, which can lead to numerous barriers to improvement. Research done by the Ministry of Health Working Group (2007:1) and based on a survey of 80 NPOs emphasises that "The current funding structure encourages competitiveness and isolation of organisations, not collaboration and joining of strengths". The research also underlined that short-term contracts support an environment of uncertainty, with NPOs "... having little potential to innovate when they cannot plan long-term" (Ministry of Health Working Group, 2007:3).

3.4.4 Funding Crisis in Civil Society

In the case of the South African NPO sector, there is a tendency towards a donor-dependent (classic donor–beneficial model) or state-dependent operation model, which results in a high degree of funding instability and a lack of sustainability. Taking the example of an NPO funded mostly by the government or individual donors, the financial viability of the organisation may be in jeopardy in the case of a recession, cuts in government budget, or the loss of important donors.

Kilbey & Smit (2014:489) depicted "... an overall lack of attention given to fundraising, including an important gap in fundraising management, strategizing and planning of fundraising-related activities and the human resource for fundraising". Kilbey (2010:56) found that as a result of "... a poor fundraising strategy, 83% of NPOs in his study perceived financial deficiencies to be a major and modern difficulty and staff found it difficult to operate with only their current financial resources". GreaterGood SA (2013:16) found that "... 46% of NPOs surveyed mentioned that the funding environment has not improved and is getting worse over the past year". Smit (2005:341) highlighted that "... 72% of organisations did not have a marketing plan to raise funds". This is partly due to the historic factors that have led to a donor-

dependent approach to NPO-funding in South Africa. For example, during the apartheid era, NPO funding came from overseas and donors gave money sympathetically in the context of apartheid (DSD, 2011).

In this context, organisations did not necessarily abide by any statutory or other regulations concerning official documentation and reporting and they did not have a regulatory framework to hold them accountable. Funds were not always handled efficiently and were sometimes misappropriated. In a report of 2012, the main sources of funding cuts came from the National Lotteries with 44%, corporates with 39% and donors with 37% (Hobbs, 2012:1). This is not surprising, especially because South African inhabitants are becoming more reluctant to give money or volunteer time to help others. According to the World Giving Index, while the country was placed 76th in 2011, it dropped one year later to 108th out of 153 countries (Hlongwane, 2012:1).

In the same way, according to Kathleen Dey, Director of the NPO Rape Crisis (Cape Town), funders are no longer willing to pay for services that they think should be provided by the state. Consequently, she urges NPOs to find new funding sources or methods in order to be able to sustain the service to vulnerable communities (Hobbs, 2012:7).

Adding to the challenges for South African NPOs, South Africa is now viewed around the world as a middle-income country with a middle-sized economy, thus capable of meeting its own aid needs (Kabane, 2011:1). Moreover, since 2010, South Africa has been included in the association of powerful emerging countries, “BRICS” and plays a role as a member of the 20 major economies in the world, known as the G20. South Africa is no longer a priority for international donors who are changing their focus to other African countries with more poverty. Kabane (2011:3) pointed out that in the short- to medium-term, many NPOs are likely to shut down their operations, as civil society becomes weakened and NPOs slink into oblivion courtesy of dwindling funding.

For instance, many non-profit organisations depending on the state have been crippled by its inefficiency and indifference. Swart (2012:1) gave the example of the Nkanyenzi Stimulation Centre in Soweto, which has been without funding for four months and unable to pay the staff and feed the hungry children. Another case is the one of Child Welfare South Africa. They were facing late funding from the State and thus unable to pay salaries, leaving children without food and social workers could not afford to travel to investigate cases (Ibid). The funding problem experienced by many NPOs is a source of frustration to many working in civil society, since the work they do effectively picks up the slack from government (Davis, 2012:2).

3.4.5 Effect of 2008/9 Economic Recession on NPO Sustainability in South Africa

The economic recession of 2008/2009 occurred first in the developed economy, while spilling over into developing countries' economies. Hanfstaengl (2010:1) pointed out that although the crisis had an effect on civil society organisations globally, the most drastic reductions occurred in Sub-Saharan Africa, with significant decreases in funding from individuals, private foundations, international institutions and the government.

In South Africa, the economic recession jeopardised all categories of NPO funding including corporate sponsorship, corporate grants, foundation grants and small and major individual gifts. Gebreselassie-Hagos & Smit (2005:114) found that "... 61% of surveyed South African social service organisations did not have the financial reserves to keep going for more than a month". The economic turmoil threatened the cash reserves of NPOs, placing the financial sustainability of a large number of South African NPOs in serious danger.

An Alliance for Non-profit Excellence (2009:15) study revealed "... 49% of the respondents indicated that they would end their current fiscal year with a budget deficit". Rapoo (2010:1) reported that NPOs, especially those depending on international donors, were affected by the recession, with a decrease of 30%. In Gebreselassie-Hagos & Smit's (2005:110) study, it was found that "NPOs were still largely reliant on external sources of funding and that fundraising activities were not operating at an optimal level because of a lack of fundraising staff".

In addition, NPOs were not strategic about adopting trading activities, with research showing that trading only represented 11% of the internal source of funding. In fact, a large number of South African NPOs still believe that the government should fund their operations completely (Kilbey & Smit, 2014:499). Stuart (2013a:2) reported that "... as a result of the economic crisis, many NPOs have sought more funding from government to keep afloat, which has led to increased competition amongst NPOs for government funds". However, Gebreselassie-Hagos & Smit's (2005:125) study showed that "the South African government did not provide sufficient funding and was unable to replace other source of income reduced during the recession". Therefore, they recommended that the NPO sector strive to decrease its degree of financial dependency on the government and "formulate contingency plans to deal with financial insecurity (Ibid). Overall, the Gebreselassie-Hagos & Smit (2005:125) study showed that NPOs are not immune to financial crisis and must urgently increase their efforts to increase their financial reserves and become more economically independent. Kilbey & Smit (2014:499) advised that it would be helpful for NPO income generation to be "... less begging and grovelling and more of a professional business-like enterprise".

3.5 Trading Activities

For a long time, self-financing was not part of the non-profit sector and was often looked down upon and misunderstood by NPOs themselves. Norton (2009:119) defined self-financing as "... creating wealth for an organisation by selling some goods or services". This approach is based on the entrepreneurial method that involves seizing opportunities to create income and develop business acumen, entrepreneurial risk-taking, innovative market research and sensitivity to the public. He argued that there was no reason why such activities should be limited to the for-profit sector. "Income acquired from self-financing may come from business ideas that reflect the main work of the organisation or from product and service in completely different fields" (Norton, 2009:120).

Norton (Ibid) outlined some of the major reasons why so few non-profit organisations presently use trading activity to generate income. Firstly, traditionally and culturally, most financing in the NPO sector has come from fundraising amongst local supporters. Secondly, since the 1970s, most funding agencies from the north have advertised to the south that they can be approached for money. Thirdly, self-generating income has been discouraged because it has been thought to have a negative impact on an organisation's mission. This is mainly due to the seeming contradiction of non-profit organisations making a profit.

However, it is important to understand the difference between businesses run by non-profit organisations and those run by companies. For-profit organisations are owned by individuals or shareholders. Once these organisations cover their costs with their income, the profit is shared amongst their owners or shareholders.

A non-profit organisation, on the other hand, is run but not owned by an elected voluntary board, trust, or committee and any profit is reinvested into the organisation, with no individual person benefitting from the profit. Norton (2009:122) pointed out "There should be no confusion between a business making a profit and distributing that profit of its owners and a non-profit organisation that uses any income over expenditure to advance the mission of the organisation".

There are also ideological reasons for non-profit organisations looking down on trading activity. Most workers in NPOs have backgrounds in academia, religious organisations, the civil service and, trade unions. Therefore, some of them have a negative perception of business. Often they see the business world as capitalist, greedy and seeking to exploit natural and human resources to maximise profits and enrich those who are already very rich (Norton, 2009:122).

Blume (1977:15) stated that trading success depends on the ability of an organisation to select the right things for sale, while competence and business flair remain crucial ingredients to success. As a model for NPO trading, Blum (1977:15) proposed starting a temporary shop in a particular area, using volunteers from the organisation to build up a regular clientele and a supply of goods. This can help to gauge the market's reaction before venturing a permanent business and using paid staff.

One of the main challenges that NPOs could potentially face when implementing trading could be the resistance of staff members. Deciding to venture into business requires a shift in the attitudes of NPO staff, so that they will be committed to the project. NPO staff used to operating with a "donors-driven" attitude, will need to behave more like a "for-profit" organisation (Panday, 1996:3). In short, this requires a shift from receiving "handouts" to looking for value-for-money.

According to Viravaidya & Hayssen (2001:1), NPOs have to consider the benefits of marketing strategies seriously. They should also borrow from the private sector's experience in marketing functions, understanding how clients think, finding untapped markets and knocking on doors. "A dependence on grants and donations can inhibit the autonomy of NPOs when choosing which programme activities to undertake and selecting the most effective intervention strategies and programme goals" (Ibid). The fact that each donor has their own agenda and therefore a different view about which problems are important and require further intervention strategies, increases the challenges for NPOs trying to fulfil their vision effectively (Ibid).

According to the World Trade Organisation (2010:7), services can be defined as "... the resolute of production activity that changes the condition of the consuming units (transformation services), or facilitate the exchange of products or financial asset". It covers "... the fields of transport, telecommunication, computer services, construction, financial, wholesale and retail distribution, hotel and catering, insurance, real estate, health and education, professional, marketing and other business support, government, community, audio-visual, recreational and domestic services" (Ibid). In 2010, services around the world represented more than two thirds of the World Gross Domestic Product (GDP) and tended to increase significantly with the country's level of income with 73% in high-income countries versus 50% and 24% for middle- and low-income countries (Ibid). Goods, on the other hand, are described by the European Commission of Enterprise & Industry (2010:9) as "... products that can be valued in money and capability and as such, form the subject of commercial transactions.

The range of goods covered is as wide as the range of goods in existence, so long as they have economic value”.

In a non-profit context, there are many schemas used to describe a trading activity. Zimmerman & Dart (1998:25) described various forms of trading for non-profits, such as “... programme-related products, programme-related services, use of staff or client resources, lease and rental of hard property, licensing and use of soft property assets, investment of all full or partial business ownership”.

Programme-related products are products that are closely identified with the organisation, while programme-related services are services provided by the organisation that may be available to the members of the organisation as well as the general public. Non-profit organisations have the option of using their staff and expertise to generate new income. An example would be an NPO using counsellors from the organisation to provide counselling to an organisation in the corporate sector. Non-profit organisations can also generate income by using their clients’ resources of renting or leasing land and buildings. For instance, an NPO could rent out its facilities and properties for functions or events. Finally, organisations could generate revenue through assets such as copyrights, patents, trade-marks, mailing and membership (Zimmerman & Dart, 1998:25).

In addition to all these ways of generating income, Zimmerman & Dart (1998:25) outlined two other additional types of charitable commercial activities, namely investments or the ownership of profit-making business. Sleurink (2002:1) added an additional two channels (e-commerce and e-business) for non-profit organisations seeking to sell and market their goods or services.

Sleurink (2002:1) emphasised the need to make use of modern technologies, which enable the organisation to sell products over the internet. This technology requires various systems such as a local network, intranet and a sound financial system linked to a secure payment engine. The organisation may start with an e-commerce department and use it as a start-up business after it has proved its success. Initially, people from the chairperson to the volunteer may be reluctant to undertake an e-commerce activity. However, workgroups that train the staff of the organisation can help to reduce fears when going into this venture (Ibid).

3.6 The Relationship between the Non-Profit and For-Profit Sectors

Weisbrod (1998:15) argued that the commercial value of the non-profit sector in the United States is considerable, with NPOs making up 10% of the Gross National Product (GNP). The increase of commercial activities in the non-profit sector is the result of financial decision made by non-profit organisations when they were affected by cutbacks in government grants and private donations (Weisbrod 1998:216). The emergence of commercial activities amongst non-profit organisations in The United States makes the boundaries between commercial and non-profit organisation increasingly difficult to define clearly. In some cases, this might even undermine NPO's justification for their special economic role. It also questions whether non-profits can simultaneously emulate private enterprise and yet perform their social missions (Weisbrod, 1998:44).

Weisbrod (1998:11) argued that "... there is some evidence that non-profits who use their opportunities to sell services reflect their social-service missions to reach particular target populations, not simply to maximise profit". Non-profits also appear more willing than for-profits to invest their surplus in other goals, such as engaging in basic research and, producing other public-type services (Weisbrod, 1998:11).

It is important to consider the differences between the non-profit and for-profit sectors, as NPOs have some benefits that business does not have. Non-profits, for example are able to labour at low prices because they can use volunteers. They can also reduce their supply prices by using donations and they are tax-exempt (Ibid).

3.7 Linking Business with NPO

A study published by Ohno (2003), for the Tokyo National Graduate Institute of Policy Studies (GRIPS), looked at NPOs that support their social programmes with internally generated business revenues.

Ohno (2003:1) argued that some NPOs are highly suited to a business model while others are not. For instance, all projects that aim to empower the disadvantaged (the poor, people with disabilities, street children) through the provision of education, training and job opportunities are primary candidates for business orientation. NPOs focusing on primary health care, disaster relief and social service delivery might not be as easily able to engage in commercial enterprise.

Ohno (2003:2) outlined five major reasons for internalising business entrepreneurship. These are "... financial sustainability, independence and creativity, job and income generation, demonstration of excellence and taking advantage of markets and globalisation". In terms of

financial sustainability, raising internal funds has no foreseeable end and provides social programmes a long-term planning and experiencing a constant growth and development. In the same way, a high degree of internal resources, provide NPOs with more flexibility and independence when launching programmes. In countries where unemployment is high, business oriented NPOs' can also play a crucial role in job creation and contribute to national income and productivity. Another important point highlighted by Ohno (2003:2), is that NPOs have the potential to be role-models for successful entrepreneurship. Finally, NPOs may ensure that the financial market and globalisation work to the advantage of the poor, by providing good advice and adequate support.

Ohno (2003:4) described three major requirements for NPOs to succeed at business. Firstly, they require strong and competent leaders that will not shy away from running an NPO at the same time as managing a business. This requires a specific personality encompassing devotion, talent and heart. Secondly, to avoid becoming a regular profit maximising business NPOs need a clear vision, shared by both the leader and the staff. The goal of business oriented NPOs must always be development. Finally, the last ingredient consists of the NPOs obligation to demonstrate professionalism and proper skills; given the high market competition, only businesses running with efficiency and innovation can survive.

In the last section of his research, Ohno (2003) mentioned some of the issues that can arise at a business oriented NPO. One risk is that the vision might be lost and private greed might make the NPO lose its focus or even exploit the poor and unprivileged to maximise profits. For this reason, Ohno (2003:6) suggested "... creating proper monitoring mechanisms, as well as defining explicit criteria for NPOs engaged in business". As a final finding, Ohno (2003:6) deplored the fact that there are so few studies focusing on this topic and expresses the hope that more research will emerge, especially "... research addressing typologies, policy advice, analysis of critical issues, fact-finding and documentation of business-oriented NPOs" (Ibid).

3.8 Strategies for NPOs involved through Business Activities

Viravaidya's (nd) study was done through the Population and Community Development Association [PDA], a non-profit organisation located in Thailand's capital, Bangkok. The PDA has an innovative vision of community development through income generation, which it has applied to its own operations and programmes.

As a non-profit association, it has established 14 for-profit companies that help to generate funds for its own social activities. In 2014, the income generated by these for-profit companies covered 65% of the organisation's expenditures and it is hoped that it will be 100% self-

sufficient by the end of the decade (Viravaidya, nd:3). The most successful of the PDA's enterprises is a restaurant called Condoms Restaurants. In addition to offering excellent food and services, the restaurant promotes the use of condoms in a fun and amusing manner. Their main aim is to generate income for the NPO by using a creative way to link social needs (HIV/AIDS prevention) with income generation (restaurant).

One of the most known businesses is that of social entrepreneur Andreas Heinecke. In 1993, he created a social enterprise called "Dinner in the Dark", which aims to employ blind people. His concept was created when he noticed that blind people did not have the same access to education and the labour market as sighted people. The social franchise organisation offers employment for blind and visually impaired people around the world. The main purpose is "... to switch off the light, darken a room and invite blind and sighted people to meet under reverse conditions" (Heinecke, 2009:1). Today, the network has reached more than 32 countries, allowing more than 8 million people the experience of eating in the dark. Furthermore, it has increased access to the job market for thousands of blind people.

Another successful NPO from the developing world that has been able to diversify its income is the Bangladesh Rural Advancement Committee [BRAC]. This organisation was founded in 1972 with the aim of aiding refugees to return home after their country's independence war. Since its inception, the NPO has grown dramatically becoming the largest NPOs, "... with a staff exceeding 25 000 people and an annual operating budget over US\$ 100 million" (Viravaidy & Hayssen, 2001:9). The BRAC's manager has understood the numerous benefits of being self-reliant and as a result developed a wide range of businesses, ranging from animal rearing to credit programmes and, the production of low-cost education materials.

3.9 Conclusion

This literature review has covered the main trends and themes related to the topic of trade in the NPO sector. It has been seen that business oriented NPOs can raise significant amount of money themselves and thus fulfilling their mandates without the inconvenience of donor-dependence.

The literature also outlines the policies and legal framework for trading, which differ considerably from one country to another. The following chapter will cover the research methodology used in this study and outline why these methodological elements were chosen for this research.

Chapter 4: Research Methodology

4.1 INTRODUCTION

4.2 NATURE OF THE STUDY

4.3 RESEARCH DESIGN

4.4 POPULATION AND SAMPLING FRAMEWORK

4.5 DATA COLLECTION

4.6 REMINDERS

4.7 DATA ANALYSIS

4.8 STUDY LIMITATIONS

4.9 ETHICAL CONSIDERATIONS

4.10 CONCLUSION

4.1 Introduction

The research methodology chapter will cover the key features pertaining to the design of this research. Firstly, the researcher explains the nature of the study, the design and methodology used, then describes the population sampling and framework used for this research. This is followed by an explanation of how the researcher collected and analysed the data. The major limitations involved in this research will also be discussed, while the chapter will end with the key ethical considerations and a conclusion.

4.2 Nature of the Study

This study uses an exploratory and descriptive research design. Brown (2006:43) stated that "... exploratory research tends to tackle new problems on which little or no previous research has been done". Kowalczyk (2015:1) defined "Exploratory research as the initial research into a hypothetical or theoretical idea which often lays the groundwork for further investigation". He also says that exploratory research primarily consists of investigating a new topic or tackling an existing one from a new angle.

Generally, exploratory studies aim to gain new insights into and ideas and knowledge about phenomena that are not well explored yet. In this study, exploratory research was used to obtain a picture of the use of trading activities in the NPO sector and how it helps international NPOs to raise income, or not.

The descriptive part of this study attempts to describe and gather facts about reality at a particular point in time. Burns & Grove (2003:201) defined descriptive research as "a research design to provide a picture of a situation as it naturally happens". This study aims to describe how NPOs around the world are coping financially and whether trading can help them to better their financial situation.

4.3 Research Design

According to Babbie & Mouton (2001:72), research design can be defined as "the planning of scientific inquiry as a strategy for finding out something". In other words, it strives to explain the procedure and methodology used by the researcher in answering the research questions. Due to the nature of this particular research and the large number of non-profit organisations targeted, a quantitative methodology was chosen.

"This methodology is born out of the positivist epistemology, based on an empiricist theory or conception of knowledge; a naturalist interpretation of objectivity and a human conception of causality" (Babbie & Mouton, 2001:27). The empiricist theory of knowledge "... recognises

only data that have an empirical base through the observations of at least one of our senses. In turn, empiricist theory rejects all forms of idealism as a source of scientific data” (Ibid). The naturalist interpretation of objectivity entails approaching an issue with no preconceived ideas; a total clearing of the mind as related to the observed object. Finally, conception of causality can be explained as ... “a regular relationship between two observable events or variables that can be observed and measured” (Ibid).

Cohen (1980) describes quantitative research as “Social research that employs empirical methods and empirical statements”. In general, while empirical statements are represented in numerical terms, empirical evaluation determines the degree to which a specific programme fulfils a particular standard or norm, or not. Creswell (1994:1) gives another definition of the quantitative approach, describing it as “A type of research explaining phenomena by collecting numerical data analysed by using mathematically-based methods”.

The quantitative approach in this study takes the exploration of NPOs’ financial sustainability and their use of trading activity as its main objects, whilst highlighting significant relationships, trends and theories.

This methodology has been chosen over a qualitative approach, which would not allow for the same exploration of large-scale trends and would thus generalise them.

There are countless advantages of the quantitative methodology for this study. For one, it allowed a large sample of international NPOs to be accessed at a relatively low cost. For another, the fact that standardised questions were used meant that results could be condensed to statistics and easily analysed to measure common occurrences or trends.

4.4 Population and Sampling Framework

As the research aimed to investigate NPOs globally, the population chosen for this study was represented by both NPOs in developing and developed countries. The key element in selecting countries was that English should be one of the official languages of the country. Geographical boundaries were also considered and an attempt was made to select NPOs from all of the continents of the world.

However, it should be noted that due to language barriers no NPOs in South America could have been chosen. Table 4.1 depicts the six countries where NPOs were selected for this research.

Table 4.1: Selected countries

<u>Developed Countries</u>	<u>Developing Countries</u>
Australia	India
Canada	Nigeria
The United Kingdom	South Africa

In order to investigate the financial situation and trading practices of NPOs, global network Idealist.org was chosen. The reason for this is that it provides the largest numbers of international NPOs registered online. Idealist.org boasts more than 105,647 registered organisations (figures taken from www.idealists.org). The different types of organisations are categorised as non-profit or community organisations, social enterprise entities, government agencies, consultants, recruitment firms and businesses. However, the largest type of organisation registered is non-profit or community organisations, with 90,000 NPOs from over 180 countries.

The website also has an option to choose NPOs according to their 10 areas of focus. These range from education, community development, art, philanthropy, job and workplace, agriculture, media, multi-service agency, disability and disaster relief. The last category of NPO selection is based on language and English, Spanish and French are represented. In operation for more than 20 years, Idealist.org is the most interactive network of NPOs from across the world and provides large quantities of resources and data for NPOs, NPO managers, job seekers, volunteers and other parties.

For the purpose of increasing the response rate and providing the most relevant information from the survey, only NPOs that had updated their Idealist.org profile after January 2010 were included in the sampling. Additionally, all of the selected NPOs needed to have a website link in their profile so that their email addresses could be found.

The sample method employed for this research was a probability sampling technique. According to Babbie & Mouton (2001:175), “the purpose of a probability sampling consists of selecting a set of elements from a population in such a way that descriptions of those elements accurately portray the parameters of the total population from the selected elements”. In this study, the samples chosen from six different countries are supposed to portray the total populations of these countries.

As seen in table 4.2, the total size of the initial sample consisted of 4,186 organisations selected from Idealist.org on 4 March 2015. This number represents all the NPOs on Idealist, from the six selected countries. However, only the NPOs that met the above-mentioned criteria received a survey questionnaire and constituted the final sample. This resulted in 1,911 NPOs (see calculation and detail in table 4.2).

Table 4.2: Initial and final sample

<u>Developed Countries</u>	Initial sample	Final sample	<u>Developing Countries</u>	Initial sample	Final sample
Australia	214	62	India	1,031	594
Canada	1,244	517	Nigeria	227	65
The UK	1,226	506	South Africa	244	167
Initial sample:		4,186 NPOs			
Final sample:		1,911 NPOS			

4.5 Data Collection

The purpose of data collection is to identify and use the various scales of measurement in an appropriate way (Bless, Smith, & Sithole, 2013:28). With quantitative methods, the data collected yields objective and accurate information, as it is collected using standardised methods. According to Babbie & Mouton (2001:200), surveying is a good method when seeking to obtain original data from a large population.

4.5.1 Instrument

To conduct the research and to obtain relevant data, the researcher used an online questionnaire (Appendix I). There are many pros and a few cons when using online surveys. For instance, Mae Sincero (2012:1) cited the following as some advantages of using online surveys; “the ease of data gathering, minimal cost, automation in data input and handling, increase in response rate and flexibility of design”. Due to the virtual world of the internet, data can circulate almost without limits and with considerable speed. As a result, any online survey can be rapidly deployed by the researcher and completed by respondents. The latter also have the convenience of responding to the survey their own time and chosen place amongst other preferences. Online surveys also offer a large range and flexibility of design, in which questionnaires may be included in various types of formats (Ibid).

On the other hand, the few disadvantages of survey data would be the absence of a physical interview, difficulties reaching certain populations and survey fraud (Ibid).

4.5.1.1 Questionnaire Design

Azmin (2015:1) discussed the five major mistakes made when designing a survey. There is a tendency to design long surveys, which tend to scare respondents from the outset and drive down response rates. Too often surveys do not provide clear instructions about the purpose of the survey and include too many open-ended questions, which stop participants from completing the whole survey for lack of time. Another mistake is to release multi-lingual surveys without expert editing and it is unnecessary to say that an attractive survey get far more responses.

As previously explained, the increased number of online surveys received by organisations makes the task of designing questionnaires more and more complex. In order to maximise the response rate, questions need to be carefully formulated and must be relevant to the scope of the study. The design of the questionnaire and the questions chosen are key factors to the relevance of the research. Whilst formulating the questions, the researcher must bear in mind the fact that respondents are giving their precious time to complete the questionnaire. As a result, if the questions are incomprehensible, poorly formulated or too difficult to answer, it may rapidly annoy the respondent, who will not hesitate to quit the page.

4.5.1.2 Types of questions

Mae Sincero (2012:1) outlined various types of questions that the researcher can apply in a questionnaire. Given the fact that questions are the primary tool for collecting information from the respondents of a survey, making the right question choice means extracting the most relevant data for the purpose of the survey (Ibid).

The first distinction Mae Sincero makes is between open-ended and closed-ended questions. In quantitative methodology, only closed-ended questions are used, as the number of surveys is generally important.

Closed-ended questions consist of a wide variety of questions ranging from dichotomous questions to multiple choice questions, scales questions, matrix questions and contingency questions. In the questionnaire designed for this research (see Appendix I), a wide variety of questions were used, though most of the questions used the Likert scale which ranges responses from strongly agree to strongly disagree. The questionnaire also included some dichotomous questions “yes” or “no”, with an added “unsure” option for cases where the respondent did not

really know the answer. Two matrix questions were also used to facilitate data collection over a period of two years. Finally, some other contingency questions were used in the questionnaire in order to avoid questions that were not applicable to respondents. For instance, all respondents not currently involved in any commercial activity, were redirected to another section of the questionnaire.

4.5.1.3 Design

The questionnaire was divided into five main sections, as described below:

- **Section 1: Organisation details** – This section aimed to obtain general information about the organisation questioned. It was also designed to provide better insight into the location and the service areas offered by the NPO. The data related to the organisation could help to locate the organisation's operations and thus determine whether the organisation operated in different locations from where its head-office is based.
- **Section 2: Financial information of the non-profit organisation** – This section aimed to ascertain information about the financial sustainability of the NPO. It also elicited a variety of information about how the NPO generates income, views threats for the future and competition for funding and funding conditions and new sources of income for the next few years.
- **Section 3: General question related to commercial activities in the NPO sector** – This section asked some general questions about trading in order to get a broad sense of trading activity amongst NPOs.
- **Section 4: NPOs involved in commercial activity** – This section was directed towards NPOs involved in trading and looked at how effective trading was in terms of generating income. This section also investigated major concerns when launching a trading activity, such as market opportunities, skills required, the legal framework and governance issues.
- **Section 5: Organisations not involved in commercial activities** – This last section aimed to identify the main reasons why some NPOs are reluctant to be involved in commercial activity and what could make them change their views about it.

4.6.1 Surveying Tool

For this research, the researcher collected data using the online survey tool, SoGoSurvey. This online tool is very popular when gathering data from large groups, where there is a need for standardisation. Using SoGoSurvey has many benefits over using a personalised survey. Firstly, it enables all collected data to be exported directly into a Microsoft Excel template. Secondly, it provides a set of typical questions that can be used to formulate questions and provide insight into question formulation.

In addition, whilst all online surveys are charged for, SoGoSurvey represents a good compromise in terms of the cost to quality ratio. They provided a pro version for \$ 40 a month, which is cheaper than most of the other online surveys services. One of the main advantages of their service is the rapid-response customer support, available for 24 hours a day and with an average response time of 18 minutes. Their features were extremely helpful when designing questions for this study and various SoGoSurvey tools were used. In addition, it was a great help and time-saver while the researcher was a novice, particularly in terms of online questionnaire design.

4.6.2 Survey process

The web-based survey was sent via the SoGoSurvey platform to 1,911 NPOs' directors on 29th June 2015. The email contained two links, one sending the respondent directly to the online survey and the other providing the option to copy and paste the link. The original text of this email can be seen in Appendix II.

Surprisingly, the first email received an extremely low response rate, with only 22 respondents completing the survey during the four-week period from the 29th of June to the 25th of July. As shown in table 4.3, 50% of the emails were not read (969 in total), while 34% were read but not responded to (646 in total). There were also 244 bounced emails because the hosts were unknown or there were technical problems. Finally, 45 respondents started the survey without completing it.

One possible explanation for this low response rate could be the fact that the web surveys were sent during the big summer holiday in two countries with some of the largest number of NPOs, the UK (506) and Canada (517). Because many employees were on holiday during this period, there were considerable amount of automatic replies, mentioning the absence of directors with return dates in a few weeks. There were also a few cases where employees had left the organisation or were on maternity leave.

Table 4.3: Response rate after first email

Email Delivered/Not Read	969	50%
Email Read /Not participated	646	34%
Bounced	244	13%
Dropped Out on Page	45	2%
Completed	22	1%
Total	1,926	100%

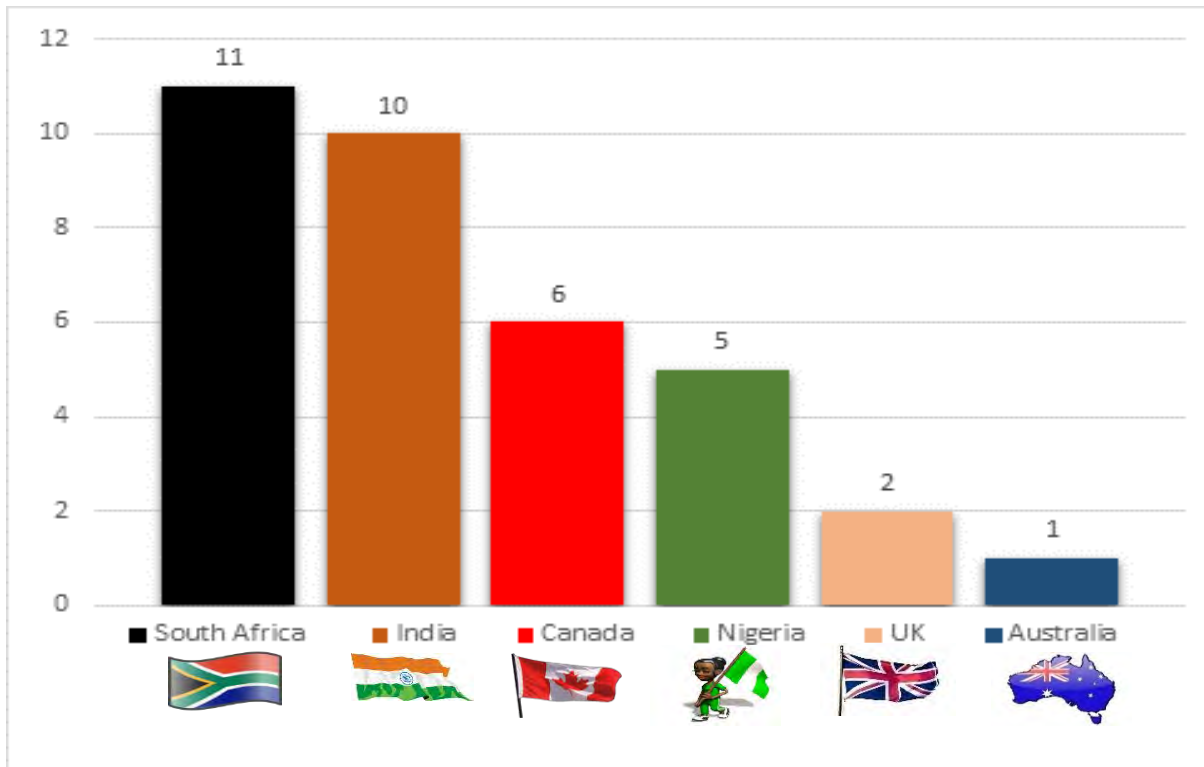
The first follow-up email was sent on 26 July 2015. This email reminded directors to complete the survey and extended the original deadline by two weeks. The first follow-up email (Appendix II) increased the number of respondents to 39 in total (22 first emails + 17 first reminders). For strategic reasons, the length of the first reminder was reduced to only one page, half that of the first email.

To increase the survey response rate, the researcher individually analysed all bounced emails to understand why they had not been sent. It was found that twelve were not sent because of a misspelling in the email address, while the remainder were bounced because the recipients' email addresses no longer existed. The explanation for this could be that since on Idealist, NPOs had changed their email addresses and not updated it on Idealist. To address this, the researcher browsed all of the NPOs' websites updated email addresses. As a result, the researcher could send out another 122 survey invitations from the 244 emails initially bounced.

The second reminder (see in Appendix III) was sent three weeks after the first reminder, on the 16th August 2015. It was crucial to increase the number of surveys completed in order to validate the data.

To try something new, the researcher included a graph at the bottom of the reminder email showing how many surveys had been completed by each country so far. It was hoped that seeing the low response rate would motivate NPOs from countries with low survey returns such as Australia and the UK to make an effort. The result of this second reminder led to an increase of 35%, 53 surveys received back (see graph 4.1).

Graph 4.1: Number of survey back by country



4.5.3 Web based / electronic survey

Over the past decade, the use of the internet has become more widespread and many social scientists have started to turn to online resources to conduct survey research (Fraleay, 2004). In the early to mid-1990s, as the use of the internet became more widespread, web-based surveys quickly supplanted other surveys, allowing for wide range of new possibilities especially in terms of multimedia and audio-video interactive surveys (Ronald, Fricker, & Schonlau, 2002:2). The use of web-based surveys in quantitative research has numerous benefits as well as some potential difficulties that need to be considered.

Gaiser & Shreiner (2009:70) have assessed some of the benefits of this method. Firstly, they argued that using a web-based survey makes it possible to reach a large target-audience globally at a very low cost. Data collection times and transcription errors are also reduced and sophisticated interactions are made possible.

However, Mae Sincero (2015:1) has outlined some of the drawbacks and disadvantages of the online survey method. The first disadvantage is the absence of an interviewer, which makes the web method unsuitable for surveys requiring open-ended questions. Furthermore, whilst this method allows for a large population range to be contacted, it also excludes those who do not have internet access or are unable to use the internet. Web-based surveys will struggle to reach the elderly and people residing in remote areas for example. Another disadvantage of this

method is the possibility of fraud. Anyone can answer the survey for an incentive, with no interest at all in contributing to the advancement of the study.

It has been found that the overload of surveys received by organisations deeply affects the response rate. Nulty (2008:312) cited Cook et al., (2000) in saying that "... response rates for online surveys are nearly always much lower than those obtained using paper surveys". In turn, Kanithi (2010:67) cited Marcussen (2010) in pointing out that "... low response rates are usually unavoidable when dealing with international audiences, especially when the researcher has never met the potential respondents".

In Marcussen's study (2001:1), "... of nearly 8,000 surveys sent to an international database, a response rate of 2.2% was obtained". He pointed out, however, that this low rate does not necessarily mean that the study is a poor, instead it reflects the reality of doing international surveys without using any strategies such as incentives, personal invitations sent before the survey, or previous meetings with all of the potential respondents. Marcussen (2001:29) showed that by offering incentives, the response rate may increase by as much as three times.

4.6 Reminders/Follow-up emails

In order to increase the response rate, this research made use of reminders and thank you letters. According to Lemon (2007:1), respondents should receive reminders once a week. He pointed out "... the majority of responses are received within 36 hours of either the initial invitation, or a reminder indicating that people will respond immediately or not all".

Babbie & Mouton (2001:260) argued "... the best method is to send a new copy of the survey with the follow-up letter, if the respondents have not returned their questionnaires after two or three weeks". They also mentioned that "... three letters (an original and two follow-ups) is the most efficient and effective method for increasing return rates in mail surveys" (Ibid).

4.7 Data Analysis

Data analysis can be described as "The process or method used to analyse data with the goal of discovering useful information from the research". In this study, data was collected using the survey making tool, SoGoSurvey and exported into a Microsoft Excel spreadsheet.

Once all of the data was collected in the spreadsheet, it was analysed using graphs, tables and other methods. Several useful Excel tools were used to arrange the huge quantity of data in numerical order. Excel formulas were also used to assist with data counting and to enable comparisons. As the data was collected from six countries, the spreadsheet was designed to separate them into countries and note any correlations.

Most of the data was arranged using two kinds of graphs, pie charts and bar graphs. Additionally, as the study was quantitative, a significant portion of data was numerical and this was rounded off to the nearest whole number for ease of comparison.

As the financial information was in different currencies, an Excel formula was used to translate all monetary values into US dollars. In order to have a balanced rate, the exchange rates were all checked on the same day.

4.8 Study Limitations

Limitations are factors that can influence the research and decrease the objectivity of the findings. The researcher can anticipate some difficulties and address them before starting the data collection process, but the majority of these difficulties need to be accepted as limitations to the research.

The first limitation of this research was the fact that the researcher decided to use only NPOs in countries where English is widely spoken. As a result, although this research claims to be a global study, no NPOs in South and Central America were chosen.

Secondly, the research is limited by the fact that only NPOs registered on the international network Idealist.org were used for the data collection. Although many other online databases for NPOs exist, they are often costly or require a paid subscription in order for data to be accessed.

Thirdly, the data was limited by the low response rate because the researcher used an international web-based survey. A much higher response rate could have allowed the research data to increase its level of objectivity. Furthermore, not all NPOs completing the survey were willing to provide financial information because of confidentiality concerns. On several occasions, NPOs' directors were extremely suspicious of the survey, not having had any previous contact with the researcher, and some bad experiences with scams.

Another limitation was the potential for inaccuracy in the reporting of financial data. As respondents were asked to insert figures, they may have intentionally or mistakenly entered incorrect data, leading to inaccurate figures. In spite of the survey being designed so that respondents could not skip questions, in many instances they did not type in valid answers or used a symbol like "0" to skip to the next question. Finally, the impersonal nature of the interaction between respondents and the researcher limited the respondents' level of collaboration. In further studies of this type, it might be a good idea to inform NPOs about the

study in advance and create some buzz about the research topic. The use of incentives could also be an option for increasing respondents' interest.

4.9 Ethical Considerations

The study of research ethics helps to prevent abuse in research and assists researchers to understand their responsibilities (Bless, Smith, & Sithole, 2013:28). Ethical issues often occur when there is a possible conflict of interest. It is the responsibility of the researcher to inform the subject of the nature of the research, the risks, benefits and alternatives. Resnik (2013:1) defined ethics as "... norms for conduct that distinguish between acceptable and unacceptable behaviour". Ethical norms are crucial in research because they attempt to promote truth, whilst preventing the misrepresentation or falsification of data.

Because this research was non-experimental and did not impose or manipulate conditions, the risks were far less complex than in experimental research. Nevertheless, it was important for investigators to have basic measures in place for the protection of participants. In this study keeping responses and data confidential was a significant ethical concern, because many directors divulged important information about the financial functioning of their NPOs.

Furthermore, it was worth noting that all the directors contacted for this study were informed of the voluntary nature of the research and chose to participate for research purposes only.

For ethical reasons, all of the data collected for the research was treated carefully and was not divulged to any external sources. When the directors of NPOs did not want to take part in the study, they were immediately removed from the mailing list. The researcher was careful to always accommodate respondents and provide them with any additional information concerning the nature of the study. The importance of preserving the image of the University of Cape Town was taken into consideration and exemplary behaviour was displayed towards all the respondents and actors involved in this research. Finally, the researcher carefully ensured that there were no attempts to corrupt or misrepresent the data collected through the questionnaire.

4.10 Conclusion

This chapter covered the main features in the design of this research and described the survey's design. This research used a quantitative methodology and an online survey tool called SoGoSurvey to gather data from 72 NPOs. The initial sample pool was comprised of 1,911 NPOs from six countries – South Africa, Nigeria, India, Canada, Australia and the UK. The following chapter will present the findings of the research, whilst discussing outcomes.

Chapter 5: Findings and Discussion

5.1 INTRODUCTION

5.2 RESPONSE RATES

5.3 ORGANISATION PROFILE

5.4 FINANCIAL SUSTAINABILITY IN THE NPO SECTOR

5.5 TRADING IN THE NPO SECTOR

5.6 CONCLUSION

5.1 Introduction

This chapter will present and analyse the study's findings. Data will be presented thematically and supported by graphs and tables. The discussion will integrate the latest literature and studies on the topic. This chapter aims to respond to the main research questions and cover the topics of financial sustainability and trading.

To begin with, a profile of the respondents will be provided and thereafter, the research findings will be discussed in relation to the main themes indicated above.

5.2 Response Rates

The total response rate for this study was just below 5% (see table 5.1), with 76 surveys collected from all of the NPOs chosen for this study. However, the findings will be based on the responses of 72 of these non-profit organisations, because four NPOs provided incomplete data. The removal of these organisations should improve the validity and accuracy of the data analysed.

The relatively low response rate of this study is concurrent with Marcussen's (2001:1) findings concerning low response rates in international research. Interestingly, the highest rate of response was from the developing countries, Nigeria, South Africa and India.

This may reflect a greater interest in the topic from developing countries, as compared to developed countries. The fact that this study was undertaken in South Africa might also have increased the participation rate of South African NPOs.

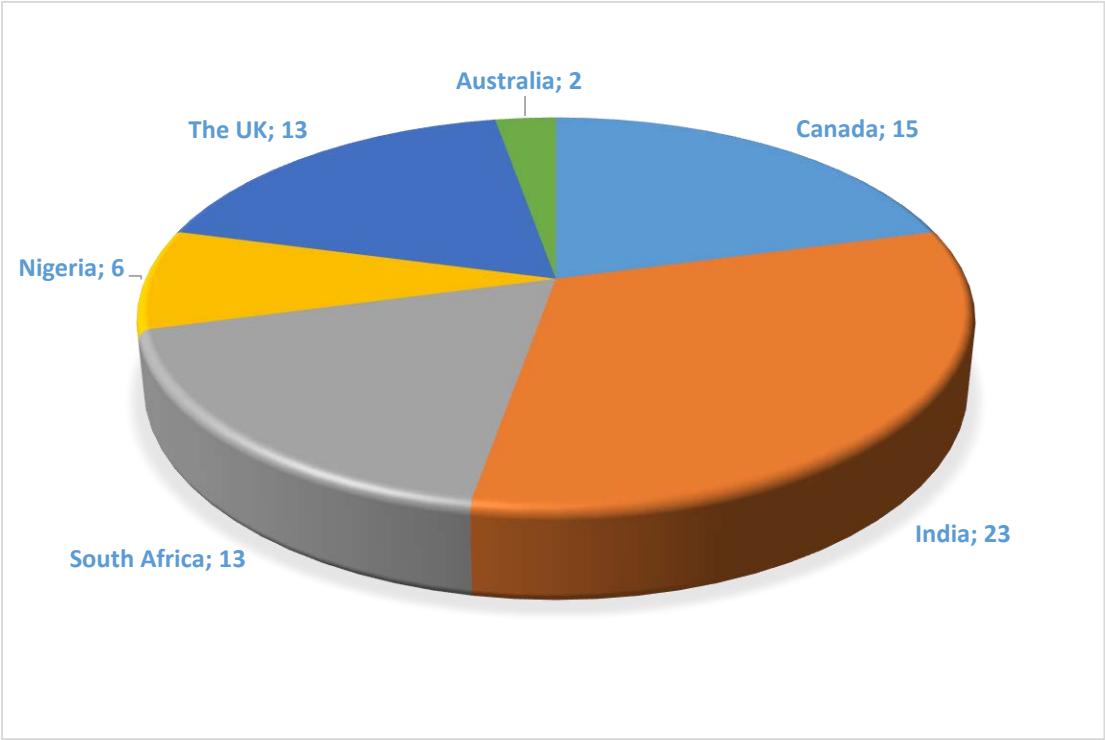
Table 5.1: Final response rates

Country	Nigeria	South Africa	India	Canada	Australia	The UK	Total
Number of responses	6	13	23	15	2	13	72
Number of requests	65	167	594	517	62	506	1,911
Response rate (%)	9%	8%	4%	3%	3%	2%	5%

5.3 Organisation Profile

Graph 5.1 shows the location of the head offices of the NPOs that responded to the survey. It is worth noting that whilst most of their offices are based in the six countries that were selected for the research, many had branches in other countries. For instance, one Australian-based NPO has more than 23 branches in countries all over Asia and the Pacific. Similarly, some NPOs in the UK have branches in African countries such as Kenya, Sierra Leone, Burundi, Ghana, Zambia, Uganda and Zimbabwe.

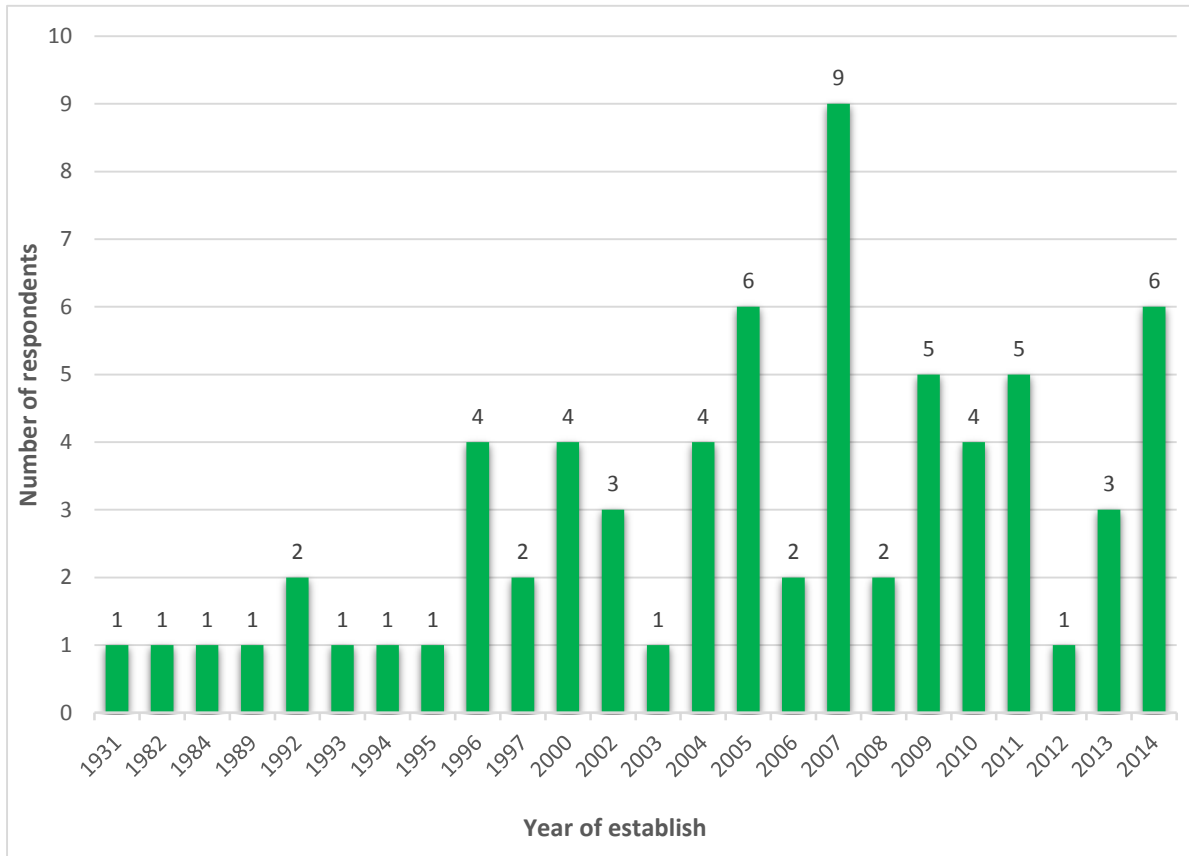
Graph 5.1: NPO bases countries



Graph 5.2 depicts the year of establishment of the NPOs surveyed. It can be seen that the establishment dates of the NPOs ranged from 1931 to 2014. However, most of the NPOs were established in the 1990s and 2000s, with a peak of nine organisations being established in 2007. This finding is consistent with Nelson’s (2007:2) assertion highlighting a dramatic growth in NPO numbers over the last two decades, due to various societal transformations.

As far as the job titles of the people that responded to the survey went, 33% were directors. The other respondents classified their job titles as chairmen, chairwoman, founder, president, managing trustee, coordinator, co-founder, programme manager and programme coordinator.

Graph 5.2: Year of NPO establishment

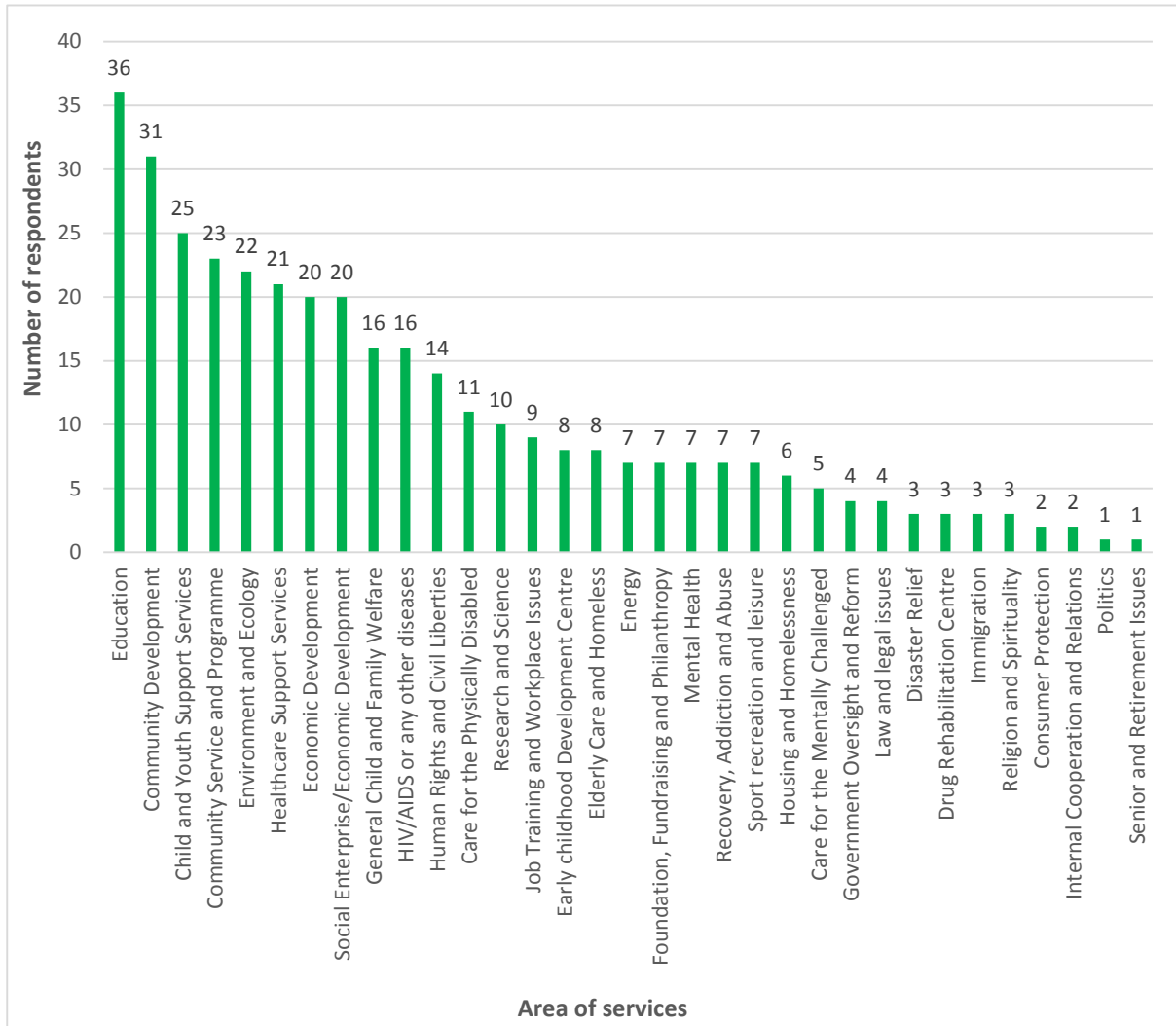


Graph 5.3 shows the different organisations’ areas of service. It is worth noting that most of the NPOs are involved in more than one area of service.

The findings show that the three main areas of service are education, community development and poverty and hunger support. These service areas are consistent with the global social agenda to address these major needs. Education is often a priority area with governments and funding agencies, as it provides one of the best routes for social development. Poverty has been described by internationally recognised organisations, such as the United Nations, as the plight of the 21st century which most urgently needs to be eradicated. Whilst Asian poverty has decreased dramatically, it remains a problem in Africa.

Graph 5.3 shows that most NPOs in this study were involved in child and youth support programmes as well as in community programmes. Based on the findings of graph 5.3, community development also seems to be a priority for NPOs, as many underprivileged areas are still facing huge social need. Another relevant figure for this study is that 20 organisations or 14% of those surveyed are involved in social enterprise and economic development, which means that these organisations are involved in trading as part of their income.

Graph 5.3: NPO's areas of services



An examination of the location of the organisations revealed that 51% (or 34 NPOs) operate in both rural and urban areas, while only 18% (or 12 NPOs) are situated only in urban areas and 31% (or 21 NPOs) in rural area (see table 5.2). Though the definition of urban and rural may vary among the respondents, it is important to outline some of the trends. The vast majority of organisations being located in both rural and urban areas can be explained due to strategic reasons.

Organisations situated in urban areas have easy access to networking services and well developed infrastructure. Most of the social needs of the relevant populations, however, are situated in rural areas.

By operating in both, NPOs can network and coordinate from their urban location, whilst providing their services to the population of more remote places.

Table 5.2: Geographic areas of NPO's location

Geographic area(s)	Number of NPOs	Percentage of NPOs
Rural area	21	31%
Urban area	12	18%
Both	34	51%

5.4 Financial Sustainability in the NPO Sector

This section covers financial sustainability in the NPO sector by looking at the surveyed NPOs' income diversification, income generation, financial sustainability threats, financial cash reserves and general outlook on funding.

5.4.1 Income Diversification

One of the key elements to analyse when looking at the risks to NPOs' financial stability is the diversity of income sources and the balance between incomes generated from internal and external funding. Hendrickse (2008:233) pointed out that "a well-executed fundraising strategy contains elements such as diversification, sustainability, creativity and inclusivity". By diversifying their income sources, NPOs protect against unexpected funding-cuts from donors and can thus decrease their degree of dependency and financial vulnerability.

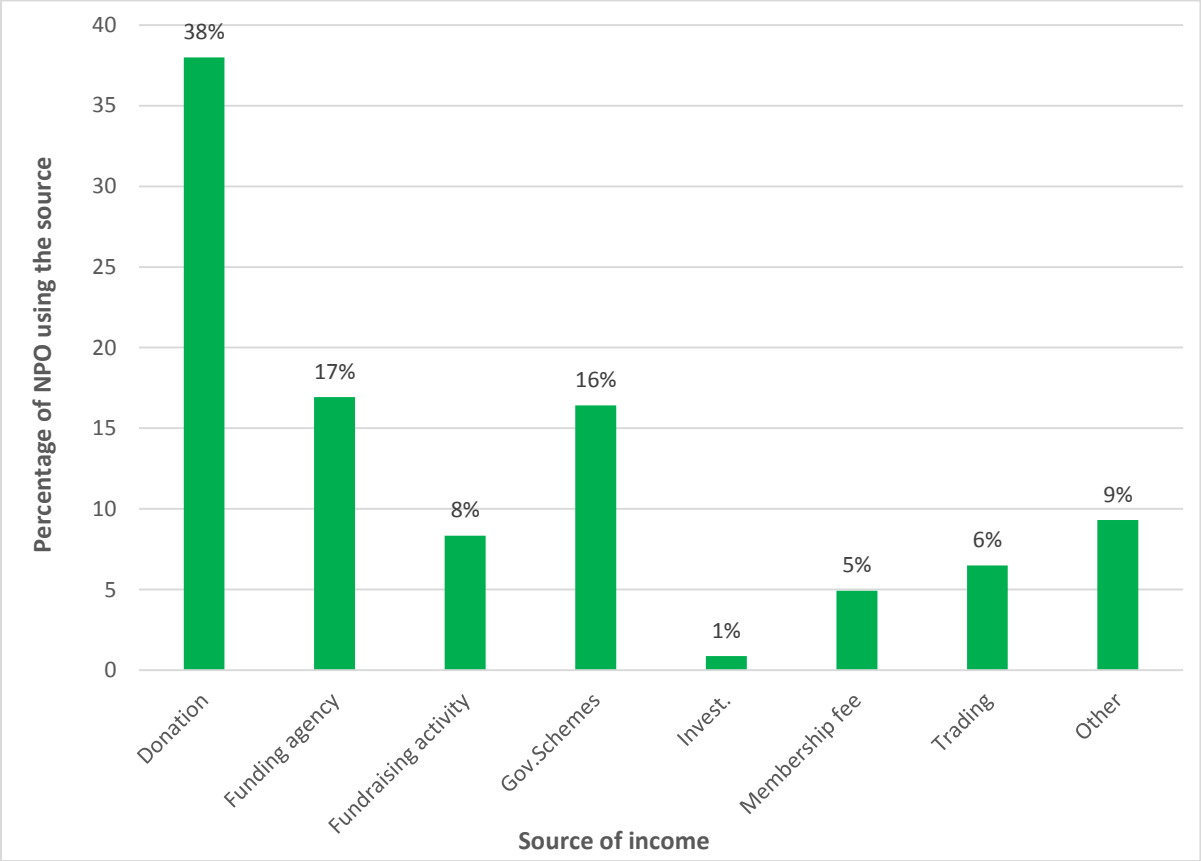
Graph 5.4 reveals a high NPO dependency on donations, from either individual funding agencies or government subsidies. The sources of income donation, funding agency and government schemes represent the highest percentage of income at 71% (38% + 17% + 16%).

Unfortunately, these findings also depict an imbalance in internal and external sources of income, with a strong reliance on external funding. This trend is consistent with the assertion of Gebreselassie-Hagos & Smit (2005:110), that NPOs are still largely reliant on external sources of funding to generate most of their income. Another risk of having such a strong reliance on a few donors is the restrictions and agendas that might be imposed by these donors. As Viravaidya & Hayssen (2001:1) pointed out, "... these kinds of restrictions make it difficult for NPOs to do long-term planning, improve their services and reach their full potential".

In order to avoid such limitations, NPOs must strive to develop internal sources of income. The three main sources of self-generating income portrayed in graph 5.4 are fundraising activities, membership fees and trading. Self-generating income rates amongst the surveyed NPOs are still

low and represent a cumulative total of only 19% (8% + 6% + 5%). However, this figure represents an increase, when compared to Kilbey & Smit’s (2014:499) finding that only 11% was from internal sources. In spite of this slight increase, this finding stresses that self-generating income is not totally integrated in the funding strategy of NPOs and would require far more attention in order to strengthen the financial sustainability of the NPO sector.

Graph 5.4: Percentage of source of income



5.4.2 Income Generation

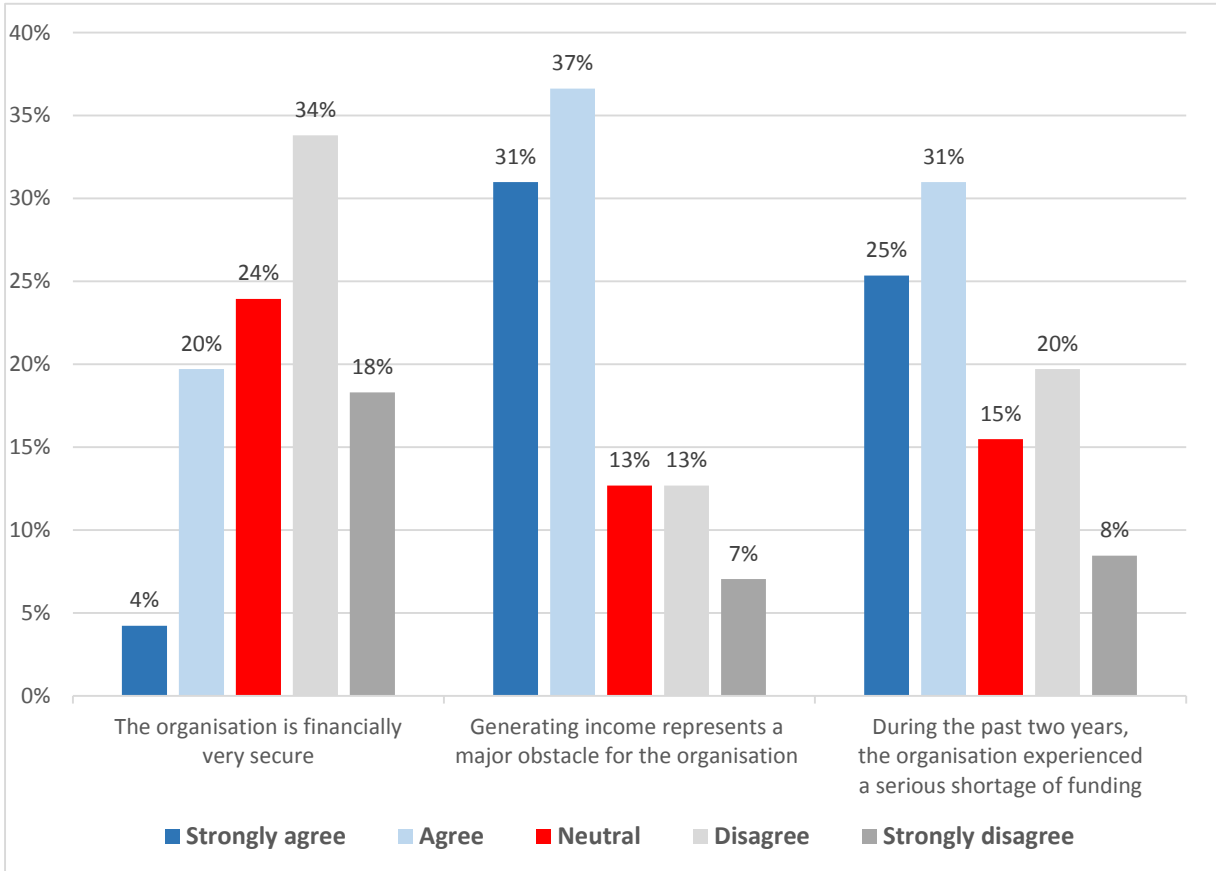
Graph 5.5 shows that slightly more than half of the respondents (52%) either disagreed or strongly disagreed with the statement that their NPOs were financially very secure. More worryingly, only 24% affirmed that their finances were stable. This finding is consistent with Smit’s (2005:353) study, which found that more than two-thirds of NPOs felt that their organisation’s future was not secure.

Furthermore, 68% of NPOs agreed or strongly agreed that generating income is a major obstacle for their organisation. Similarly, graph 5.5 shows that 56% of NPOs have experienced a serious shortage of funding during the past two years. The data suggests widespread financial instability in the NPO sector. These figures concur with Kilbey’s (2010:56) study that showed poor NPO

fundraising strategies and revealed that 83% of NPOs perceived financial deficiencies as a major difficulty.

Despite the fact that these figures are not alarming, they reveal a burden that numerous NPOs carry with regard to funding and income generation. The NPO sector still has a long way to go before it reaches financial prosperity and becomes more financially equipped. An overall lack of financial expertise and skills keeps NPOs struggling to enjoy a stable income and therefore increasing their quality of service.

Graph 5.5: NPO’s views on income generation



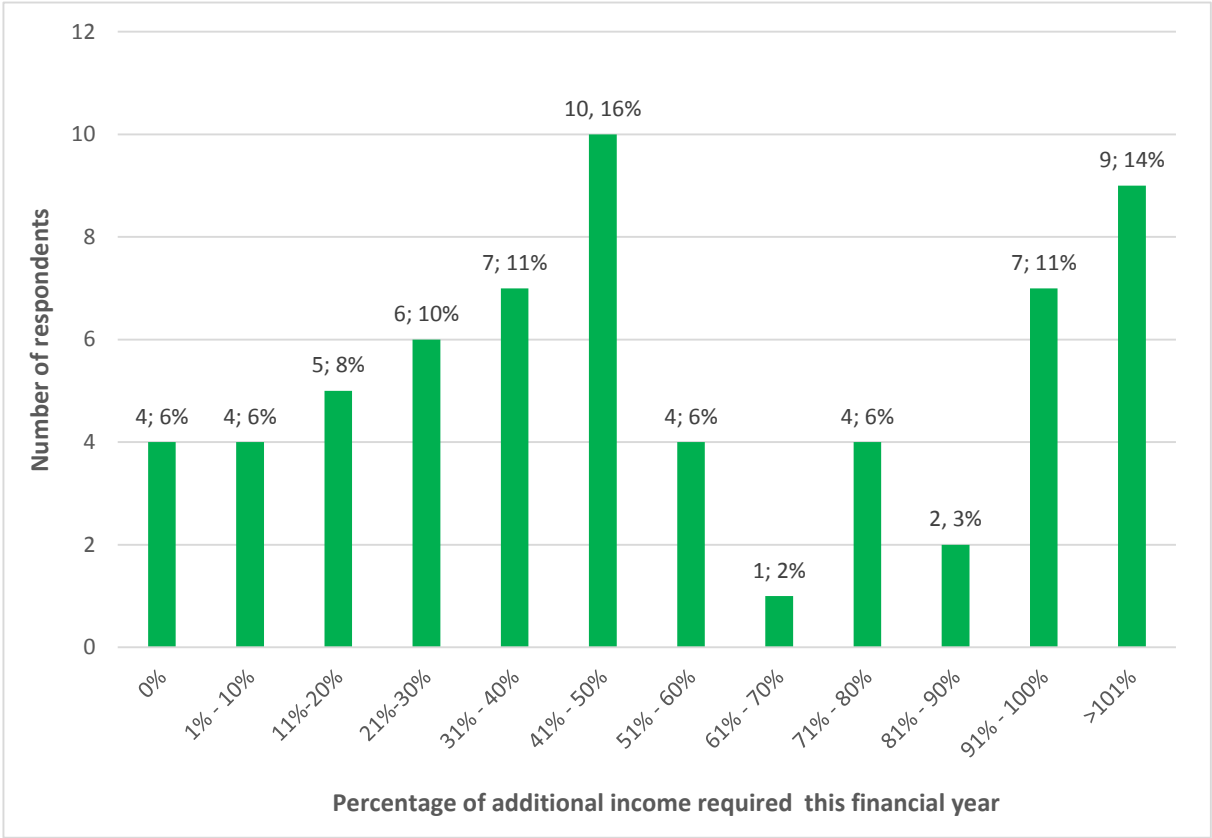
In order to assess the organisations’ overall financial situation, respondents were asked whether they would need further income in order to operate at maximum capacity in the 2015-financial year. It should be noted that the number of respondents who answered this question was 63 instead of the standard 72.

From looking at graph 5.6, it can be seen that only 4 or 6% of NPOs did not need extra income this year to operate at maximum capacity, whilst 10 or 16% of NPOs would require 50% more of their income. The second highest percentage (14%) represents NPOs that would need more than 100%, or more than double their current income.

To give a bigger picture, 59% of the NPOs needed 50% or more of their current income versus 41% of NPOs that needed less than 50% of what they currently generate.

Overall, this finding shows a general trend suggesting that more income needs to be produced than is currently generated by the NPO sector. It also shows that NPOs are unsatisfied with their actual earnings, which prevent them from unlocking the full potential of their organisations and providing high quality services. It also reveals that the current income generation methods are not effectively meeting the financial needs of NPOs. This suggests that new and alternative approaches to funding need to emerge in the sector, which will eventually enable NPOs to fulfil their social goals without being limited by financial constraints.

Graph 5.6: Additional income needed to operate at maximum capacity



5.4.3 Financial sustainability threats

Graph 5.7 highlights the seven most important threats to NPOs’ financial sustainability. The respondents were asked to choose from 21 threats (see appendix I – Questionnaire) the five most important threats to the financial sustainability of their organisation and to rank them.

These fascinating findings show that a lack of long-term funding represents the largest threat to financial sustainability (cited by 48 of the NPOs). This reveals a general struggle amongst NPOs to secure funding on a long-term basis and corresponds with Khieng & Quak’s (2013:1)

argument that funding partners are more interested in supporting projects than providing long-term commitments. Given the high NPO dependency on donors, this finding is not surprising. With a donor-dependency model, NPOs are perpetually threatened by the loss of donors and grants. This reality makes it even harder for NPOs to plan for the future and for the expansion and growth of the organisation.

The second largest threat to financial sustainability, as shown in graph 5.7, is the lack of adequate staff to generate money. For too many years, NPOs were used to receiving funding or government sponsorship and there was no need to hire workers with fundraising, business, or even entrepreneurial skills.

As a result, the NPOs of today are primarily made up of workers with socially orientated skills. Norton (2009:122) argued “... most people in the world of non-profits come from a background in academia, religious, civil service, trade unions and rarely from the world of small or large business”.

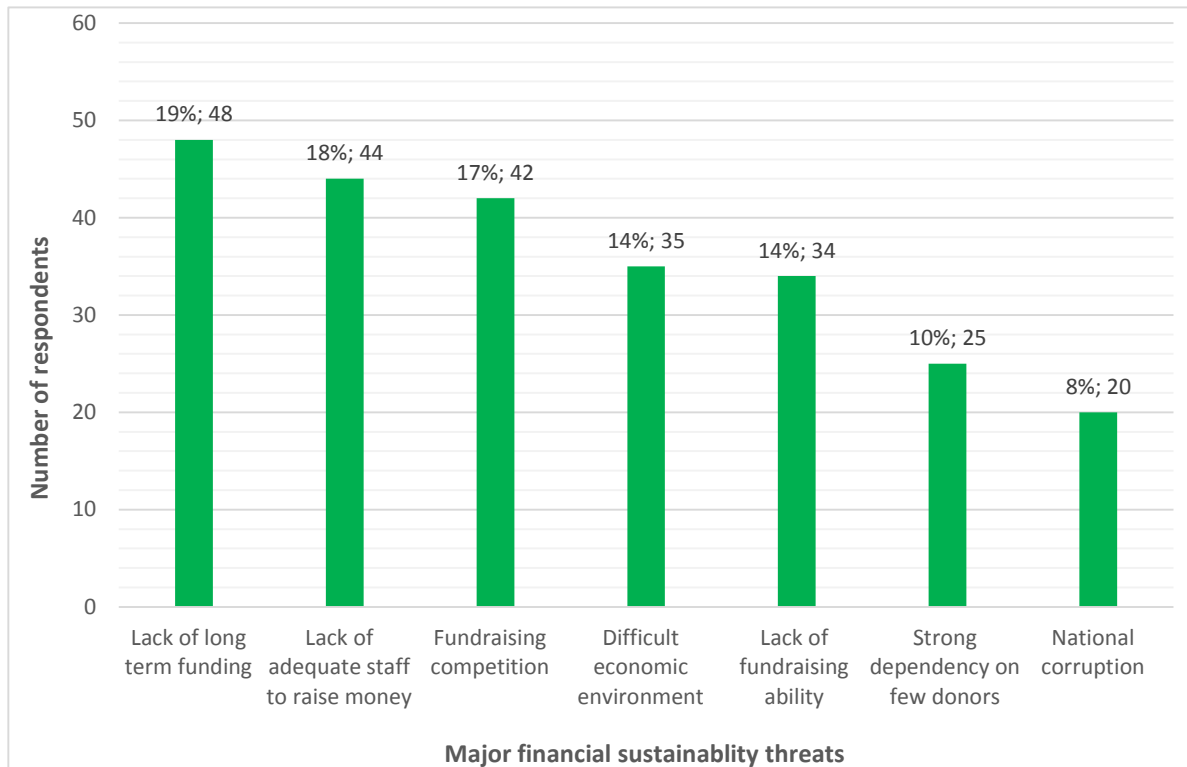
This becomes a problem as the NPO sector evolves and the competition for funding dramatically increases. Graph 5.7 shows that NPOs fear an increase in fundraising competition, representing the third major financial threat. This finding concurs with Glennie (2012:1) who underlined the constant competition between NPOs for a limited amount of resources. The fourth biggest threat for NPOs is the difficult economic environment.

The fifth is the lack of fundraising abilities. Once again, this demonstrates that the NPO sector is cruelly lacking in fundraising skills, either by professionals or trained staff. A strong dependency on a few donors also reveals an important financial threat in the NPO sector and confirms the finding of the lack of income diversification.

Finally, graph 5.7 shows that several NPOs located in Africa (Nigeria and South Africa) plus a few in India stressed national corruption as one of the main financial threats. This is not surprising as these countries face regular corruption at the top government level and this may have a knock-on effect on the NPO sector.

According to ENSafrica’s (2015:2) survey, South Africa and Nigeria are considered as one of eight worst countries in Africa for corruption.

Graph 5.7: Financial sustainability threats



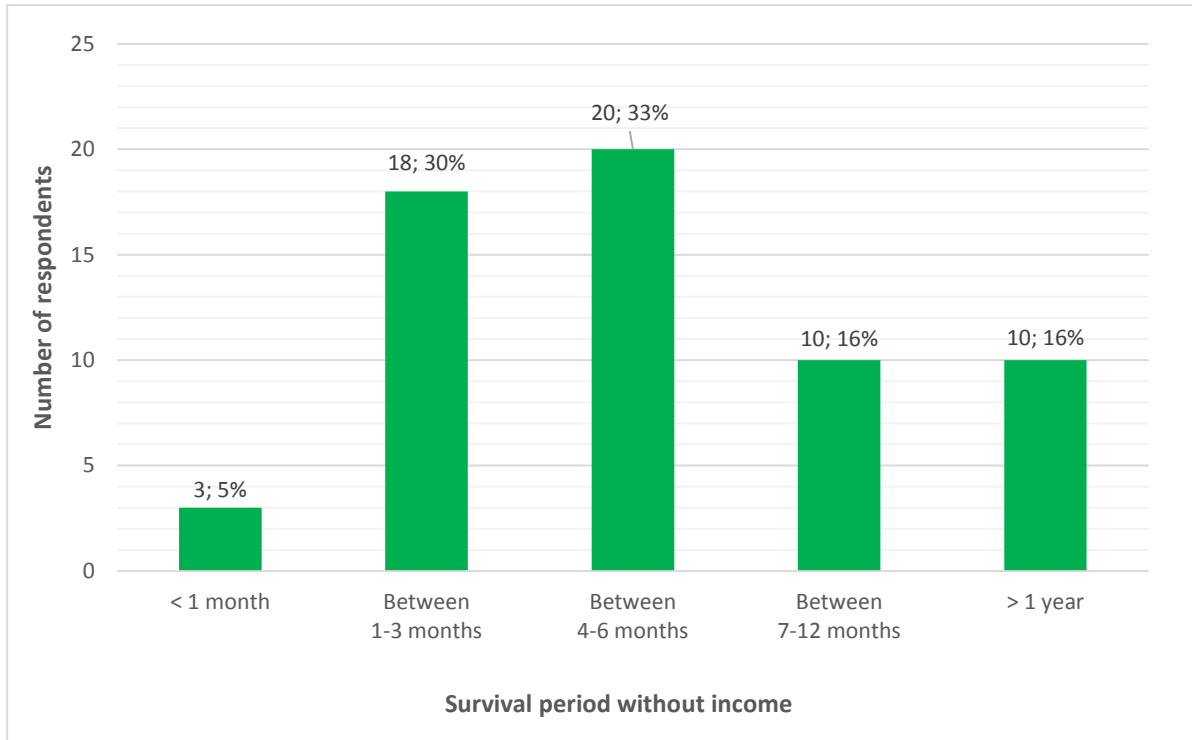
5.4.4 Financial Cash Reserves

To measure the degree of NPOs’ financial sustainability, respondents were asked how many months their organisation could survive without generating any new income. The data shown in graph 5.8 is based on the information supplied by 61 NPOs, as 11 did not provide answers to this question.

Graph 5.8 shows that 33% (or 20 NPOs) could survive without further income for four to six months, while 30% (or 18 NPOs) have a cash reserve that would allow them to survive one to three months. Worryingly, 5% (or 3 NPOs) did not have cash reserves to last more than one month. This finding varies from that obtained by Gebreselassie-Hagos & Smit (2005:114), who found that 61% of NPOs did not have any financial reserves, but shows that the financial sustainability of NPOs remains extremely fragile. This important variation could be a result of the 2008/09 economic recession. It is likely that after such economic meltdown, NPOs are far more careful about their finances and the potential risks imposed by new economic constraints. As a result, they may consider the need to increase cash reserves to be more vital.

Smit (2014:119) argued that an NPO’s cash reserves should cover at least three months of operations, but these findings show that only 32% (or 20 NPOs) can survive more than 6 months without income. This suggests that NPOs are struggling to increase their cash reserves in order to have a safety net that could protect them against any unforeseen circumstances.

Graph 5.8: Period of financial reserve



5.4.5 Funding Outlook

Graphs 5.9 and 5.10 reflect the financial outlook of the NPO sector and depict various indicators that influence funding and financial sustainability.

These findings correlate with Viravaidya & Hayssen's (2001:1) assertion that in the NPO sector "... there was an increasingly competitive and restrictive environment for obtaining funds through grants and donations". Graph 5.9 shows that 62% of surveyed NPOs agreed or strongly agreed that accessing funding in the near future would become increasingly more difficult, whereas only 11% disagreed or strongly disagreed with this statement.

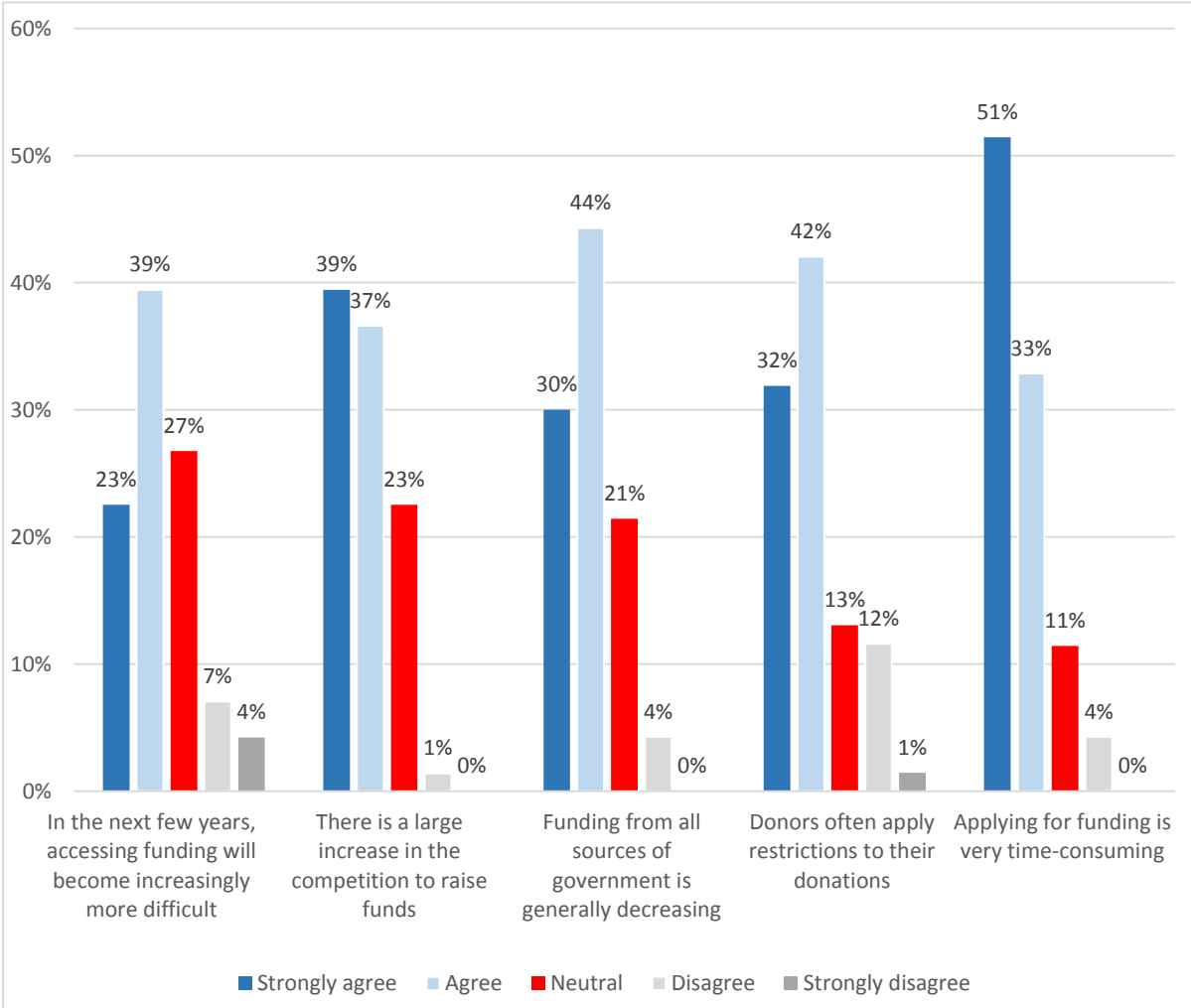
This contrast reveals insecurity on the part of NPOs about their ability to access and secure funding in the near future. It also shows the vulnerability of NPOs that are strongly dependent on government and organisational grants, which in the past have proved to be unstable due to the financial turmoil. It could also be argued that NPOs are extremely aware of the difficulties of the current economic situation and the perpetually increasing competition for funding.

Even more strikingly, the data indicates that 76% agreed or strongly agreed with the assertion that there has been a large increase in funding competition. By contrast, only 1% believed that competition would decrease. These rates confirm the Ministry of Health Working Group's (2007:1) findings that current funding structures encourage competitiveness and lead to the

organisational isolation. Graph 5.9 also reveals that 74% of the surveyed NPOs agreed or strongly agreed that donors often apply restrictions to their funding. This concurs with Kilbey and Smit’s (2014:489) study, which showed that donors often require organisations to comply with stringent funding and reporting criteria.

The process of applying for funding can be time-consuming and discouraging, as graph 5.9 shows. Unsurprisingly, 84% of NPOs agreed or strongly agreed that this was so. This reveals that generating funding is a heavy burden to NPOs and requires a large effort from staff, whether this funding comes from donors, funding agencies, or government. Another interesting finding is that 74% of NPOs agreed or strongly agreed that funding from all government sources is generally decreasing. This demonstrates that NPOs are aware of the fact that funding is not likely to increase over the next few years. In the light of the findings reflecting the importance of diversifying income sources, the following findings underline the numerous benefits that NPOs would gain through developing more self-generating income from activities such as trading, gaining more independence in the way that they will be able to spend the income.

Graph 5.9: Funding outlook



The tough competitiveness in the NPO sector should also send strong alarm signal in terms of the difficulty of accessing funding in the near future. Graph 5.10 shows that 87% of NPOs agree or strongly agree that NPOs should urgently find innovative ways of generating new income. Stuart (2013b:1) warned that in order to survive in difficult economic times, NPOs need to become more innovative in their funding strategies, use the latest technologies and focus on diversifying their approaches and income sources. The fact that so many NPOs agree reveals serious concern from NPOs and a desire to become more self-sustaining and approach funding in different ways.

Graph 5.10 shows that an astounding 93% of NPOs aspire to become more financially self-sustainable and think that this is crucial to their organisations' survival. This desire to become more self-sustainable is not groundless and can be explained by factors such as the decrease in government support and high donor restrictions on funding. This is consistent with the figures that show that 74% of NPOs agree or strongly agree that funding from all sources of government is generally decreasing.

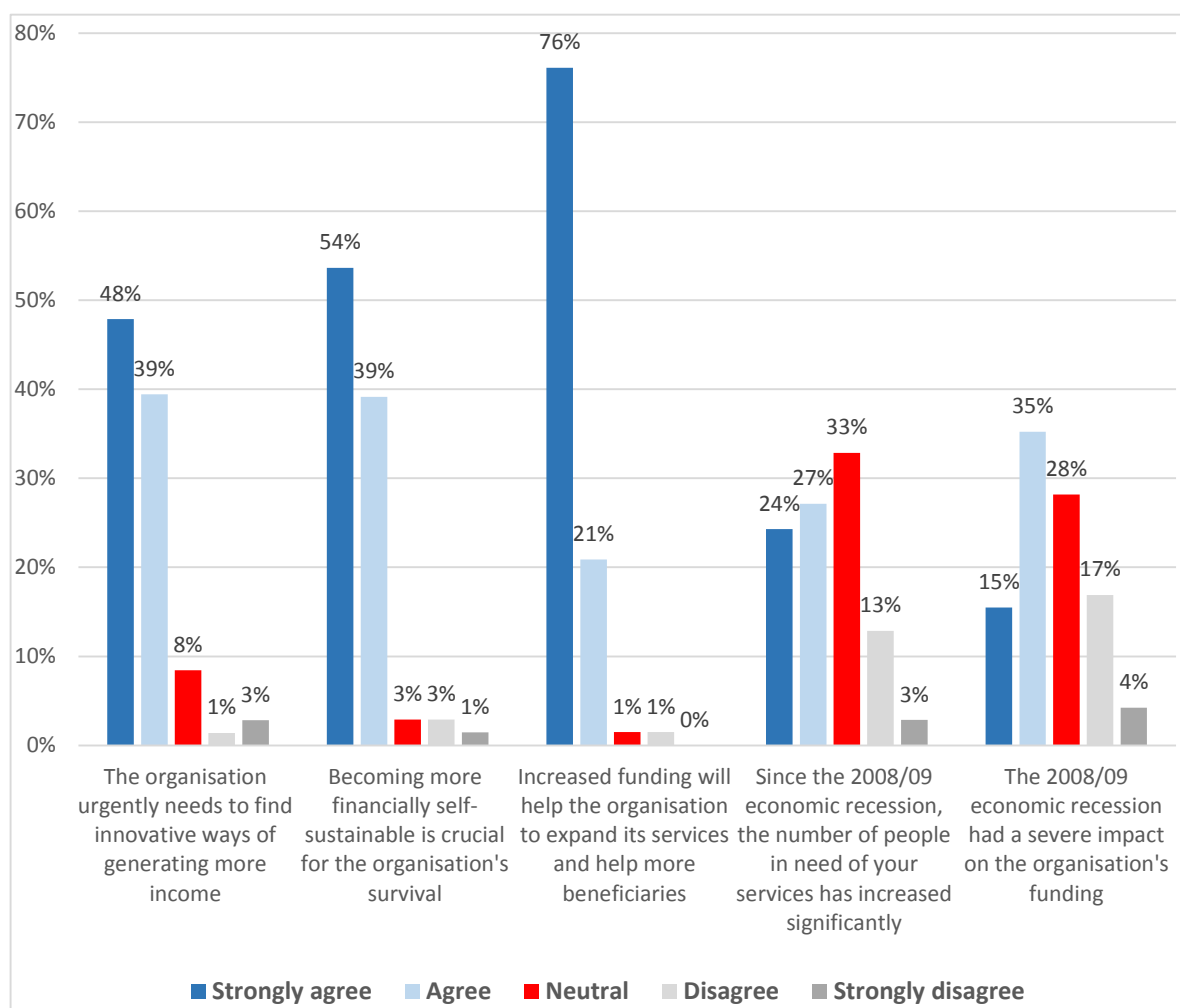
These findings indicate that there is a need to shift the way that NPOs are approaching funding. Graph 5.10 shows that the economic recession of 2008/09 had a mixed influence on NPOs' funding. The finding shows that 50% agree or strongly agree that the economic recession of 2008/09 jeopardised their finances and only 21% disagree or strongly disagree. This could be explained by the fact that the economic crisis affected certain countries more than it affected other countries.

Nevertheless, just over half of NPOs (51%) agree or strongly agree that since the economic recession, the number of beneficiaries using their services has increased. Interestingly, a large number, at 33%, remained neutral on this question, probably not knowing whether the economic recession had a direct impact on their organisation or not.

Overall, this section has demonstrated that although the current financial situation in the NPO sector is not catastrophic, there is still a serious need for NPOs to adapt and improve their income generation methods.

It seems that the traditional donor and state-dependency model is slowly becoming obsolete, as it is unable to satisfy the continually increasing financial needs of NPOs. Graph 5.10 shows that 97%, or nearly all of the NPOs, agree or strongly agree that increasing funding will help the organisation to expand its services and help more people to benefit from their services.

Graph 5.10: Funding outlook 2



5.5 Trading in the NPO Sector

5.5.1 Overall View on Trading Activity

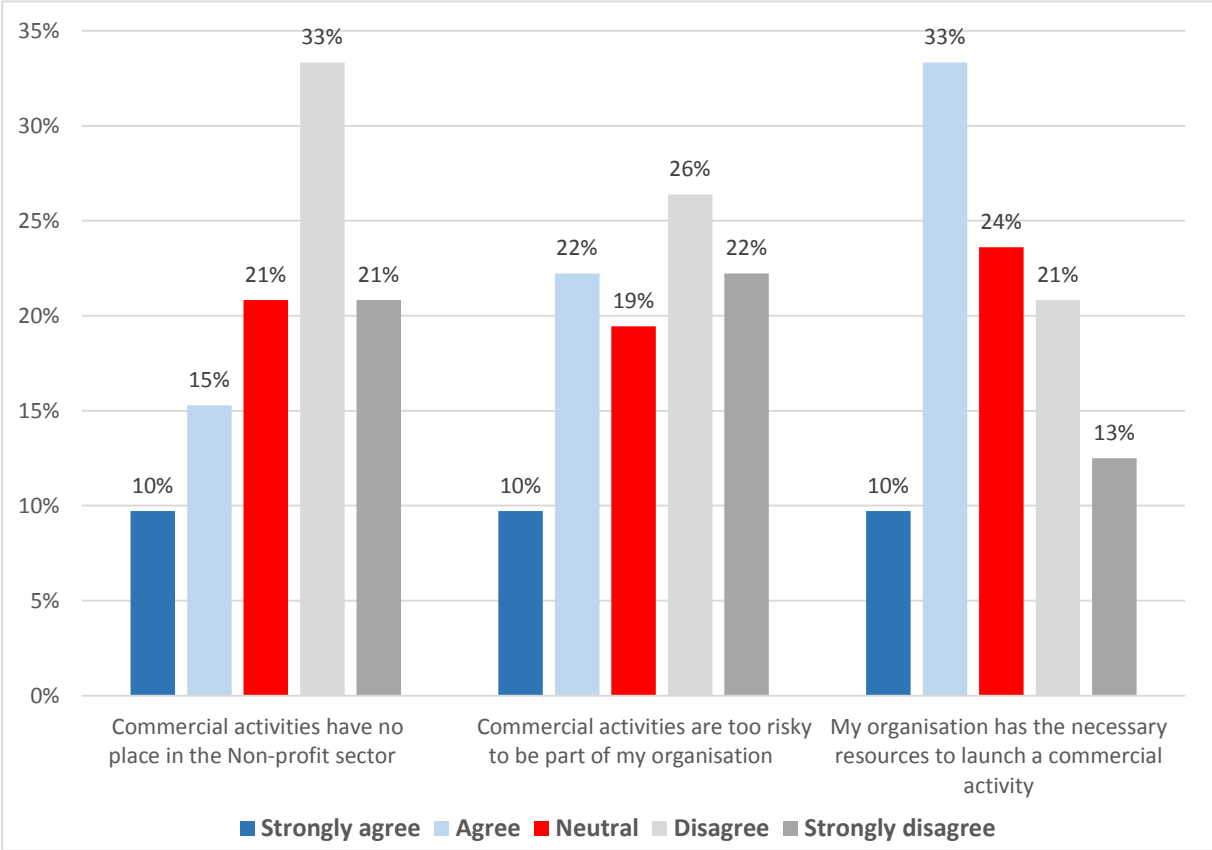
This section outlines the concerns NPOs have about the practice of trading as a potential source of income and what its implications might be. It also examines the potential risks and uncertainties NPOs face when starting to generate their own income.

The respondents were asked what they considered to be the place of trading in the non-profit sector. Graph 5.11 reveals that slightly more than half, 54%, either agreed or strongly agreed that trading could have a place in the non-profit sector, whereas only 25% disagreed or strongly disagreed on this matter. This finding indicates that views on trading have begun to shift and that NPOs are more open to considering an involvement in trading. The next section will describe in more detail the reasons why some 25% of NPOs still believe that trading should not be used in the non-profit sector. Exactly half of the respondents agreed or strongly agreed that the profit and non-profit sectors should remain distinct from one another.

Another 18% of respondents remained neutral on the matter, probably wondering what the effects would be of NPOs having more influence in the for-profit sector. Weisbrod (1998) examined the example of the United States, where NPOs have been raising money through trading activity for several decades. This has led to the state defining some boundaries between the two sectors, but it has also allowed countless NPOs to raise a considerable amount.

Because of their funding-reliant financial model, NPOs are not used to taking risks when generating their own income. Graph 5.11 shows that 48% either disagree or strongly disagree that trading activity is too risky for their organisation, whereas 32% believed trading entail a certain amount of risk. While there is still some reluctance to consider trading, due to its potential risk, it is interesting to note that almost half of NPOs would consider more risk-taking in order to generate income. Interestingly, graph 5.11 shows that 43% of NPOs either agreed or strongly agreed that their organisation had the necessary resources to launch a commercial activity, whilst 34% disagreed or strongly disagreed. Viravaidy & Hayssen (2011) argued that NPOs have most of the necessary skills and resources to launch businesses. These include effectively hiring and training staff, planning and budgeting and managing public relations. Although this may be true, it is also dependent on factors such as the organisation’s size and its stage of development.

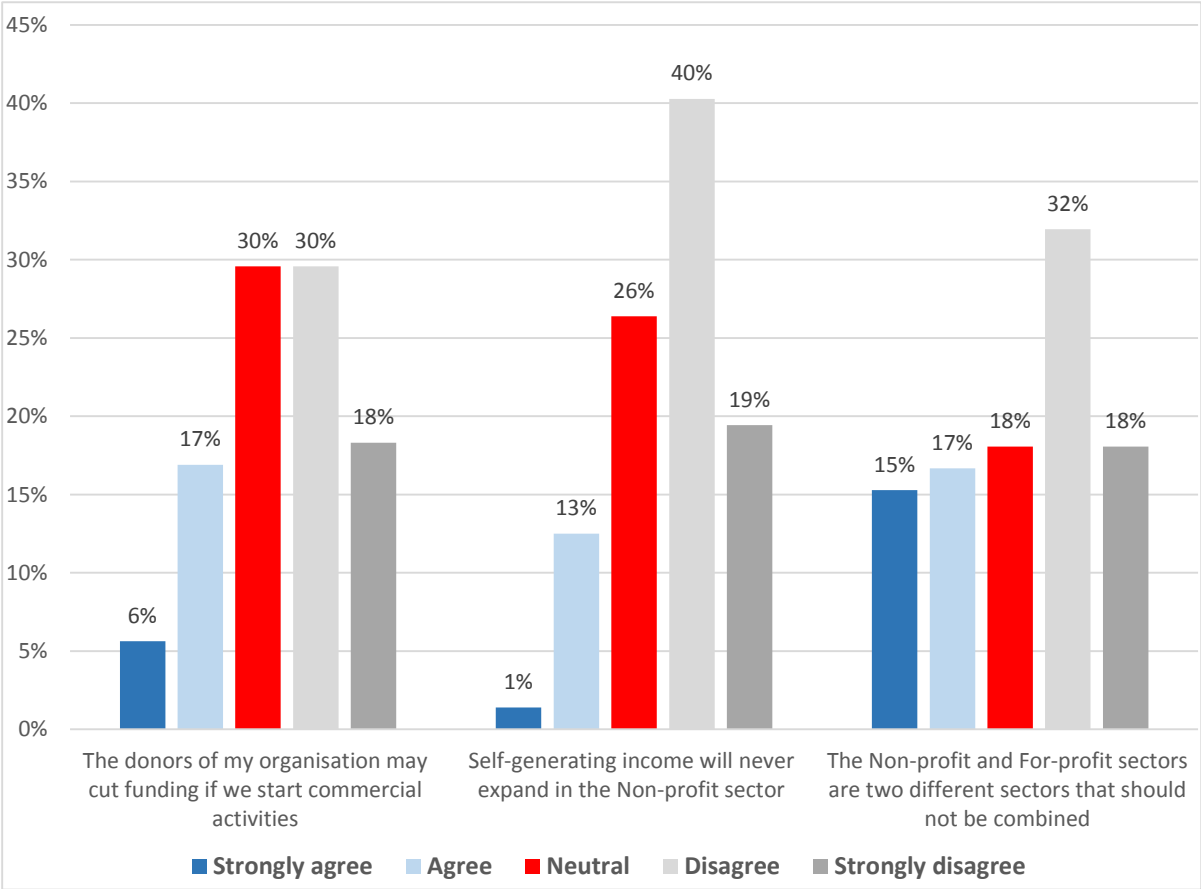
Graph 5.11: View of trading activity



Some NPOs think that by doing business, they will be at risk of losing their donors and have their funding cut back. Graph 5.12 shows that 23% of the respondents believed that trading could have a negative impact on their funding, whilst 48% did not. Ohno (2003:4) argued that to avoid difficulties, NPOs need to maintain a clear vision, shared by leaders and staff, that development is the goal of an NPO oriented business. This will assist NPOs to ensure they keep following their vision and maintain the support of their donors.

Overall, the study’s findings reveal that NPOs are generally in favour of trading activity and view its place in the non-profit sector favourably. Graph 5.12 shows that 59% either agreed or strongly agreed that trading would expand in the non-profit sector, whilst only 14% either disagreed or strongly disagreed. However, it is worth noting the relatively high degree of undecided opinion on these questions. This might reflect uncertainty about the use of trading. If there is an increase in the number of NPOs successfully raising their own income through trading, it is likely that this could influence other NPOs to try to reach for more prosperity, freedom and autonomy in their funding.

Graph 5.12: View of trading activity 2



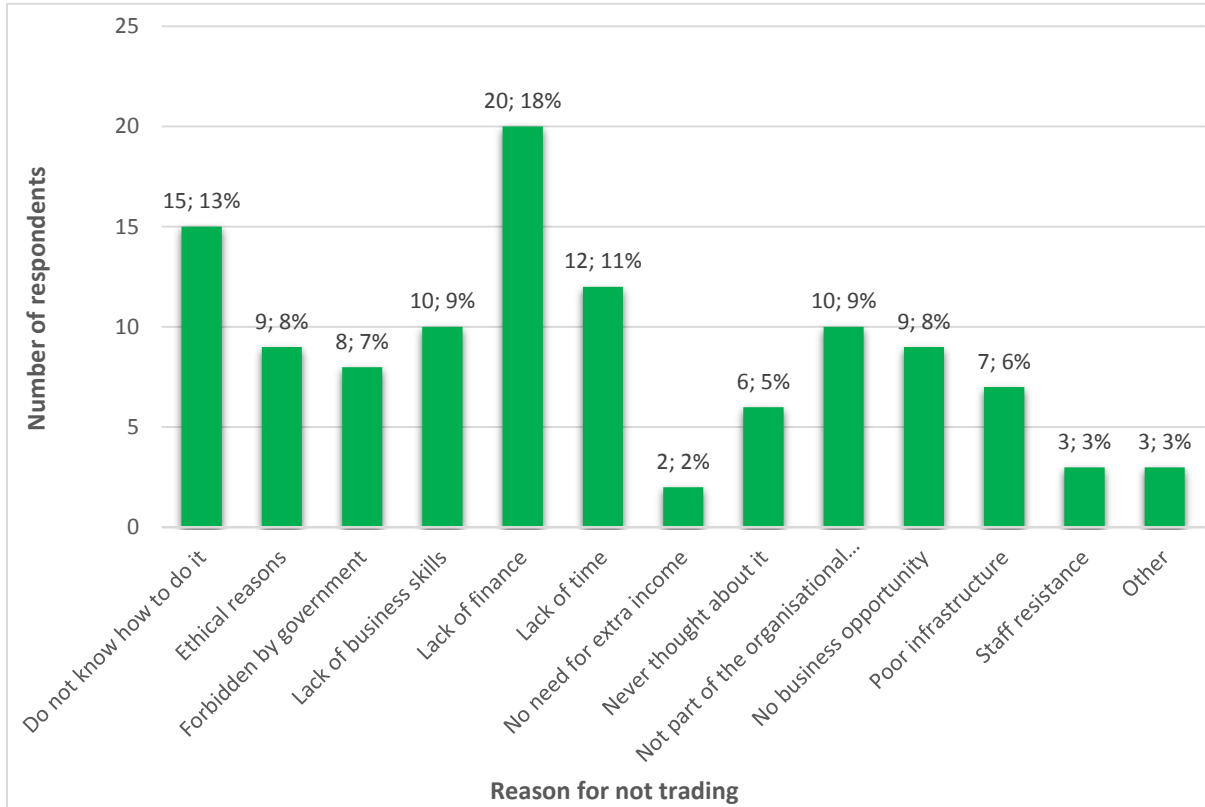
5.5.2 NPOs not involved in Trading

This section aimed to determine the main reasons why some NPOs were not involved in trading and whether they might consider participating in it if they were supported. Of the 72 surveyed NPOs, 51 (or 72%) are not currently raising funds through trading activity. In order to understand why most of the NPOs surveyed were not involved in trading activity, it was necessary to question them about reasons and potential obstacles hindering them from generating their own income.

The two main reasons cited were a lack of finance and a lack of know-how. Lacking in finances to start trading shows a paradoxical situation whereby the purpose of trading is precisely to increase the level of funding. These two main reasons for not trading indicate a willingness to trade on the part of NPOs despite a lack of resources. In contrast to this, very few respondents gave irremediable reasons, for example ethical reasons (8%) or it not being a part of the organisational culture (9%). While Panday (1996:3) argued that one of the main challenges of implementing trading would be the resistance of staff members, the findings in this study demonstrate that only a low percentage (3%) of NPOs consider staff members' resistance as a reason not to trade.

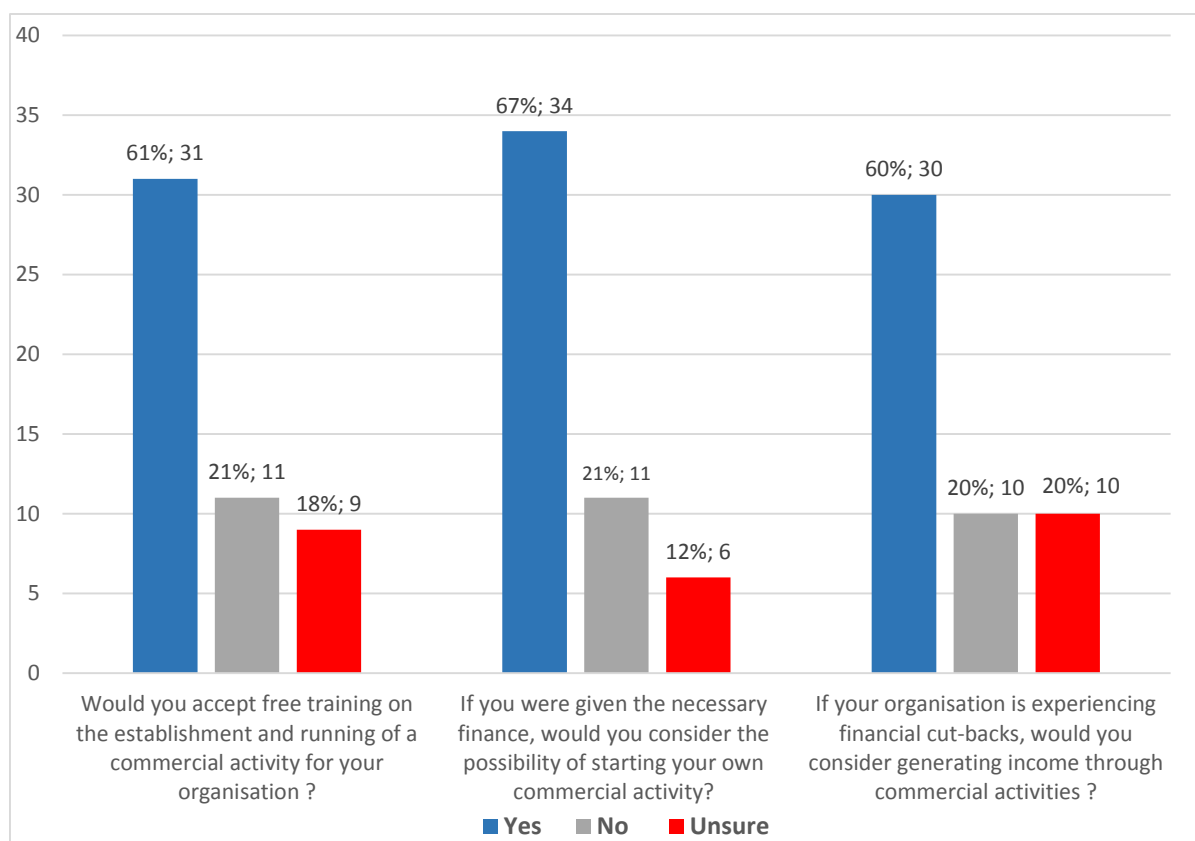
Another interesting finding was that most of the respondents who answered that trading is forbidden by their government were from India. However, as explained in Chapter 3, while the old Indian Finance Act (No 18 of 2008, 2008:S3) stipulated that an organisation involved in trade, commerce or business activity will not be considered a charitable organisation, the 2011 amendment (Finance Act (No 18 of 2011, 2011:chap3)) provided exceptions to this. NPOs may trade if exceeding value of receipt of approximately \$45,000 per year, they maintain separate account books for the NPO and business and all profits are directed toward charitable causes. In short, this means Indian NPOs should not be prohibited from being involved in trading.

Graph 5.13: Reason of not doing business



Graph 5.14 indicates that a large number of NPOs would consider launching a business if they received more support. The findings show that an overwhelming 61% (or 31 NPOs) would accept free training on how to establish and run commercial activities. Only 21% (or 11) were reticent about receiving any kind of training at all. This finding differs significantly from Kilbey & Smit’s (2014:491) study, which found that 47% of NPOs would reject assistance to develop such income forms. Overall, this reflects a shift in the way than NPOs are looking at trading. Graph 5.14 shows that 67% (or 34 NPOs) would start doing business if the necessary finances were provided. Finally, 60% (or 30 NPOs) would start trading if the organisation were to experience financial cut-backs.

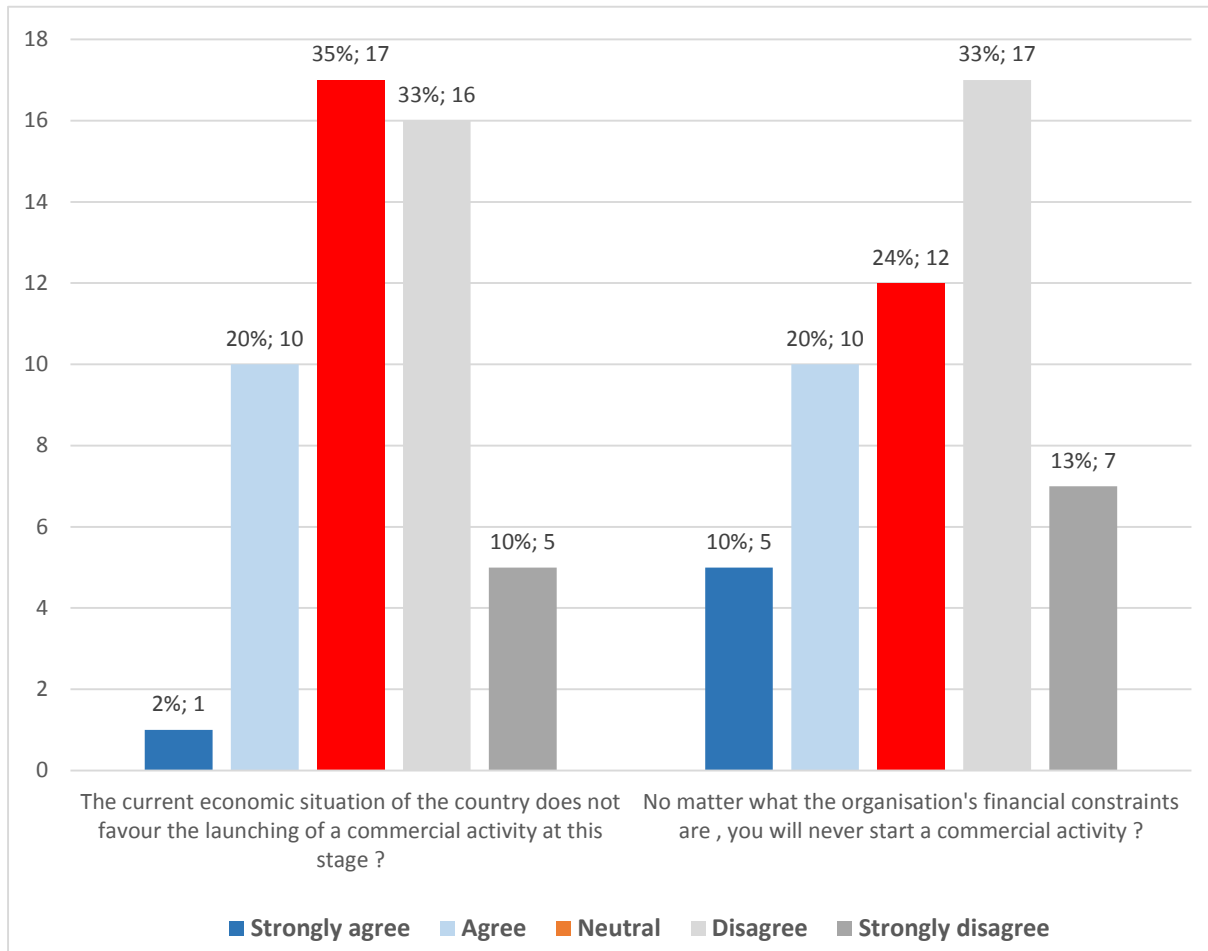
Graph 5.14: Trading consideration



Graph 5.15 shows that the economic situation of the country does not seem to be a barrier to NPOs trading. Only 22% of respondent (or 11) either disagreed or strongly disagreed that the economic situation of the country would not favour the launching of a trading activity, whereas 30% would not start trading regardless of circumstances.

Overall, these findings show that there is a strong desire amongst NPOs to consider trading and to undergo training on how to do this. They also indicate that most NPOs are not starting to trade because of a lack of knowledge and finance. A door seems wide open to investigate the possibility of providing training and support for NPOs and thus empowering them in the way of running their own trading activity.

Graph 5.15: Trading consideration 2



5.5.3 NPO's involved in Trading

This section analyses the NPOs involved in any kind of trading activity and aims at exploring deepening trading in all these aspects.

Of the 77 respondents, 29% (or 21) mentioned that their organisations were involved in trading activity. Table 5.3 shows the kind of commercial activity undertaken by NPOs, as well as the number of NPOs involved. It is interesting to note that the most common trade activity is the provision of services, followed by the selling of goods. This correlates with a World Trade Organisation (2010:7) report showing that service provision represents more than two thirds of the world's Gross Domestic Product (GDP), at 73% in developed countries.

The number of NPOs trading by selling goods is not far behind service provision however and it is noteworthy that a significant amount of NPOs are both providing services and selling goods. Unsurprisingly, very few NPOs are manufacturing their own goods. It is likely that the cost of manufacturing a product would be unaffordable for most NPOs.

Table 5.3: Kind of commercial activity

Kind of commercial activity	Number of NPO
Service provision	14
Selling goods	12
Manufacturing	3
Other	2

As seen in the previous sections, many NPOs do not start trading because of a lack of funding. Graph 5.16 indicates how NPOs engaged in trade were able to generate enough income to launch their commercial activities.

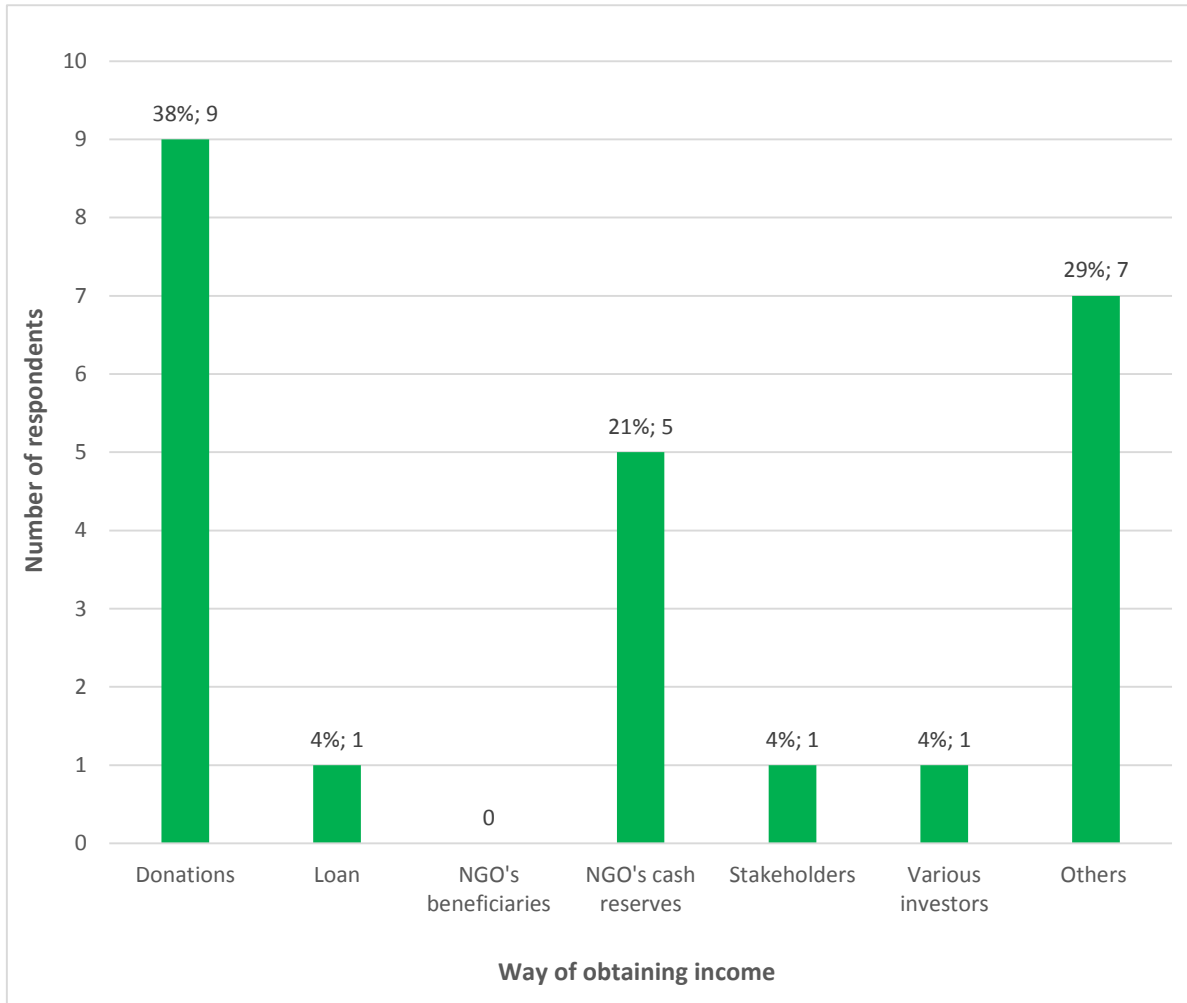
It can be clearly seen that donations are the principal source of income, at slightly more than one third (38%). It is not clear whether these donations were specially provided by donors for financing business ventures, or whether they were given as donations without spending restrictions. Although it seems doubtful that donors would choose to financially support NPOs' commercial activities, it might be possible that donors do not mind a portion of their grants being used for trading purposes.

The second major financial source comes from "others" at 29%, which might encompass private funds, government funding and funds from the NPO's founder or CEO. The fact that governments subsidises some NPOs' trading activity is surprising and was not expected by the researcher. It might be interesting in further research to investigate how governments perceive trading in the NPO sector and whether they finance it.

Another interesting finding is that 21% (or 5) NPOs have launched their businesses by using the NPO's cash reserve. Although this may seem risky, as NPOs are required to keep financial reserves in case of unexpected events, this is a funding strategy popular in the business sector. This fits with Kilbey & Smit's (2014:499) suggestion that "... generating income should be less begging and grovelling and more of a professional and business-like enterprise".

An important way in which NPOs differed from the for-profit sector was their use of loans. Only 4% (or 1) of the NPOs was getting funding through a loan or investor.

Graph 5.16: How NPOs obtained income to launch their trading



In order to obtain more insights into trading methods, it was important to question NPOs about the main difficulties and obstacles they encountered whilst launching their businesses. Unsurprisingly, only six NPOs encountered no difficulties when launching their businesses. This suggests that despite trading’s many attractive aspects and benefits, launching a business is not an easy task and requires sound knowledge and hard work.

Graph 5.17 reveals that the biggest difficulty for all NPOs already involved in trading was making a profit. As with most businesses, it always takes time to break even and then start to make a profit. However, given the fact that making a profit is not one of the primary activities of NPOs, there is less pressure to make a profit immediately. The second biggest difficulties faced by NPOs when launching a business were the lack of a customer base and the lack of human resources. Zimmerman & Dart (1998) suggested using staff or client (beneficiaries) resources to expand the business. Because NPO businesses suffer from a lack of customers, using the social network of staff, beneficiaries and stakeholders can help to address this.

Blum (1997:15) also proposed starting the business with volunteers until a regular clientele is built up and there are enough human resources to run the business.

Weisbrod (1998:11) also argued that NPOs have a great advantage over the for-profit sector because they can obtain human resources by using volunteer labour.

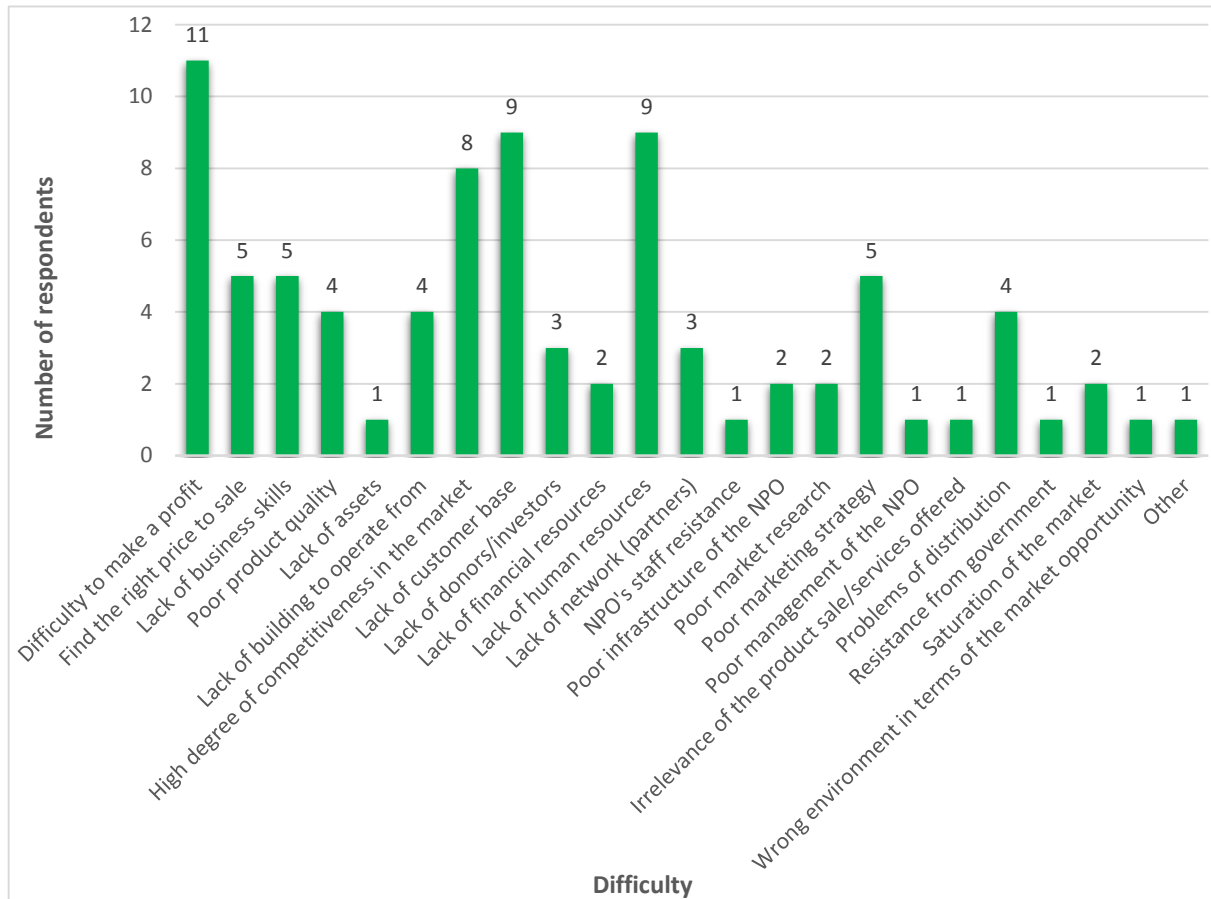
Another difficulty faced by eight of the NPOs was the competitiveness in the market. Although it cannot be disputed that most financial markets are extremely competitive, NPOs have some real advantages over their competitors in the for-profit sector.

The cornerstone of business activity for NPOs should reside in the win-win situation, whereby customers buy a product or service whilst supporting a social cause and improving their society. To do this, NPOs need to be creative in the marketing of their products and commercialise the benefits of purchasing their products. The figures show that most of the other difficulties NPOs face are business skill related, such as pricing issues, poor product quality and poor marketing strategies.

To solve this matter, NPOs should start employing some staff members coming from a business background and having the required business skills. Most NPOs have been able to overcome these difficulties however. Only three of the surveyed NPOs were still struggling with these issues. To deal with the lack of human resources, some NPOs had split human resources between the NPO and the commercial entity.

Others overcame their financial difficulties through hard work, patience, determination, self-training, research and help from volunteers. Some NPOs highlighted the need to create products unlike those already in the market place and diversify the services offered. Other NPOs hired new staff, or contracted a partner to provide valuable feedback and support. This point is an important one, because in general the NPO sector is lacking in partners able to provide the necessary training for business development.

Graph 5.17: Difficulty encountered in launching the business

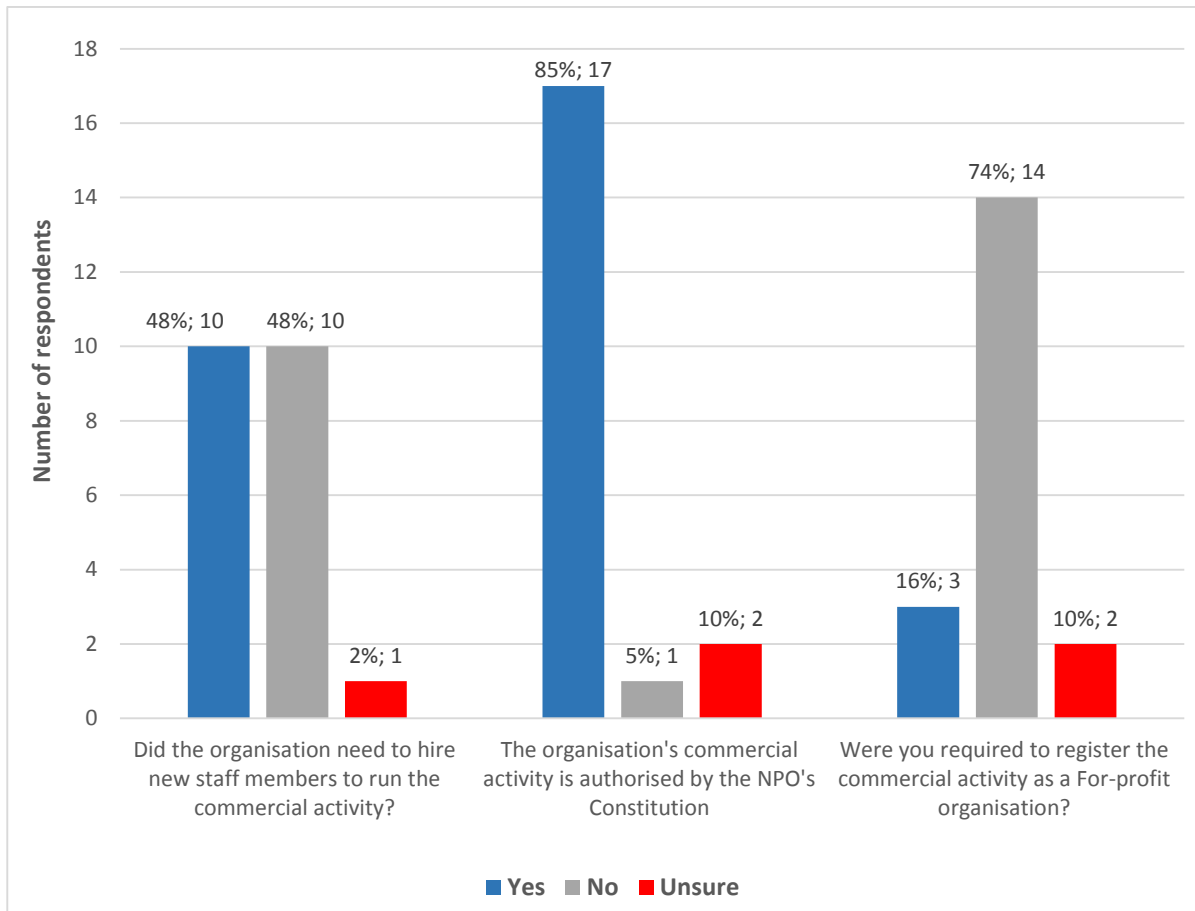


The following section examines the way in which NPOs run their businesses, regarding legal requirements and tax.

As outlined in the above section, NPOs may have to hire new staff members to run business ventures and provide the necessary skills. Graph 5.18 shows that almost half (48%) of the NPOs had to hire new staff members. This might be attributed to different factors. Firstly, it could dependent on the function and the size of the business and the actual skills of the team. Some workers at the NPO might already have some business skills that could be used for trading purposes. It might also be argued that the growth of the business contributes to determining the need to hire new skilled staff members.

In terms of the legal framework, it can be seen from graph 5.18 that 85% of NPOs had their business activities authorised by their constitution, whilst only 5% did not. However, NPOs had to be careful to stipulate that trading was not their primary activity. According to graph 5.18, it seems that most NPOs also prefer to operate directly from the NPO, rather than registering as a separate business entity. Graph 5.18 shows that 74% of respondents were not required to register, whereas only 16% did. The next finding demonstrates that the legal framework in the six countries of the NPOs surveyed do not make it difficult to implement trading activity.

Graph 5.18: Requirement for launching the business

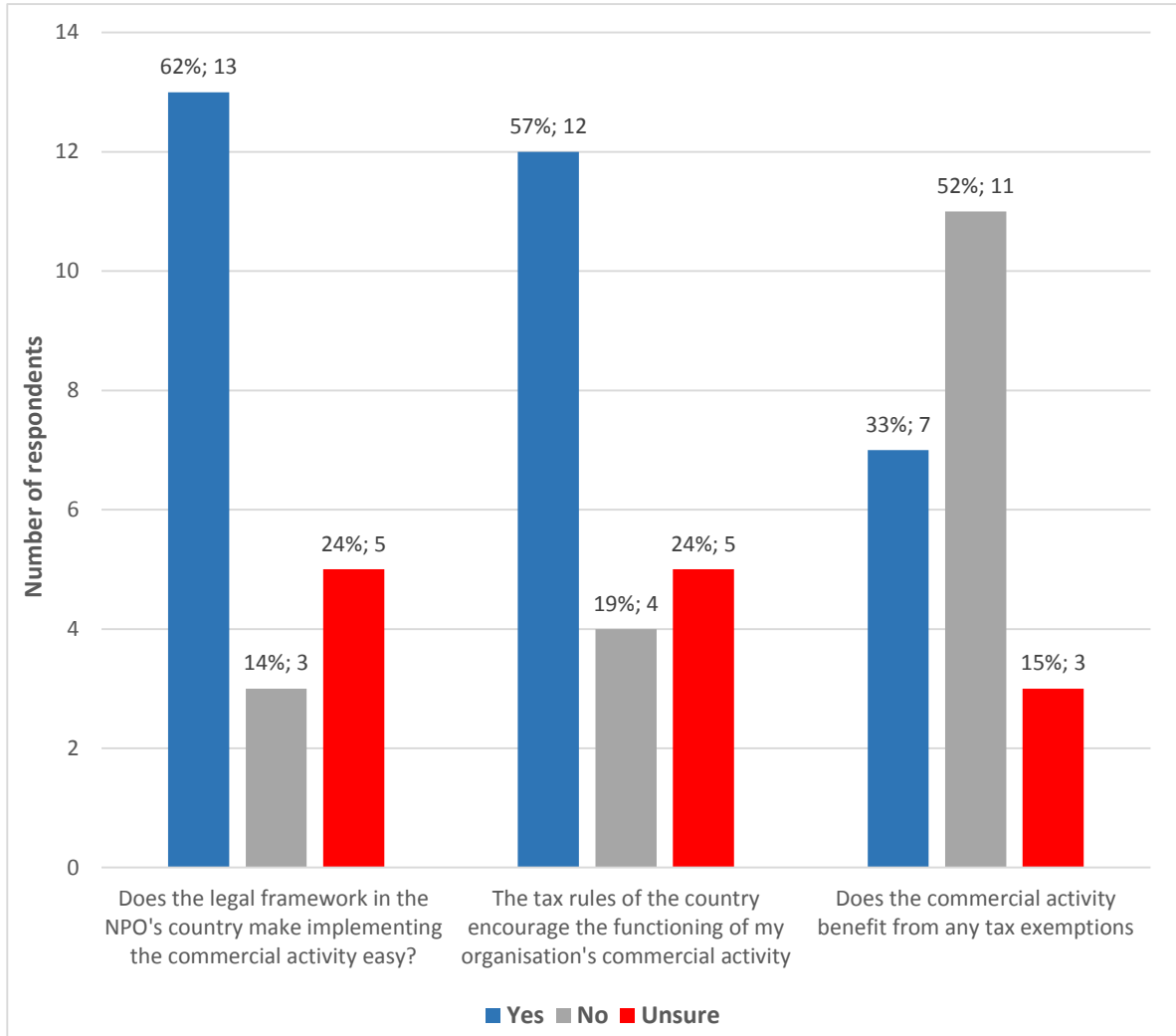


In graph 5.19, the figures show that 62% of NPOs felt that the legal framework in their country made it easy to engage in commercial activities, whilst 14% did not. Surprisingly, NPOs in South Africa and India held different opinions on this topic, whilst the answers from the NPOs in the four other countries were more consistent. It appears, however, that in general the legal framework in developed countries is more accessible.

Graph 5.19 shows that a large number of NPOs, at 57%, find that the tax laws of their countries encourage the functioning of commercial activity. Once again, the 19% of NPOs who indicated that their countries' tax laws did not encourage trading were from South Africa and India. As indicated in Chapter 3, both of these countries have tax exemptions for NPOs involved in trading. It is possible that these NPOs are not aware of the latest policies in their countries.

Finally, 52% of respondents stated that their commercial activities would not benefit from any tax exemption, whilst 33% indicated that they would. The tax exemptions of every country are outlined in the Chapter 3. These vary in function and according to the amount of income generated.

Graph 5.19: Legal framework for trading

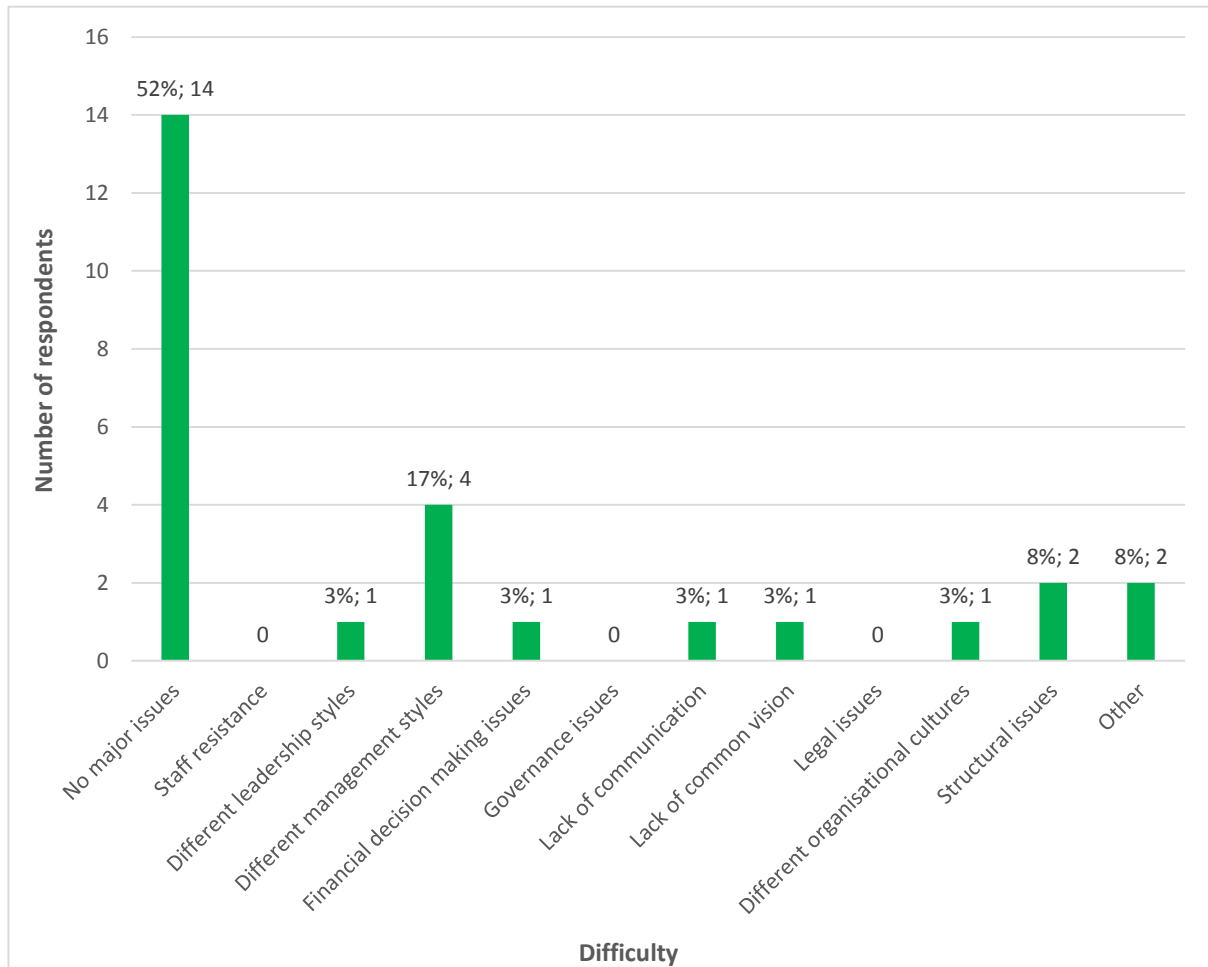


Combining and managing two organisations is not always an easy task and this can result in a number of different problems. Therefore, it is important to evaluate what some of the potential difficulties could be when trying to run two separate organisations.

The findings in graph 5.20 show that more than half of the surveyed NPOs (52%) did not encounter any major struggles when combining their commercial activities with the running of the NPO.

However very few NPOs (17%) experienced structural issues, or problems with management styles. Other issues experienced were directly related to the business rather than the combination of NPO and business.

Graph 5.20: Difficulty in combining NPO and commercial activity

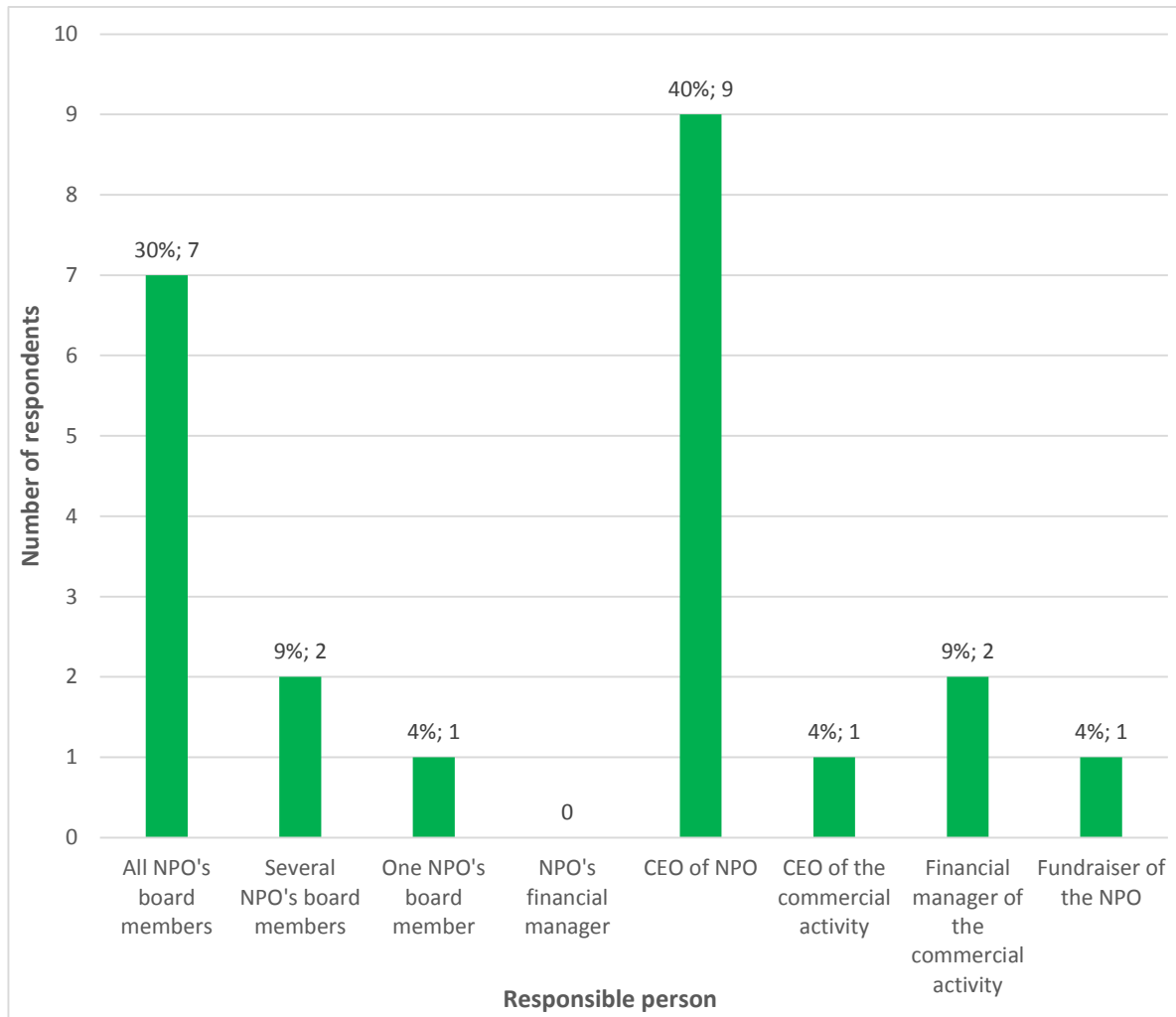


When launching a commercial activity, non-profit organisations need to appoint a responsible person to manage and run it. Graph 5.21 reveals that in most cases (40%) the NPOs’ CEO was also the person responsible for commercial activities. The findings also show that 30% of NPOs appointed board members to be responsible for commercial activities.

It is worth noting that very few NPOs appointed another CEO or financial manager to be the head of their commercial activities. Graph 5.21 shows that only 9% appointed a financial manager and 4% a different CEO. These findings are interesting because they show that for the most part the CEOs of NPOs control business management and do not often delegate other directors to this role.

This might be explained by the relatively small sizes of most NPO business activities. Nevertheless, in order to facilitate expansion and growth, it might be advisable for NPOs to recruit a head to manage business activities.

Graph 5.21: Responsible person for commercial activity

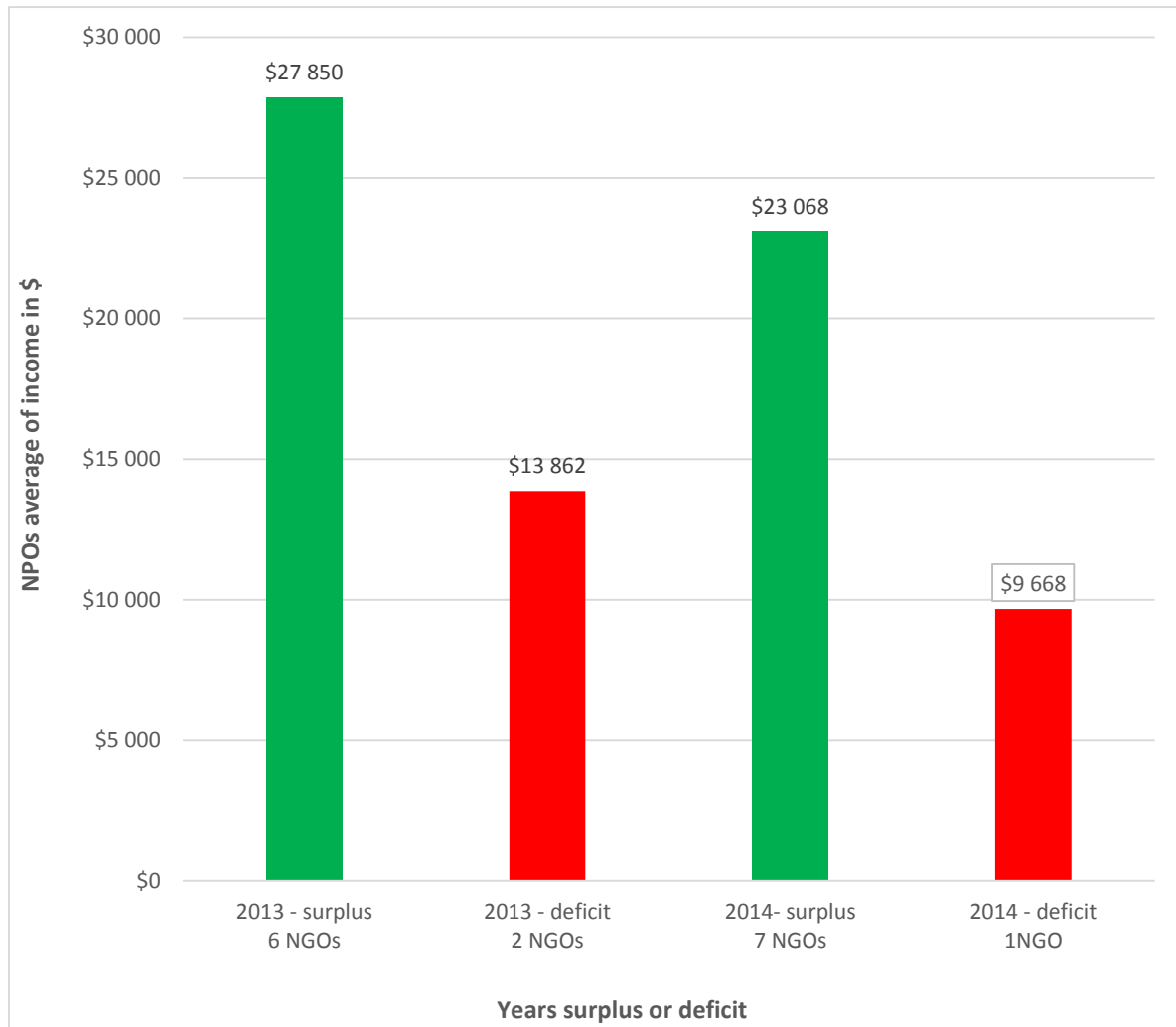


When answering the survey respondents were given the option to use their own currency when answering questions about their financial statuses. For ease of comparison however, the values given in this study have been converted to US Dollars.

As shown in graph 5.22, the average surplus after tax deductions from NPOs through commercial activity was \$ 27,850 in 2013 and \$ 23,068 in 2014. It should be noted that of the 21 NPOs involved in trading, only 8 offered their financial information. This can be explained for a number of reasons. Respondents might not have had the financial information, or they might not have wanted to share it for reasons of confidentiality.

Graph 5.22 reveals that for the NPOs that volunteered information, commercial activity brought in a surplus. The surplus shown is almost double the deficit. Interestingly, while the surplus slightly decreased in one year, the deficit also diminished. Respondents highlighted that it took them an average of two years for their commercial activities to break even and then produce a profit.

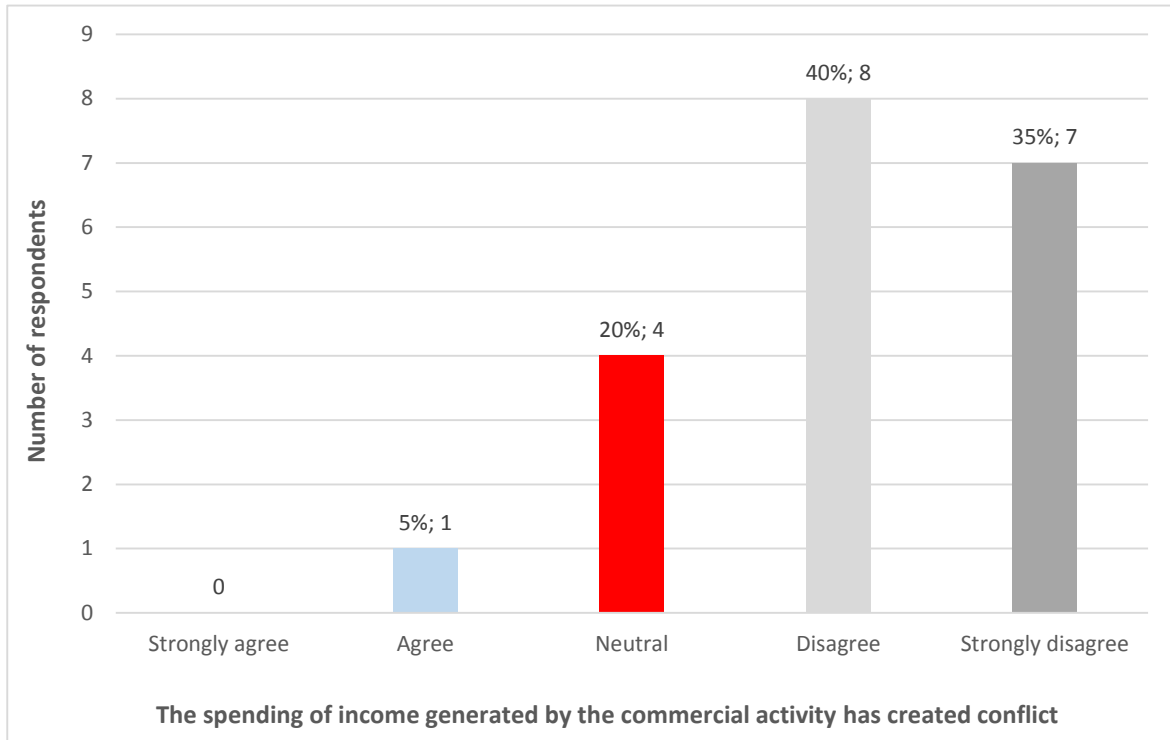
Graph 5.22: Commercial activity's surplus or deficit



The manner in which income is spent can often become a source of organisational conflict. However, a closer examination of the data in graph 5.23 shows that this was not a problem for most of the surveyed NPOs. Graph 5.23 shows that 75% of the NPOs (or 15) stated that the spending of income had not caused any conflict within the organisation and only 1 NPO had encountered a money management conflict.

This finding is a positive indicator for how NPOs are handling the money that they earn and may be attributed to the fact that the CEOs of the organisations frequently run the commercial activities. The fact that the surplus made by NPOs (see graph 5.23) is still relatively low also makes financial management easier.

Graph 5.23: Conflicts around commercial activity income spending



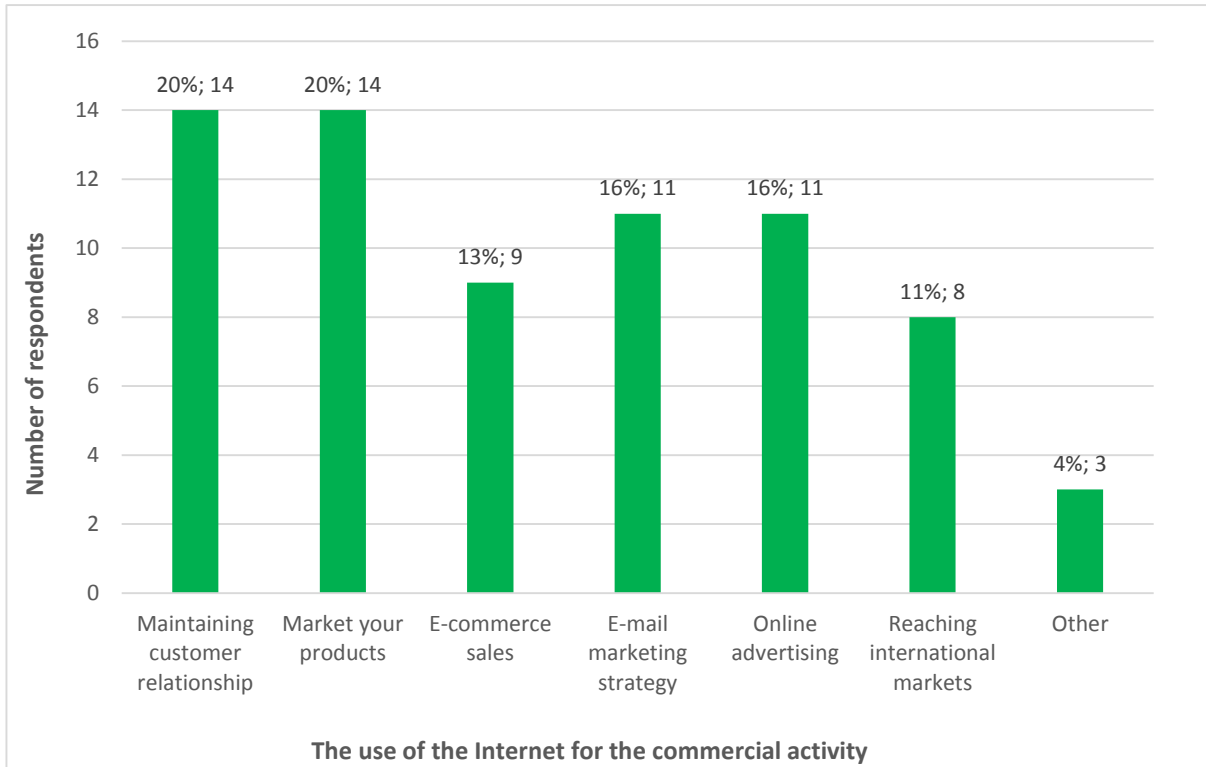
It is unnecessary to say that the internet is fast becoming one of the most powerful and essential tools for the running of organisations and businesses. This research investigates whether the use of the internet was instrumental to NPOs when setting up their commercial activities. In modern society, the internet is becoming almost indispensable, especially regarding to customer relations and the company promotion.

Graph 5.24 shows that NPOs are primarily using the internet in their commercial activities to maintain a customer base and market their products (for a total of 40%). The other strong use consists of online advertising and email marketing strategy both at 16%, while “other” includes survey satisfaction and the use of Social media to receive more funding from business investment. Furthermore, the research shows that only 11% or 8 respondents are using internet to reach international markets.

This interesting figure shows that most of the NPOs’ commercial activities remain at a national level and are thus not tapping into the huge global market.

At a time of increasing globalisation, NPOs should be aware of the massive opportunities ahead and start investing in the technology to facilitate global trading. Both the expansion of the internet and the ever increasing online market (facilitated by I-commerce and I-business) provide opportunities for NPOs to increase their trade activities and their income.

Graph 5.24: Ways of using the internet



Generating income through business ventures seems to be a powerful and innovative way for NPOs to increase their degree of financial sustainability, by boosting internal income and becoming more financially free. The following findings provide an overall view of trading potential in the NPO sector and its future.

Although the thought of running a commercial activity in addition to an NPO might seem overwhelming, the findings show that only 35% of NPOs agreed or strongly agreed that managing both organisations was difficult. The same percentage disagreed or strongly disagreed. This demonstrates that running a commercial activity is feasible for NPOs, but that it also requires a serious commitment and strong leadership. Norton (2009:122) suggested that running a commercial enterprise requires entrepreneurial risk taking, innovative market research and sensitivity to public needs.

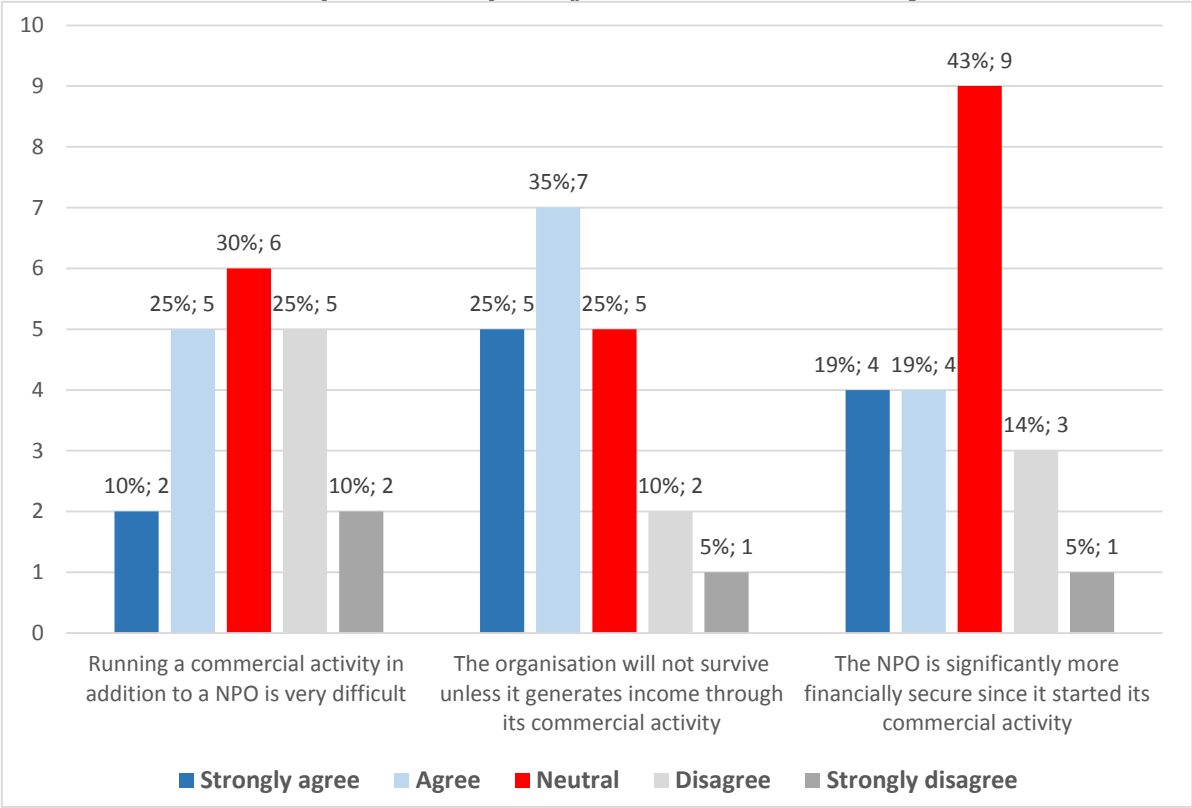
However, Blum (1977:15) argued that NPOs also have some distinct advantages when starting a business, because they can use volunteers and test the market whilst building up a regular client base without taking higher financial risks.

In order to assess the benefits of trading for NPOs, respondents were asked whether the organisation would survive without generating income through their trading activities. Interestingly, graph 5.25 shows that 60% of the NPOs said that they could not survive, compared to 15% who said that they could. Globally, this finding reflects a high satisfaction

with the use of trading as an income generator. This figure also implies that once NPOs have developed their own source of income, it may be difficult to return to a donor dependent model with all of its inconveniencies. This trend confirms Viravaidya & Hayssen’s (2001:1) assertion that NPOs have to seriously consider the benefits of marketing strategies and borrow from the private sector’s experience.

Graph 5.25 shows that 38% of respondents either agreed or strongly agreed that they were significantly more financially secure since starting their commercial activities, whilst only 19% disagreed or strongly disagreed. This fact is extremely relevant to this study, as the research purpose is to see whether the use of trading can help the NPO sector to secure income and increase their level of financial sustainability.

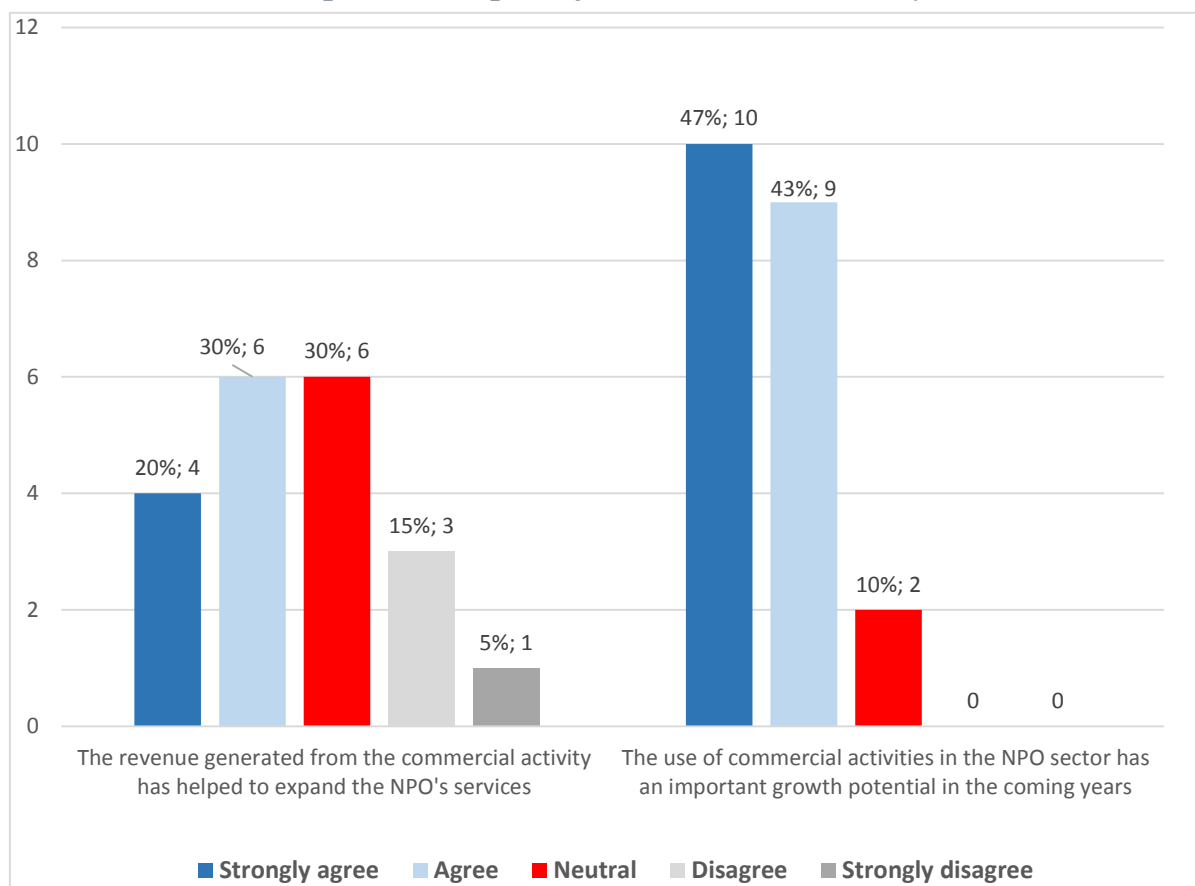
Graph 5.25: Impact of the commercial activity



Whilst NPOs should not forget that the principal goal of generating income is to secure finance to enhance the organisation’s services, graph 5.26 reveals that only 50% of respondents either agreed or strongly agreed that the revenue generated by commercial activities had helped to expand their NPO’s services. In turn, 20% disagreed or strongly disagreed.

An interesting finding about the future of trading in the NPO sector is the fact that 90% of the surveyed NPOs agreed or strongly agreed that their commercial activities had an important growth potential for the coming year. Not surprisingly, no NPOs felt the opposite way.

Graph 5.26: Impact of the commercial activity 2



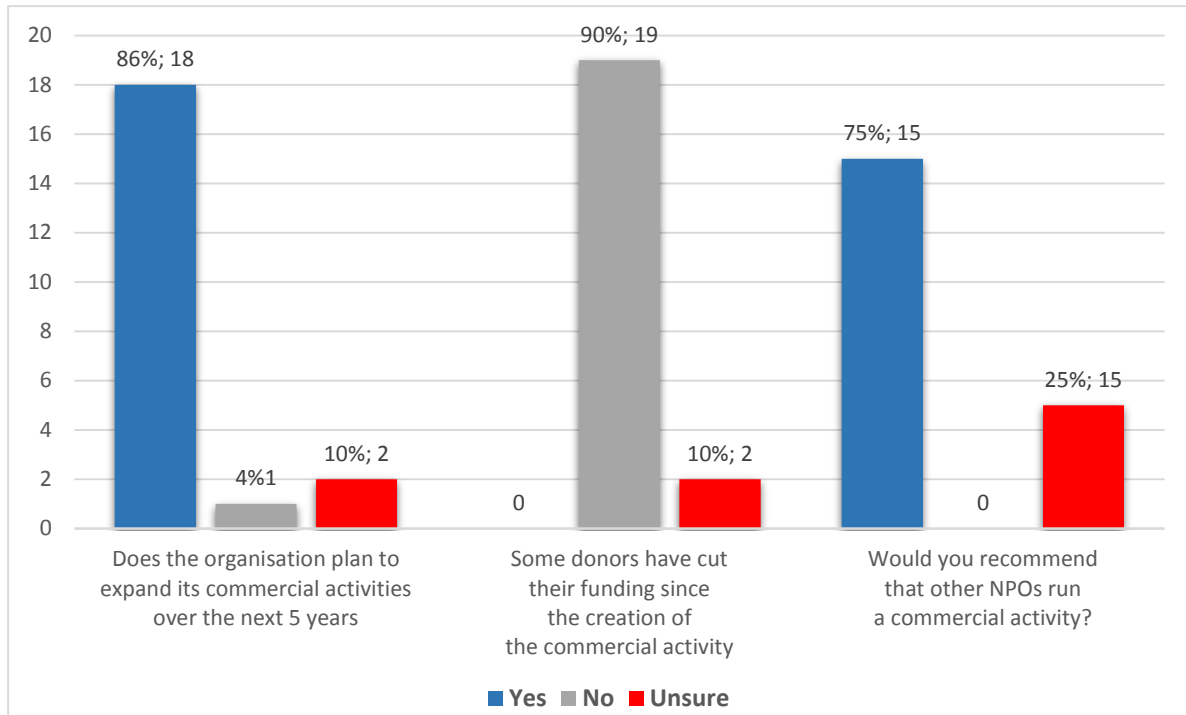
Respondents were asked if they were planning to expand their commercial activities over the next five years. Graph 5.27 shows that an overwhelming 90% agreed or strongly agreed that developing the business over the next five years was one of the NPO's priorities.

These figures are significant in demonstrating NPO satisfaction with trading. Only 4% of respondents had had a bad experience with trading and said that they would choose not to expand in the future. Some NPOs not engaged in commercial activities were worried that doing so might lead to the loss of donors.

However, the findings show the opposite with 90% of respondents stated that their commercial activity had not led to their funding being cut and none of the organisations had experienced a complete cut-back because of trading. Another figure that highlights the satisfaction of NPOs with trading is that 75% of respondents recommended other NPOs launch their own commercial activity and none of the NPOs recommended not trading.

These recommendations are extremely valuable because they come from organisations that have experienced trading themselves and have gained expertise in the field.

Graph 5.27: Outlook of trading



5.6 Conclusion

This chapter presented the findings of this research, based on the survey questionnaire sent to NPOs. The findings discussed the two main topics of the research, by examining financial sustainability in the NPO sector and looking at whether trading can help NPOs become more financially sustainable. These findings responded to the main research objectives and referred to other similar studies, as well as to literature related to the research topic. In short, these findings represent the core information of this study and they contribute new insight into the topic of NPO trading, which has rarely been researched.

It was discovered that levels of financial sustainability in the NPO sector are poor. Large numbers of NPOs are extremely susceptible to any global financial turmoil, as they mainly depend on a few donors for most of their income. The research also stressed the urgent necessity for NPOs to diversify income sources, as well as to increase the amount of funding available significantly. The findings showed that overall, levels of financial sustainability are poor and need attention. Given this fact, the use of trading activity as an income generator represents a great opportunity for the NPO sector. This chapter found that although only a few NPOs currently use trading, those that do are extremely satisfied with the outcome and would definitely recommend it to other NPOs who want to increase their income and gain more sustainability in their finances. The last chapter outlines meaningful conclusions and recommendations in accordance with the main research findings.

Chapter 6: Conclusion/Recommendations

6.1 INTRODUCTION

6.2 FINANCIAL SUSTAINABILITY

6.3 TRADING ACTIVITY

6.4 RECOMMENDATIONS

6.5 MORE RESEARCH

6.6 CONCLUSION

6.1 Introduction

This chapter sums up the most significant findings obtained in the previous chapter. The findings measured levels of NPO financial sustainability by looking at indicators such as income diversification, income generation, financial threats and the amount of cash reserve available to NPOs. Furthermore, the research investigated the use of trading activity as a viable form of income generation.

The recommendations section will present some insights into trading activity based on these findings, the researcher's own insights and the work of other relevant authors, in order to guide NPOs interested in launching their own commercial activity to do so. The proceeding section will make suggestions about other research that can be undertaken on similar topics and it will be followed by a final conclusion.

6.2 Financial Sustainability

This study has discovered some interesting trends regarding to financial sustainability in the NPO sector. Based on the findings, the research reveals that most NPOs are struggling to diversify their sources of income, especially when balancing internal and external income sources. The research also confirms that most NPOs are still reliant on a few donors to generate the majority of their income.

The figures show that external sources of income represent a critical 71% of NPO income, with only 19% being generated through internal income sources such as fundraising or trading. As a result of the donor-dependency model used by most NPOs, NPOs are unable to secure their future funding and urgently require new innovative forms of income generation. The findings also show that NPOs consider the biggest threats to their financial sustainability to be long-term planning (19%), a lack of adequate staff to raise money (18%) and fundraising competition (17%).

Another threat that is jeopardising NPO's financial sustainability is the general increase in competition for funding and a growing rivalry in the non-profit sector. This is due to a decrease in the funding being made available by both governments and funding agencies.

Interestingly, NPOs acknowledge that they need to put more effort into brushing up their fundraising abilities, developing new funding strategies and hiring skilled staff to raise money. Globally, the sector suffers from a lack of expertise and skills in the fields of finance and business management. The findings clearly show that most of the organisations interviewed

were in need of more income to operate at maximum capacity. Another interesting finding concerns the amount of cash reserves available to most NPOs. The research shows a worrying 68% of NPOs did not have cash reserves that exceed 6 months of operational expenditure and thus would be unable to survive beyond this period without further income.

Overall, the findings demonstrate that NPOs are completely aware of the funding crisis that is severely affecting the NPO sector and jeopardising access to funding. The donor-dependency model appears to be reaching its limit and may not be as effective as it previously was. More positively, the research shows that a large number of NPOs are willing to embrace alternative new forms of income generation.

In fact, this research reveals that 93% of NPOs believe that becoming more financially self-reliant is vital for their organisation, while 97% admit that an increase in funding is necessary to secure their future better.

6.3 Trading Activity

The long-standing belief that trading should be confined to the for-profit sector seems to be changing, partly in response to several major financial crises within the social sector. Based on the findings, more than half of NPOs see trading as having a place in the non-profit sector, as opposed to 25% who still hold onto the old belief system.

Overall a serious paradigm shift is taking place with regards to the way trading is viewed, with a majority of NPOs being open-minded and willing to embrace this approach for becoming more self-reliant and financially stable. In spite of a decreasing resistance to trading over the last few decades, the findings also show that large numbers of NPOs are still undecided on the matter.

Ohno (2003) suggested that there is a shortage of well-publicised stories about NPOs generating large amounts of income through trading activity which still causes doubt about the benefits of adopting a more commercial approach. It is also possible that NPOs are eagerly waiting to see how the handful of non-profit organisations who have implemented trading activities will fare, in order to assess whether they should take the same risks.

However, some relevant examples have shown that with risk appetite and a lot of hard work and commitment, NPOs are able to run successful commercial activities that can generate important funding and thus help them reach a high level of financial sustainability.

6.4 Recommendations

The overall financial sustainability of the NPO sector does not look good and is in need of significant adjustment. This study's findings have shown the need for innovative approaches to funding and more self-reliant income generation methods. Trading activity seems to perfectly match the current need of the NPO sector for more income diversification and greater financial prosperity.

This research reveals some interesting facts, because it refers to data from 21 NPOs in various parts of the world who are running commercial activities. The following recommendations are primarily based on this data, with some additional observations from the researcher.

First of all, regarding to the kind of commercial activity NPOs should choose, the findings demonstrate that both the sale of goods and the provision of services are commonly used by NPOs. The manufacturing of goods is less common, and may be an ambitious first venue. In order to conceptualise a commercial activity, NPOs can brainstorm the strengths of their products, for absorption into the market. It is also recommended that NPOs choose to sell products derived from their main social activities and use their beneficiaries and staff members in creative ways. Blume (1977:15) highlighted that success in trading depends on the ability of the NPO to select the right thing to sell.

An example of an innovative commercial NPO project is the opening of restaurants that hire blind NPO beneficiaries to serve customers in total darkness. This original concept is designed to allow sighted people to experience what it is like to live with a permanent physical disability (blindness). This example demonstrates the win-win situation. Customers eating at the restaurant will feel that they are doing a good deed, while just going out for lunch or dinner. Ultimately NPOs need to find ways to meet customers' needs by offering a quality product or service, whilst making them feel good because they are helping to improve the world through their purchases.

The findings show that most NPOs in the study used funding from donations to set up their commercial activities. It is recommended that NPOs also consider financing these activities using money from the cash reserves of the non-profit organisation. These two finance sources worked for most of the 21 NPOs. By contrast, borrowing money from a bank loan or attempting to attract investors, does not appear to be a viable option when first starting up a commercial activity. Another alternative could be having the necessary start-up capital provided by one of the NPO's stakeholders, such as the CEO or one of the board members such as the chair person.

All businesses have the same primary goal, to earn money and become profitable. Learning from NPOs' experiences, it seems that making a profit is one of the most difficult challenges when starting a commercial activity. In this case, NPOs will have to learn to be patient and focus on laying solid foundations for the commercial activity, rather than trying to quickly make a high profit.

The findings show that on average, it took around two years before the commercial activities run by NPOs reached the breakeven point. The implementation of a trading activity should always be seen as a medium- or long-term investment for the non-profit and not a quick solution to generate income. The study also found that another major challenge for NPOs when launching a business is the lack of human resources and a solid customer base. The researcher recommends that NPOs make use of stakeholders as the customer base and as human resources. NPOs also have a great advantage over the for-profit sector, because they are able to use volunteers to work for the commercial activity.

In terms of the legal framework, NPO are recommended to include their commercial activity in the NPO's constitution, being careful to describe commercial gain as a secondary object and keeping the social purpose of the NPO as the first objects. Ohno (2003:4) also highlighted the importance of having strong and competent leaders who clearly share the NPO's vision with the whole staff, thus avoiding the business from becoming overly focused on profit maximising. It should be noted, however, that there is always a risk of NPOs losing their focus because of private greed.

Another important consideration for NPOs is how to register their commercial activities. Whilst legal frameworks vary, from the findings it would appear that to operate directly from the NPO is better than creating a new entity. The main advantages of doing so are the ease of management and entitlement to tax deductions. As seen in Chapter 3, most of the six countries where the research was done have special tax deductions for NPOs involved in trading. In South Africa, for instance, NPOs benefit from a primary rebate of R100,000 or 5% of gross receipts.

The other principal requirement for launching a commercial activity is having staff members who have the right skills and qualifications. The findings show that hiring workers with business or entrepreneurial skills is not essential. Half of the NPOs surveyed have successfully launched commercial activities without hiring new staff members. It is worth noting that many NPOs already have staff or board members who possess the required skills and abilities. Viravaidya & Hayssen (2001:1) proposed that successful NPOs already have most of the skills required to succeed at business. However, as the commercial activity grows, NPOs may want

to employ skilled workers in the areas of need. In terms of management, it is recommended that the NPO's CEO directs and oversees the commercial activity. Alternatively, some of the board members could play an important part at management level by bringing their expertise and knowledge to the business and ensuring that the commercial activity is achieving its objectives. Board members can also help to control and monitor processes.

Another powerful tool that NPOs should be thinking about is the commercial use of the internet. The internet is fast becoming an indispensable tool for businesses in this modern and developed society. The findings show that almost all of the NPOs surveyed make use of the internet in their businesses. The main ways in which the internet is used is for maintaining customer bases, marketing products or services, using email marketing strategies and online advertising and surveying customer satisfaction. Social media can also be used to promote the commercial activity and build relationships with customers and stakeholders. This study has also highlighted the possibility of using e-commerce and e-business as a way of delivering products or services directly to customers. Sleurik (2002:1) emphasised the necessity of integrating modern technologies, to enable businesses to sell their products over the internet.

With great leadership, constant hard work and the application of these recommendations, most NPOs should be able to diversify their income sources and have more financial independence and sustainability. Furthermore, self-generating income is not only a way to become financially sustainable but is also a strong tool for creating entrepreneurial values at grassroots level and empowering communities.

6.5 More Research

As the use of trading activity in the NPO sector is relatively new, further research on this topic needs to be undertaken. This section provides some areas of study that could be further explored. The findings demonstrate that some governments are financing the commercial activities of NPOs. Given this, it would be fascinating to research how governments in various countries view the growth of commercial activity in the NPO sector and find out whether they would be willing to provide more financial support to NPOs engaged in business.

Another interesting approach would be to assess the for-profit sector's views on trading in the NPO sector. This study has shown that some literature has been written in the US about the collaboration of these two sectors, but little has been written about other countries where trading has an important potential to expand.

6.6 Conclusion

This study has explored the financial sustainability of organisations in different parts of the world. In response to NPOs' stated need for further income, the study has investigated the use of trading activity as a self-reliant way of generating income.

As a whole, this study provided an interesting platform for NPO's directors from various countries to discuss and express their views on the current funding challenges affecting the NPO sector. The outcome clearly outlines the necessity of balancing income generation from a donors-dependency approach to a more self-generating form. For the purpose of helping NPOs in their huge financial dilemma, this research explored the concept of self-generating income using trading activity.

From the main findings, it is obvious that trading can have an important role to play in enhancing the NPO's financial situation. This new approach of generating income still unknown for countless NPOs, could even become a necessity in the near future, when the funding situation of the sector do not see any improvement. As a way of anticipating the funding outlook, NPOs around the world could start to be inspired by the few NPOs that have reach self-financial autonomy in order to move gradually on this direction.

To ensure a smooth and progressive shift in this new way of generating income, discussion forums including the involvement of various sectors such as the private, public and voluntary sectors could be organised. A narrow collaboration between these three sectors could significantly help NPOs to embrace a more business approach in funding generation.

It might be considered that the private sector ensures the role of providing trainings and equipping NPOs with the necessary knowledge and expertise to start their own activity. Viewed from another side, the state may also play a significant role, especially by financially supporting NPOs and helping them to have capital to launch their own trading activity.

In this way, all the actors of society would directly benefit from a more prosperous and successful NPO sector, that will be able to intensify its works of empowering the neediest people and helping them to reach a higher standard of human development.

References

- AFP Fundraising Dictionary Online. 2003. Available: <http://www.afpnet.org/ResourceCenter/ArticleDetail.cfm?ItemNumber=3380> [2015, April 10].
- Akdogan, I. 2009. *Why and How to Use e-Commerce Services for Sustaining Your NPO?*. Available: <http://css.escwa.org.lb/ICTD/1188/day1/3.pdf> [2015, March 18].
- Alliance for Non-profit Excellence. 2009. *Downstream and in Demand Mid-South Nonprofits and the Economic Crisis*. Available: <http://www.npexcellence.org/documents/DownstreamReportFINAL.pdf> [2015, December 20].
- Atkinson, R. & Messing, J. 2002. *Planning for Sustainability Supporting NGO Self-financing Ventures*. The Regional Environmental Center for Central and Eastern Europe. Hungary. Available: <http://documents.rec.org/publications/snfp.pdf> [2015, December 20].
- Azmin, H. 2015. *5 Mistakes People make when designing a survey*. Available: <http://blog.sogosurvey.com/5-mistakes-people-make-when-designing-a-survey/> [2015, June 29].
- Babbie, E. & Mouton, J. 2001. *The practice of social research*. Cape Town: Oxford University Press Southern Africa (Pty) Ltd.
- Banks, N., Hulme, D. & Edwards, M. 2014. *NPOs, States and Donors Revisited: Still Too Close for Comfort?*. Available: http://ac.els-cdn.com/S0305750X14002939/1-s2.0-S0305750X14002939-main.pdf?_tid=6fb55598-c0b9-11e4-8a26-00000aacb361&acdnat=1425286520_d785f8d49b884373448d404d228908e3 [2015, March 3].
- Bless, C., Smith, H.S. & Sithole, S.L. 2013. *Fundamentals of social research methods*. Cape Town, South Africa: Juta & Company Ltd.
- Blum, H. 1977. *Fund-raising*. Routledge & Kegan Paul, London.
- Bowman, W. 2011. *Financial Capacity and Sustainability of Ordinary Non-profits*. Available: http://www.readcube.com/articles/10.1002%2Fnm1.20039?r3_referer=wol&tracking_action=preview_click&show_checkout=1&purchase_referrer=onlinelibrary.wiley.com&purchase_site_license=LICENSE_DENIED [2015, August 27].
- Bown, A. 2013. *No Time for Complacency in 2013: Get Your Fundraising Act Together*. Available: <http://www.NPOpulse.org/article/no-time-complacency-2013-get-your-fundraising-act-together> [2015, February 24].
- Brown, R.B. 2006. *Doing Your Dissertation in Business and Management: The Reality of Research and Writing*, Sage Publications.
- Bureau of Labour Statistic. 2012. *International Comparison of GDP per Capita and per Hours, 1960-2011*. Available: http://www.bls.gov/fls/intl_gdp_capita_gdp_hour.pdf [2015, March 6].

Burns, N. & Grove, S.K., 2003. *Understanding nursing research*. Saunders: Pennsylvania.

Business Dictionary. 2015. *Non-Profit Organisation Definition*.

Busse, M. & Joiner, S. 2008. *The Idealist Guide to Non-profit Careers for First-time Job Seekers*. [Adobe Digital Editions]. Available: https://books.google.co.za/books?id=NWiFrVOIB5EC&pg=PA229&lpg=PA229&dq=The+practice+of+soliciting+funds+%28and+other+supports%29+necessary&source=bl&ots=HPE7e5q7Z&sig=NqMMuXN8hP4Zv3RclIISQLlbEuI&hl=en&sa=X&redir_esc=y#v=onepage&q=The%20practice%20of%20soliciting%20funds%20%28and%20other%20supports%29%20necessary&f=false [2015, December 19].

Charity Commission. 2014. *Charity and trading*. Available: <https://www.gov.uk/charities-and-trading#small-trading> [2015, April 21].

Cohen, L. 1980. *Research Methods in Education*. London: Groom Helm Ltd.

Company Income Tax Act, CAP. 60 LFN; 1990. Available: http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CB4QFjAA&url=http%3A%2F%2Fwww.firs.gov.ng%2FTax-Management%2FTax%2520Legislations%2FCITA.pdf&ei=DN7-VPq4DMrvap2AgugN&usg=AFQjCNEsh8MqDNpX6A3dpiX20rSibIGaWA&sig2=v2_beFKu1-5ylOY8lCim4Q&bv=bv.87611401,d.d2s [2015, March 10].

Cook, K. 2002. *Proposal writing and fundraising. A guide for South African Non-Governmental Organisations and Community-Based Organisations*. Cape Town: South Coast Foundation.

Copley, N. 2009. Trading PBOs – *Advantages of Tax Exempt Status*. Available: <http://www.NPOpulse.org/article/trading-pbos-advantages-tax-exempt-status> [2015, June 30].

Corriveau, S. 2010. *5 easy Ways to Jeopardize Your Charity*. Available: http://www.centreforsocialenterprise.com/f/5_Easy_Ways_to_Jeopardize_Your_Charity1.pdf [2015, March 3].

Creswell, J.W. 1994. *Research Design: Qualitative & Quantitative Approaches*. London: SAGE Publication.

Davis, R. *The great NPO funding crisis*. Available: <http://www.dailymaverick.co.za/article/2012-07-23-the-great-NPO-funding-crisis/#.VWw2ZEb51YY> [2015, June 1].

Department Social Development. 2009. *Developing good governance practices within the South African NPO sector: Benchmark study report*. Republic of South Africa. Department Social Development. Available: http://www.dsd.gov.za/npo/index2.php?option=com_docman&task=doc_view&gid=66&Itemid=39 [2015, June 30].

Department of Social Development. 2011. *Policy on financial awards to service providers*. Republic of South Africa. Department of Social Development. Available: <http://dgmt.aodesign.co.za/files/2011/07/DSD-Policy-on-Financial-Awards-March-2011.pdf> [2015, June 30].

Economic Analysis for Business Decision. 2004. *Midterm Exam Review Session*. Available: http://ocw.mit.edu/courses/sloan-school-of-management/15-010-economic-analysis-for-business-decisions-fall-2004/exams/midterm_review.pdf [2015, February 3].

ENSAfrica's. 2015. *SA one of 8 African countries billed as corruption hotspots*. Available: <http://www.timeslive.co.za/local/2015/07/21/SA-one-of-8-African-countries-billed-as-corruption-hotspots> [2015, November 6].

Filter, D. 2013. *Better targeting of tax concessions for NFPs — unrelated business income tax*. Available: <http://www.gtlaw.com.au/wp-content/uploads/The-unrelated-business-income-tax.pdf> [2015, March 11].

Finance Act No. 18 of 2008. 2008. Available: <http://orissa.gov.in/govtpress/pdf/2008/1514.pdf> [2015, March 10].

Fraley, R.C. 2004. *How to conduct behavioural research over the internet*. New York: Guilford Press.

Gaiser, T.J. & Schreiner, A.E. 2009. *A Guide to Conducting Online Research*. London: SAGE Publications.

Gebreselassie-Hagos, E. & Smit, A. 2005. *Funding strategies: Surviving imperial intentions, protean policies and ruthless reality*. *Social Work/Maatskaplike Werk*, 41(4), pp 349-360.

Glennie, J. 2012. *NGOs need a third way: collaboration*. Available: <http://www.theguardian.com/global-development/poverty-matters/2012/mar/13/ngos-need-third-way-collaboration> [2015, October 17].

GreaterGood SA. 2013. *NPO Funding & Service Cuts. Findings from the 2013 survey*. Available: <http://greatercapital.co.za/wp-content/uploads/2014/03/NPO-Funding-and-Service-Cuts-2013.pdf> [2015, October 17].

GreaterGood SA. 2014. *Investing for the Future*. Available: <http://www.saifundraising.org.za/index.php/research-articles/128-investing-for-the-future> [2015, October 17].

Hailey, J. 2014. *Models of INGO Sustainability: Balancing Restricted and Unrestricted Funding*. Available: <http://www.intrac.org/data/files/resources/827/NPO-SUSTAINABILITY-Hailey-INTRAC-Briefing-Paper-41-2014.pdf> [2015, May 19].

Handson, J. 2011. *Advantage of Developed Countries*. Available: <http://jodyhanson.hubpages.com/hub/Advantages-of-Developed-Countries> [2015, April 29].

- Hanfstaengl, H.E.M. 2010. *Impact of the Global Economic Crises on Civil Society Organizations*. Available: http://www.un.org/esa/desa/papers/2010/wp97_2010.pdf [2015, May 10].
- Heinecke, A. 2009. *The story of Dialogue in the Dark*. Available: <http://www.dialogue-in-the-dark.com/about-us-history-exhibition> [2015, October 20].
- Heintz, S. 2006. *The role of NPOs in Modern Societies and an Increasingly Interdependent World*. Available: http://www.ifce.org/pages/envirolink_Articles/5m06/Role.htm [2015, August 8].
- Hendrickse, R. F. 2008. *Governance and financial sustainability of NGOs in South Africa*. University of the Western Cape. Available: http://etd.uwc.ac.za/userfiles/modules/etd/docs/etd_gen8Srv25Nme4_3360_1226569402.pdf [2015, September 15].
- Hlongwane, S. 2013. *Charities aids foundation: South Africans need to give more*. Available: <http://www.dailymaverick.co.za/article/2012-01-10-charities-aid-foundation-south-africans-need-to-give-more/#.Uj2PmD8Xtu4> [2015, February 5].
- HM Revenue & Customs. 2015. *Annex IV: trading and business activities-basic principles*. Available: <https://www.gov.uk/government/publications/charities-detailed-guidance-notes/annex-iv-trading-and-business-activities-basic-principles> [2015, December 20].
- Hobbs, S. 2012. *NPO job losses and service cuts reports: report 2012*. Available: <http://greatercapital.co.za/wp-content/uploads/2014/03/Findings-of-the-Non-Profit-Funding-Services-and-Jobs-Survey-Final.pdf> [2015, February 19].
- IEG World Bank. 2007. *IEG Guidelines for Global and Regional Program Reviews (GRPRs)*. Available: <http://siteresources.worldbank.org/EXTGLOREGPARPROG/Resources/GRPPguidelines.pdf> [2015, March 3].
- Income Tax Act No. 58 of 1962. 1962. Government gazette 29520. Pretoria: Government Printer.
- Income Tax RSC. 1985. 2015. Available: <http://laws-lois.justice.gc.ca/PDF/I-3.3.pdf> [2015, March 11].
- Inyathelo. 2009. *Having an effective Non-profit board*. Cape Town, South Africa: Inyathelo – The South African Institute for Advancement.
- Kabane, N. 2011. *An emerging funding crisis for South African civil society*. Available: <http://www.afesis.org.za/local-governance/local-governance-articles/182-an-emerging-funding-crisis-for-south-african-civil-society.html> [2015, June 1].
- Kanithi, N. 2010. *A comparative global study of the impact that information and web technologies have on the sustainability and growth potential of non-profit organisation in developed and developing countries*. Cape Town. University of Cape Town (MA thesis).

- Keulder, T. 2009. *Principles of Internal NPO management*. Windhoek, Namibia: Institute for Democracy.
- Khieng, S. & Quak, E. 2013. *Balancing social and entrepreneurial values. NPOs embracing social entrepreneurship*. Available: <http://thebrokeronline.eu/Articles/Balancing-social-and-entrepreneurial-values> [2015, September 20].
- Kilbey, B. 2010. *The State of Fundraising within the Non-profit Social Service Sector: A study to determine how and to what levels of success south African NPOs are managing and operating their fundraising functions*. Cape Town. University of Cape Town (MA thesis).
- Kilbey, B. & Smit, A. 2014. *Fundraising Efficacy and the South African Non-profit Social Services Sector, Human Service Organisation: Management, Leadership & Governance*, 38:5, 487 – 501. Available: <http://www.tandfonline.com/doi/pdf/10.1080/23303131.2014.935542> [2015, August 21].
- Kowalczyk, D. 2015. *Purposes of Research: Exploratory, Descriptive & Explanatory*. Available: <http://study.com/academy/lesson/purposes-of-research-exploratory-descriptive-explanatory.html> [2015, August 15].
- Legal Resources Centre. 2011. *A Guide to Legal Forms for Social Enterprises in South Africa*. Available: <http://www.gibs.co.za/SiteResources/documents/NewDocuments2013/Bongi/ILOguidelegalformsTaxCompanyRegistrationGuide.pdf> [2015, February 20].
- Lemon, J.S. 2007. *The effect of Reminder Intervals on Response Rates for Web Surveys*. Available: http://www.abdn.ac.uk/surveys/documents/Survey_Patterns.pdf [2015, March 16].
- Leon, P. 2001. *Four pillars of financial sustainability*. Virginia, USA: The Nature Conservancy. Available: http://pdf.usaid.gov/pdf_docs/PNADF342.pdf [2015, March 2].
- Lewis, A. & D'Apic, B. 2013. *UBIT start date deferred ... again!!* Available: <http://www.charitiesnflaw.com.au/2013/02/01/ubit-start-date-deferred-again> [2015, March 11].
- Lindgren, M. 2008. *Documentation for GDP Per Capita by Purchasing Power Parities for countries and territories*. Available: http://www.gapminder.org/documentation/documentation/gapdoc001_v9.pdf [2015, March 5].
- Ly, P. & Mason, G. 2010. *Competition between Microfinance NGOs: Evidence from Kiva*. University of Puget Sound. United States. Available: https://www.academia.edu/1508369/Competition_between_NGO_Projects_Evidence_from_Kiva [2015, December 20].
- Mae Sincero, S. 2012. *Types of Survey question*. Available: <https://explorable.com/types-of-survey-questions> [2015, June 09].
- Mae Sincero, S. 2015. *Online Survey*. Available: <https://explorable.com/online-surveys> [2015, March 14].

- Makoba, J.W. 2002. *Non-governmental Organisation and the third world development: an alternative approach to development*. Available: <https://www.globalpolicy.org/component/content/article/177/31620.html> [2015, March 6].
- Marcussen, C.H. 2001. *Response rate in internet survey – Experience from an online expert survey into WAP for business travellers*. Available: <http://www.websm.org/uploadi/editor/1126097461response.pdf> [2015, August 31].
- McArthur, S. 2013. *Global Governance and the Rise and Rise of NPO's*. Asian Journal of Public Affair Vol.2 NO.1. Available: <http://unpan1.un.org/intradoc/groups/public/documents/APCITY/UNPAN033149.pdf> [2015, December 19].
- McGregor-Lowndes, M., Turnour, M. & Turnour, E. 2011. *Not for profit income tax exemption: Is there a hole in the bucket, dear Henry?*. Australian Tax Forum. 26 (4), pp. 601-631.
- Ministry of Health Working Group. 2007. *Barriers and opportunity for innovation and collaboration in the health and disability NPO sector*. Available: <https://NPO.health.govt.nz/system/files/documents/pages/innovation-and-collaboration-paper-07.pdf> [2015, September 9].
- Nelson, J. 2007. “*The Operation of Non-Governmental Organizations (NPOs) in a World of Corporate and Other Codes of Conduct*.” Corporate Social Responsibility Initiative, Working Paper No.34. Cambridge, Harvard University. Available: http://www.hks.harvard.edu/m-rcbg/CSRI/publications/workingpaper_34_nelson.pdf [2015, December 19].
- Non-profit Organisation Act No. 71 of 1997. 1997. Government Gazette 48487. Pretoria: Government Printer.
- Norton, M. 2009. *The worldwide Fundraiser's Handbook*. Directory of Social Change. London.
- Nulty, D. 2008. *The adequacy of response rates to online and paper survey: what can be done?*. Available: <https://www.uaf.edu/files/uafgov/fsadmin-nulty5-19-10.pdf> [2015, August 30].
- Ohno, K. 2003. *Linking Business with Development Aims and Issues of Business-oriented NPOs in Vietnam*. Available: http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CB0QFjAA&url=http%3A%2F%2Fwww.grips.ac.jp%2Fteacher%2Foono%2Fhp%2Fdocu01%2FBoNP02.doc&ei=HcH9VLS7NtHkap_ugMgF&usg=AFQjCNFs8NXdSLhOekNg-kjBQh3oo4GiSQ&bvm=bv.87611401,d.d2s [2015, March 9].
- Omicsonline.org. 2014. *Trade – Innovation*. Available: <http://omicsonline.org/stock-trading/trade-innovations.php> [2015, March 13].
- Panday, S. 1996. *Marketing for non-profit organisations*. Olive Organisation Development and training. Durban.

Rapoo, T. 2010. *Funding Crisis for Research NGOs in South Africa Looming Larger Than Ever*. SANGONet, NGO News and Views Friday, July 23, 2010. Available: <http://www.sangonet.org.za/article/funding-crisis-research-ngos-south-africa-looming-larger-ever> [2015, December 20].

Resnik, D. 2013. *What is Ethics in Research and why is it important*. Available: http://courses.washington.edu/bethics/Homepage/What%20is%20Ethics%20in%20Research%20&%20Why%20is%20it%20Important_.pdf [2015, August 28].

Ronald, D., Fricker, J.R., & Schonlau, M. 2002. *Advantages and Disadvantages of Internet Research Surveys: Evidence from the Literature*. *Field Methods*, Vol. 14 No. 4, 2002 347-367.

Scott, K. 2003. *Funding Matters: The impact of Canada's New Funding Regime on Nonprofit and Voluntary Organizations*. Available: <http://www.prcrc.org/Webdocuments/summary-fundingmatters.pdf> [2015, October 17].

Seabe, D. 2012. *The Socio-Economic Role of NGOs in South Africa: Specific focus on Funder Conditions and Voluntary Failure*. University of the Western Cape. South Africa. Available: https://www.google.co.za/?gws_rd=ssl#q=%22are+mainly+dependent+on+donated+funds+from+government+agencies%2C+business+and+other+donor%22 [2015, December 19].

Sleurink, A. 2002. *E-business for NPOs*. Available: <http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CB4QFjAA&url=http%3A%2F%2Fwww.iicd.org%2Fabout%2Fpublications%2Febusiness-for-NPOs%2FBrief2.pdf&ei=tqxZVeOhMerX7AbQ84GYAQ&usg=AFQjCNFXjR6PQDsJjPgkjtqwtclZYMsoA> [2015, June 18].

Smit, A. 2005. *Funding strategies: Surviving imperial intentions, protean policies and ruthless reality*. *Social Work/Maatskaplike Werk*, 41(4), pp 349-360.

Smit, A. 2014. *Financial Resources Management Tasks*. In: Engelbrecht, L. (ed). *Management and Supervision of Social Workers*. Andover: Cengage.

Stuart, L. 2013a. *The South African Non-profit Sector: Struggling to Survive, Needing to Thrive*. Available: <http://www.NPOpulse.org/article/south-african-nonprofit-sector-struggling-survive-needing-thrive> [2015, August 14].

Stuart, L. 2013b. *The end of UK aid: Is South Africa ready?* SANGONet South Africa. Available: <http://www.NPOpulse.org/article/end-uk-aid-south-africa-ready> [2015, June 30].

SustainAbility. 2003. *The 21st Century NPO in the market for change*. Available: http://www.erb.umich.edu/News-and-Events/MayConferenceReading/21st_NPO.pdf [2015, August 14].

Swart, H. 2012. *Welfare groups fight for survival*. Available: <http://mg.co.za/article/2012-05-17-welfare-groups-fight-for-survival> [2015, June 1].

Swilling, M. & Russell, B. 2002. *The Size and scope of the Non-profit Sector in South Africa*. The Johns Hopkins University Institute for Policy Studies, Centre for Civil Society Studies in association with P&DM. Johannesburg.

The Australian Council of Social Service. 2014. *Australia's vital community services face funding uncertainty crisis: New Report*. Available: http://www.acoss.org.au/media_release/australias_vital_community_services_face_funding_uncertainty_crisis_new_rep/ [2015, March 2].

The Chartered Institute of Marketing. 2009. *Marketing and the 7Ps A brief summary of marketing and how it works*. Available: <http://www.cim.co.uk/files/7ps.pdf> [2015, March 2].

The European Commission of Enterprise and Commission. 2010. *Free movement of goods. Guide to the application of Treaty provisions governing the free movement of goods*. Available: http://ec.europa.eu/enterprise/policies/single-market-goods/files/goods/docs/art34-36/new_guide_en.pdf [2015, June 19].

The Institute of Chartered Accountants of India. 2013. *Taxation of Cooperative and NPO sectors*). Available: <http://studentbounty.com/pastpapers/Institute%20of%20Chartered%20Accountants%20of%20India%20%28ICAI%29/Publications/Auditing%20&%20Assurance%20Standards%20Board/29183cconpo18797e/Taxation%20of%20Cooperatives%20&%20NPO%20Sectors%20-%20CCONPO.pdf> [2015, March 10].

Turner, B.L., Kasperson, R., Matson, P., McCarthy, J.J., Corell, R., Christensehn, L., Eckley, N., Kasperson, J., Luers, A., Martello, M., Polsky, C., Pulsipher, A., & Schiller, A. 2003. *A framework for vulnerability analysis in sustainability science*. Available: <http://www.pnas.org/content/100/14/8074.full> [2015, December 19].

United Nations Development Programme. 2014. *India Factsheet Economic and Human Development Indicators*. Available: http://www.in.undp.org/content/dam/india/docs/india_factsheet_economic_n_hdi.pdf [2015, March 6].

Vanek, C. 2012. *Likert scale – What is it When to Use it? How to Analyse it?*. Available: <https://www.surveygizmo.com/survey-blog/likert-scale-what-is-it-how-to-analyze-it-and-when-to-use-it/> [2015, September 1].

Viravaidya, M. & Hayssen, J. 2001. *Strategies to Strengthen NPO Capacity in Resource Mobilization through Business Activities*. Available: http://data.unaids.org/publications/irc-pub06/jc579-strategies_NPO_en.pdf [2015, June 30].

Viravaidya, M. nd. *NPO Sustainability: Creating Our Own Donations*. Available: <http://www.pda.or.th/downloads/NPO-SustainabilityConceptPaper.pdf> [2015, June 20].

Weisbrod, B.A. 1998. *To profit or Not to Profit, the commercial transformation of the Non-profit Sector*. Cambridge University Press.

World Bank. 2014. *Economic Growth Rates*. Available:
http://www.worldbank.org/depweb/beyond/beyondco/beg_04.pdf [2015, March 6].

World Bank. 2015. *Country and Lending groups*. Available:
<http://data.worldbank.org/about/country-and-lending-groups> [2015, December 19].

World Trade Organisation. 2010. *Measuring Trade in Services*. Available:
https://www.wto.org/english/res_e/statis_e/services_training_module_e.pdf [2015, June 13].

Wyngaard, R.G. 2011. *Tax Benefits for Approved Public Benefit Organisations*. Available:
www.nonprofitlawyer.co.za [2015, June 30].

Zimmerman, B. & Dart. R. 1998. *Charity Doing Commercial Ventures: Societal and Organisational Implications*. Available: http://rcrpp.ca/documents/12736_en.pdf [2015, May 6].

Appendices

Appendix I – Questionnaire

This survey in a MS Word format and do not include all the animation of the online version. This version can be found by clicking on the following link:

<http://www.sogosurvey.com/k/SsTPWSYsRsPsPsP>

All sections are represented in this text, however, respondent could only view and answer the sections pertinent to the NPO operations.

page 1
Section 1: <u>Organisation details</u>
1. In what year was the organisation founded?

2. In which country/ies are your operation primarily based?

3. In which country is your head office based? (Select one option)
<input type="radio"/> Same country as in Q.3
<input type="radio"/> Other (Please specify) _____
4. How many full-time employees are currently employed within the organisation?

5. Please indicate the organisation's area(s) of service? (tick all applicable)
<input type="checkbox"/> Care for the Physically Disabled
<input type="checkbox"/> Care for the Mentally Challenged

- Child and Youth Support Services
- Community Service and Programme
- Community Development
- Consumer Protection
- Disaster Relief
- Drug Rehabilitation Centre
- Early childhood Development Centre
- Economic Development
- Education
- Elderly Care and Homeless
- Energy
- Environment and Ecology
- Family and Parenting
- Foundation, Fundraising and Philanthropy
- General Child and Family Welfare
- Government Oversight and Reform
- Healthcare Support Services
- HIV/AIDS or any other diseases
- Housing and Homelessness
- Human Rights and Civil Liberties
- Immigration
- Internal Cooperation and Relations
- Job Training and Workplace Issues
- Law and legal issues
- Mental Health
- Museums and Historical Societies
- Politics
- Poverty and Hunger
- Recovery, Addiction and Abuse

- Religion and Spirituality
- Research and Science
- Senior and Retirement Issues
- Social Enterprise and Economic Development
- Sport recreation and leisure
- Travel and Transportation
- University and Academic Institutions
- Other(s) (Please specify) _____

6. Please indicate the geographic area(s) in which you offer most of your services?
(Select one option)

- Rural area
- Urban area
- Both
- Unsure

page 2

Section 2: Financial information of the Non-profit organisation

7. Please indicate the currency applicable for your operation (Select one option)

- Australian Dollar (AUD)
- British Pound (GBP)
- Canadian Dollar (CAD)
- Euro (EUR)
- Indian Rupee (INR)
- Nigerian Naira (NGN)
- South African Rand (ZAR)
- US Dollar (USD)
- Other (Please specify) _____

Please indicate the total income and expenditure for the 2014 & 2013 financial years.

8. 2014

(a) Income

(b) Expenditure

9. 2013

(a) Income

(b) Expenditure

10. How many months can the organisation survive without any further income?

11. Please indicate an estimate percentage of the sources of income received in the 2014 financial year (Total must be 100%)

Donations (Individuals or Corporate sector)	—
Funding agencies (Philanthropic, Trust, Foundation or Religious Institution)	—
Fundraising activities	—
Government schemes	—
Investments	—
Membership fees	—
Trading/Commercial activities	—
Other	—
Total	100

12. Please specify other:

13. What percentage of additional income would be required this financial year in order to operate at maximum capacity?

14. The organisation is financially very secure (Select one option)

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

15. Generating income represents a major obstacle for the organisation (Select one option)

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

16. During the past two years, the organisation experienced a serious shortage of funding (Select one option)

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

17. Please rank by significance the five major financial sustainability threats the organisation is currently experiencing (From 1=most significant to 5= least significant) [Please rank exact option(s)].

National corruption	<input type="text"/>
Difficult economic environment	<input type="text"/>
Fundraising competition	<input type="text"/>
Geopolitical instability	<input type="text"/>
Inadequate leadership within the NPO	<input type="text"/>
Lack of adequate staff to raise money	<input type="text"/>
Lack of beneficiaries seeking your services	<input type="text"/>
Lack of community support	<input type="text"/>
Lack of fundraising ability	<input type="text"/>
Lack of government support	<input type="text"/>
Lack of involvement of board members	<input type="text"/>
Lack of long term funding	<input type="text"/>
Negative economic outlook in the country	<input type="text"/>
Poor organisational financial management	<input type="text"/>
Poor organisational financial planning	<input type="text"/>
Poor organisational governance	<input type="text"/>
Poor infrastructure of the NPO	<input type="text"/>
Services offered are no longer relevant	<input type="text"/>
Strong dependency on few donors	<input type="text"/>
Strong dependency on government grants	<input type="text"/>

Other(s)

18. Please specify other(s):

19. There is a large increase in the competition to raise funds (Select one option)

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

20. Funding from all sources of government is generally decreasing (Select one option)

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

21. Donors often apply restrictions to their donations (Select one option)

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

22. Applying for funding is very time-consuming (Select one option)

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

23. The organisation urgently needs to find innovative ways of generating more income (Select one option)

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

24. Becoming more financially self-sustainable is crucial for the organisation's survival (Select one option)

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

25. The organisation may close down in the near future if new funding sources are not found (Select one option)

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

26. Increased funding will help the organisation to expand its services and help more beneficiaries (Select one option)

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

27. Since the 2008/09 economic recession, the number of people in need of your services has increased significantly (Select one option)

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

28. The 2008/09 economic recession had a severe impact on the organisation's funding (Select one option)

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

page 3

Section 3: General questions related to commercial activities in the Non-profit sector

Commercial activity:

A regular (daily) activity operated by the Non-profit organisation for the purpose of generating income through the selling or manufacturing of goods and/or providing any kinds of services.

29. Commercial activities have no place in the Non-profit sector (Select one option)

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

30. Commercial activities are too risky to be part of my organisation (Select one option)

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

31. My organisation has the necessary resources to launch a commercial activity (Select one option)

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

32. Self-generating income will never expand in the Non-profit sector (Select one option)

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

33. The Non-profit and For-profit sectors are two different sectors that should not be combined (Select one option)

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

34. Is your organisation involved in any kinds of commercial activities? (Select one option)

- Yes Go to Page No. 4
- No Go to Page No. 5
- Unsure Go to Page No. 5

If did not answer then go to page No. 5

page 4

Section 4: NPO involved in commercial activities

35. In what year did you start the commercial activity?

36. What are the kinds of commercial activity/ies your organisation engages in?

- Manufacturing
- Selling goods
- Service provision
- Other(s) (Please specify) _____

37. Who initiated the commercial activity?

- Beneficiaries of the organisation
- Board members
- CEO of the NPO
- NPOs partners
- Stakeholders
- Staff members
- Other (Please specify) _____

38. How did the organisation obtain the income to launch the commercial activity?

- Donations
- Loan
- NPO's beneficiaries
- NPO's cash reserves
- Stakeholders
- Various investors
- Other(s) (Please specify) _____

39. What percentage of the shareholding of the business does the NPO own?

40. The organisation encountered some difficulty(ies) in the formation of its commercial activity (Select one option)

- Yes
- No
- Unsure

41. Please indicate the difficulty (ies) encountered by the organisation while launching the commercial activity [select all applicable answers].

- Difficulty to make a profit
- Find the right price to sale
- High degree of competitiveness in the market
- Irrelevance of the product sale/services offered
- Lack of assets
- Lack of building to operate from
- Lack of business skills
- Lack of customer base
- Lack of donors/investors
- Lack of financial resources
- Lack of human resources
- Lack of network (partners)
- NPO's staff resistance
- Poor infrastructure of the NPO
- Poor market research
- Poor marketing strategy
- Poor management of the NPO
- Poor product quality
- Problems of distribution
- Resistance from government
- Saturation of the market
- Wrong environment in terms of the market opportunity
- Other(s) (Please specify) _____

42. The organisation has successfully overcome most of the difficulty(ies) mentioned in Q37 (Select one option)

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

43. Please explain briefly how you overcame some of these difficulties

44. The staff of the NPO was extremely concerned before launching the commercial activity (Select one option) [Answer this question only if answer to Q#43 is No OR Unsure]

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

45. Did the organisation need to hire new staff members to run the commercial activity? (Select one option)

- Yes
- No
- Unsure

46. The organisation's commercial activity is authorised by the NPO's Constitution (Select one option)

- Yes
- No
- Unsure

47. Were you required to register the commercial activity as a For-profit organisation? (Select one option)

- Yes
- No
- Unsure

48. Does the legal framework in the NPO's country make implementing the commercial activity easy? (Select one option)

- Yes
- No
- Unsure

49. The tax rules of the country encourage the functioning of my organisation's commercial activity (Select one option)

- Yes
- No
- Unsure

50. Does the commercial activity benefit from any tax exemptions? (Select one option)

- Yes
- No
- Unsure

51. Please indicate the difficulty/ies encountered in the union of the NPO and the commercial activity [select all applicable answers]

- No major issues
- Different organisational cultures
- Different leadership styles
- Different management styles
- Financial decision making issues

- Governance issues
- Lack of communication
- Lack of common vision
- Legal issues
- Staff resistance
- Structural issues
- Other(s) (Please specify) _____

52. Please explain briefly how you resolved the difficulty/ies identified in Q.47 [Answer this question only if answer to Q.54 is No major issue]

53. Who is ultimately responsible for the management of the commercial activity?

- All NPO's board members
- Several NPO's board members
- One NPO's board member
- NPO's financial manager
- CEO of NPO
- CEO of the commercial activity
- Financial manager of the commercial activity
- Fundraiser of the NPO
- Other(s) (Please specify) _____

Please indicate the surplus or deficit after tax of the commercial activity for the following years

54. 2014

(a) Surplus

(b) Deficit

55. 2013

(a) Surplus

(b) Deficit

56. What percentage of the profit was transferred to the NPO in the last financial year?

57. The spending of income generated by the commercial activity has created conflict within the NPO (Select one option)

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

58. How were these conflicts resolved?

59. How many years has it taken before the commercial activity reached its breakeven point?

60. Does the organisation plan to expand its commercial activities over the next 5 years? (Select one option)

- Yes
- No
- Unsure

61. The internet is crucial to the operation of the commercial activity (Select one option)

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

62. Please indicate how you make use of the Internet for your commercial activity [select all applicable answers]

- Maintaining customer relationship
- Market your products
- E-commerce sales
- E-mail marketing strategy
- Online advertising
- Reaching international markets
- Other(s) (Please specify) _____

63. Running a commercial activity in addition to a NPO is very difficult (Select one option)

- Strongly agree
- Agree
- Neutral
- Disagree

Strongly disagree

64. The organisation will not survive unless it generates income through its commercial activity (Select one option)

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

65. Some donors have cut their funding since the creation of the commercial activity (Select one option)

- Yes
- No
- Unsure

66. The NPO is significantly more financially secure since it started its commercial activity (Select one option)

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

67. The revenue generated from the commercial activity has helped to expand the NPO's services (Select one option)

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

68. Would you recommend that other NPOs run a commercial activity?

(Select one option)

- Yes
- No
- Unsure

69. The use of commercial activities in the NPO sector has an important growth potential in the coming years (Select one option)

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

70. Would you like to receive a brief report on the findings of this research in PDF format? (Select one option)

- Yes
- No

page 5

Section 5: Organisations not involved in commercial activities

71. Has the organisation ever considered starting a commercial activity that could generate income for the NPO? (Select one option)

- Yes
- No
- Unsure

72. What are the main reason(s) for your organisation not raising funds through commercial activities?

- Do not know how to do it
- Ethical reasons
- Forbidden by government
- Lack of business skills
- Lack of finance
- Lack of time
- No need for extra income
- Never thought about it
- Not part of the organisational culture
- No business opportunity
- Poor infrastructure
- Staff resistance
- Other(s) (Please specify) _____

73. Would you accept free training on the establishment and running of a commercial activity for your organisation (Select one option)

- Yes
- No
- Unsure

74. If you were given the necessary finance, would you consider the possibility of starting your own commercial activity? (Select one option)

- Yes
- No
- Unsure

75. If your organisation is experiencing financial cut-backs, would you consider generating income through commercial activities? (Select one option)

- Yes
- No
- Unsure

76. The current economic situation of the country does not favour the launching of a commercial activity at this stage (Select one option)

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

77. No matter what the organisation's financial constraints are, you will never start a commercial activity (Select one option)

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

78. Would you like to receive a brief report on the findings of this research in PDF format? (Select one option)

- Yes
- No

*FINANCIAL SUSTAINABILITY AND
BUSINESS INCOME GENERATOR
NON-PROFIT*



Dear CEO/general manager,

My name is Ludovic Rochat. I am a Swiss student registered for a Master's degree in Social Policy and Management at the University of Cape Town, South Africa. I have a keen interest in the non-profit sector and have conducted most of my research in the fields of funding and financial sustainability. My vision is to see a worldwide vibrant and dynamic non-profit sector, with no financial constraints. In short, money should never hinder an organisation to carry out its mission, helping people to realise their dreams and achieving their fullest potential.

Your organisation has been chosen to take part in this research, based on your registration with Idealist.org. While the study aims to explore the overall financial state of the NPO sector in six countries from both developed and developing countries (Australia, Canada, India, Nigeria, South Africa and the United Kingdom), it also investigates NPOs generating income through the commercial activities. The researcher believes commercial activities can play a major role in the NPO sector in creating more financial sustainability and thus enhancing the quality of the services offered to beneficiaries.

As very little has been explored on this topic, this research is extremely significant and need your input to see the light and add another stone to the edifice. The questionnaire is divided in five sections. The two first sections cover the organisation's basic information and financial situation. Section three includes some general questions around commercial activity in the non-profit sector. If your non-profit organisation raises income through a commercial activity, the questionnaire will direct you to section four. If not, it will direct you to section five. The questionnaire should be completed by the CEO/general manager of the NPO. As requested in the questionnaire, I am keen to send you a brief report of the

main findings of this research. Below you will find the link that will direct you to the online survey. Please click on the link or copy and paste it in a separate browser. As the survey must respect a certain deadline, would you please complete it by no later than 18 July 2015.

Thank you in advance for your time and valuable effort contributing to the improvement of the NPO sector. If you have any enquiries, please do not hesitate to contact me at rchlud001@myuct.ac.za.

In order to participate, you may either:

1. [Click on this link](#)

or

2. Copy-paste the entire following link between quote marks (NOT including the quote marks) in a web browser

"<http://www.sogosurvey.com/k/QsTPWSYsRsUSPQUYRRsP>"

Rochat Ludovic



Your participation in this research survey is purely voluntary and is done on your own will for research purposes.

We request you please not forward the survey link to anyone else. Each survey link is unique and intended for the recipient only.

Appendix II – First reminder

Dear Directors,

Firstly, I would like to sincerely thank the numerous organisations in Australia, Canada, India, Nigeria, South Africa and the United Kingdom who have already submitted a quality survey for this research. The actual data looks exciting and are very promising for the rest of the study. In order to maximise the power of the data, I am extending the deadline to the end of July and would appreciate to gather as many surveys as possible.

The following link will direct you to the online survey:

[Click on this link](http://www.sogosurvey.com/k/SsTPWSYsRsPsPsP) or <http://www.sogosurvey.com/k/SsTPWSYsRsPsPsP>

To have the outcomes of your organisation would be a great privilege for this research. This survey will only take around 20 minutes of your time and in turn, could bring an important input to the whole NPO sector.

All information gathered in this study will remain anonymous and used only for research purposes. As requested in the questionnaire and if interested, I will be keen to send you a brief report of the main findings of this research.

Thank you in advance for your time and valuable effort to contribute to the improvement of the NPO sector. If you have any enquiries, please do not hesitate to contact me at rchlud001@myuct.ac.za

Rochat Ludovic



Your participation in this research survey is purely voluntary and is done on your own will for research purposes.

We request you please not forward the survey link to anyone else. Each survey link is unique and intended for the recipient only.

Appendix IV – Second reminder

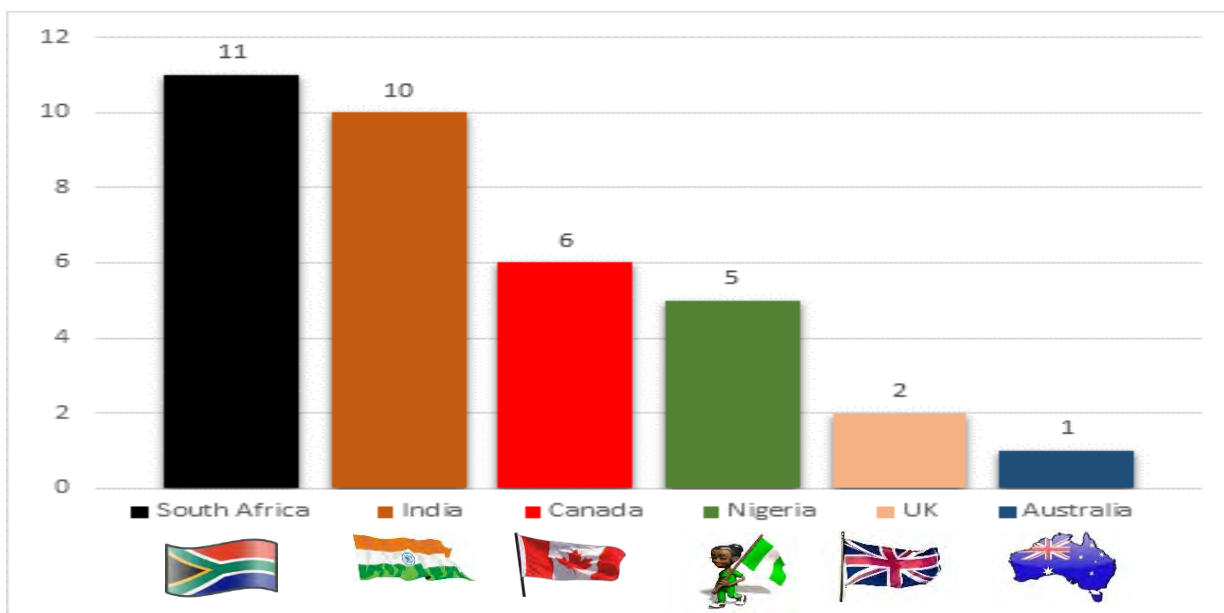
Dear Directors,

I am Ludovic Rochat a master student from the University of Cape Town (South Africa) doing a master research in Social Policy and Management. I would like to thank the numerous NPOs in Australia, Canada, India, Nigeria, South Africa and the United Kingdom who already answered me and have participated in this global research on financial sustainability and business activity in the NPO sector.

A special thanks for all NPOs especially in South Africa and India who are so numerous to send back a quality survey as you can see in the graph 28. The actual data looks exciting and are very promising for the rest of the study and I believe that **all together we can improve the NPO sector to make it more vibrant and prosperous.**

If you have not participate to this research yet, you may either:

[Click on this link](#) or <http://www.sogosurvey.com/k/SsTPWSYsRsPsPsP>



Your participation in this research survey is purely voluntary and is done on your own will for research purposes.

We request you please not forward the survey link to anyone else. Each survey link is unique and intended for the recipient only.