**UNIVERSITY OF KWAZULU-NATAL**


**AN ASSESSMENT OF THE APPLICABILITY OF BUSINESS STRATEGY APPROACHES TO ACHIEVE GREATER FINANCIAL AUTONOMY IN THE LOCAL NON GOVERNMENTAL ORGANISATION SECTOR IN MALAWI:**
**A Case of the Active Youth Initiative for Social Enhancement (AYISE)**

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examination.

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# DECLARATION

I **Mavuto Kapyepye** declare that

(i)    The research reported in this dissertation, except where otherwise indicated, is my original research.

(ii)    This dissertation has not been submitted for any degree or examination at any other university.

(iii)    This dissertation does not contain other persons' data, pictures, graphs or other information, unless specifically acknowledged as being sourced from other persons.

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27th June 2009

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**Abstract**

The non governmental organisation (NGO) sector has a lengthy legacy in Malawi going back all the way to the period of colonialism. However, the growth of the sector was restricted in the two key political eras of colonial rule and post independence under the first republic which ended in 1994. The new dispensation of multiparty politics has facilitated the growth of the sector in terms of numbers. However, the local NGO (LNGO) sector has largely remained underdeveloped due to a poor skills base and low funding among others. While the International NGOs (INGOs) have enjoyed better funding with the leverage of foreign social capital, the LNGO sector remains underfunded and vulnerable to manipulation by donors because they have not managed to attain considerable financial autonomy to leverage on.

This study has confirmed that although most LNGOs consider sourcing funds from a narrow base, mostly donors, they can tap into various opportunities for revenue generation with creativity and strategic thinking. Malawi has a very enabling legislative framework for NGO funding and this provides room for growth of NGOs in the area of fundraising. However, there is very limited knowledge and capacity among LNGOs in terms of being able to explore alternative sources of funding that are less restrictive in nature. Most NGOs already apply single-loop learning which allows them to monitor pre-set indicators within a certain operational framework. However this type of learning does not allow them to actually ask fundamental questions about the appropriateness of the very operational framework they are using. Additionally, by bringing on board double-loop alongside single-loop learning, the NGOs have an opportunity to develop and apply their operational frameworks while being able to throw them out when necessary. In other words double-loop learning helps them to think outside the box. The dominant existence of single-loop learning in most NGOs has also contributed to inadequacies or absence of strategies to deal effectively with the question of autonomy.  Some of the NGOs have potential to generate considerable levels of income from unrestricted sources but have not managed to do so because the prevailing mental models overshadow their ability to think out of the box. The Active Youth Initiative for Social Enhancement (AYISE) as a case study has showcased the potential for innovation in NGO enterprise development.

In some instances, the sector line in which an NGO is operating can be a factor in the choice of business enterprises to embark on. In other instances, this may not be the case. For example, AYISE is a youth focused organisation and this means that as it pursues its business objectives, it should not engage in activities that may antagonise what it represents. Business activities such as selling of alcohol or cigarettes are inappropriate for an NGO like AYISE. Furthermore, NGOs such as the Ekocenter of Yugoslavia embarked on organic wine production, as a way of promoting their sector line authority (environment) through showcasing of environmentally friendly crop production processes. This implies that there is also an ethical or moral dimension to fundraising which NGOs must consider. However, other alternatives to fundraising can go across the board, for instance desktop publishing. It is a business activity that can be done across the board although limitations are also possible in terms of content to be published. To reinforce this point, a youth NGO such as AYISE, may not publish posters advertising alcohol while an environmental NGO may not put an embargo on such content. It is therefore fundamental that an NGO should be careful and conscious of what it is planning to do and how its actions would affect its image and values. The corporate world remains largely untapped as a source of funding for LNGOs and yet it has potential to offer funding with fewer strings attached.

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**Acronyms**

| | |
|---|---|
| ACP | Africa Caribbean Pacific |
| AIDS | Acquired immune-deficient syndrome |
| AUSAID | Australian Agency for International Development |
| AYISE | Active Youth Initiative for Social Enhancement |
| CBO | Community Based Organisation |
| CCPC | Czech Cleaner Production Centre |
| CDRA | Community Development Resources Association |
| CEE | Central and Eastern Europe |
| CONGOMA | Council for non governmental organisations in Malawi |
| CSC | Christian Services Committee |
| CSO | Civil society organisation |
| DFID | Department for International Development |
| EU | European Union |
| ECOSOC | Economic and Social Council |
| HST | Hard Systems Thinking |
| IEC | Information, Education and Communication |
| IGA | Income-generating activity |
| INGO | International non government organisation |
| IT | Information Technology |
| JOPM | Joint Oxfam Program in Malawi |
| KNH | Kinder Not Hilfer |
| LNGO | Local non governmental organisation |
| MCF | Mlambe Consulting Firm |
| MHRRC | Malawi Human Rights Resource Centre |
| MOSA | Ministry of Social Affairs (Egypt) |
| MWAI | Malawi Workcamp Association International |
| NAC | National AIDS Commission |
| NFPS | Nyasaland Fauna Preservation Society |
| NGO | Non governmental organisation |
| NORAD | Norwegian Agency for Development |
| NYCOM | National Youth Council of Malawi |
| PIMS | Profitability Impact of Marketing Strategies |
| PLANAFLORO | Plano Agro-Pecuário e Florestal de Rondônia |
| OD | Organisation development |
| OSISA | Open Society Initiative for Southern Africa |
| RBV | Resource Based View |
| SAT | Southern Africa AIDS Trust |
| SST | Soft Systems Thinking |
| TVM | Malawi Television |
| UN | United Nations |
| UNICEF | United Nations Children's Fund |
| USAID | United States Agency for International Development |

**CHAPTER 1:**　　　　**INTRODUCTION**

**1.1**　　**Preamble**

My name is Mavuto Kapyepye and I am a Malawian. I am a consultant in organisational and social development, running a personal consultancy venture called Mlambe Consulting Firm (MCF) based in Blantyre, Malawi. Before I became a fulltime consultant, I worked with a number of civil society organisations (CSOs) in my country for close to ten years.

My involvement with the NGO sector was more of an accidental adventure for an undergraduate student of agriculture at the end of his studies at the University of Malawi in the mid 1990s. At that time I was keen to explore the labour environment. I had applied for vacational employment to various organisations including those in the private sector and the only response came from an environmental NGO. I grasped the opportunity. Since then my professional journey revolved around working with the civil society until I joined the private sector in 2004 as a fulltime consultant. Even then most of my firm's clients were from the civil society sector.

**1.2**　　**The problem situation**

My encounter with CSOs as an employee offered me some very important lessons. One of the most important lessons was the struggle by NGOs to delicately balance demands and expectations from the communities they serve with the conditions that the donors attach to the funding they provide.  I experienced this both as a member of staff and as a manager. Typical[1] NGOs are not in the business of selling services or products to generate profit for distribution to shareholders. They work with disadvantaged communities to facilitate the process of improving their livelihoods as their primary objective. Managing the delicate balance of the sometimes polar demands is a daily struggle. On the one hand the NGOs are closer to the people and better positioned to understand the challenges that their constituent groups face. On the other hand donors who do not have this knowledge keep the keys for the purse and hence they hold the power to influence their grantees. Although the relationship between the NGOs and donors is increasingly being referred to as a partnership, I sometimes find this term to be cynical because

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[1] "Typical" clarifies the point of genuineness as my experience has revealed that some NGOs are personal business property disguised as charitable institutions.

some "partnerships" are a semblance of the NGOs implementing the wishes of the donors and not necessarily meeting the expectations of the communities they serve. To illustrate this point, I quote a director of one of the NGOs in Malawi in a news item aired during the evening news bulletin on Malawi Television (TVM) on Tuesday 19th September 2006:

> 'Donors should listen… when we ask for money to promote poverty eradication to enable us fight AIDS better, they keep on insisting on giving money for AIDS awareness'.

This is not an isolated case. Even in situations where donors have funded a project that truly responds to the needs of communities, some of them have only supported direct program activities while blatantly refusing to consider staffing costs for personnel who are going to implement the projects. A number of donors also refuse to support administrative costs to NGOs. As such, in this regard NGOs have to fend for their own core costs. The game of power is evident here and it is clear as to who has an edge over the other and why.

My experience has also shown that the most affected NGOs are those carrying the label 'Local NGO (LNGO)' as opposed to 'International NGOs (INGOs)'. The perception is that INGOs have better skills in terms of management, marketing and application of general business principles among others. They also have strong global political clout, which local NGOs do not possess. They have been able to build a better brand, which makes it easier for them to attract funding. But most LNGOs struggle to get more sustainable funding and the general feeling among potential providers of funding is that they have no capacity to absorb larger funding.

A few LNGOs have built reasonably strong brands and are able to attract funding. However, one visible feature is that they are donor dependent for almost all their expenses and therefore very susceptible to donor influence in terms of decision-making processes. For instance, in my recent consultancy assignment with a LNGO, the donor had more influence in the process of the intervention than the client NGO itself. The donor went further to handle all financial transactions around this intervention. If the NGO had mobilised its own resources, or had some other leverage, the situation of control would have been different. The question is: "Do LNGOs

in Malawi possess untapped potential to generate some of their income, which can in turn reduce their level of susceptibility to donor influence on almost all major decisions they have to make?"

## 1.3     Focus of study

My focus of study as a student of Strategy and Organisational Dynamics was on assessing as to whether it is possible to successfully apply entrepreneurial principles in the LNGO sector in Malawi. I have worked with some LNGOs that have embarked on some form of income generating activities (IGAs), however, in most cases the ventures were or are still not (very) successful. This has been my motivation for assessing whether business enterprise principles can work in the context of LNGOs or not because I believe that as long as LNGOs cannot generate some of their income, they will not enjoy any financial autonomy and consequently the security to make their own independent financial and other strategic decisions.

To tackle the problem situation, this study focused on one particular case study of a local NGO called the Active Youth Initiative for Social Enhancement (AYISE). Neale, Thapa and Boyce (2006) describe a case study as a narrative account of something distinctive, exceptional, or attention-grabbing and that such accounts could be about a whole range of issues, entities or events.  They also view case studies as a way of allowing presentation of data that has been gathered from a combination of methods (i.e., interviews, observation, surveys, review of documents etc) to present a story that is  complete. This is also supported by Leedy and Ormrod (2005) who provide some of its important advantages as that of studying or examining the case in question to a greater depth and that this is done over a considerable duration of time. They argue that when a researcher is using or employing the case study approach, he puts himself in a situation where extensive data is gathered on the case of focus. This case of focus can be an incident, a person, some entity or institution receiving all the focus of the investigation. Just like Neale, Thapa and Boyce, they also cite such data as most of the times comprising observations, literature analysis, interviews, archived material among others. They say a case study is particularly useful in providing greater insights about a situation that is extensively understood in the present time. This is also echoed by Soy (1997) in highlighting that research taking the approach of a case study succeeds in unearthing and provoking better insights regarding the

complexity of the issue that is being examined. Such a deeper understanding could provide rigour to knowledge generated from past research.

However, the case study approach has its critics too. They view the focus on limited number of cases as not providing a proper basis to establish adequate trustworthiness (Soy, 1997) and as such it is a challenge to extrapolate the findings (Neale, Thapa and Boyce, 2006). Other critics say that case studies can be lengthy because of the detailed narrative form they take and as such they may not easily arrest and maintain the attention and interest of the reader all the way. The third criticism is that they are perceived as not being as robust as the other methods such as surveys. Additionally, qualitative research is viewed as too general and unscientific.

Despite the criticisms leveled against it, the case study approach was deemed appropriate in this exercise because it offered an opportunity for in depth understanding of an area that is poorly understood in general as far as the Malawi context is concerned.  With this study, new insights may emerge and trigger further studies on a larger scale. This would also present multiple opportunities for learning and modeling of the applicable aspects from diverse situations.

## 1.4    Definition of terms

Firstly NGOs belong to the bigger family called civil society. In this respect we need to put the concept of civil society into perspective. Society may be categorised into three sectors namely the state, the market and civil society. According to Fowler (1997), the state has the purpose of providing security and regulatory framework around the lives of citizens. This is enforced by government agencies. The market has the function of generating and consolidating wealth through sale of goods and services. It is also called the private or commercial sector. On its part, civil society has the function of dealing with personal or social concerns. It has also been described as the third sector. There are different definitions of the term civil society. For instance Edwards (2005), has outlined a number of perspectives and has also acknowledged the lack of clarity in the way the term is used although it is one of the terms commonly used in conversations on politics and public policy.

Some of the perspectives on civil society that Edwards (2005) presents are discussed here. To some, civil society represents fundamental reduction in the role of politics in society and an

expansion of the free market and personal liberties. Another perspective presented is that civil society is the most important singular alternative to the totalitarian state and the greedy market. Edwards (2005) also provides a third perspective from those he describes as more contented with the middle ground of politics, by stating that to them civil society is the missing link in the value chain of achieving social equality. He claims that such a perspective is actually without much substance. He further brings up what he claims is the perspective of the UN and the World Bank who he says view civil society as the engine that promotes good governance principles and growth that reduce socioeconomic disadvantages for the masses.

Hauss (2003) describes civil society as a concept among those considered most modern in the arena of the social sciences which are closely linked with politics. He further states that just like with most popular academic concepts, no definition is accepted across the board. He however explains that there is general agreement that civil society refers to willful activity by ordinary people and therefore excludes actions forced or motivated by governments. He raises the following two points to support his paradigm to the effect that:

i. to others, civil society is confined to political movement taking place under the medium of not-for-profit organizations such as NGOs. Some include all kinds of voluntary participation, regardless of sector.

ii. civil society does not only focus on individuals taking part in the movements, but the organisations they operate in as well. Such institutions are now increasingly being referred to under the acronym 'CSOs' which stands for 'civil society organisations'. Therefore the strength of civil society is directly connected to the strength of the CSOs.

Other contributions on civil society have come from Whyte (2004) who has described it as the area of voluntary group action on the basis of common agenda, goals and ideals. Whyte argues that conceptually, the civil society organisational make up is different from the one prevalent in the public sector, private sector and even that of the family; nevertheless she acknowledges that the reality on the ground reflects often complex and blurred borders between the public sector, family, private sector and civil society. In most cases these boundaries have to be negotiated.

Whyte (2004) further describes civil society as generally embracing a range of territories, players and organisational forms, with different levels of complexity, abilities and clout. Civil society space is most of the time occupied by organisations such as faith based organizations, business group alliances, development NGOs, self-help groups, professional associations such as medical and law societies, women's organisations, community groups, registered charities, social movements, labour movements, advocacy groups and coalitions.

The diversity of perspectives outlined above is a reflection of the on-going vibrant debate on the complexity of civil society. Edwards himself acknowledges that with the multiplicity of views available, building conceptual consensus is impossible. However clarifications are possible and further clarification could provide the required platform for more productive conversations regarding the pledge and latent abilities of the sector as a foundation for optimism and sectoral action for the future.

The study has adopted the definition of civil society provided by Whyte (2004) as it provides a more comprehensive and clearer picture of this group by basing its description on activity of institutions involved. For instance, business associations have been included as civil society despite the fact that the core missions of the individual members outside the associations are more of private sector in nature. This implies that their activities under the umbrella of the association carry the banner of civil society and not business entities. An important division within the sector according to Fowler (1997) is whether the organisation is established to serve others or to benefit those within it. The focus of this paper is on the former and not on the latter.

Willetts (n.d.) claims that the now legendary term 'non-governmental organization' was not common during the period prior to the existence of the United Nations. For instance in 1910 about 132 organisations falling under the category of what are called NGOs today, decided to co-operate with each other by sharing a common descriptive category namely the Union of International Associations. In the official language used by the League of Nations, such organizations were being referred to as private organizations, while many of them used terms such as 'international institutes', while others preferred the term 'international unions' yet others employed the term 'international organizations'.

When the Economic and Social Council (ECOSOC) was upgraded to the status of what is referred to as a principal organ within the UN system, one of the emergent properties was introduction of new terminology into the technical UN jargon to clarify the relationship that ECOSOC had with the two categories of international organizations. Such terminology included specialised agencies and non-governmental organisations. In that regard, Articles 70 and 71 provided frameworks under which specialized agencies, established by intergovernmental agreement and NGOs respectively, could transact business with ECOSOC. The term, NGO, is believed to have become popularised from the early 1970s.

The term NGO in this study was applied to a particular group of organisations located within the civil society sector and whose formation is motivated either by the passion to lessen the suffering of the vulnerable; or by the desire to achieve a common goal in a particular theme or matter which promotes suffering or is unfavorable to the sustainability of livelihood for a certain group/class of people or society at large. This definition was adopted from the Commonwealth Foundation NGOs: Guidelines for Good Policy and Practice, Chapter 3 cited in NGO Management, Imperial College Wye, University of London. Malawi's Non-Governmental Organisations (NGO) Act of 2000 defines an NGO as an organisation established for the purposes of benefiting the public in which the term 'public benefit' is used to describe organisational purposes around issues of development and purposes around general charity which include such areas as health, education, advocacy, welfare, science, culture, environment, recreation, civic and social issues among others. The benefit in this case is targeted towards the general public or a certain segment of society or membership of the institution. However within the context of the Act the following are excluded: labour movements, activities of a church or religion, a political party or an employers' organization.

The term 'donor' refers to a source of funds provided by individuals or agencies as a matter of goodwill for public benefit use. This is to differentiate sources of funds that may come about as a result of income generation such as selling of goods and services. The donors come in various forms which include multilaterals where multiple nations are involved such as the European Union or bilaterals where a nation finances another nation directly. There are also institutions independent of governments that provide funding and these include the Open Society Initiative for Southern Africa (OSISA) and the Bill and Melinda Gates Foundation. Entrepreneurial

principles refer to alternative financing approaches aimed at breaking the dependency on aid agencies or governments and learning and applying the tools necessary to make financial decisions independent of the agenda promoted by an external donor (Bennett and Gibbs, 1996).

In this study, entrepreneurial principles are defined as institutional ideals and practices in which the organisation generates or adds value to goods and/or services and avails them to the market at a price that exceeds the cost of producing them. For organizations to successfully achieve this, they engage in processes to develop business strategies. There are different frameworks for business strategy formulation and analysis; Grant (2001) sites such examples as Porter's Five Forces, the Profitability Impact of Marketing Strategies (PIMS) and the Resource Based View (RBV).

## 1.5    History of the NGO sector

### 1.5.1    The International context

Hall-Jones (2006) traces the history of NGOs to the early 1800s. He cites the Anti-Slavery Society, formed in 1839 as most likely the first international NGO and further states that the anti-slavery movement, which reached its peak towards the end of the 18th century, was a catalyst for the establishment of many organisations that followed. Another group of the early NGOs are said to have grown out of wars and these include the Red Cross in the 1850s following the end of the Franco–Italian war; the child focused NGO, Save the Children following the end of World War I; and the equally well known international NGOs Oxfam and CARE which came into being after the end of World War II. This view is also expressed by Hill (2005) who says that generally a substantial number of NGOs with good international standing today had their origins in the aftermath of the 1939-1945 World War, providing assistance to victims especially those who had been displaced by the war on the European continent. He cites the example of CARE, an NGO whose acronym has evolved from the original name 'Cooperative for American Remittances to Europe'.

### 1.5.2    The Malawian context

Malawi, previously called Nyasaland, is relatively small compared to its neighbours with a length of about 900 kilometres and width which varies between 80 and 160 kilometres. It is located in

the Southern hemisphere and shares its border with Mozambique on the East-South-Western frontier (the longest), Zambia on the West and Tanzania on the North North Eastern side. About 20% of its total area of 118, 484 square kilometres is covered by water. Malawi is a former British colony under whose rule it was called Nyasaland. It acquired its independence in 1964 and republican status in 1966 under the leadership of the late Dr. Hastings Kamuzu Banda. He was ushered into government under the banner of the Malawi Congress Party (MCP) which had previously been called the Nyasaland African Congress. Soon the MCP became a dominant force on the Malawi political, social and economic scene and consequently in the early 1970s the Constitution was changed to declare Malawi a one party state and Banda was made life president. The country started experiencing internal political agitation from early 1992 when for the first time there was open challenge to Banda's rule through a pastoral letter authored by the Catholic Bishops. The momentum gathered at this stage became unstoppable and the MCP government succumbed to the pressure which led to a national referendum paving the way for multiparty politics. The first multiparty elections since independence were held in 1994 leading to the United Democratic Front (UDF) ascending to power under Bakili Muluzi who was succeeded by Bingu Wa Mutharika in 2004. Mutharika leads the Democratic Progressive Party (DPP).

Malawi has a long history of civil society activity which can be categorised into three eras as below:

### 1.5.2.1 Colonial era

Chirwa and Nyirenda (2003) explain that under the era of colonialism the country had a wide variety of what were called native associations and other forms of institutional set ups such as unions for trades and workers, welfare associations, cooperatives, cultural associations, and autonomous religious institutions. Further to this they observe that though almost all of these had an elitist identity, their impact on the colonial regime was substantial in terms of processes for legislation, politics and economic direction for the country. This is also supported by *The Courier ACP-EU* of November-December 2003 which reports that during the colonial era, civil society was very dynamic and that it was able to exert pressure on the authorities in the 1940s and 1950s through traditional associations, welfare societies, religious organisations, and trade unions which

resulted in significant reforms; they also played an important role in the 1960s, through their active participation in the decolonisation process.

Below is a list of some of the earliest civil society organisations in Malawi and their years of establishment. The information is based on narratives sourced from Morris (2006) and Phiri (1999).

   i.  Federated Missions of Nyasaland formed earlier than 1910 but exact year is not given
   ii. Native Industrial Union (African Business Association), formed in 1909
   iii. Nyasaland Fauna Preservation Society (NFPS), now the Wildlife and Environmental Society of Malawi (WESM) was formed in 1947.

### 1.5.2.2 Post independence

After Malawi attained its independence and during the whole first republic period, the role and autonomy of civil society was very much undermined by the one party regime. Chirwa and Nyirenda (2003) further observe that although the one-party state was dominant at all levels of life for citizens, the NGO sector was still steadfast and this was mostly so for organisations that were beneficiaries of foreign assistance. Their number grew substantially between the mid-1970s and the late 1980s but operated only in the area of development and relief, providing health care, basic education and refugee protection. Although they indicate that the most thriving were the faith based organizations i.e. those linked to religious establishments; and organisations involved in relief work, it was not without challenges. For instance the Christian Services Committee of the Churches in Malawi (CSC), an ecumenical NGO formed in 1968, is reported to have been banned twice (Lawson, 2000) by government order and was only allowed to reopen after extensive negotiations.

By 1985, Malawi had a population of 25 LNGOs (Meinhardt and Patel, 2003). However, two major factors contributed to the revitalisation of the sector. The first one was the humanitarian crisis caused by the influx of refugees fleeing the civil war in Mozambique in the mid eighties. This forced the Malawi government to accept international NGOs to come and operate relief work in the country. As most refugees were returning home in the early nineties, one key emergent property of the system was the environmental impact caused by the hosting of the

Mozambicans. This called for more support by NGOs in the area of environmental rehabilitation. It should be appreciated though that still at this stage the population of NGOs was not very big and was predominantly occupied by Northern NGOs. The second factor was the popular internal pressure for democratic reforms in the early nineties.

### 1.5.2.3 Pluralism era

The transition to democracy in Malawi since the mid 1990s saw the sprouting of NGOs in the country where the sector was heavily repressed by the system during the one party era of Dr. Hastings Kamuzu Banda. Lawson (2000) further states that organisation of any kind outside the party was actively suppressed and, as such, any organisations that fitted this bill were disbanded or shut down. Since the dawn of democracy in the mid 1990s a lot of LNGOs have been established alongside the arrival of more INGOs. Estimates by Lawson (2000) indicated that there were 300 by the year 2000. The Council for Non Governmental Organisations in Malawi's (CONGOMA) master list of March 2007 (unpublished) shows a list of 337 registered NGOs. However the list does not provide categories to determine the number of local and international NGOs.

## 1.6    Legislative framework for NGOs in Malawi

All NGOs operating in Malawi are required to register before they are recognised. The process begins with registration with the Registrar of Trusts under the Trustees Incorporation Act No 5 of 1962. Following this, they are supposed to further register under the NGO Act of 2000 which makes it mandatory that they register with CONGOMA before registering with the NGO Board, the regulatory body established by the Act. The Act has special provision under clause 33 focussing on fundraising and it states that all NGOs registered under the Act are free to source funds and to embark on activities for fundraising from the general public for the purposes of enabling them to pursue or further their public benefit goals. The Act also provides flexibility to the NGOs in terms of ways for raising funds so long as they are within the limits of the Laws of Malawi.

Clause 20 (3) of the Act also highlights sources of funding for the NGO as one of the key requirements to accompany an application for registration.

**1.7    Chapter overview**

This dissertation has been broken down into five chapters, each outlining a particular theme building on the preceding chapter.

### 1.7.1    Chapter one:           Introduction

This is the introductory chapter and introduces the subject of investigation as well as the historical background information.

### 1.7.2    Chapter two:           Literature Review/Conceptual Framework

The conceptual framework is outlined here to give a theoretical perspective of the subject of research. It draws on the existing theories and frameworks to set the tone for researching the subject.

### 1.7.3    Chapter three:         Research Design

This chapter outlines the chosen methodology of the research namely the case study. The chapter also examines the strengths and shortfalls of the case study approach and goes further to discuss the basis for choosing it in this research.

### 1.7.4    Chapter four:          Findings and Analysis

This Chapter discusses the findings and framework used to analyse the findings.

### 1.7.5    Chapter five:          Discussion, Recommendations and Conclusions

As a closing chapter, it gives insights into my thoughts on the various options available for the problem situation to be dealt with. It draws lessons from the case study for other LNGOs and makes some recommendations for them to consider.

# CHAPTER 2:        LITERATURE REVIEW

## 2.1     Introduction

The aim of this chapter is to review the literature related to the subject under study and covers two broad areas focusing on the following:

i.   Previous studies related to the financial sustainability of NGOs and

ii.  Key concepts used in this study such as systems thinking, organisational learning and the Resource Based View (RBV) of a firm.

Review of literature on NGO sustainability is divided in two subsections namely the challenges of donor dependency and the alternatives that can be explored to achieve autonomy. Systems thinking literature tackles the historical perspective, the various faces and characteristics of the theoretical concept. Literature on organisational learning focuses on the various levels at which learning takes place in organisations and the learning cycles and loops in various stages. The RBV framework looks at the key parameters for analysing an organisation's business strategy.

## 2.2     Donor dependency challenges

International funding has not been stable with resources steadily decreasing as a lot of donors have turned their interest to emerging priorities e.g. publicly popular regions of the world (Alymkulova and Seipulnik, 2005).

### 2.2.1   Trends in funding

Layton (2006) observes that the question of financial sustainability has in recent times grown to be an even greater priority issue for the following reasons:

i.   Resources provided by donors to support NGOs are on the decline

ii.  Donors across the world have redirected their resources into regions that are politically attractive and appealing to the public eye (like Sudan, Iraq and Afghanistan) while narrowing support to less politically attractive areas. Certain themes also seem to be marketable (such as agriculture and anti-terrorism). Davis (1997) also confirms this trend

as he points out that funding for NGOs has been unpredictable. This he says is due to donors' shift of attention to other regions of the world, which are currently politically expedient or publicly popular.

iii. The growth in terms of numbers of NGOs globally has increased competition among NGOs against the backdrop of increasingly inadequate financial support. Ritchie (2003) further points out that there are over 100 developing countries around the world hosting thousands of NGOs competing for the same resources.

iv. Globally, donors have increasingly shown reluctance to support customary overhead expenses (equipment, salaries and rent). In the process they have diverted attention of NGOs from developing their program strategic plans as they look for more funding to fill the gaps. This keeps them away from sticking to their own mission as most of them are usually not strategically ready to explore alternative sources.

Bennett and Gibbs (1996) have also outlined additional trends of funding the world over which consequently influence the behaviour of NGOs as follows:

i. International development funding has decreased
ii. Geographical changes in funding allocation
iii. More funding for development being channelled to Central and Eastern European nations as well as the young nations that emerged from the former Soviet Union
iv. Increasingly aid being channelled to humanitarian causes
v. A slump in donations made by the public to NGOs in the North.

The trends listed above, show the overall salient notion of unpredictability on the part of donor funding. Since NGOs largely depend on financial resources from donors, it means they are at the mercy of the donors' decisions. This puts them in a vulnerable position in terms of both their autonomy and sustainability. This is the more reason NGOs should question the existing model of operation in terms of funding by exploring alternative avenues.

Alymkulova and Seipulnik (2005) have also noted that donors put particular restrictions on how funds donated can be spent, determining issues or themes of interest, or deciding to fund expenses for programme activities only. Such a scenario is supported by others as well like Alin et al (2006) who emphasise the last point by explaining that donors in general are more interested in project costs (implementation and activities). Davis (1997) expands on the issues by stating that a lot of the financial resources from foreign donors and made available to NGOs are presented with very stringent restrictions, leaving little room for NGOs to fend for sufficient support for overhead expenses from within the project budgets. Gregson (2003) argues that focus on activities only leaves NGOs ineffective and strategically weak and therefore leaving room for the projects themselves to fail. Gregson (2003) exposes an important irony showing that although donors have their own valid accountabilities, they do often impose conditions on their partners that they would often not dream of applying to themselves.

The issue of overhead expenses is very fundamental for all donors to consider when funding projects. The budget line for overhead costs covers important aspects such as salaries for personnel implementing the projects. When these are not covered by project budgets, the quality of the project is likely to be affected since the NGO cannot attract or allocate competent personnel to the said project without remuneration. It is therefore in the donors' interest as well to support overhead costs to ensure that their investment achieve their desired impacts. This however does not take away the need for NGOs to engage in income-generating enterprises. Overhead expenses for organisations are certainly larger than those of a project, as such even in the event that project overhead costs are donor supported and therefore contribute to overall overheads, the institutional needs for overheads do not entirely go away. Certain positions such as those of director, office assistant, and secretary are usually institutional rather than project based when it comes to financing salaries. The same applies to needs for expenses for assets not attached to projects e.g. maintenance for vehicles and computers, and payments on insurance etc. Subscription payments for various institutional memberships are also usually not entertained by donors despite organisational benefits that may be accrued. These financial needs and the necessity for autonomy justify the need for NGOs to still generate own income.

van der Heijden (1987) cited in Stromquist (1998) states that in situations of severe poverty at a national level, the likelihood is high among NGOs to rely on northern NGOs and bilateral funding. Pedlowski (1997) in his study of the Plano Agro-Pecuário e Florestal de Rondônia (PLANAFLORO), a natural resource management forum supported by the World Bank in Randonia, Brazil found that a lot of NGOs did not possess either the organisational capacity or economic independence to exert their authority on policy making processes in PLANAFLORO successfully. He observed that the influence of transnational NGOs in the policy making of PLANAFLORO and in the internal dynamics of local NGOs demonstrates that they, to a certain extent, distort local NGO autonomy. Pedlowski concluded that an important factor that can negatively affect institutional autonomy is heavy dependence on external sources of income.

The issue of dependence should be understood in the context that while NGOs such as those in the case of PLANAFLORO may not entirely divorce themselves from external sources of funding, they can minimise influence through generation of own funds. The level of external influence can be leveraged if the NGOs developed capabilities to generate own income as a contribution to their budgets. This should be encouraged even when there is steady flow of donor funding. Having some of the funds generated internally would enhance their bargaining position and attainment of some level of autonomy in the decisions made on the NGOs by the donors. Davis (1997) reports that in a research on environmental NGOs in Central and Eastern Europe (CEE), 73% indicated their status as poor, very poor or unstable and that most remained deeply reliant on foreign funding, mostly from northern sources.

van der Heijden (1987) cited in Stromquist (1998) also describes the situation in some sub-Saharan countries where Malawi also lies, that dependency rates for external support have exceeded 90%. The Courier ACP-EU, No 201 November-December (2003) reported that civil society in Malawi was generally weak and identified several constraints in relation to the weaknesses noted which it categorised as both internal and external. The issue of a weak financial base was highlighted prominently, citing the inability by most of the CSOs to generate resources locally, resulting in them being too dependent on donor funding and hence vulnerable to donor agendas.

This is further confirmed by Coony, Janszen and Malunga (2005) cited in Malunga (2007) who reported that between 1995 and 2007 local NGOs in Malawi were still relying on a limited resource base and in most cases, it was one donor. Malunga (2007) states that this was largely influenced by such major donors as DFID and USAID who could not permit the NGOs they were funding to explore alternative funding sources during the period the NGOs were receiving funding from them.

In summary, Layton (2006) draws on the fact that NGOs in many developing countries face a lot of challenges. The issue of financial sustainability and NGOs' legal status as not-for-profit entities are closely linked. This is because NGOs are naturally dependent on the goodwill of donor organisations and these (donors) have not displayed consistency in their funding priorities to give confidence to the NGOs in terms of their (NGOs') financial and operational future. This is echoed by Bennett and Gibbs (1996) who state that NGOs are unfortunately tied to a business where media attention determines where the big money goes and politics is more often more important than people. They cited instances where almost overnight, attention was shifted from Somalia to Bosnia and from Afghanistan to Rwanda in the early and mid 1990s based on where the television cameras were pointing at that time.

## 2.3    Alternative financing to achieve autonomy

Van Sant (2003) defines autonomy as the extent to which an organization is free from the influence of other organisations or other driving forces from the environment. Some of the ways in which autonomy can be examined include the ability to decide on strategy, human resource policies and external relationships.

Van Sant (2003) cites Fisher's (1997) identification of a number of keys that can be used to assess organizational autonomy and these are listed below:

  i.    Getting guidance from organisation purpose and not external forces
 ii.    Multiplicity of funding sources
iii.    Having a constituency base
 iv.    High level know-how

v.   Tactical know-how on development and

vi.   Know how on management and social issues.

These six keys have been discussed in detail in chapter five and comparisons are drawn against Mango's (2007) four secrets to financial sustainability.

Layton (2006) shares insights by acknowledging that given the backdrop of the general decline in international donor financing for NGOs, there is a new approach emerging globally. This is by way of investing in technical support to assist NGOs in the developing world to adopt different and more innovative financing models. Such an approach integrates entrepreneurial approaches and customary NGO financing models to enhance opportunities for generation of funds for the NGOs. This new way of thinking facilitates convergence of two value systems of private sector for profit making ventures and the NGO's not-for-profit culture to develop what Layton (2006) describes as a comprehensive model for sustainability of NGOs. This novel paradigm is aimed at challenging NGOs and their leadership to think business and start allocating some resources such as personnel and time to ventures that will generate a return on investment for their sustainability in the long run and strategic impact on their social programmes.

Alymkulova and Seipulnik (2005) also contend that the most viable funding model is to broaden the horizons for sources of financial resources. They argue that an NGO financing approach that is sustainable is the one which avoids reliance on a singular source regardless of whether it is foreign or local. They also acknowledge that it is tricky to establish a prescription or formula for what would constitute a model for an NGO that can be described as financially sustainable in terms of percentages which should be used to apportion funds from various sources. There is general agreement, however, that some equilibrium should exist between financial resources raised both externally and internally. This is fundamental as it gives an organization room to manoeuvre its resources to cover expenses for operations and overheads. Alymkulova and Seipulnik (2005) have identified two main categories of sources of NGO as follows:

i.   Funds from donations (from various sources)

ii.   Income earned ( through business or service charges)

On his part, Moore's (2005) categorisation isolates three sources of funding namely:

i. Government or public sector support

This can come as indirect subsidy from government e.g. waiver of taxes or as a form of straight funding, through such things as grants, subsidies provided in the budget or through contracts to deliver a service. Waiver of taxes may come in as recognition that income being generated by NGOs is being used for purposes of public or social benefit.

ii. Private giving

This involves the general public making individual donations. The same applies to corporations making donations in cash or in-kind.

iii. Self generated income

NGOs generating their own income by engaging in various forms of economic activities.

Moore's (2005) categorisation does not highlight clearly the historically major funding sources such as traditional donors and appears to focus more on in-country generated funding. Regardless of the difference in classification style between Alymkulova and Seipulnik on one hand and Moore on the other, there is agreement in that an extra option exists for NGOs to earn income through direct engagement in selling of services or goods. Along similar lines, Ritchie (2003) has noted that self-sufficiency and sustainability are among the new buzzwords in the donor language. She argues that NGOs must implement income generating activities so that they supplement their budgets. She also acknowledges that it is a 'quantum leap' for NGO leadership to shift their way of 'non profit' thinking to that of an entrepreneur.

The preceding section clearly advocates for financial diversification and Layton (2006) explains why this is vital to an NGO's sustainability by advancing the following reasons:

i. Risk mitigation
ii. Increased revenues
iii. Donor independence
iv. Long-term sustainability

v.     Strong financial management

vi.    Diversification of financial resources

In brief Layton is advancing strongly the argument for NGO autonomy in its dealings with donors. Particularly, self financing or earned income is one area in which NGOs especially in the developing world, Malawi inclusive, have not explored extensively yet that is one of the major factors for achieving NGO autonomy. Self financing enables NGOs to access unrestricted funds. Mango's (2005) guide to financial management defines unrestricted funds as those that come to the NGO without restrictions on how they are used provided that they fulfil the NGO's objectives. The Mango guide argues that unrestricted funds bring greater autonomy, flexibility and security for an NGO and are therefore central to a financing strategy. There are various sources of unrestricted income and some are cited below, as combined as adaptations from Davis (1997) and Mango (2005):

i.     Charging nominal fees for community services

ii.    Fees from training

iii.   Fees from desktop publishing

iv.   Income from publications

v.     Income from membership fees

vi.    Income generating activity linked to the work of the NGO

vii.   Income generating activity not linked to the work of the NGO

viii.  Investment income from reserves and endowment funds

ix.    General donations

x.     Bank interests

xi.    Donations and gifts in kind from supporters

The list provided by Davis (1997) and Mango (2005) can be expanded and here it just shows the endless options that can be available to NGOs should they decide to go that route. What may be necessary is to assess the feasibility of the available options against the context in which each NGO operates. The following Table 1 illustrates some of the creative ways, which NGOs in the

CEE, South America and Asia have developed to generate own income. This is based on narratives of Davis (1997) and Fowler (1997) but tabulated by the author.

**Table 1: Examples of alternatives sources of NGO financing in practice**

| NGO | Country | Source of self generated income |
|---|---|---|
| Ekocenter | Yugoslavia | Publishing |
| | | Organic wine production |
| Ecobaltic Foundation | Poland | Own business activities |
| Czech Cleaner Production Centre (CCPC) | Czech Republic | Training |
| Environment Management Training Centre | Poland | Training |
| Galgafarm | Hungary | Sale of organic produce |
| Society for improvement of the quality of life | Croatia | From own farm |
| ADONIS | Czech Republic | Tourism office – Ecotourism |
| Lotus Foundation | Czech Republic | Desktop publishing |
| IBASE | Brazil | Commercial activities including an email node |
| BRAC | Bangladesh | Cold store, printing press, garment manufacturing, handcrafts stores |

Table 1 above reveals the options for NGOs to generate income through entrepreneurship. However what has not been examined is the extent of their effectiveness in the overall NGO financial status. The other challenge was to examine how well they can apply to a Malawian NGO.

An NGO's funding mix may comprise restricted and unrestricted funds (Mango, 2005). Restricted funds are those that come with terms and conditions about what the funds may or may not be used for, usually secured from donors while unrestricted funds are usually from alternative sources. Mango's (2007) 'The secrets for financial sustainability' highlights the following four characteristics of financially sustainable NGO:

i.   A financially sustainable NGO should have a funding base that is diversified
ii.  The NGO should have funds available that are unrestricted
iii. There should be financial reserves
iv.  The NGO must have strong stakeholder relationships

These four items have been discussed in detail in chapter 5 and comparisons have been drawn against Fisher's (1997) keys to organisational autonomy as cited in Van Sant (2003).

Davis (1997), however, acknowledges that building a truly sustainable NGO is a multi-faceted challenge. It involves reviewing and confronting internal factors; strengthening the overall organisational capacity; analysing and confronting the external factors that may hamper the establishment of a well guarded and supportive resource as well as conducive legislation for NGOs. He concludes by stating that self-financing can be a successful approach to raise resources to supplement traditional means commonly used by NGOs i.e. donor support that is usually project-based. He however cautions that it may not work for all. Bennett and Gibbs (1996) also support the idea of new financing models and propose that the focus be on institutional development rather than the activities only. For example, donors should shift focus from projects per se to the organisation itself. Hence, they have presented the following three basic pre-conditions:

i.   Effective strategic management – to enable the NGO make long term plans, and manage its change processes

ii.  Development of reserves to provide income for core budget thereby promoting financial sustainability and security

iii.     Long-term profitability through realistic sales levels, market creation and reliability.

The focus on parts of an organisation at the expense of others seems to have failed the NGOs in their quest for sustainability; therefore I support the idea of focusing on the whole organisation as championed by Davis (1997) as well as Bennett and Gibbs (1996). This means that a holistic approach to the processes of rethinking organisational funding is vital and should be integrated in new financing initiatives. In this light, thinking of organisations as whole systems would help in understanding the interrelationships that exist among the various parts of the organisation and how they relate to their environment. The following section examines the concept of systems thinking in more detail.

## 2.4     Systems Thinking

Flood and Jackson (1991) and Jackson (1992) provide a historical perspective to systems thinking. Systems thinking is generally agreed to have emerged in the 1940s to counter the challenges of mechanistic thinking where everything was deemed to occur in a manner that was predetermined by regulated behaviour, largely closed to the environment and adhered to analysis and reductionism. Stacey (2003) explains that systems thinking essentially seeks to understand phenomena as a whole formed by the interaction of parts and that the notions of wholes, boundaries and levels are its central distinguishing features. Lane (1999) cites systems thinking as a useful tool for investigating complex situations. In agreement with Stacey's (2003) view, Lane (1999) further states that it involves a holistic approach that looks at the behaviour of wholes, and the many interactions between the components, using a variety of methods.

Ackoff (1997) defines the system itself as a whole that consists of a set of two or more elements. Each singular element impacts on the way the whole entity is going to behave, depending on the components' interactions with other parts of the system. Similarly, Flood and Jackson (1991) describe a system as consisting of several components and the interactions existing among the components, with the system being separated from its environment by its designated boundary. Luckett (2004) expands on the explanations of a system as a group of items and/or actions that are interlinked and can be judged as a distinct, whole body that has a reason for existence. The

said body can adjust and continue to exist in an environment which is evolving in such a way that its goal will still be met.

Every system has a separate existence with a name which describes its common characteristics, relationships or functions, (Bettram, 1999). Luckett (2004) explains that inside each system there are elements that on their own can also be described as systems. These are referred to as sub-systems of the larger system. This forms a hierarchy or resolution levels of systems. Depending on interest, the observer decides on the system to focus on. This view is also supported by Bettram (1999) who says that at any one point you are looking at a sub-system (a system-in-focus) within a larger set of systems and that the system can have very different patterns, relations and intentions depending on the viewpoint of the creators.

In a system, a certain input from the environment goes into it, then gets transformed and emerges as an output (Olive publications, 1998). Spear and Martin (2001) extend this notion by stating that if an organization or system were described as 'closed', it would mean that there were no interactions across its boundaries. Stacey (2003) explains that an open system imports materials, labour, money and information and also exports outputs which may include materials and information to others.

Some aspects in the examination of the case of focus in this study i.e. AYISE, are done from a systems perspective. This is more evident in chapter 4 where the characteristics articulated above have been applied in analysing AYISE as a system.

Luckett (2004) identifies two major divisions when one is examining systems and these divisions are called hard systems thinking (HST) and soft systems thinking (SST). Luckett (2004) further looks at these paradigms as either being functionalist or interpretive systems respectively. Below is an abridged version of Luckett's (2004) indication of these differences in form of a table.

**Table 2: An abridged version of Luckett's (2004) description of types of complexity, p.11**

| | Hard Systems Thinking | Soft Systems Thinking |
|---|---|---|
| Assumptions about systems in the world | Assumes that systems exist in the real world as objective entities which obey laws that can be discovered through scientific enquiry | Assumes that systems are subjective constructs by an observer of complex real world situations |
| Purpose of an intervention | To improve the performance (efficiency and efficacy) of a system. | To facilitate learning of the participants about a problematic situation. |
| Nature of an intervention | Builds formal, representative models of the system to be improved | A learning process which makes use of conceptual models relevant to the situation to be improved |
| Role of intervention agent | The systems engineer/analyst aims to improve the performance of the system given predetermined measures of performance, or to design a system to achieve a given purpose | The task of the systems practitioner is to facilitate an enquiry process which enables the different stakeholders to define a system which they believe will bring changes to the problem situation, and to improve that system. |

The study of AYISE in this research is qualitative and this being the case, it fits well with the interpretive paradigm. Parts of the discussion of the system are therefore biased towards SST complexity.

Senge (1990) cited in Stacey (2003) holds the view that learning organisations must have their people think in systems terms. He argues that in that way they generate an understanding of the negative and positive feedback structure of the system they are a part of. They would acquire certain insights into emergent consequences of what they are doing and as such the link between systems thinking and organisational learning theory is important. This is so because for

organisations as systems to manage problem situations effectively, they have to embrace a culture of learning.

## 2.5    Organisational learning

Rogers (2002) defines learning as the interaction between the individual learner, the context in which the learning is taking place, the kind of learning task and the processes involved and Wenger (1998) states that learning is an integral part of our everyday lives. It is part of our participation in our communities and organisations. He also advances the notion that our viewpoint on learning plays a role: our thoughts about learning have an impact on areas where we identify learning and when we make choices on our courses of action about the learning – whether at individual, community or even at institutional levels. There is more emphasis on learning now than ever before because of the increasing pace of change taking place in the environment.

Organisational learning takes place at various levels. Britton (1998) states that learning organisations are organized in such a way that learning is a prominent feature at the following levels:

   i.   at the level of the individual

  ii.   at group or team level (involving individuals as members of such entities)

 iii.   inter-departmental level (trans-functional level learning);

 iv.   at the level of operations (learning for improvement of practice)

  v.   strategic organizational level (dealing with higher level learning at strategy and policy level)

Britton's list is reflective of the significance of systems thinking in organisational learning as it outlines the various levels, which in effect are subsystems within a broader organisational system.

While Britton has provided various points within the system in form of hierarchies, Argyris and Schon (1978) cited in Korth (2000) provide a summarised description by saying that learning in organizations takes place through individuals who in this case are playing the role of agents.
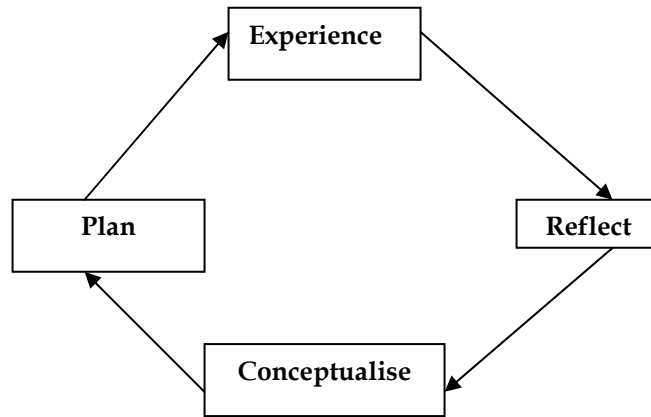
Though Argyris and Schon (1978) mention individuals only as agents of learning, they do not in any way contradict what Britton (1998) has stated that learning takes place at various levels. By referring to individuals as agents, they are actually linking the individuals and organisations in the process of learning and this is indicative of the nature of interactivity within systems. For organisational learning to take place, there must be interaction among the so called agents. Argyris and Schon (1978) further describe organizational learning as a process of detecting and correcting mistakes.

The learning processes at whatever level take place in stages. Two main frameworks illustrating this are called single-loop learning and double-loop learning. Argyris and Schon (1978) cited in Korth (2000) link single-loop learning to continuity within systems while double-loop learning is linked to modification of the current underlying norms in systems.

Argyris and Schon (1978) cited in Korth (2000) describe single-loop learning as one that results in the systems continuing to operate within the framework of their current policies while working towards achieving their present objectives. Morgan (1997b) cited in Torlak (n.d.) argues that the majority of organizations are capable of implementing single-loop learning, showing capacity to examine the environment, decide on goals, and tracking the system's progress towards achieving its goals. For instance, organizations such as NGOs reflect single-loop learning by monitoring the performance indicators such as number of beneficiaries reached, the number of capacity building interventions carried out among others. Such defined parameters may be outlined in planning and monitoring tools such as the logical framework, commonly referred to as the log-frame. In summary, single-loop learning places emphasis on the organization's ability to detect and rectify mistakes within a given framework of operation.

One of the most commonly used frameworks of single-loop learning is Kolb's (1984) learning cycle cited in Clark (1999). Figure 1 illustrates the cycle.

**Figure 1: An adapted version of Kolb's (1984) learning cycle sourced from Clarke (1999), p.14**

```
                    ┌─────────────┐
                    │ Experience  │
                    └─────────────┘
            ↗                         ↘
  ┌─────────┐                      ┌──────────┐
  │  Plan   │                      │ Reflect  │
  └─────────┘                      └──────────┘
            ↖                         ↙
                 ┌───────────────┐
                 │ Conceptualise │
                 └───────────────┘
```

The learning cycle identifies four stages namely: Experience, reflect, conceptualise and plan as explained below:

**Experience:** stands for immersing oneself in carrying out a task. This is the entry point where an assigned task is simply performed. The engaged individual or group is implementing a task not necessarily with the intention to learn.

**Reflect:** Raelin (2002) states that reflective practice provides the basis for the future. This is also supported by Freire (1972) and others as cited by Rogers (2002) who state that learning is accomplished by critically analyzing experience and acting based on the said analysis. This is a review of what has happened and has been experienced. This is also influenced by one's paradigm.

**Conceptualise:** This is a stage of theorising events by way of identifying meaning through interpretation of the events and identifying the linkages among them. It addresses the question "What does it mean?"
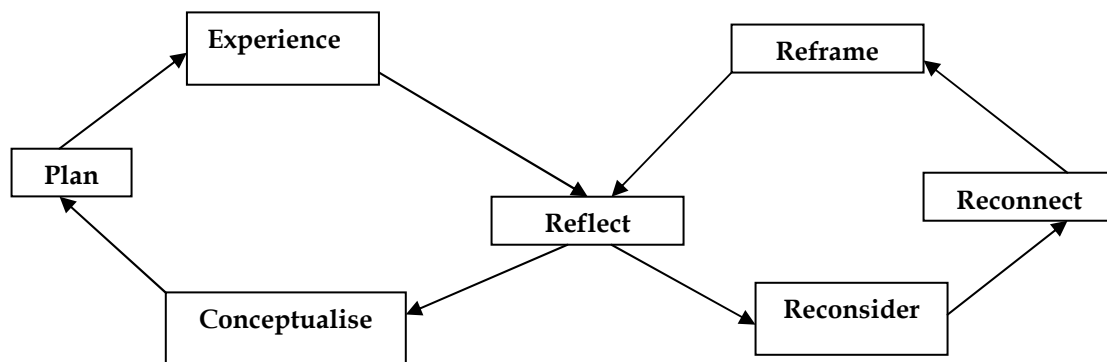
**Plan:** This stage of the learning cycle involves putting into practice the resultant new meanings, ideas and insights. This should result in a different level of the learning cycle to show progression.

While single-loop learning involves a single cycle (feedback loop) as shown in Figure 1 above, double-loop learning involves another feedback loop. However, Argyris & Schon (1978) cited in Korth (2000) view double-loop learning as leading towards modification of the current underlying norms, policies, or objectives. Double-loop learning therefore requires shedding off old ways in a significant way. Torlak (n.d.) states that organisations should also embrace double-loop learning by developing capabilities that enable them to take a second look at the state of affairs and question whether certain ways of doing things are still relevant or not. Stacey (2003) also brings the point home on double-loop learning by explaining that it occurs when the outcomes of events or activities trigger the fundamental examination of the existing mental models, and perspectives, which have been leading to actions. He further argues that this fundamental examination has the potential to provoke a shift from the existing paradigm, reshaping of the situation, ahead of amending the action. Morgan (1997b) as cited in Torlak (n.d.) has identified four steps for the implementation of double-loop learning as follows:

    i. Sniffing and scouring the environment
    ii. Drawing comparisons between the information captured in the environment and existing organizational practices
    iii. Questioning the appropriateness of the existing practices
    iv. Introducing relevant measures to address the situation for the benefit of the organisation

Figure 2 below illustrates double-loop learning.

**Figure 2: Double-loop learning**

The second feedback loop has extra steps in the learning cycle to the ones already tackled under single-loop learning. The extra steps are: reconsider, reconnect and reframe. The convergence point is at the reflection stage meaning it takes place at two levels in the double-loop learning process. The stages are explained below:

**Reconsider:** the basic assumptions are put into question alongside the reasons that lead us to them.

**Reconnect:** we move out of our usual perspectives to issues and seek other perspectives.

**Reframe:** Getting a new frame of reference and ideas and assessing if they may expand possibilities.

In his summation, Stacey (2003) describes this type of learning as potentially destabilizing and radical, but that it is crucially necessary for novelty. Morgan (1997b) cited in Torlak (n.d.) states that it is a must for organisations to possess abilities for both single-loop and double-loop learning concurrently.

At this point it is clear that LNGOs which want to attain financial sustainability and enjoy autonomy must seek alternative sources of financing besides the traditional sources. Working within the framework of traditional sources of funding is reflective of single-loop learning and LNGOs should begin to question their current practices. Introducing business enterprises to raise income will be a fundamental shift in the learning processes of most LNGOs and would be reminiscent of double-loop learning. The LNGOs would have to look at issues of competitiveness if their businesses are to be viable, as such would need to develop and implement effective guiding frameworks i.e. business strategies. The next section looks at the Resource Based View (RBV) framework based on the work of Grant (2001). This is one of the business strategy frameworks that business oriented organisations use. Other business strategy frameworks include Porter's Five Forces and the Profitability Impact of Marketing Strategies (PIMS). The rationale for choosing RBV has been explained in the next section.

**2.6     Resource Base View (RBV)**

This approach champions the notion that an organisation's resources are the major platform on which a business enterprise can build its winning formula. Teece, Pisano and Shuen (1997) describe this perspective as one in which a firm's profitability is seen through its superior internal set up. This superiority assessment focuses on those aspects of a firm which would normally be difficult for competitors to copy. The choice of RBV was made because of its emphasis on the internal organisation. This was in line with the characteristics of a case study approach briefly discussed in chapter 1 and explained further in chapter 3. In a case study an in-depth analysis of the system is conducted and the nature of RBV accords that opportunity. This was therefore relevant to the study as it would help me examine the business capabilities of AYISE through the internal resources it possesses. Grant (2001) has outlined a five stage procedure for the formulation of a firm's business strategy namely resources, capabilities, competitive advantage, strategy and resource gap identification. These are described below:

**2.6.1   Resources**

The entry point is that a business entity has to identify, classify and evaluate its resources. The evaluation is done in comparison to what competitors have. Grant (2001) presents key types of resources and these include finances, personnel, technology, reputation and physical resources. When resources are identified and evaluated, an organisation can exploit available opportunities for effective utilisation of the same.

**2.6.2   Capabilities**

Grant (2001) describes capabilities of a firm as the capacity of a group of resources to execute certain actions or assignments. Capabilities are the product of a combination of resources interacting with one another. Grant (2001) describes the interaction as involving complex patterns of synergies among personnel as well as between personnel and other resources. While he acknowledges that resources are the foundation of capabilities, he also emphasises that capabilities are the key basis for an organisation's competitive advantage. By identifying its capabilities a firm is able to determine what it can do more successfully than its competitors.

### 2.6.3 Competitive advantage

This refers to a firm's ability to achieve performance that is above the average within an industry or sector. Grant (2001) describes it as the 'rent-generating potential' of the organisation's resources and capabilities i.e. returns on investment of the two parameters. This is achieved by providing lower prices or value added services among others, which competitors are not able to offer. Competitive advantage ensures that a firm is able to maintain its market leadership over rivals.

### 2.6.4 Strategy

After assessing the best possible mix of resources, capabilities and competitive advantage, the firm should formulate the appropriate strategy that would exploit these parameters effectively. The fundamental point is that the most essential resources and capabilities a firm can rely on are those that are difficult to comprehend or spy on. Grant (2001) and Teece, Pisano and Shuen (1997) agree on the point that a firm must identify those competencies that are really unique and build a strategy around them. This may imply that a firm restricts the span of its strategy to those areas where it holds undoubted competitive advantage.

### 2.6.5 Resource gap identification

The strategy making process is not a static phenomenon, it is dynamic and the stage of resource gap identification is a reflection of that thinking. A learning organisation will realise whether its resource base offers fragile or robust competitive advantage. This can be done at the beginning of the strategy formulation exercise or during implementation as part of the reflective practice described by Raelin (2002) earlier in this chapter. Such reflection is important as it helps the organisation assess whether its resources are still valuable or are facing depreciation which would endanger or diminish competitive advantage.

### 2.7 Summary

NGOs are faced with complex challenges to ensure sustainability, especially when the majority of them have to rely on donor funding decisions, over which they have no control. This creates a dilemma for their future. Some NGOs have however, shown the way for potential alternative

funding through self income-generation activities geared at reducing the level of dependence on donors and its consequent challenges. The notion of a clash of values does come into play. NGOs generally view themselves as not-for-profit and may therefore resist the prospect of making profit by introducing enterprises. This direction is however inevitable considering the general selective nature of donors when funding i.e. they tend to focus more on projects and not the organisation that will drive the project as a whole. They have also shown the tendency of being unpredictable thereby rendering NGOs vulnerable.

The shift in approach to adopt more innovative and sustainable financing models calls for focus on the whole organisation as a system rather than just its parts. Systems thinking focuses on the organisation in its entirety and looks at its various parts in relation to the others instead of breaking them down into isolated units. That approach is useful in dealing with complex situations such as the one at hand. The call by Bennett and Gibbs (1996) for donors to consider institutional development rather than the activities emanating from those institutions only when dealing with NGOs summarises the importance of systems thinking in the quest for financial sustainability. The shift in approach being called for also challenges both donors and NGOs in the way they transact business currently. They must learn new ways of doing things i.e. should review their paradigms. The link between systems thinking and organisational learning is fundamental in many respects. This includes the fact that one of the five disciplines of a learning organisation outlined by Senge (1990) as cited in Stacey (2003) is systems thinking. Learning takes place at different levels even within organisational systems themselves and there are two major types of learning. These are single-loop and double-loop which are complementary to each other and organisations must embrace both simultaneously. Single-loop learning allows organisations to maintain stability and this is important when the plans being implemented are bearing good fruits. On its part double-loop learning ensures that organisations do not get complacent with the current successes as the existing practices may not be relevant for ever and such successes may become obsolete.

**CHAPTER 3**        **RESEARCH DESIGN**

## 3.1    Introduction

This chapter provides an outline of the methodological overview of my study. It details the case study methodology. The justification for my chosen methodology is presented together with the other specific methods that were used in the research. The chapter also details the data analysis framework that was used.

## 3.2    Case study as a methodology

A case study is a description of an occurrence, activity or a problem situation which presents a picture of real or imaginary situation and encompasses complexities of real life (University of New South Wales, 2005). Fry et al (1999) cited in Davis and Wilcock (2003) define a case study as a complex representation of a problem situation, which facilitates a deeper understanding of the context in which that problem situation resides apart from illustrating the main point. To summarise these definitions, Soy (1997) describes case studies as emphasizing on in-depth contextual investigation of a restricted quantity of occurrences or circumstances and their interactions. McCaslin and Scott (2003) recognise a case study as one of the five major traditions in qualitative research, others being biography, ethnography, phenomenology and grounded theory. They continue by citing Stake (1995) that in the context of qualitative research, case studies examine systems that have been clearly identified by boundary setting and particular focus is made on the system to study it more deeply. Usually this study is done with a variety of data gathering tools. Although the focus is on the clearly identified system, the researcher still considers the broader context within which the system operates. Leedy and Ormrod (2005) indicate that in a case study, a particular character, programme, or episode is examined to greater depth over a certain duration.

Researchers may choose to focus on one or more case studies in their research depending on the nature of the issues at hand and the uniqueness that the case(s) under review present(s). When more than once case study is used, the approach is called multiple or collective case study (Leedy and Ormrod, 2005).

Critics of the case study as cited by Soy (1997) argue that there may not be a strong basis for establishing robust conclusions or to extrapolate the findings because of the limited amount of cases to be studied. Other critics observe that the findings have potential for bias because of emphasis on the case being examined. The approach was however highly favoured in this research because of its ability to pay more attention to detail and thereby affording the researcher the opportunity to understanding the situation to greater detail instead of just touching the surface over many cases.

## 3.3     The case study framework used

The whole research process was guided by the following case study framework adapted from Soy (1997):

### 3.3.1    Decide and describe the research questions

Questions about the problem situation under consideration were formulated. This exercise was guided by the purpose of the research. Deciding and describing research questions is a key entry point into the study and it is aimed at establishing a strong focus for the exercise.

This focus of the study has been well articulated already in chapter one i.e. exploring how LNGOs can achieve financial autonomy.

### 3.3.2    Choose the cases then decide the techniques for gathering and analysing data

At the design stage of this project, choices were made regarding the approaches to be applied and this resulted in settling for a single as opposed to multiple real-life cases for deeper examination. Instruments for data gathering and approaches to use were also decided based on this choice.

Data gathering and analysis techniques are discussed in the respective subsequent sections of this chapter.

### 3.3.3    Arrange to gather the data

It was expected that the method used i.e. research using the case study would generate considerable levels of data emerging from the various sources. In this respect structured arrangement of the data was considered vital to avoid being overwhelmed. Large amounts of data could make the researcher lose focus on the primary research intentions. Taking cognisance of

this, advance preparations were made for dealing with big volumes of data and these included documenting it in an organised fashion. This was done by preparing databases in such a way that classifying, arranging, archiving, and accessing it was easy for data analysis later.

A research journal was prepared as it was deemed a key device in the collection of data. There was a single researcher whose other preparations involved interacting with appropriate literature and refining the research questions.

### 3.3.4 Get into the field and gather the data

Data gathering was done through various methods outlined in detail in section 3.4. A research journal was used for documentation during data collection and such data was being labelled according to the theme(s) it was addressing.

### 3.3.5 Assess and examine the data

The raw data was examined by employing multiple interpretations so that any possible connections between the objectives and the outcomes of the research could be identified while making reference to the framework of the research. It was important to have an open mind throughout the evaluation and analysis of data because being an emergent process, new opportunities and insights could come about anytime.

Creswell's (1998) data analysis spiral as cited in Leedy and Ormrod (2005) was used in the evaluation and analysis of data. This framework is described in detail later in this chapter. See Figure 3.

### 3.3.6 Preparation of the report

Preparing the report accorded the researcher the opportunity to avail an otherwise complex problem situation in a more accessible package to the user of the information. It also helped the researcher to get further clarity through identification of gaps and engaging in follow up conversations. All these contributed to new insights about the problem situation.

## 3.4 Methods for data collection

Data collection was done using methods that go along with a case study approach. The methods used in this research were documentary analysis, group discussions, interviews and observation.

### 3.4.1 Review and analysis of literature

Documentary analysis investigates all relevant forms of documentation and therefore it is important to make comparison between many sources, to enhance confidence in observations made (Flood, 1999). Reviewing of official documents provided an important entry into the organisation as it gave the opportunity to refine the framework of questions to be asked during the study. In this respect the official documents reviewed were AYISE's strategic plan for the period 2004 to 2007 and an evaluation report for one of the projects implemented by the organisation. The official documents reviewed were not many, since these two appeared to be the only ones with the most relevance to the study. However literature on the subject based on cases elsewhere was extensively reviewed to provide a well grounded theoretical dimension. Details of such literature have already been discussed in chapter 2.

### 3.4.2 Group discussions

Flood (1999) describes group interviews as involving a number of people in discussion on a specific topic introduced by a facilitator. Three group discussions were held during the study. Both were done with five senior members of management in the organisation comprising Mr. Marcel Chisi, Executive Director; the late Mr. Obert Khowa, Deputy Executive Director; Mr. Christopher Misuku, Project Officer responsible for youth exchange programmes; Mr. Henry Kamtedza, Finance Officer and Mr. Gracious Ndalama, Project Officer responsible for child rights. Each meeting lasted not more than three hours. Leedy and Ormrod (2005) identify a number of situations when focus groups are especially useful and one of them is when the interaction amongst the participating members is viewed as being more enlightening than interviews conducted with individuals. The group discussions were guided by the following questions:

i.     What was the mission and historical background of the organisation?

ii.    What was the institutional set up

iii.   What types of funding were available to the organisation?

iv.    What opportunities and challenges such types of funding presented to the organization?

v.     In case of unrestricted funds, what sources and strategies were in place?

The discussions became a learning point for the researcher as well as the management of AYISE in the sense that new ideas and insights that could help shape the future of the organization were generated.

### 3.4.3   Interviews

Open ended individual interviews were conducted with key informants from among the management team.  The focus was particularly on the Executive Director, the Deputy Executive Director and the Finance Officer because of their leadership roles in policy implementation, financial planning and management respectively. Leedy and Ormrod (2005) also state that interviews have potential to generate a lot of useful data and they further say that when used in a qualitative way they usually remain unstructured. This is different from the context of a quantitative study where questions are usually structured. Interviews with selected individual members in AYISE provided an opportunity for sharing diverse opinions at much deeper level than could have been in a group situation. These interviews were mostly framed on follow ups to the discussions, observation and document analysis.
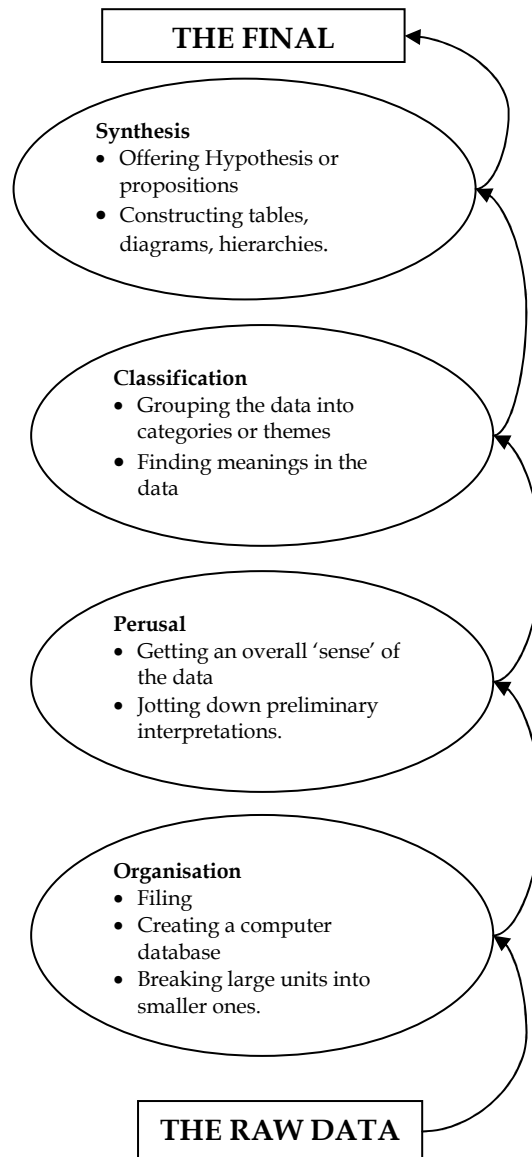
### 3.4.4   Observation

Leedy and Ormrod (2005) describe observation in the context of qualitative research as consciously taking a form that is not structured and hence diminishing chances of restrictions in terms of what is to be noted. With flexibility as one of the primary advantages, they say the researcher can swing to various aspects in the course of the observation during the research as emergent properties appear. Through observation, various aspects of AYISE were examined. By not being structured, the observation activity provided an opportunity to capture data more broadly as it emerged. Data was collected on both physical and social environment. The physical environment examined included the state of the buildings, condition of vehicles, type of furniture and its status etc. For the social environment, the following were observed: interactions among people, the ease or difficulty of communication during group discussions and power dynamics among others.  Such data would help in understanding the prevailing culture in the organisation. Organisational culture has impact on what sort of decisions would be made and how they are made. This also assisted the researcher to develop own insights and triangulate with data gathered using the other sources.

## 3.5    Data analysis framework

The data analysis spiral was used in the analysis of data and this framework is based on Creswell (1998) as cited in Leedy and Ormrod (2005). See Figure 3 below.

**Figure 3: Creswell's (1998) data analysis spiral adapted from Leedy and Ormrod (2005, p.151)**

THE FINAL

**Synthesis**
- Offering Hypothesis or propositions
- Constructing tables, diagrams, hierarchies.

**Classification**
- Grouping the data into categories or themes
- Finding meanings in the data

**Perusal**
- Getting an overall 'sense' of the data
- Jotting down preliminary interpretations.

**Organisation**
- Filing
- Creating a computer database
- Breaking large units into smaller ones.

THE RAW DATA

The framework cited above has the following stages:

### 3.5.1 Organisation of data

Breaking data down into smaller units: data was recorded in a field notebook or journal and was based on the four methods of documentary analysis, group discussions, interviews and observation. Key sentences were noted and marked for easy retrieval.

### 3.5.2 Perusal of data

Identifying possible interpretations: This involved going through the data a number of times to get a sense of the issues and picture emerging as a whole. It also provided a sense of familiarity of the data prior to report writing. Side notes by way of circling were made along the way to assist the researcher in allocating material to particular chapters or to highlight hints for further reference or follow up with AYISE.

### 3.5.3 Classification

This involved identifying themes, categories and sub-categories. Several categories of data were identified based on the patterns emerging and at this stage meaning making processes were also taking place. Through classification, the data was tested against various tools that were deemed appropriate in helping develop insights. Consequently ideas for various subtopics for the research report emerged. This assisted in creating the shape for this dissertation. The set of tools used were adapted from various sources and applied for their relevance in specific instances related to the data at hand. For instance data classified as historical was tabulated using the organisation biography tool adapted from toolkit of the Community Resources Development Association (CDRA) while the data classified as falling under funding levels and  funding types was reviewed under Mango's tools called donor dependency ratio and funding types matrix respectively.

### 3.5.4 Synthesis

Summarising data for readers was the next step after classification. Still with a wide variety of data available, synthesising it was necessary. Through that process, further insights were developed and this also assisted in coming up with further illustrative tools necessary for the study such as tables, diagrams among others. Further insights on propositions for the way forward also came up at this stage.

## 3.6 The case study from systems thinking perspective

The study looked at AYISE from a systems thinking perspective and more particularly within the paradigm of SST as the complexity type. The choice of SST was informed by the purpose and nature of the intervention whose main feature was to engage into an enquiry process to facilitate the process of learning about a problematic situation. It was anticipated that such a process of learning would consequently bring changes to the problem situation and to improve that system. These are features of SST as opposed to those of HST whose assumptions are guided by the construct of objectivity where performance indicators that are predetermined.

## 3.7 Ethical considerations

Considering that the research was to be carried out on a real problem situation and with focus on a particular organisation as a case study, all care was taken to ensure that relevant authorities in the organisation were approached and presented with a clear brief of what the research goal was and what was expected of them in the research. They were also advised of their freedom to accept to participate in and withdraw from the study at any point they wished to do so. A written request was made and followed by a written acceptance letter from the organisation. An undertaking was also made by the researcher on his responsibility to maintain confidentiality and that the data gathered would be presented in a manner that would make it impossible to trace a particular individual as source.

## 3.8 Summary

There are various research methodologies in use. The nature of the problem one faces and the goals of an individual's particular research have a bearing on the methodology to be used. The research problem at hand was a real life situation i.e. a practical concern of the organisation and the people in a given environment. The qualitative nature of the problems to be investigated provided the basis to use the case study in order to focus on the issue deeply through the eyes of one institution. Since the problem situation was investigated around a real organisation an ethical undertaking was made to ensure that the interests of the participants were a key part of the process.

**CHAPTER 4          FINDINGS AND ANALYSIS**

**4.1     Introduction**

This chapter outlines the findings of the study and analyses the data through an interpretive approach. Schram (2003) cited in Leedy and Ormrod (2005) speaks on qualitative inquiry indicating that experiences cannot speak for themselves; neither do features within a research or study context directly or spontaneously proclaim themselves as worthy of attracting one's attention. He further challenges qualitative fieldworkers, not to view their tasks simply as a matter of collecting or generating facts about an event or trend but rather to engage in a vigorous process of interpretation through taking note of things deemed significant, and not ignoring others as unimportant, or missing other potentially important things outright.

**4.2     Framework of analysis**

Creswell's (1998) data analysis spiral cited in Leedy and Ormrod (2005) was used to analyse the data collected in my research. This has already been explained in chapter 3. The first two stages of the analysis spiral i.e. organisation and perusal happened in the background and hence their visibility is not prominent here. However, their influence is notable in the final two stages i.e. classification and synthesis. These latter stages are reflected and applied directly in the rest of this chapter.

The case under focus has been analysed using systems diagrams and other selected tools. Data collected on the system of focus underwent a classification analysis which led to the identification of some categories as well as sub-categories. This process was important as it helped in the realisation of further insights thereby enhancing the deeper understanding of the system and its dynamics from various perspectives. Sections 4.3.1 and 4.3.2 are a result of the initial classification process. The subsequent sub-sections reflect more characteristics of the synthesis stage of analysis. However, overlaps with the classification stage are not uncommon. This is because of the transitional relationship between the two stages. It should also be appreciated that the system under consideration was analysed from various perspectives for their significance in understanding the system better. This was done by applying various tools in form of diagrams, tables and cases. To that effect, there may appear to be some going back and forth on some aspects of the last two stages of the analysis framework.

**4.3     AYISE as the system of focus**

In line with the spirit of systems thinking, which seeks to understand phenomena as a whole, the analysis of AYISE is tackling the systems' components in the subsequent sections and their interaction to understand the behaviour of the whole organisation.

### 4.3.1    Background

AYISE is a youth-led NGO which was established in October 1995. The Government of Malawi registered it in July 1997 under the provisions of the Trustees Incorporation Act of the Laws of Malawi. AYISE is also registered under the National Youth Council of Malawi (NYCOM) Act and the NGO Act of the Laws of Malawi. Other important memberships include the Council for Non-Governmental Organisations in Malawi (CONGOMA). The organization's head office is in Bangwe Township, a high density area situated on the eastern outskirts of Malawi's commercial capital, Blantyre.

### 4.3.2    Institutional set up

AYISE has a board of governors which is the policy making body for the organisation and the executive director heads its secretariat. The executive director oversees implementation of policy and strategy done through the following five programmes:

#### 4.3.2.1  HIV & AIDS Programme

The programme focuses on HIV & AIDS awareness, care & support, advocacy and building community competence to respond to HIV and AIDS around Blantyre City and some rural areas.

#### 4.3.2.2 Livelihood Security & HIV AIDS

This is implemented mostly in the rural areas outside Blantyre City. It implements projects on economic empowerment while mainstreaming HIV & AIDS in the activities. Beneficiaries are served through practical skills building interventions such as a bakery, tailoring, welding etc. These beneficiaries are mostly youth, children and women who are custodians of orphans who have lost their parents to AIDS.

### 4.3.2.3 Child Protection: Child Labour Prevention Rehabilitation

The programme was established to promote the rights of children and engages in projects that aim at prevention of child labour as well as withdrawal of child labourers from the plantation sector in the southern districts of Malawi. In some districts, livelihood security interventions are integrated to support poor families that are the most likely to expose their children to labour exploitation.

### 4.3.2.4 Youth Centre Programme

The youth centre based in Bangwe Township, is a recent establishment with social facilities such as a recreational hall, sporting courts for soccer, netball, basketball, volleyball and running tracks (athletics). It also has a computer centre and an eating facility. The youth centre runs an affiliation structure to which youth clubs around the township are members. They pay an annual subscription fee to enable them access the facilities. This system plays a dual role. Firstly it promotes ownership of the facilities by the users hence preventing careless utilization and vandalism. Secondly it contributes financially to the maintenance of the facilities hence some level of cost sharing.

### 4.3.2.5 Youth exchange (MWAI Program)

The programme also known as the Malawi Workcamp Association International (MWAI) involves transnational youth volunteer exchange and national youth workcamps. The workcamp is a development technique which facilitates community driven initiatives where youth from varied cultural backgrounds mobilize themselves and visit a community as external facilitators to conscientise the people they work with to reflect on normalized challenges and motivate them to address the same. The aim behind this is to promote cross-cultural understanding and solidarity among the youth. However, in the end peace building and democracy are enhanced.

The administration department is a support structure for all the programmes and it houses the functions of finance, human resources and resource mobilization.

AYISE's projects have been funded by various donors which have over the years included the Joint Oxfam Programme in Malawi (JOPM), UNICEF Malawi, the Southern Africa AIDS Trust

(SAT), the Australian Agency for International Development (AUSAID) and the United States Agency for International Development (USAID) among others. AYISE is also a member of several networks including the Malawi Human Rights Consultative Committee (MHRCC), and the Work Camp Association International among others. The organisation also interacts with other NGOs some of whom it competes with for the same funding sources.

### 4.3.3   AYISE in Systems diagrams

This section offers a preamble by way of conceptualisation, to the synthesis of the data gathered on the system and discussed so far. Creswell's (1998) framework as cited in Leedy and Ormrod (2005) identifies tools such as tables and diagrams as key features of the synthesis stage. Diagrams are also used extensively in systems thinking and practice (Lane, 1999) and this provides strategic congruence to this analysis in the application of concepts from both systems thinking and Creswell's spiral. Lane (1999) shares key points on the usefulness of diagrams in systems thinking as follows:

   i.    understanding a situation;
   ii.   analysing a situation;
  iii.   communicating with others about that analysis;
   iv.   planning to deal with a situation, both logically and creatively; and
   v.    implementing, monitoring and evaluating those plans.

The use of diagrams in this analysis has been employed on purpose to facilitate the understanding and analysis of the situation. Diagrammatic presentation illustrates better certain ideas which would sound abstract to the reader or user of information in a report. The points shared by Lane (1999) above are therefore very reflective of the need for diagrams.
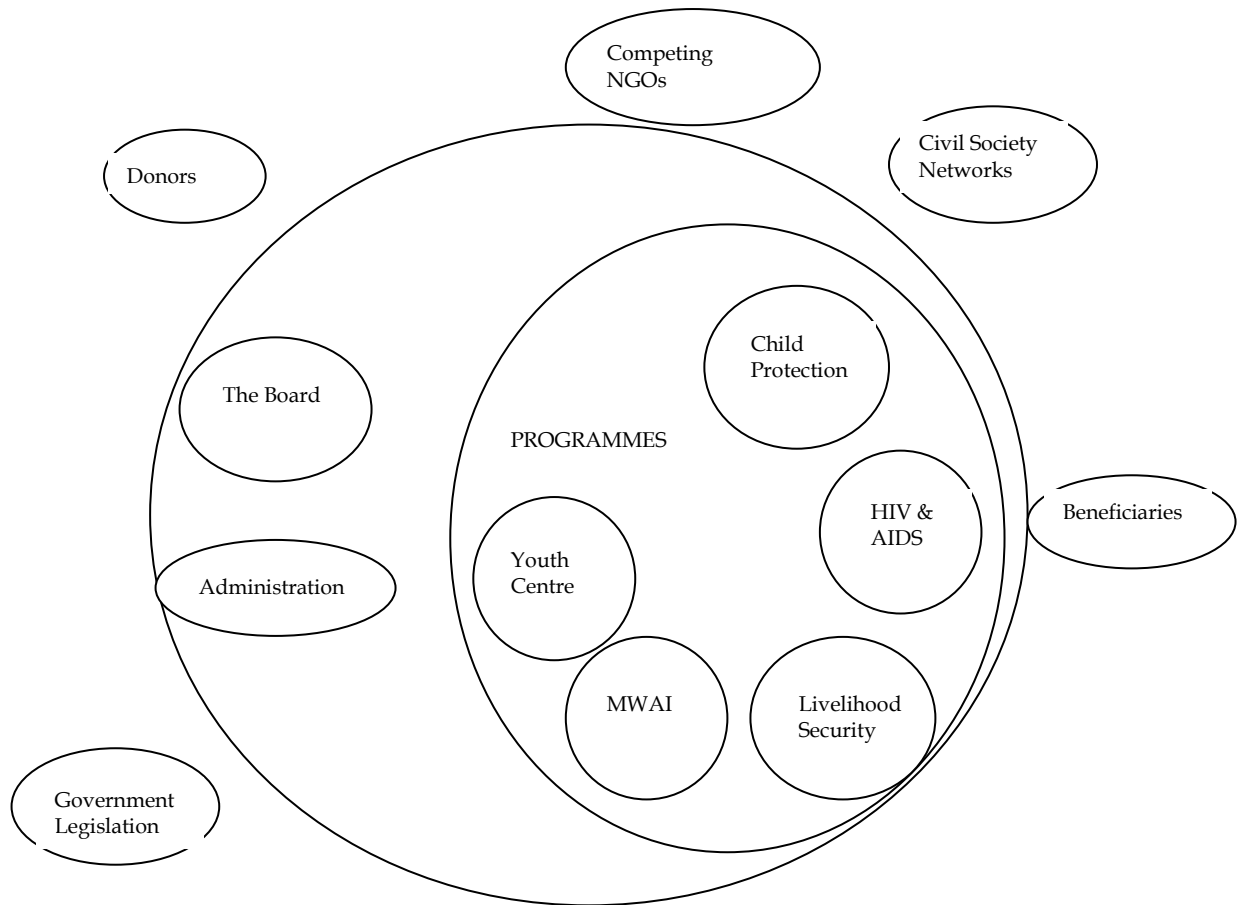
There are different types of systems diagrams in use such as the rich picture, relationships diagram, systems map and influence diagram etc. The last two have been used below to illustrate the situation of AYISE. As stated earlier the perspective being applied here in terms of systems complexity is that of SST whose characteristics have been shared on Table 2 in chapter 2.

### 4.3.4 A Systems map for AYISE

A systems map is basically a snapshot. It presents elements of the system and its environment at any given time. The choice of the systems map was based on the following points presented by Lane (1999):

  i.    illuminating ideas at an early stage of analysis;

  ii.   coming to a decision on structural components for a more in depth diagram;

  iii.  testing with experimental boundaries;

  iv.   coming to a decision on the level of the system of interest i.e. zeroing in

  v.    communicating to others the fundamental formation of the system that is being described.

**Figure 4; A Systems map of AYISE**



The system of interest AYISE has three key components namely the board, the administration and programmes. This study has particularly isolated the programmes component as a sub-system of interest for greater discussion because of its particular strategic nature to the organization.

Funding comes to the organization primarily because of programmes. This kind of focus is in agreement with the statements by Luckett (2004) and Bettram (1999) discussed in chapter 2 to the effect that inside each system there are elements that on their own can also be described as systems (subsystems). The diagram shows five components within the programmes subsystem. Like any system, it has an environment in which it operates and in the context of this research, five key environmental components were identified namely donors, government, civil society networks, competitor NGOs and beneficiaries.

At this stage of analysis, the systems map has assisted in bringing up an initial picture of the systems' components and boundary. As shared by Lane (1999) above, the diagram has also helped in shaping initial ideas on areas which should receive further attention. This is evident in the influence diagram appearing in a subsequent section.

### 4.3.5   The organization biography model

The research also explored the major turning points in the life of AYISE in order to examine closely key areas of influence in its history. To achieve this, a framework called Organisation biography was used. This framework was adopted from the toolkit of the Community Development Resources Association (CDRA) of Cape Town in South Africa and it aims at achieving the following goals:

i. To describe an organisation as a picture over time to gain an insight into the phases of the organisation's development

ii. To examine any turning points (successes or crises) in the life of the organisation and to try to understand how these impacted on where the organisation is now and what it can learn from these turning points crises to move into the future.

From the goals stated above, it can be deduced that the notion of a learning organisation is therefore fundamental when applying an organisational biography framework. This is also in agreement with the nature of complexity resident in SST, which is the complexity of choice in this study as it (SST) also highlights learning as one of its key features.

An organisation's history is drawn as a line, a table or a chart with marks indicating major triumphs and setbacks as turning points.

**Table 3: Biography of AYISE**

| POSITIVE EVENT/TREND | PERIOD | NEGATIVE EVENT/TREND |
|---|---|---|
| AYISE was established initially focusing on alcohol and drug abuse among the youth<br><br>Had no funding and relied on voluntary resources | 1995 (October) | |
| Registration certificate issued under Trustees Incorporation Act from Malawi Government<br><br>AYISE received the first funding from USAID. Had asked for $2,600 USAID scaled it up to $14,500 for a six month afforestation project | 1997 | |
| UNICEF boosted AYISE with a $ 4000 project grant | 1998 | First crisis as some members left to form another youth NGO |
| The Danish Centre for Human Rights granted AYISE a $10,000 funding | | Founding director involved in a bus accident and this led to leadership crisis at AYISE |
| USAID provided funding for child rights project – one year funding $134,000 | 1999 | Bad publicity about AYISE on financial management by some competing youth NGOs and this led to anxiety among donors |
| Capacity building support from USAID | | |
| Acquired first vehicle for field work from USAID and bought public address system for awareness programmes | | |
| Widened donor bases to include OXFAM | 2000 | |
| Established the Malawi Work Camp | | |

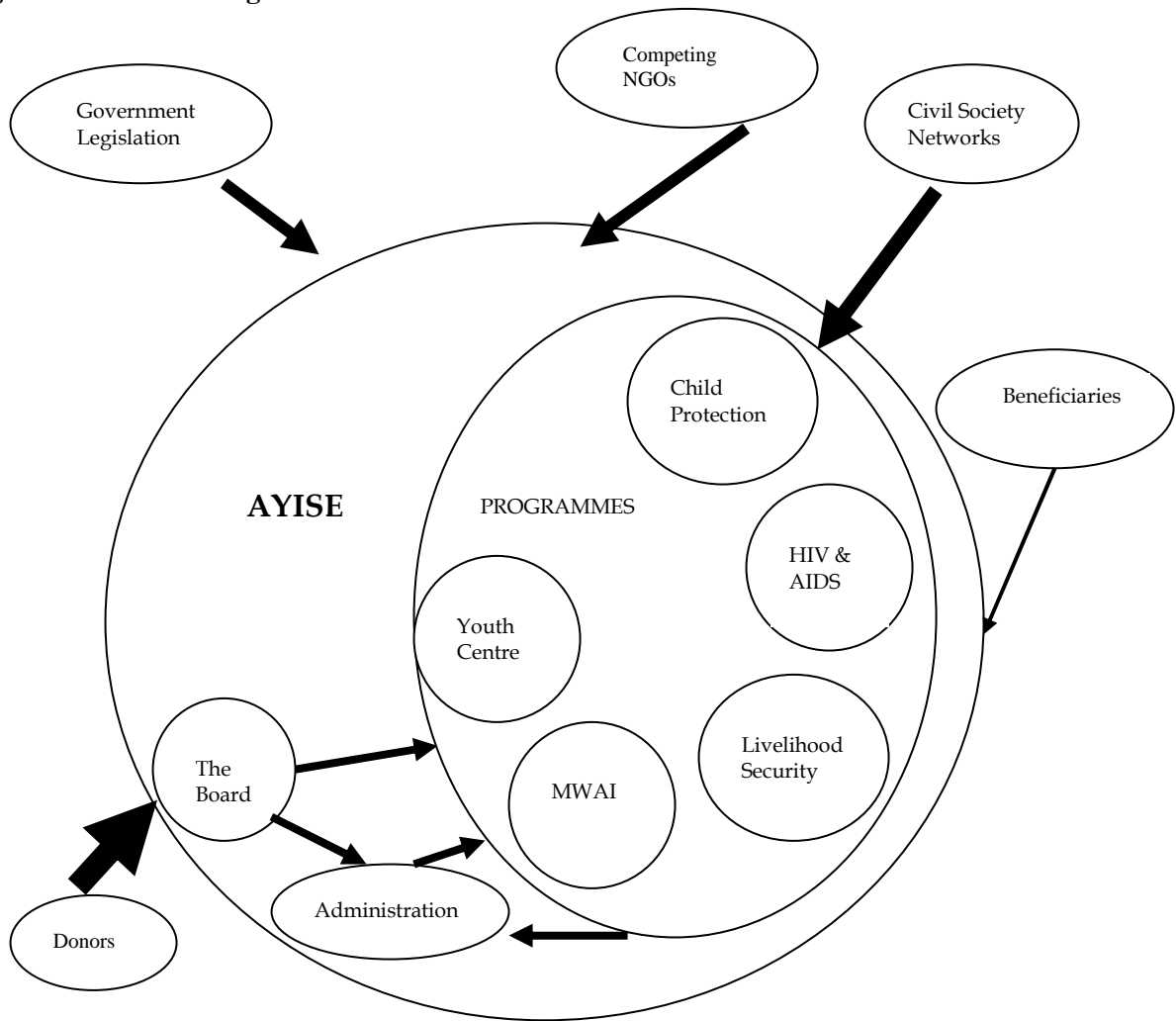| POSITIVE EVENT/TREND | PERIOD | NEGATIVE EVENT/TREND |
|---|---|---|
| Association International (MWAI) as a local chapter of an international movement on community development | | |
| AYISE developed its first strategic plan with funding from OXFAM | 2001 | |
| AYISE struck a five year contract with Southern Africa AIDS Trust (SAT) for capacity building | | |
| Received one-year funding from Australian Government | 2002 | |
| Received funding from Australian Government to construct youth centre | 2003 | |
| Procured a saloon car from own financial resources | | |
| A new three year strategic plan was developed | 2004 | AYISE's only field vehicle then was written off in a road accident and this affected mobility |
| Insurance compensation issued and AYISE procured own office space with the funds | | Resignation of founding finance officer and programme officer caused some uncertainty. |
| OXFAM donated a field vehicle to AYISE (Registered as AYISE's property) | | |
| Kinder Not Hilfer (KNH) of German funded a project which came with a field vehicle | 2005 | |
| Youth centre at Bangwe officially opened to the public | 2006 | |
| The National AIDS Commission (NAC) funded a project which also came with a field vehicle | | |

### 4.3.5.1 Analysis of the organisational biography

It is apparent that AYISE has been influenced greatly by the decisions of donors. There are very few turning points where the decisions have been made strategically by the organization itself. This is reflective of the general trend for most NGOs as discussed chapter 2. In the case of AYISE, luckily, most of the decisions by donors have been in favour of the organisation. Looking at Table 3, positive events outnumber those that are negative in nature. However, the existence of a lot of donor influence also reveals that AYISE is heavily dependent on donors and therefore vulnerable to influences of their (donors') agenda. Taking into account the trends identified earlier about donor agenda and their unpredictability in changing areas of focus for their funding, the organization may be caught off guard in future. The extent of donor dependence is analysed in subsequent sections of this chapter. The influence diagram below is one of the tools used in such analysis to provide an illustration of the level of influence from various components of a system.

### 4.3.6   Influence diagram of AYISE

The influence diagram was used to analyse further the organizational biography of AYISE. Lane (1999) explains that influence diagrams are developed from systems maps and indicate where one element or component in the situation has some influence over another. This presents a proof of the notion of interactivity as described in chapter 2 by Luckett (2004), Lane (1999), Ackoff (1997) and Flood and Jackson, (1991). Arrows indicate the direction of the influence and may have different thickness, shading or colour in order to present the magnitude of influence. Thickness has been used here as the parameter for measuring the magnitude of influence.

**Figure 5: Influence diagram of AYISE**



### 4.3.6.1 The Board

The board is ideally the policy making body of an organization. Its responsibilities include deciding the strategic direction of the organization and giving guidance on funding. It is also the legal custodian of the organization. Ideally it should have a thicker arrow in terms of its influence on programmes and administration. However, based on the data collected its level of influence on programme funding is comparatively low compared to that of donors.

### 4.3.6.2 Government (legislation)

In the context of Malawi, the influence of government on the funding direction of the organization is low. The government does not usually have funding relationships with NGOs unlike the situation in developed countries. Its influence is mostly limited to legislation which includes the Trustees Incorporation Act and the NGO Act which oblige NGOs to register with the government. However, such pieces of legislation have, in turn, a bearing on the credibility of an organization in the eyes of donors as they would normally demand registration as one of the conditions for supporting NGOs.

### 4.3.6.3 Beneficiaries

The beneficiaries of AYISE also have a low direct influence on the funding of the organization. Their influence is limited to feedback they may give during a monitoring activity for an ongoing project or an evaluation activity for a project in case of possibilities for extension of a project. As a constituency for programme delivery their level of influence is indirect. They may be described as passive influencers as far as direct funding is concerned. However, in some instances especially in the HIV & AIDS programmes, AYISE works with community based volunteers. These volunteers contribute in kind in terms of time and labour. In this way the organization saves on financial resources that could have been used to pay for the time and labour. There is however, some level of direct financial influence from beneficiaries in the case of the youth centre programme. This influence comes through the youth club membership subscription fees but it is significantly low.

### 4.3.6.4 Civil society networks

The next level of influence was by civil society networks as some funding from donors is also channelled through these. A good example is the MHRRC to which AYISE is a member and beneficiary of donor basket funding. The arrow of influence from civil society networks is thicker than the ones coming from components explained above indicating that the networks might have some control on the decisions of the organization.

#### 4.3.6.5 NGO competitors

AYISE does not operate in a vacuum. There are competing NGOs that are working in the same programme areas as itself. Such NGOs would naturally be looking for funding from the same type of donors in view of the fact that some donors have specific areas they support e.g. HIV & AIDS, Human rights etc. The nature of this competition can sometimes lead to rivalry. As shown in the organizational biography, one of the major negative events of AYISE occurred when a rival NGO was alleged to have initiated a campaign of negative publicity against it. This created a time of anxiety for AYISE when some of its donors queried the organisation on the news making rounds. The influence of competing NGOs is therefore significant but subtle in the case of AYISE.

#### 4.3.6.6 Donors

What transpired clearly was that AYISE and especially its programmes subsystem was highly influenced by the decisions of donors. The organizational biography clearly shows that most of the major events in the life of the organization have been influenced by donors. This explains why the influence diagram shows a very thick arrow between the donor element and the system of focus.

#### 4.3.7  Donor dependency ratio

The funding patterns of the organization were examined further. This was because of the huge influence that donors have in terms of funding and, by implication, strategic decisions. To achieve this, extra attention was paid to the financial records of AYISE. More specifically the study examined the total annual incomes of the organization covering a period of five years. Assessing this duration was going to give an idea of the emerging funding pattern in the organization. Using the donor dependency ratio formula shown below and adapted from Mango (2005), data from the financial records of AYISE was analysed.

$$\frac{\text{Total Donor Income}}{\text{Total Income}} \times 100$$

Table 4 shows the donor dependency ratios of AYISE between 2002 and 2006.

**Table 4: Donor dependency ratios**

| Year | Total income | | Total donor income | | Donor dependency ratio |
|------|------|------|------|------|------|
| | US$ | MK | US$ | MK | |
| **2006** | 242,252 | 33,915,344 | 228,929 | 32,050,000 | 94.5 |
| **2005** | 179,138 | 25,079,365 | 169,285 | 23,700,000 | 94.5 |
| **2004** | 174,603 | 24,444,444 | 157,143 | 22,000,000 | 90.0 |
| **2003** | 66,167 | 9,263,406 | 64,447 | 9,022,558 | 97.4 |
| **2002** | 55,158 | 7,722,205 | 54,717 | 7,660,428 | 99.2 |

The figures in Table 4 show that the total volume of funds at AYISE has been increasing annually and impressively too. The total volume increased by 339% between 2002 and 2006 while the funding from donors increased by 318% over the same period. This shows that AYISE has built a very good reputation with its donors in terms of programme delivery and its capability to handle large sums of money.  This is also reflected in the organizational biography as the key events show that the organization has been expanding its programme portfolio with  an increasing number of donors making funding available to the organization.

However, the analysis in the table shows that AYISE is very highly donor dependent with the lowest annual donor dependency ratio at 90% and an average dependency ratio of 95% over a five year period. The findings from the dependency ratio table and those from the organizational biography are also in agreement despite the former being based on figures i.e. quantitative while the latter was based on a narrative recollection i.e. qualitative. Moreover, all the key events in the organizational biography do not highlight clearly any major breakthrough in the area of self financing.

On average, AYISE has been able to achieve autonomy levels of 5% of the annual budget. This means that out of the total funds it has had, the organisation was able to make independent decisions on how to use 5% of its total income. Many LNGOs do not have that luxury as they are solely dependent on funds from donors. It was therefore of great interest to this research, to learn how AYISE has managed that.

The following cases were examined:

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**Case 1: Costing of institutional assets used in funded projects**

AYISE has used some of its assets to generate revenue in various ways within the framework of the projects supported by donors. For instance it has been able to negotiate with donors to have the projects they support pay for office space to be used by the projects. In the same way, some projects supported by donors and implemented through AYISE, have hired assets from AYISE to be used by the projects. Such assets include the public address system which is regularly used in awareness projects; institutional vehicles i.e. not tied to any funded project and these are rented out to projects which have not provided vehicles. In this respect the organisation has operated as a separate system from the projects and offers its services to the projects at competitive rates. The projects pay AYISE for use of the facilities and the revenue is transferred from project accounts into AYISE's accounts. It should be stated though that not all donors have entertained this, as in some cases, the facilities have been presented as AYISE's contribution to the projects. Nevertheless, the value of that revenue has been phenomenal.

</div>

**Case 2: Youth Centre Facilities**

As stated earlier, AYISE has a youth centre programme which has come as a result of partnerships with the Australian government, the Blantyre City Council and the surrounding community. The youth centre is at the core of AYISE's mission of promoting productive lives for youth using life skills approach. Apart from the sporting facilities, the centre has a conference room, a computer resource centre and other recreational facilities such as a restaurant. AYISE has managed to utilise the facilities for social services to the youth while at the same time building business enterprises around them for its own income generation. Projects implemented by AYISE hire the conference room when they need to conduct training and meetings within Blantyre City. The conference package includes use of the restaurant for meals. The sporting facilities also attract major sports clubs within Blantyre and those visiting the city. They hire the facilities for their preparations at a fee. Of late AYISE has entered into partnership with organisations such as UNICEF where the latter has provided scholarships to disadvantaged girls to learn computer skills at the resource centre for free. UNICEF then pays AYISE for the girls' tuition and meals.

**Case 3: Guest House**

AYISE acquired adequate space for its offices and has some excess room which it has converted into a guest house. This has been done primarily to host international volunteers under the MWAI programme. The hosting of such volunteers is at a fee and the availability of the accommodation facility within the premises provides convenience for the volunteers in terms of their learning and logistical support from AYISE.

The cases presented above are discussed to some detail in chapter 5.

### 4.3.8 Types of funding available in AYISE

Chapters 1 and 2 discussed the existence of various options and sources of funding for NGOs. This section examines the situation in AYISE in relation to these discussions. To assess the funding types available in AYISE, Mango's (2005) framework on funding types mix was used. Table 5 below illustrates how AYISE's current position fits into the matrix.

**Table 5: Funding types mix in AYISE (framework adapted from Mango, 2005, p.1)**

<div align="center">

**Unrestricted**

</div>

| | | |
|---|---|---|
| **Short term** | General Fundraising | Core Funding<br><br>*Source of 5% of AYISE funding* | **Long term** |
| | Project Funding<br><br>*Source of 95% of AYISE's funding* | Programme Funding | |

<div align="center">

**Restricted**

</div>

The descriptions below provide a narrative of the quadrants in the Table 5 above.

#### 4.3.8.1 General fundraising

This involves short-term funding and the funds raised in this way are unrestricted in nature. The ways in which the funds are raised include one-off fundraising activities and donations from the public. It is helpful when the organisation wants to build up reserves or fill a short term gap arising from instances such as a project funding agreement that has failed to cover 100% of the implementation costs. In terms of AYISE, this type of funding is not present.

#### 4.3.8.2 Project funding

The income generated is usually restricted and it is also short-term in nature. This is generally from institutional donor agencies. Such funding is project-specific, and on average would last for 1-3 years. There is no assurance for extension and as such the project impact may not be achieved adequately while at the same time the NGOs' access to the funding ends once the stated project period expires. Unfortunately this is the most common form of financing for LNGOs. In line with

the observations from Mango, the research on AYISE has confirmed this situation. The findings have revealed that the organisation gets 95% of its funding from donors.

### 4.3.8.3 Programme funding

Programme funding is a long term arrangement but still comes with restrictions just as in project funding. In this arrangement the donor provides funds to the NGOs based on broader programme themes and not specific projects. Such arrangements for long term funding are usually possible after establishing a strong working relationship with a donor. This type of funding, in my view, provides a safety net in some respects because there is commitment for funds for a long time by the donor. This, however, does not take away the possibility of donors pulling away earlier should they need to do so due to various reasons. These may range from change of priorities, reduced budgets caused by global events like the recent economic crisis or by new or existing government policy in the case of bilateral donors such as USAID and DFID among others. In some cases extreme restrictions have been placed on LNGOs receiving programme funding. Examples of such restrictions include not allowing the NGOs to engage any other donor during the period they are funding the organization as observed by Malunga (2007). This type of funding is not existent in AYISE currently. However, my assessment of the organisation is that it has the potential of managing programme funding.

### 4.3.8.4 Core financing

Here financing as an income comes from enterprise activities by way of goods or services or both. Such funding is more reliable, regular and flexible; and can be used for the NGOs' core operations. The researcher sees this as a higher level of organizational funding which requires competences not currently viewed as crucial in most NGOs. It brings a more disciplined entrepreneurial culture within the framework of a not-for-profit institution. Currently AYISE generates 5% percent of its funds from core financing.

The current situation at AYISE shows that it uses a lot of funds that are restricted in nature. This means that what the organization is able to do with such funds is limited to what is set out in the terms and conditions given by the donor. AYISE's level of autonomy in strategic decisions on programming and general policy is limited though it is still better positioned than most LNGOs because of the 5% leverage. Currently the organisation also does not have a clearly outlined

strategy for fundraising. However, within these limitations the organisation has achieved certain milestones which have placed it miles apart from other many other LNGOs.

Through the use of systems map and influence diagram, the various components or subsystems within AYISE and its environment have emerged. As a dynamic system, AYISE has displayed its subjectivity to change by growing from a volunteer organization with basic resources to a fully fledged NGO with assets, salaried staff, a range of donors, with network membership and a number of programmes implementing various projects in a wider catchment area. AYISE has also been able to adapt itself to the changes taking place around it. For instance it has been able to handle more funding and manage more donors which in turn has increased confidence to prospective donors to consider supporting the organization.

Looking at AYISE through the business eye, the three enterprise cases presented above reveal that AYISE is a leaving system because it is open to interact with its environment. There is also interaction among various components of the system and this influences the behaviour of the whole. Further evidence of a living system comes through AYISE's ability to access inputs from its environment and to process them into outputs. For example, AYISE has managed to tap into resources from donor funded projects and other networks, to process them into outputs such as unrestricted income. Such revenue enables the organisation to make savings and support non funded activities. This further illustrates how the interaction of various components within AYISE has affected the behaviour of the whole. For instance it is the programmes subcomponents that access project funding from donors. In turn the projects access at a fee, certain services and facilities e.g. vehicles and public address equipment from AYISE, which is the main system. When projects pay for use of such facilities, the behaviour of the system as a whole is influenced because AYISE is then able to utilise such income without restrictions. However, the extent of success in terms of AYISE's business activities is tackled in chapter 5 using the RBV model.

## 4.4    Summary
The study on AYISE has revealed that it is an open system displaying the general characteristics of such a system as described by Olive (1998), Spear and Martin (2001) and Stacey (2003). It has

components which interact among themselves and it also interacts with the environment from where it receives inputs such as funding, processes them and produces outputs for the benefit of its constituency. The organization has also shown impressive growth to stand out as an effective service provider to its beneficiaries. It has evolved from the category of a club of volunteers into a fully fledged NGO that has won the confidence of donors, beneficiaries and other stakeholders thereby displaying its adaptive abilities. However, it is also apparent that AYISE is a typical LNGO whose lifeline is donor funding. The findings are in line with the general trend experienced by LNGOs in most developing countries. Various studies carried out in diverse parts of the world corroborate these findings. Examples include Davis (1997), and Alynkulova and Seipulnik (2005) on Central and Eastern Europe; Pedlowski (1997) in Brazil, South America; Layton (2006) on United States of America and Ritchie (2003) on South Africa among others. For instance Alynkulova and Seipulnik (2005) indicate that foreign funding makes up the sole major source of NGO funding in Central Asia.

**CHAPTER 5:        DISCUSSION, RECOMMENDATIONS AND CONCLUSIONS**

**5.1     Introduction**

This chapter brings out the discussion on how the research question has been answered in this study. This is done through pegging the discussion against the keys of an autonomous organisation as presented by Fisher (1997) cited in Van Sant (2003) and the four characteristics of a financially sustainable NGO as presented by Mango (2007). The discussion draws comparisons and contrasts from these two models in relation to the findings. The discussion further explores how the study has addressed the purpose statement which outlines the focus of the study. A discussion is also presented to examine the coherence of the entrepreneurial principles of AYISE in relation to the RBV framework. Further to this, lessons learnt from the case study are outlined and the implications of all these for the wider family of LNGOs are explored. The chapter also makes recommendations on specific issues related to AYISE as well as general ones applying to LNGOs.

The discussion section in this chapter is an extended reflection of the analysis framework of Creswell (1997). One characteristic of the synthesis stage i.e. offering hypotheses or propositions is prominent there.

**5.2     A discussion based on Fisher's keys of an autonomous organisation**

i.    Getting guidance from organisation purpose and not external forces

Like all systems, AYISE has a clear mission even reflected in a statement. As one of the keys that reflect organisational autonomy, it presents fundamental challenges in terms of creating a delicate strategic balance for AYISE. This is because mere presence of a stated mission does not result in autonomy but the organisation's ability to get full guidance from it. Since the majority of its funding still comes from donors, AYISE is yet to fully achieve this key.

ii.   Multiplicity of funding sources

AYISE has faired well in terms of diversification of resources by bringing in both restricted and unrestricted funding. The diversification is however restricted to project funding and core

funding based on the funding mix matrix. There are still questions about the level of contribution from unrestricted sources of funding as at the moment they constitute a very small percentage.

iii.     Having a constituency base

The organisation has cultivated strong links with its primary constituency, the youth who benefit from use of youth friendly programmes and facilities. AYISE is one of the most well established and influential youth organisations in Malawi.

iv.     High level know-how

Tagbo's (2009) definition of a technical expert refers to someone who has received training or acquired experience or earned an education and is able to provide sound advice in a chosen technical profession. In summary, this definition talks of someone who has undergone higher level of learning in a named profession and others can look up to them for sound advice.  AYISE has had many opportunities for training its staff and members in various fields aimed at enhancing youth programmes delivery. It is also involved in national and international exchange arrangements under the MWAI programme which has exposed its personnel to higher levels of learning. AYISE's status is evident in the many study tours organisations make to the organisation to learn best practices in some areas of life skills for youth development. Some of the study tours which can take several days have contributed to raising of unrestricted funds through charging for use of AYISE's facilities such as accommodation and the restaurant among others. Despite the pool of those with technical expertise being small, it constitutes a team of dedicated young people who have served the organisation for a long time and forms a foundation for sustainability of internal technical expertise.

v.     Tactical know-how on development issues

Being strategic means being able to plan today in a manner that is not just addressing today's challenges but takes the long term impacts into consideration. Wiig (1996) defines knowledge as the insights we develop, the understandings we capture, and the practical abilities that we have on an issue. Having strategic knowledge on development issues hence can be described as having a strong understanding of the conceptual aspects of development while applying the same in such a way that it is relevant to practical realities on the ground for the social enhancement of the

population in the long term. This is a high level key that takes long time to develop through various means such as knowledge management practices. AYISE as an organisation has acquired important experiences over years in its areas of core business such as youth based programming on human rights and HIV & AIDS. The organisation acts as a best practice in a number of these areas. However, this key is a lofty one at this stage in the life of the organisation and AYISE is yet to attain that. Moreover the organisation operates in an environment where the practice of knowledge management at a national level is not yet strong enough.

vi.    Know how on management and social issues

Downes (2006) looks at social knowledge as a result of interactions taking place between members of the society. It is therefore an emergent property of a knowledge system that cannot be attributed to a single element within the societal system. Downes (2006) also looks at such knowledge as a mental construct of those concerned since it may change meaning or relevance in a different temporal or social set up. Having social knowledge therefore implies an understanding of the social system at play, what is valued, what is not valued and why. An organisation should therefore understand the context in which it is operating in order to design appropriate interventions in a particular constituency. Additionally, managerial knowledge enables the organisation to run its affairs and systems using appropriate approaches. AYISE's track record for over ten years shows an organisation with sound social and managerial knowledge to have enabled it not only to survive when other NGOs are struggling but also to excel in mobilising resources and diversifying its finding base while its interventions remain relevant to its constituency .

**5.3    A discussion based on Mango's (2007) four characteristics of a financially sustainable organisation**

i.    A diversified funding base

This characteristic is similar to one of Fisher's (1997) keys as cited in Van Sant (2003) and already discussed above. AYISE has diversified funding base with a number of donors working with it on various programmes. At least it does not have its eggs in one basket.

ii.    Availability of unrestricted funds

AYISE again qualifies for this characteristic as it has managed to raise unrestricted funds averaging 5% of its annual budget over a five year period that was analysed in this study. The percentages level is still on the lower side to significantly enhance its leverage power.

iii.   Availability of financial reserves

Mango (2007) defines reserves as financial resources that an organisation accumulates over time from surpluses emanating from unrestricted funds and become handy on a rainy day. Mango further states that in some cases the reserves are kept in a special bank account and are accounted for separately. AYISE has built substantial savings. However, these are not at this stage well established as reserves in the strict definition of the word. This is one of the areas that AYISE needs to strengthen. The current situation generally results from lack of awareness rather than carelessness. It however has potential to build reserves into a trust or endowment fund.

iv.    Strong stakeholder relationships

Mango's definition of stakeholder in this context is limited to donors that NGOs work with. In terms of the system of focus in this study, it can be safely concluded that AYISE enjoys strong relationships with donors that it works with. As noted from the organisational biography in Table 2, the organisation has cultivated positive relationships with donors by its ability to implement projects successfully and to account properly for the resources made available to it. However even in the broader sense of stakeholder relationships, AYISE has cultivated effective ties with other organisations through membership and general networking. Its membership to CONGOMA, NYCOM and HRCC, its participation in the work camp international network and relationship with the youth in the community it works are all important attributes adding value to its reputation.

Looking at the discussions on the two frameworks from Fisher and Mango, it shows that AYISE has potential and has set the platform on which to embark upon the journey towards financial sustainability and autonomy. The frameworks, however do not give any quantitative benchmark in terms of the attributes they provide. The qualitative nature of the frameworks on a matter that

touches on finances may be viewed as a shortfall, however it is safer that way because organisations operate in different environments and have their own internal unique dynamics which may render scientific figures irrelevant. The challenge is for the NGOs to interpret in a meaningful way whether they are on the right path or not. Some of the safeguards are articulated in the other attributes especially those outlined by Fisher such as the need for managerial knowledge. The notion of interpretation is also in keeping with the perspective of SST complexity among whose characteristics are subjective constructs and learning.

The absence of programme funding, however renders AYISE vulnerable to some shocks since within a short time of project implementation, the organisation finds itself focusing its energies on preparing project proposals for new projects. At the time of completion of this dissertation, AYISE had gone for six months without project funding between September 2008 and March 2009. The next cycle of funding was only expected at the beginning of April 2009. This is a reflection of the inherent vulnerabilities associated with project funding. The savings from its core funding have however been very instrumental in acting as a buffer to keep the organisation afloat during that period of funding gaps. The fact that AYISE still managed to keep afloat without donor funding for six months albeit with lean staff size is reflective of the importance of core funding to LNGOs.

## 5.4   Evaluation of AYISE's enterprises using RBV

The evaluation of AYISE's entrepreneurial activities begins by examining the nature of business it is providing and then assesses the performance against the RBV model. The three cases of entrepreneurial activity presented in chapter 4 reveal that AYISE is in the service industry. The creativity is evident in the cases presented for the organisation's revenue generation. The strategic contribution of the revenue generated can also not be questioned. However one major weakness in AYISE's ventures is that they are not presented in coherent business strategy. Their introduction has been ad hoc and certain fundamentals for business planning may have been overlooked.

There is no doubt that AYISE has invested significantly in some aspects of its resource base such as the building infrastructure and a reasonable fleet of vehicles as revealed by the organisational

biography table. The reputation it has earned in the community and among its stakeholders is another valuable resource. It has also shown potential to raise reasonable unrestricted financial resources. However the organisation of most of these resources is generally skewed towards the social service provision portfolio, which is AYISE's core business. The current generation of personnel has also been recruited for social service delivery rather than business service delivery and that reflects on the nature of skills currently available within the organisation in relation to entrepreneurial activity. The organisation has also invested in new media such as a website which is an important technological tool for enhancing visibility. However, the content is biased towards its social service portfolio. Financial resources of AYISE are a combination of restricted funds at 95% and unrestricted funds at 5%. The organisation managed to keep afloat for six months without donor funding between 2008 and 2009 because of the income it had generated and was able to save. Such income though averaging 5% of total annual revenue, has been a useful resource. This amount could potentially be invested for further enterprise development. A proper analysis of all these resources is crucial so that the organisation can ably allocate the resources it already has and identify the resource gaps that exist. There is no evidence that AYISE has conducted an evaluation of its resources in terms of their business value.

As stated earlier, a firm's capabilities are reflected in its ability to organise its resources in a particular mix or combination to perform a particular task. The business enterprise cases presented in chapter 4 reflect some elements of the organisation's ability to harness certain capabilities. The fact that it has managed to convince some of the donors to accept internal hiring of resources shows hints of that ability. However, these capabilities are not a result of coherent planning. Capabilities can come from a specific resource or a multiplicity of them depending on the existing complexity (Grant, 2001). AYISE has displayed capabilities for business acumen by being able to create a market (albeit limited) from some of the projects it implements and also from some of its stakeholders. AYISE's competitive advantage is restricted at the moment and its market share is small.

Developing a business strategy is crucial for AYISE so that it is able to select options which can best exploit the resources and capacities in relation to opportunities existing out there. This discussion is further explored under way forward in 5.6.

**5.5     Lessons learnt from the case study and implications for NGOs in Malawi**

The purpose of an intervention in SST is to facilitate learning from a problem situation which enables the different stakeholders to define a system which they believe will bring changes to the problem. A number of lessons have emerged from the experiences of AYISE and these are outlined below:

i.     Strategic innovation is an important tool in enhancing entrepreneurship in NGOs. Despite shortfalls discussed under 5.4, AYISE has demonstrated potential to construct and extract opportunities even from the unlikeliest of sources to bring financial benefits to the organisation. They have managed to raise some funds of their own which have been useful in a significant way. This confirms the notion of strategic enactment whereby AYISE has managed to enact a market for itself through some of the projects it implements. Lessons from such creativity can be explored further in the business development process.

ii.    When an NGO delivers project results effectively and it is accountable for donor funds, it can build confidence of donors which may result in attracting more funding. It also becomes easy to negotiate with the donors to transfer project assets at the end of the funding period. AYISE has greatly benefited from such a scenario as most of its initial assets were originally meant for projects that finally came to end.

iii.   An organisation must acquire assets which it can use as a springboard for entrepreneurial activities. This is in some ways but not entirely connected to the above lesson. This lesson recognises that initial assets can be acquired through other means such as specific donations from various sources of goodwill.

iv.    NGOs can build strong enterprises around their own core objectives without compromising their mission. The system of focus, AYISE has mostly focussed on enterprises within the boundary of its social programming. Nevertheless, this has confirmed that it is possible to build enterprises related to the sector in which an NGO operates.
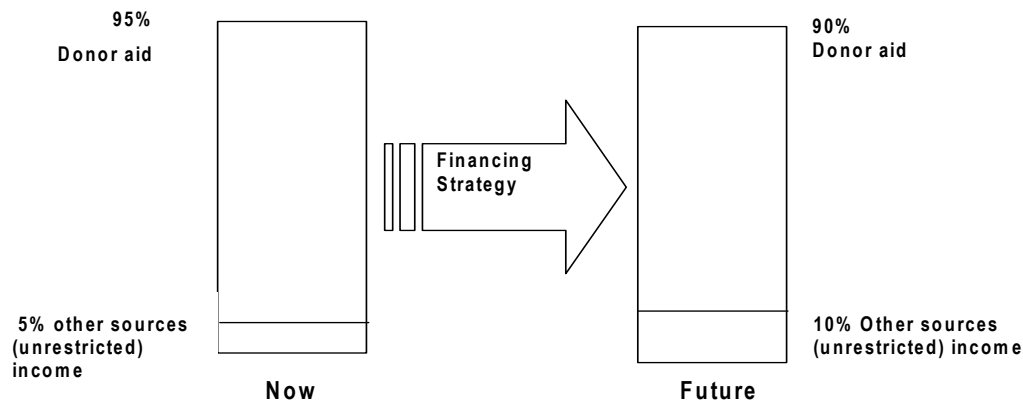
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v.      There are a lot of business opportunities for NGOs to embark on; the barrier is creativity. The existing mental models at institutional level, especially in management have a major influence on how the organisation designs its financial plans. Leadership foresight is important in moving NGOs towards financial autonomy. Despite AYISE's success in integrating enterprises in its social programmes, the researcher observed that there was still more potential to expand if the business model were reorganised.

vi.     Laws of the land have a bearing on the extent to which an NGO can achieve financial sustainability. Part X Chapter 33 of Malawi's NGO Act of 2000 provides NGOs in Malawi with a favourable legal environment on matters of fundraising. This legal provision is more relaxed compared to the situation in Egypt as cited in the International Journal of Not-for-Profit Law where Law No. 153 of 1999 does not allow NGOs to access external funding without the permission of the Ministry of Social Affairs (MOSA). It also gives powers to MOSA to dissolve an NGO that violates this provision. A similar situation exists in Zimbabwe where foreign funding for NGOs was made difficult to access. Neither Mango nor Fisher have identified this as a factor, however, it has serious implications.

vii.    The social and economic environment in which an NGO operates has an impact on its sustainability. Malawi has experienced peace and stability for long periods since independence. Stability enables NGOs to plan for their investments with confidence unlike a situation where they (NGOs), the donors and the general population are living on the edge. A sound economic environment also contributes to sustainability since NGOs venturing into business have confidence that they can generate returns on their investments. Moreover their investments may require support of other service providers who would themselves be available to offer attractive service if they had confidence in the economic environment. Comparisons can be made between Malawi's economic growth since 2005 and the situation that has seen a systems' collapse in Zimbabwe in recent years.

The lessons outlined above are reflective of the complexities of SST indicating that a system is assumed to be a subjective construct by an observer of complex real world situations as tackled in table 2.

## 5.6    Way forward for AYISE

The major weakness in AYISE's entrepreneurship drive was identified to be the lack of a coherent business strategy. AYISE's aspiration is however to double the percentage of its unrestricted funds i.e. reach 10% of the annual budget within three years. According to AYISE's management, their immediate concern is the expenses for management itself and administrative staff as these are not usually covered at all or are covered partially by project budgets. Such an aspiration may not be farfetched as examples abound of more ambitious targets which have been achieved elsewhere before. Fowler (1997) reports that IBASE in Brazil has been able to raise 44% of its annual turnover from commercial activities while in 1994 BRAC in Bangladesh raised 31% of its income from business enterprises.  Figure 6 below illustrates the target using Mango's (2005) framework.

**Figure 6: AYISE's target for financial autonomy in the next three years, framework adapted from Mango (2005, p.4)**



The study identified certain areas that AYISE should be working on to strengthen its business model at this point are three fold:

### 5.6.1 Fundraising strategy

The organisation should develop a clear cut overarching strategy on fundraising to provide guidance on future business ventures being implemented alongside the social delivery strategy. The use of Mango's funding mix table could be handy in that respect as it provides funding options in quadrants against which the organisation can measure its abilities and possible combinations. With the potential that AYISE has displayed, it would be practical to focus more on programme funding for social service and expand the core funding for commercial activities because of the long term nature associated with these two options.

### 5.6.2 Implementation of the business strategy

Looking at the assets it has acquired currently valued at Thirty Six Million Malawi Kwacha (MK36, 000,000 or $257,143)[2] and their potential for revenue generation, AYISE needs to revise its structure so that coordination of enterprise activities is enhanced. The current set up at AYISE shows that the management of the enterprises is scattered within the institution, with the youth centre falling under a different section from the MWAI programme. While the functional requirements of the two programmes require them to be separate entities on the basis of their social objectives, it would be worthwhile to establish a business development unit which will work closely with the two programmes on the business aspects. The unit would also be responsible for exploring other avenues apart from these. Having a dedicated business development unit, it would be easier for AYISE staff to pay more focus on their respective activities within the organisation i.e. social or business aspects. Coordination is important at this stage of the organisation's entrepreneurial development.

### 5.6.3 Endowment fund for reserves

AYISE has demonstrated the potential to develop substantial reserves and should in future consider establishing an endowment fund. The endowment fund could generate interest that can be used to support core costs normally shunned by donors, yet are important in the life of the organisation.

Gregson (2003) has identified the following three reasons why reserve funds should be pursued:

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[2] MK26 Million at head office and MK 10.5 Million at youth centre

i. Reserves are untied and can create income streams for an NGO; interest can be used to cover overhead costs in the future

ii. They can give the flexibility to adjust to unforeseen circumstances

iii. Can be used to invest in productive activities or property.

Emergence is a key characteristic of systems. In the case of NGOs a typical example is the unpredictable nature of funding. During this study, I was able to confirm the immediate relevance of reserves in relation to number (ii) above when AYISE was able to utilise its own income to survive during a six month funding gap resulting from deferred decisions by donors.

The call to action for AYISE ultimately suggests a shift from use of expenditure budgets (typical practice in donor funded organisations) to revenue budgets (used in commercial entities). This is a shift which Fowler (1997) suggests and is a reflection of the tensions AYISE has to deal with in terms of its learning practices. Among the key resources that AYISE will definitely require to invest in are skills on the side of business development and management as it was observed there were significant gaps in that area.

## 5.7    Recommendations for local NGOs in Malawi

The following recommendations are being made for LNGOs in Malawi to consider if they want to achieve autonomy and financial sustainability:

i. AYISE's model cases have their imperfections as discussed earlier, however they provide an important entry point for many LNGOs who are far any semblance of what AYISE has done so far. This in some cases will mean shedding off the existing mental models about NGOs being purely not-for-profit entities. They have to remove their fears and misgivings and develop a very strong culture that will help in recognising and understanding the complexity arising from the existence of two "sectors" within the organisation. This calls for LNGOs to start thinking out of the box by developing capabilities to embrace double-loop learning alongside what most of them already do i.e. single-loop learning. This is

summarised by Ritchie (2003) who says that it has now become critical for NGO survival to engage in income generation. They need to demonstrate their eagerness not to rely wholly on donors. This will require a huge jump from all levels concerned with governance and operations of an NGO.

ii.   In relation to the above recommendation, NGOs should be aware that this is not going to be an overnight event. It is a process and there is a long way for NGOs to achieve greater autonomy, but that such a journey begins with the short steps they take today.

iii.  Ethical considerations are central in an NGO's quest for financial autonomy and strong balance needs to be attained. This ensures that it is able to champion its core values in its economic activities just as it does in its social activities. In the case of AYISE, as a youth focused organisation, business ventures such as running a pub may not be applicable as this contradicts one of the foundation stones on which the organisation was established i.e. to keep youth away from drug and alcohol abuse.

iv.   NGOs should first and foremost work towards implementing projects effectively and being accountable for donor funds to build the basic social capital required for more effective negotiation with the donors. When they win confidence of the donors, negotiations for asset acquisitions become easier as the donors get some assurance that the assets so transferred would be put to good use. There is also need to build a strong core constituency which can add value to the social capital and confidence with donors. Entrepreneurship ideas can also be built around such constituencies as AYISE has demonstrated.

v.    When embarking on a business model, NGOs should develop clear cut strategies which should explore multiple possibilities that can be constructed from the environment. The wisdom of leadership is crucial in ensuring that the focus on the social mission is not lost due to the business dimension.

## 5.8    Conclusion

My focus of study as a student of Strategy and Organisational Dynamics was to assess whether it was possible to successfully apply entrepreneurial principles in the LNGO sector in Malawi. The findings of the study have proven that it is possible for NGOs in Malawi to pursue a business model without losing sight of their mission. AYISE as a case study has demonstrated potential which in my view can be harnessed despite the internal tensions this change process may create. What is important is for the LNGOs to look at this case study as an eye opener for their own creative potential rather than trying to copy what AYISE is doing.  When NGOs have achieved financial autonomy and sustainability, they will be able to abide fully by their mission and negotiate from a point of better leverage when engaging donors. It is therefore in the interest of the LNGO community to develop strong funding strategies that will facilitate diversification of their funding sources beyond restricted funds.

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