

APPLYING MANAGEMENT PRINCIPLES OF SUCCESSFUL BUSINESSES TOWARDS THE SURVIVAL  
OF NON-PROFIT ORGANISATIONS IN THE WESTERN CAPE

**BY**

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## DECLARATION

I, Dewald Barnard, student number 33518505, declare that this dissertation titled, **APPLYING MANAGEMENT PRINCIPLES OF SUCCESSFUL BUSINESSES TOWARDS THE SURVIVAL OF NON-PROFIT ORGANISATIONS IN THE WESTERN CAPE**, is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references. I hereby further declare that this study has not been submitted to any other university for assessment and qualification purposes.



..... (Signature)

30 April 2020

## DEDICATION

This dissertation is dedicated to the following people:

- My parents who taught me the value of hard work, especially my mother, Mrs Mariaan Barnard, who taught me that perseverance and tenacity under all circumstances is in our genes
- My two beautiful daughters, Claire and Allison, for whom I have sacrificed many days and nights to complete my studies. My wish is that they can follow this example, albeit more efficiently, to surpass what I could achieve in life
- Their mother Sue, who had to keep the household going whilst I was locked away in my academic obsession
- The Reverend John Stanley for the spiritual and academic support throughout this entire journey
- The Gilsons, my Aunt Wilma and Uncle Dave, who inspired me to pursue a life beyond that experienced in my environment, and to strive to experience life to its fullest, no matter where you come from.

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This dissertation would not have been started, much less completed, without the spiritual tenacity and physical persistence that is only possible by the grace of our almighty Father. Amen.

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## **ABSTRACT**

Non-profit organisations serve disadvantaged people by fulfilling their social needs, promoting social inclusion and building economies. Non-profit organisations are confronted with a tightening funding environment, growing competition for donors and grants, rising demand for services and increasing calls for accountability. The objective of the study was to investigate the way in which non-profit organisations in the Western Cape province apply fifteen management factors of the Lussier Business Success Versus Failure Model. This model was successfully used in various parts of the world to predict the success or failure of a business.

A descriptive research design, using a qualitative case-study research approach was used in this study. A purposive non-probability sampling method was applied, and convenience sampling was used to identify twelve participants from four non-profit organisations. Semi-structured interviews were conducted with founders, managers and staff. Descriptive and thematic analysis techniques were utilised, and a deductive coding approach was used to develop thematic areas.

Thematic analysis showed three broad themes, namely people, management, and finance. The research established that the non-profit organisations applied nine success factors of the Lussier Business Success Versus Failure Model. Non-profit organisations keep accurate records and adequate financial controls. They do have staff with management experience, while the staff have limited NPO experience. The non-profit organisations make use of professional advisors and networks. The research also revealed that non-profit organisations experience challenges with income-generating activities. They do not plan for the long term and find it difficult to retain staff. Non-profit organisations also lack critical skills, such as strategic planning, marketing management, and administrative management. Non-profit organisations need to build and maintain relationships with government bodies, support organisations and other non-profit organisations. Enhanced information sharing and relationships will reduce the dependence on government grant funding. Applying management principles will enhance the long term survival of non-profit organisations.

**Key terms:** Non-profit organisations, non-profit management, management factors, sustainability, Lussier Business Success Versus Failure Model, strategic planning, financial management, marketing management, retention of staff.

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## LIST OF ABBREVIATIONS

ACCA	Association of Chartered Certified Accountants
AIDS	Acquired immune deficiency syndrome
AL	Authentic leadership
AWDF	African Woman's Development Fund
CBOs	Community-based organisations
CEMS	College of Economic and Management Sciences
CEPS	Center for Philanthropy Studies.
CS	Case study
CSI	Corporate social investment
CSOs	Civil society organisations
CSR	Corporate social responsibility
CWB	Counterproductive work behaviours
DBE	Department of Basic Education
DHA	Department of Home Affairs
DOH	Department of Health
DSD	Department of Social Development
DTI	Department of Trade and Industry
EMB	Ethnic minority businesses
EQ	Emotional responses
ETDP SETA	Education, Training and Development Practices Sector Education and Training Authority
F	Founder
FPA	Funding Practice Alliance
GEM	Global Entrepreneurship Monitor
GPC	Global Peace Careers
HIV	Human immunodeficiency virus
HR	Human Resources
IQ	Intelligence Quotient
IRS	Internal Revenue Service
KPMG	Klynveld Peat Marwick Goerdeler
LMX	Leader-member exchange

M	Managers
NDP	National Development Plan
NGOs	Non-governmental organisations
NPC	National Planning Commission
NPOs	Non-profit organisations
OCB	Organisational Citizenship Behaviours
PEN	Poverty Eradication Network
PLC	Product life cycle
PPP	Public-private partnerships
PR	Public relations
S	Staff
SAfAids	Southern African HIV and AIDS Information Dissemination Service
SARS	South African Revenue Service
SASSA	South African Social Security Agency
SBA	Small business administration
SETA	Sector Education and Training Authority
SME	Small and medium enterprise
SMME	Small, medium and micro-enterprise
SNA	System of National Accounts
StatsSA	Statistics South Africa
SUN	Stellenbosch University
TACT	Trustworthiness, auditability, credibility, and transferability
TSE	Third or social economy
UCT	University of Cape Town
UN	United Nations
UNISA	University of South Africa
US	United States
USA	United States of America
UWC	University of the Western Cape
WCDS	Western Cape Department of Social Development
WCG	Western Cape Government

## CHAPTER 1

### INTRODUCTION AND BACKGROUND OF THE STUDY

#### 1.1 INTRODUCTION AND BACKGROUND

In the first of the three phases that make up the history of non-profit organisations (NPOs), organisations were created that provided relief during and after World War II (1939-1945). The second phase, which took place in the 1960s, promoted self-reliance and economic growth. The third, starting in the 1990s, focused on sustainable development (Chimiak, 2014:28). The size, reach and scale of NPOs, and their access to financial resources, made them a powerful force in the delivery of aid and important actors within the international development architecture (Morton, 2013). NPOs are funded by donations from individuals, public sector entities, businesses, foundations, and trusts (Stecker, Warnecke & Bresnahan, 2017:200).

Although the globalisation of finance, trade and technology has been a catalyst for non-profit growth in developing countries, globalisation has also contributed to social and environmental challenges and institutional instability. Funding shortages, in addition to cultural, legal and political barriers, test NPOs' capacity for change making. At the same time, governments are increasingly relying on NPOs to help provide social welfare and to institute development strategies. Tackling these challenges is complicated given the diversity of the non-profit sector (Stecker *et al.*, 2017:210-211).

Building sustainable NPOs is critical for society owing to the social value they create (Weerawardena, McDonald & Sullivan, 2010:1). The non-profit sector is a wide and diverse field constituted of organisations ranging from charities to social services' agencies. Together these organisations serve the disadvantaged by fulfilling social needs, promoting social inclusion, and building economies by generating employment. In recent decades, however, these organisations have been confronted by various social, economic, and political changes. The challenges confronting non-profit managers and leaders include a tightening funding environment, growing competition for donors and grants, rising demand for services and increasing calls for accountability. Against this background, non-profit leaders and managers are being

forced to explore new ways of working. This includes the adoption of formalised institutions and capacity-building initiatives, thus transforming the landscape of the non-profit sector (Malhotra, 2018:15). As confirmed by Omura and Forster (2014:256), NPOs fulfil a role that enriches the level of community engagement, thereby contributing to the socio-economic value of a country. NPOs provide care for those who are disadvantaged and for those in need. NPOs, and the social services they provide, develop in response to activities that are harmful to the well-being of people in the community in which they operate (Western Cape Government (WCG), 2017:1).

Citizens of the Western Cape province experience various socioeconomic challenges. These are a result of the high levels of poverty and financial, social and economic inequality (Hanusch, Zikhali, Sulla, Dadam, Kambou, Stephan, Jooste, Molibeli, Ratshitanga & Dessus, 2018:24). In many cases, these socioeconomic challenges include homelessness, drug addiction and a lack of education. The causes of these challenges include unemployment and poverty in the province. The role that NPOs play in peoples' social stability is therefore critical.

To manage their social service contribution to society effectively, the NPO should remain operationally stable, with financial stability serving as the cornerstone for long-term survival. An NPO should also ensure that income and expense balance over time, which is similar to the requirements of other types of businesses (Feng & Shanthikumar, 2017:510). As confirmed by Paxton-Hall (2018:203), the sustainability of NPOs, both individually and as a sector, is dependent on their success in garnering private donations and government grants. The success of an NPO will also vary from one NPO to another. The sustained delivery of purpose is only achievable over the medium to long term if there are sufficient financial resources at the disposal of the NPO (Paxton-Hall, 2018:203).

This study investigated the way in which NPOs in the Western Cape province apply management factors for their survival in the long term, as they operate as a valuable contributor to address social issues. Many NPOs fail to remain sustainable in the long term, with many starting up quickly and operating effectively for a season but may later experience a loss of social impact over time (Helmig, Ingerfurth & Pinz, 2013:1513; UniteForSite, 2019:1).

The Lussier (1995) Business Success Versus Failure Model was selected for use in this study owing to the efficacy of the 15 (business) management factors (principles) identified by 20 previous studies (Guzmán & Lussier, 2015:2). The model has been used to predict success or failure in different parts of the world, including the United States of America (USA) (Lussier, 1995), Croatia (Lussier & Pfeifer, 2000), Netherlands (Houben, Bakker & Vergauwen, 2005), Chile (Lussier & Halabi, 2010), Singapore (Teng, Bhatia & Anwar, 2011), Israel (Marom & Lussier, 2014), Mexico (Guzmán & Lussier, 2015), Saudi Arabia (Al Saleh, 2016), Pakistan (Hyder & Lussier, 2016), and Palestine (Israel) (Baidoun, Lussier, Burbar & Awashra, 2018).

(With some of the studies above, the name of the model was referred to as the: “Business Success Versus Failure Prediction Model”. For the purpose of this study, the model will be referred to as the: “Business Success Versus Failure Model”). Lussier (1995) also examined the literature to better understand why some businesses succeed and others fail.

This study investigated the application of the Lussier Business Success Versus Failure Model by NPOs in the Western Cape province of South Africa. Previous studies found that the factors in the model are important predictors of success or failure in businesses (Baidoun *et al.*, 2018:60). As stated by Lussier, Corman and Kimball (2015:84), business models do not have to be overly complex. Such models identify the value of the business’s products and services, its customers, the way it makes a profit and its operations. Stokes and Wilson (2017:225) support this, stating that all businesses should have a business model, including social and public enterprises. A business model therefore integrates various concepts and activities into a holistic overview of what makes the business “tick” and how it survives in a competitive marketplace (Stokes & Wilson, 2017:225).

The motivation for the study was to determine if NPOs in the Western Cape province apply the 15 management factors of the Lussier Business Success Versus Failure Model (Lussier, 1995). It will assist the NPOs to become less dependent on donor funding, more focussed on the services that they provide, which may ensure their long-term survival and sustainability. The study relates to the survival of the NPOs as being a sustainable organisation over the long-term. In this study, sustainability refers to the ability of the NPOs to generate their own income through independent activities and

to ensure their long-term financial and operational viability. Furthermore, the study addresses the characteristics of NPOs which enable their viability and survival by investigating the management principles applied in these NPOs, to remain operationally sound and viable over the long-term. For the purpose of this study, the word “sector” will be used by the researcher as the literature in the non-profit organisation field and discipline uses the term “sector” interchangeably with the words: “organisation”, “industry”, and “non profit-seeking organisations”. In addition, the term “characteristics” includes the capabilities and skills of the participants involved in the study.

## **1.2 PROBLEM STATEMENT**

The problem that the researcher sought to address in this study is that many NPOs do not apply management factors or their available skills to generate income to become financially self-sufficient (Love, 2018:11). The need exists to understand the factors that affect the sustainability of NPOs and, in studying them, the value of using such models. Researchers have also failed to understand, explain, and predict why some businesses succeed and others fail (Olaison & Sorensen, 2014).

According to Salamon (2010), in developing countries, the non-profit sector faces many challenges and sustainability studies are virtually absent in the NPO sector (Weerawardena *et al.*, 2010). Research has also shown that costs are a significant prohibitive factor for NPOs (White, Lomax & Parry, 2014:514). Many NPOs focus solely on servicing their cause, and in doing so, remain dependent on government or private funding systems (Fritz, 2019:1). The competition for funds by NPOs is both deepening and broadening (Omura & Forster, 2014:258). Accordingly, the non-profit sector’s reliance on philanthropic and government funding is increasingly unsustainable, especially in the wake of economic downturns and global financial instability (Stecker *et al.*, 2017:198).

Often, NPOs lack the management expertise, technological resources and/or funds and know-how required to scale solutions. Governments may have funds to devote to development projects, but lack on-the-ground means of applying those funds effectively (Stecker *et al.*, 2017:208). Many NPOs fail to reduce their dependency on external funding such as private donor funding or government grant funding.

Furthermore, NPOs do not have a model to guide them to reduce their dependency on external funding and to become financially self-sustainable (Hawthorne, 2018:1). This often leads to an NPO failing to fulfil its mission or continuing to exist in the long term (Helmig et al., 2013:1513).

Regulatory demands and the changing face of government and community expectations of NPOs have never been as challenging as they are today (Paxton-Hall, 2018:212). Increasing demands for service, competitive and non-guaranteed income streams, extensive and complex reporting requirements, and complex social problems are stretching the resources of all NPOs (Dann, 2018:177). A key challenge for all NPOs is for the leadership of the organisation to reorient staff toward a service mindset that is inclusive of strategic business perspectives. The need for high-quality systems and service delivery is essential across the NPO sector (Dann, 2018:177). As an owner/manager in the NPO sector, one needs to manage relationships across a broad scope of backgrounds, corporate partners, government, legislation, donors, suppliers and, importantly, clients (Wiltshire, Malhotra & Axelsen, 2018:164).

From a study conducted by Maboya and McKay (2019:7-8) on the challenges that South African NPOs experience in the Western Cape, it was found that they focus on evolving and preserving their existing pool of donors, while new income-generating streams are not included in their business plans. Instead of driving financial independence, NPOs spend their time on securing long-term relationships with donors. It was also found that the reliance on donor funding could prevent NPOs' autonomy, resulting in the unfulfillment of their social mandates. Furthermore, NPOs are influenced by their main donors, which further affect their autonomy. Due to the overdependence on donor funding, NPOs expose themselves to changes in the donor's environment which may be a long-term risk if the NPO reduces or cancels their donations.

This study therefore sought to determine whether NPOs applied management factors to become financially self-sufficient and sustainable in order to survive in the long term.

### **1.3 RESEARCH QUESTIONS**

The following research questions were formulated for this study:

- What are the characteristics associated with the management factors of the Lussier Business Success Versus Failure Model as applied by NPOs?
- What are the challenges that NPOs experience in relation to the management factors of the Lussier Business Success Versus Failure Model?
- What are the themes related to the management factors of the Lussier Success Versus Failure Model of NPOs, founders, management, and staff?

#### **1.4 PRIMARY AND SECONDARY OBJECTIVES**

The primary objective of the study was to investigate the way in which NPOs in the Western Cape province apply the 15 management factors of the Lussier Business Success Versus Failure Model (Lussier, 1995).

The following secondary objectives were set for the study:

- To determine the characteristics of the management factors of the Lussier Business Success Versus Failure Model as applied by NPOs
- To determine the challenges of NPOs in relation to the management factors of the Lussier Business Success Versus Failure Model
- To analyse the themes related to the management factors of the Lussier Business Success Versus Failure Model as applied by NPO founders, management, and staff

#### **1.5 SIGNIFICANCE OF THIS STUDY**

Predicting the fate of businesses in terms of success and failure has become an important area of research (Pompe & Bilderbeek, 2005). Research on the success versus failure of businesses will benefit NPOs, as well as other stakeholders, including the parties that assist and advise them, the institutions that provide them with capital and other resources, as well as communities and society at large. As confirmed by Bono and McNamar (2011), there is a need to use and replicate existing models in

multiple countries.

No empirical success and failure studies have been found on NPOs in South Africa. Prior studies have also concluded that success and failure factors vary in different countries (Benzing, Chu & Kara, 2009). This study investigated whether the 15 management factors included in the Lussier Business Success Versus Failure Model (Lussier, 1995) were applied by NPOs in the Western Cape province. The study adds to the literature on NPOs and their application of the factors to ensure the long-term sustainability and survival of NPOs.

The sustainability of NPOs is critical for social and economic stability in the Western Cape province, as many services provided by NPOs are not catered for by the government or local municipalities. Owing to the nature of NPOs, whose management teams focus largely on social issues and the application for social grants and donor funds, NPOs experience challenges with regard to being financially self-sustainable. This unique nature of the NPO constrains the use of management factors which cannot be transferred directly from the business environment to the NPO sector (Meyer, Mamédio, Oliveira & Dib, 2019:1495). This study contributes to the NPO literature by providing insights into the nature of the applicable management factors and the practical application of such factors by NPOs situated in the Western Cape province. The limited amount of resources and the threat of government funding being directed to the business environment instead of to NPOs, has forced NPOs to adjust their focus to generating income from their available skills, resources and relationships with government, businesses and other NPOs (Brown, Rizzuto & Singh, 2019:421– 422).

## **1.6 LITERATURE OVERVIEW**

This section defines NPOs and discusses their related structures. The section also highlights government support and funding of NPOs and gives an overview of the Western Cape province.

### **1.6.1 Non-profit organisational definitions**

Defining NPOs is not a simple task because when one thinks of these organisations one normally thinks of a constellation of characteristics that encompasses more than

formal legal designations (Grant & Jordan, 2012:228). NPOs are usually founded for reasons other than commercial considerations; for instance, welfare, education, social services, and poverty alleviation (Lynch, 2012:24–25; Grant & Jordan, 2012:229). NPOs are defined as organisations that do not distribute the surplus funds that may result from their operations to those in control, namely, the organisation's directors, staff or members; instead they use such funds to pursue the organisation's goals (Grant & Jordan, 2012:229). The notion of NPOs also overlaps with that of a social enterprise. Social enterprises, like NPOs, do not give primacy to shareholders' interests but instead have philanthropic goals (Grant & Jordan, 2012:230).

In the United States (US), the Department of the Treasury, Internal Revenue Service (IRS), (2020:22) defines an NPO as an organisation generally involved in activities that relate to public or community benefits instead of profit-making activities. The IRS has developed categories for NPOs, including charitable or religious organisations, social welfare organisations, labour and agricultural organisations, business leagues or war veteran organisations (Department of the Treasury, IRS, 2020:22).

In Zambia, a developing country situated in Africa, the government defines an NPO as stated in the Non-Governmental Organisations Act, no. 15 of 2009 as follows:

“Non-governmental organisation” means a private voluntary grouping of individuals or associations, whether corporate or unincorporated, not established or operated for profit, partisan politics or any commercial purposes, and who or which have organised themselves for the promotion of civic education, advocacy, human rights, social welfare, development, charity, research or other activity or programme for the benefit or interest of the public, through resources mobilised from sources within or outside Zambia (Zambian Parliament, 2009:186).

Developing countries are defined as countries with high levels of debt, or the growth in the income level of the average citizen of that country is low (United Nations (UN), 2019:168). Much like Zambia, South Africa is a developing country in many regards.

In South Africa, an NPO is defined in terms of section 1 of the Nonprofit Organisations Act, no. 71 of 1997, as a trust, company or other association of persons established for a public purpose and of which its income and property are not distributable to its

members or office bearers except as reasonable compensation for services rendered. Non-governmental organisations (NGOs) and community-based organisations (CBOs) are collectively known as NPOs. In some instance, NPOs are also referred to as civil society organisations (CSOs) (Department of Social Development (DSD), 2020:1). According to Statistics South Africa (StatsSA) (2017:2), NPOs are identified as separate institutional units. These institutional units may own assets, incur liabilities, engage in economic activities and may transact with other business entities. Therefore, an NPO may accrue a surplus. However, the surplus may only be reinvested back into the basic cause of the organisation.

According to the WCG (2017:1), an NPO in South Africa is described as an organisation, association of persons or a trust. This entity is registered to fulfil a public purpose, where those in office receive reasonable compensation for services rendered and where generated income is not distributed to its members.

A prerequisite imposed by the UN is that NPOs should be independent of any government control. Such organisations may not seek to challenge government as a political party and must be focused on human rights and must be non-profit-making and noncriminal. The UN further states in the *Handbook on non-profit institutions in the system of national accounts* (2003) that NPOs have dissimilar characteristics which distinguish them from profit-seeking organisations; these include their not-for-profit character, public-goods production, governance structures, revenue structure, staffing, capital resources, tax treatment, legal treatment, lack of sovereign powers, relative detachment from political pressures, and characteristic types of transaction (UN, 2003:4–5).

The not-for-profit character relates to the fact that NPOs may earn profits but are not organised in such a way that they manage profits like businesses, for example the profits may not be distributed to their directors or managers. Therefore, NPOs have different objective functions from for-profit organisations and NPO founders are often driven by social or ideological motives, and not by monetary motives. Although NPOs are not necessarily driven by monetary motives, in many instances they do produce private goods which they sell to the public. Typically, NPOs produce communal goods that are funded by other means, for example donor funding or by volunteers (UN, 2003:4–5).

## 1.6.2 NPO structures

The governance structures of NPOs differ from those of corporations and government departments. NPO boards are not usually paid or publicly elected, which results in different management requirements for such an organisation (UN, 2003:4-5). The financial sources of NPOs are different from those of government and business entities. NPOs are often funded by donations of time and money from a member of the public, which results in these organisations requiring a different type of revenue-raising strategy (Von Schnurbein, 2017:4). Therefore, NPOs often survive on the goodwill of community members who volunteer their time, as financial remuneration is not always possible in NPOs. Owing to the structural inability to distribute profits to shareholders, NPOs are unable to attract equity capital. This constraint results in their payment of property income being configured in a different way to for-profit entities (UN, 2003:4–5; Von Schnurbein, 2017:4).

NPOs are typically exempt from certain taxes, for example those on corporate income, property, and sales (IRS, 2020:22). NPOs are also subject to unique legal provisions which relate to their organisational structure (South African Revenue Service (SARS), 2017:20). These provisions include the setup of their boards, their income or revenue stream, their involvement in political activities, remuneration of NPO employees, and financial reporting standards (UN, 2003:4–5).

NPOs do not have the same authority as a government department; that is, the authority over those who reside or perform activities within a particular environment. NPOs operate outside of the governmental and political pressures that normal government departments experience. The benefit of this is that the government can rely on NPOs to perform certain functions instead of having to perform the functions themselves. These organisations can participate in two forms of transaction that are unique to the NPO environment and which are not possible for a business entity to engage in, namely, they may receive philanthropic donations, and that of final consumption expenditure (UN, 2003:4–5; StatsSA, 2017:6).

The UN, in its System of National Accounts (SNA) report of 2018, extended the NPO organisational type to the third or social economy (TSE) sector, which embraces three

components. Firstly, NPOs may not be controlled by the government; secondly, the sector includes other related institutions that are not controlled by the government such as eligible cooperatives, mutual societies and social enterprises; and lastly, the sector includes volunteer work. The previous SNA report of 2008 recommended that a separate legal entity be accepted for NPOs but did not add the related institutions or volunteer work (UN, 2008:72-74). Therefore, the recommended framework proposed by the 2018 report is a more comprehensive description that still adheres to the procedural notions of the SNA (UN, 2018:1–2).

### **1.6.3 Government support and funding of NPOs**

NPO funding may be derived from various sources, as highlighted in Table 1.1, and the NPO may have to re-apply for such funds once the initial grant or donation has been received. Booth (2014:21) maintains that the external funding avenues for NPOs result in a reliance on private foundations, government grant systems and high wealth individuals. Therefore, there is a risk of NPOs being overly reliant on these funding avenues.

Funding for NPOs comes mainly from two areas – donations and generated revenue. According to Feng and Shanthikumar (2017:512), donations may be received from various avenues: firstly, from private foundations such as the Bill and Melinda Gates Foundation (one of the largest private foundations in the world); secondly, support from large corporations with specific departments that focus on contributing to a specific cause within the community; thirdly, individual donations from community members who may or may not be connected with the NPO; fourthly, government support which often is in the form of grants from specific government agencies such as the Department of Social Development (DSD); and finally, planned giving, where for example a donor lists an NPO as a beneficiary in their will which may be in the form of annual contributions to a specific NPO from the donor's estate (Feng & Shanthikumar, 2017:512).

Generated income, on the other hand, may take the form of revenue raised by charging for the product or service offered. Two forms of NPO-generated income exist, namely, fixed fee and voluntary contributions. The former may be a hospital or university that provides a service to someone and charges a flat fee. The latter

example refers to an NPO providing a service to a person or entity and asking for a voluntary contribution as set by the receiver of the service (Feng & Shanthikumar, 2017:516-517). Philanthropic donations from individuals can be organised to reflect the characteristics of their businesses; that is, NPOs may take on the characteristics of the organisation from which they receive their funding, such as the culture and business behaviour outside of the normal NPO behaviour they are used to. For example, NPOs may start focusing on fulfilling the funders' objectives and accountability procedures, instead of the objectives of the NPO as related to their mission. This relates directly to concerns that reliance on donor or government funding might reduce the NPO's ability to create an active community to bring social change through mechanisms they develop for themselves. Therefore, it is possible that diminishing funding or governmental support may erode the advocacy in the NPO environment for a better world for society (NGOPulse, 2013:1; Teets & Almen, 2018:1).

The South African government's social system of programmes aims to reduce poverty and inequality by issuing social grants to vulnerable citizens and those social welfare service organisations that serve those vulnerable groups. As endorsed by the Department of Social Development (DSD), their mandate is reported as to

... provide social protection services and lead government efforts to forge partnerships through which vulnerable individuals, groups and communities become capable and self-reliant participants in their own development (DSD, 2020:1).

This mandate is supported in the South African national budget review of 2019, where it reported an increase in government expenditure on social development (National Treasury, 2019:56). An increase in expenditure was reported on social services, from R192.7 billion in 2018/19 to R238.7 billion by 2021/22 (National Treasury, 2019:56).

One of the challenges facing NPO managers is the way that the NPO is allowed to spend its available funding. Although NPOs may apply all their available funds at an operational level, the way an NPO may spend money in the long term imposes an application constraint. The application constraint refers to the pressure to optimise funding and fund-raising activities for the current period. The annual renewal of funding by donors and government bodies is dependent on the spending structure of the NPO.

This requirement suggests that the NPO should spend money wisely and effectively on their operations. There is thus a delicate balance between how much resources to allocate to expenses in the current period, against that to future income-generating activities, while at the same time not harming the efficiency of expenditure as measured by the NPO donors (Feng & Shanthikumar, 2017:514-515).

As shown in Table 1.1, many NPOs in South Africa rely on external funding mechanisms to fund their charitable activities and the main mechanism for this is government funding, which partly provides for their financial needs (Ratlabiyana, Mkhonza & Magongo, 2016:20).

**Table 1.1: Percentage of funding by category and province**

<b>South African province</b>	<b>SA government</b>	<b>Local, non-governmental</b>	<b>National Lottery</b>	<b>International</b>	<b>Self</b>
Eastern Cape	39	16	7	25	14
Free State	27	69	3	0	1
Gauteng	13	23	4	56	3
KwaZulu Natal	32	32	11	18	7
Limpopo	22	3	4	70	1
Mpumalanga	49	8	32	6	6
Northern Cape	49	37	1	0	13
North West	54	14	18	3	11
Western Cape	23	18	7	30	22

**Source: Funding Practice Alliance (FPA) (2016); and Education, Training and Development Practices Sector Education and Training Authority (ETDP SETA) (2019:27)**

Table 1.1 displays the remainder of the costs required through either local, non-governmental (private) donations, the National Lottery, international donations, or fund-raising activities. This is an ongoing process with no long-term certainty of financial sustainability. The problem with private funding activities is that they are extremely labour-intensive and yield a low return (Fritz, 2019:1). The uncertainty of future funding hinders the NPO in planning for staff, and product or service expansion (Feng & Shanthikumar, 2017:514). The uncertainty of future funding could be overcome by utilising the management factors (principles) followed by successful businesses and applying them to NPOs to assist them to become financially self-sustainable (Maier, Meyer & Steinbereithner, 2016:8; Love, 2018:23). Hence, a study to investigate the application of management factors within NPOs is imperative. The

researcher aimed to provide insights by investigating the management factors applied by NPOs in the Western Cape province.

#### 1.6.4 The Western Cape province

This study was conducted in the Western Cape province. This province houses 6.3 million residents with a population growth rate of 2.49% in 2019; 11.6% of the total national population of South Africa live in this province (StatsSA, 2019a:16). The Western Cape province recorded an inflation rate of 5.4% at the end of the third quarter of 2019, resulting in the provincial inflation rate being higher than the national inflation rate of 4.5% (StatsSA, 2019b:3). Figure 1.1 presents the municipal regions of the Western Cape province. In this study, the NPOs sampled were located in the City of Cape Town (C) and the Cape Winelands (6, 7, 8, 9, 10).



**Figure 1.1: Municipal regions of the Western Cape province**

**Source: WCG (2019:1)**

Much like other regions in South Africa, an advantage for NPOs is that the Western Cape region has access to universities such as the University of Cape Town (UCT), the University of the Western Cape (UWC) and Stellenbosch University (SUN). Students at these universities work in the NPOs as part of their formal academic education programmes, thus providing the NPOs with volunteers.

The Western Cape provincial government is highly active in social services, specifically the DSD. The department is committed to providing social welfare services for underprivileged and vulnerable people. It provides sustainable development programmes for NPOs and empowers the communities served by the NPOs. The DSD strategic overview for the period 2015 to 2020 has the vision of assisting communities to become more self-sufficient in the way society supports them through social, sports and feeding programmes. The mission of the DSD is to ensure the provisioning of a wide-ranging network of social development services to empower those with special needs, as well as underprivileged and vulnerable citizens in society (DSD, 2015a:4).

Policy mandates for the DSD in the Western Cape province are relevant to NPOs and include the following:

- *The National Development Plan (NDP)*. The National Planning Commission (NPC) has published a National Development Plan vision for 2030. This vision, published in 2011, was a first step towards creating a new path for South Africa that pursues the elimination of poverty and a reduction of inequality by 2030 (NPC, 2013:1).
- *The One Cape 2040 – From Vision to Action*, which was approved by the WCG in 2012. The vision aims at creating a platform for the transitioning of the province towards a more inclusive and robust economic future. The vision communicates the way in which citizens of the Western Cape province could collaborate to advance their provincial economy and the larger society. The One Cape 2040 vision further describes the purpose of this collaboration, where the benefit is to guide planning and action to further encourage a mutual commitment to and responsibility for long-term and sustained development in the province (City of Cape Town City Development Strategy, 2012:24).
- *The DSD Policy on the Funding of NGOs for the Provision of Social Welfare and Community Development Services*. The purpose of this policy is to ensure that the management of payments to NPOs is controlled and transparent. The policy also aims to encourage accountability and effective administration, and to communicate the performance requirements and principles of the DSD

(DSD, 2015b:3).

- *The Framework for Social Welfare Services.* The framework provides standardised processes which social workers must adhere to when providing social services to citizens. These include levels of service quality, the level of inclusivity through the empowerment of those who are socially and economically excluded from the mainstream of society, and comprehensive and rights-based services to citizens by protecting and promoting the rights of populations at risk (DSD, 2011a:3–4; DSD, 2013a:13).
- *The Generic Norms and Standards for Social Welfare Services.* This framework provides the standards for provisioning and the quality of social welfare services for citizens and forms part of the Framework for Social Welfare Services (DSD, 2011b:4).
- *The National Drug Master Plan.* This plan aims to enable collaboration between local municipalities and government departments to effectively align with the Prevention and Treatment for Substance Abuse Act, No. 70 of 2008. The plan was developed to ensure that South Africa has a uniform method for approaching substance abuse (DSD, 2013b:52).
- *The Quality Assurance Framework for Social Welfare.* This framework aims to provide for continuous improvement of social welfare services to citizens. It also provides a consistent platform and standards to evaluate the effectiveness of social welfare services (DSD, 2012:4).
- *The Western Cape Youth Development Strategy.* The purpose of this strategy is to improve the level of support and increase opportunities and services for the youth of the province (between 10 and 24 years of age). The strategy aims to improve the way in which the youth interact with their environment. It also aims to assist the youth to become accountable, autonomous, and well-functioning adults in the local community. Furthermore, the Strategy goal is that by the age of 25, youth in the Western Cape province will be inspired, educated, responsible, independent, healthy and productive citizens with positive personal, family and social relations. The Strategy is mandated to drive key

programmes to address the above issues. These include family foundations, education and training, economic opportunities, identity and belonging, and reconnection. The Strategy articulates the way the WCG can approach partnerships with NGOs and private sector role-players, faith-based organisations, and the youth of the province (DSD, 2013c:3).

## **1.7 RESEARCH METHODOLOGY**

“The choice of appropriate research methodology is one of the most difficult and confusing decisions for most researchers. The type of research will dictate the right research methodologies that should underpin the research and data-collection methods to be used, regardless of the method or methodology adopted for the study” (Opoku, Ahmed & Akotia, 2016:32). The following sections present the research methodology followed in this study, including discussions on the research design, the research strategy, and the research population, as well as sampling, data collection and data analysis.

### **1.7.1 Qualitative research**

The research comprised a qualitative case study of NPOs in the Western Cape province. Qualitative research is a research approach which is often applied to discover meaning from the data gathered and relates to how people assign importance to social or human problems. Qualitative research methods allow the development of questions and processes to collect data within the participants’ environment (Saunders, Lewis & Thornhill, 2019:179). The analysis of data develops from specific to broader themes, where researchers develop and interpret meaning from the collected data (Saunders *et al.*, 2019:639). The study utilised a qualitative research method by conducting semi-structured interviews with participants. The choice of research method was based on the requirement to fully understand the way NPO participants experienced their environment and to gain an in-depth understanding of how they respond to the challenges of managing an NPO within the constraints experienced in such organisations. Table 1.2 presents the advantages and disadvantages of qualitative studies.

**Table 1.2: Advantages and disadvantages of qualitative studies**

<b>Advantages</b>	<b>Disadvantages</b>
Finding meaning in more complex situations.	Generally impossible to quantify future event predictions.
The researcher can attain an “insider viewpoint”.	Publication of results may be difficult owing to perceptions of the credibility of qualitative research methods.
The results are not based on the construct of the researcher but instead are formed by the way the participant perceives their environment.	The process of collecting data is more time- consuming.
Interpretation of concepts that are difficult to quantify is possible, for example Intelligence Quotient (IQ) and emotional responses (EQ).	The personal biases and perceptions of the researcher may influence the research results.
The direction of a study may change throughout the research process where required.	
A significant situation can be used to create an in-depth representation in a research report.	

**Source: Glen (2016:1)**

Table 1.2 presents the advantages and disadvantages of qualitative studies. The advantages described are relevant to this study, as the researcher aimed to gain an understanding of the multifaceted environment within which NPOs operate and how they applied the management factors of the Lussier Business Success Versus Failure Model (Lussier, 1995).

### **1.7.2 Research design and strategy**

The research design describes the specific data required, what methods are applied to gather and analyse the data and how this answers the research questions (Creswell, 2014:261). The research design focuses on designing a research approach in such a way as to rationally and accurately acquire the type of empirical evidence the researcher requires to answer the research questions for the study (Akhtar, 2016:68). This study adopted a qualitative research method. Qualitative research aims to discover meaning from the data which relates to the importance that individuals assign to problems within their environment (Sutton & Austin, 2015:228). The researcher chose

a qualitative research approach as it was appropriate for gathering personal insights from the participants in relation to how they experienced their environment (Creswell, 2014:32). These insights were gathered by conducting individual semi-structured interviews (Agarwal, 2019:79–80) with participants at NPOs in the Western Cape province. The data was collected in a controlled manner in order to identify themes across four case study organisations (NPOs) in the province.

Case studies emphasise the empirical nature of research and highlight the importance of creating the context within the case being researched (Yin, 2014:4). Case study research also focuses on a particular object, while the product of an investigation is descriptive and investigative (Harrison, Birks, Franklin & Mills, 2017:1). This study utilised case study research (Yin, 2014:4) owing to its suitability for attaining a holistic, “real-world” perspective from the participants. The number of cases investigated was not the main aim of the research but rather the in-depth knowledge gained from each case organisation (Gustafsson, 2017:4). Participants from four organisations (NPOs) were interviewed, comprising twelve (individual) interviews in total.

A qualitative case study design was appropriate for this type of study as it produced knowledge gained through this method of research and it was personal, interactive, and practical (Ferreira, 2016:2–3). As the main instrument of data collection, qualitative designs allow the researcher to form various interpretations of the research circumstances, as experienced by the different participants in the study (Lune & Berg, 2017:12). A descriptive case study design aims to present a comprehensive account of a phenomenon within its environmental context. The main goal of the researcher in this regard is to describe the data in the true form in which it is captured, as a reflection of the participants’ experiences within their context (Patnaik & Pandey, 2020:167).

### **1.7.3 Population and sampling**

A research population is defined as the aggregate or totality of all the objects, subjects or members that conform to a set of specifications (Muiruri, Kahuthia & Muraguri, 2019:265). The population of a study can refer to more than just a number of people, as it may also refer to the total number of cases selected for research by the researcher. According to StatsSA (StatsSA, 2017:7) there were 120 227 NPOs in South Africa. As it is not always practical to research every individual case in a large

population of subjects (Saunders, Lewis & Thornhill, 2016:275), sampling may be used. In a research study, sampling involves the process of selecting a portion of the research population and conducting the research with the selected sample (Etikan, Musa & Alkassim, 2016:1). For the purpose of this study, participants from government departments, such as the Department of Social Development (DSD), were excluded. The research design of the study, and the research questions and objectives, were developed around the management principles of NPOs. Therefore, to answer the research questions of the study, the research design of the study focused on the management principles applied within NPOs (Akhtar, 2016:68).

There are two types of sampling, namely, probability sampling and non-probability sampling, both of which have associated subtypes. Probability sampling allows for each sample to have an equal probability of being chosen to be part of the research. This method of sampling means that the research sample chosen has a high probability of being representative of the relevant research population (Showkat & Parveen, 2017:3). A purposive non-probability sampling method was applied in this study. One non-probability sampling method is convenience sampling, which was chosen for application in this study. This sampling method relies on data collected from members of the research population who are conveniently located near the researcher, thus enabling their participation in the study (Etikan *et al.*, 2016:2).

Convenience sampling describes a method of research participant selection based on the proximity of participants, or cases, to the researcher and, therefore, this method is a quick, inexpensive and convenient sampling method for researchers (Elfil & Negida, 2017:2). One reason for selecting this sampling method was the researcher's easy access to the participants (Etikan *et al.*, 2016:1). Consequently, convenience sampling was applied to a selection of case organisations, as the 21 000 NPOs (Western Cape Department of Social Development (WCDS), 2019:12) in the Western Cape province was impractical to include in the sample. Accordingly, four NPOs in the Western Cape province were approached which were located close to the researcher (Elfil & Negida, 2017:2). The NPOs selected covered various fields in the NPO sector; this was done to ensure that the results were not limited to one type of NPO and therefore to strengthen the research results. The four NPOs included in the study comprised two homeless shelters, one rehabilitation centre and one education centre. Twelve interviews were conducted with an NPO founder, managers, and staff. Case study 1

(CS1) provided four participants, case study 2 (CS2) three, case study 3 (CS3) two, and case study 4 (CS4) three.

#### **1.7.4 Data collection**

The data was collected using semi-structured interviews (Saunders *et al.*, 2016:392–394) which targeted a founder, managers, and staff of NPOs in the Western Cape province. An interview guide was drawn up. An unstructured or semi-structured interview may include a few predetermined questions, which allow the researcher to conduct interviews which allow for exploring topics that are highlighted by the interviewee during the interview (McGrath, Palmgren & Liljedahl, 2019:1003). The decision to select the founder, managers, and staff of the NPOs was based on the fact that they were in possession of the information required to answer the interview questions.

Pre-testing is a step in the research process when an interview guide is tested on members of the target or study population. Pre-testing is useful to evaluate the validity and reliability of the research instrument prior to the commencement of the full-scale research programme (Caspar, Peytcheva, Yan, Lee, Liu & Hu, 2016:392). The pre-testing of the research instrument (an interview guide) was conducted prior to data collection with three NPO participants and the two supervisors of the study. The purpose of the pre-testing was to test the interview process and to identify any weaknesses in the interview guide design, as well as the way in which questions were asked. Accordingly, pre-testing allowed the researcher to determine the effectiveness of the questions in the interview guide. The NPOs utilised for this purpose was in close proximity to the researcher. These NPO responses did not form part of the final study, but were only used for the pre-testing of the research instrument.

Based on the outcomes of the pre-testing and the supervisors' reviews, changes were made to the interview guide. These resulted in the research questions being coded into sections and related questions being grouped together. The preliminary tests also assisted the researcher in verifying the appropriateness of the research instrument. Consequently, based on the feedback from the participants and the supervisors, the researcher was able to adjust the research questions, making them easier to understand and more relevant for NPO participants.

The research instrument, or interview guide (Annexure A), was used by the researcher to conduct twelve semi-structured interviews. Semi-structured interviews are defined as a flexible method for attaining in-depth information on a specific subject from participants. (Evans & Lewis, 2018:2). The interview guide was divided into four sections and consisted of 33 questions. All the interviews were conducted by the researcher, and the researcher captured responses electronically using a laptop computer, where after the individual results of the completed interviews were transcribed by the researcher in a consolidated datasheet for further analysis (McGrath *et al.*, 2019:1005).

### **1.7.5 Data analysis**

Data analysis is the step in the research process where the researcher searches for findings and results within the collected data. The data analysis process assists in extracting useful information from the interview data and requires a deliberate and focused effort by the researcher to identify the most significant elements relevant to the study. The captured data were subsequently consolidated into a coherent and convincing “story” to answer the research questions and provide in-depth insights relevant to the captured data (Linneberg & Korsgaard, 2019:259), and with the assistance of a statistician. This process summarised, described and analysed the data, thus forming a manageable dataset from the large amount of data captured from the interviews. The process also sought to explore themes, patterns, or links between the data elements (Archer, 2018:2).

Descriptive and thematic analysis techniques were utilised in this study. The goal of descriptive analysis methods is to describe a phenomenon and its characteristics as captured in the semi-structured interviews. This analysis involved the coding of the captured data and involved two stages. Firstly, the data was reviewed in its entirety to identify units of data relevant to the study. Secondly, the consolidated data was analysed for codes that appeared frequently, and for which patterns had emerged relevant to the research questions (Merriam & Grenier, 2019:66). The interview guide was initially coded into four key topics (demographic and background information, organisational elements, management components, and challenges and income-generating activities). Upon completion of the interviews and gathering of data, such

topics were expanded and refined through coding for further analysis. In qualitative research, analysis entails the researcher examining the qualitative data meticulously to discover emerging and relevant themes within the data. The researcher can then convert these into numerical data for comparison and further evaluation (Nassaji, 2015:129–130).

Thematic analysis is a research method used to categorise, analyse, and identify emerging patterns or themes from collected research data (Braun & Clarke, 2006:79; Herzog, Handke & Hitters, 2019:2). In this study, the themes that resulted from the analysis were data-driven; that is, based on the captured data and the experiences of the participants. The analysis process started with searching for meaning in the participant responses and then evolved to include the identification of different meanings that were related to each other (Sundler, Lindberg, Nilsson & Palmér, 2019:735).

The thematic analysis was originally aimed at gaining an understanding of the complex meanings in the data, instead of measuring the frequency of the data. The analysis comprised a search for patterns of meanings which were further explored and then determining how such patterns can be organised into themes (Sundler *et al.*, 2019:735). The researcher conducted the thematic analysis with the assistance of a statistician. The results of the descriptive analysis were used for theme identification and made use of word frequency mapping to confirm their relevance.

## **1.8 TRUSTWORTHINESS**

Clear accounts of and reflections on the circumstances under which data is gathered from the interview process, and which address the unique environment the researcher conducted the research in, assist in the trustworthiness of qualitative research and the depth of the resulting findings. The methodology offers a way to contextualise the findings of management research that contributes to enhancing the trustworthiness and richness of qualitative research findings (Daniel, 2019:31). The development of a strong conceptual framework to facilitate the accurate selection of the appropriate study method minimised the researcher bias that is inherent in qualitative studies and assisted in ensuring the trustworthiness of the research conducted, and the research findings. The trustworthiness of research is based on the level of quality in the

qualitative research conducted. It also formed the foundation for both the rigour in the research process and the relevance of research findings (Daniel, 2019:102).

There are certain best-practice methods which researchers use when sampling and collecting data to increase the rigour and trustworthiness of qualitative research. These methods include a clear motivation for the decisions made by the researcher that relate to the design of a sampling method, the determination of the data saturation point, ethical considerations of the research design, and sufficient levels of interaction with research participants (Johnson, Adkins & Chauvin, 2019:8).

Criteria for ensuring the overall trustworthiness of qualitative research include:

- Credibility requires establishing that the findings are dependable, relevant, and congruent – reflecting the researcher’s intended reality that is obtained from the perspectives of those who provided the data (Daniel, 2019:103).
- Transferability means that the readers of a study are provided with a comprehensive and appropriate set of information that enables them to determine whether the results are relevant to their context, or that of others (Johnson *et al.*, 2019:7).
- Dependability refers to the effectiveness of the researcher in describing the process followed in the research study and doing so with an appropriate level of detail that could be replicated by other researchers (Johnson *et al.*, 2019:7).
- Confirmability relates to the ability of the researcher to ensure the relevance of the research findings and results and relate them to the data collected from the participants, as well as ensuring that they are free of researcher bias (Johnson *et al.*, 2019:8).

Authenticity is a fifth element guiding trustworthiness. In qualitative research, the authenticity of a study is aligned with an interpretive research methodology. This enables the researcher to provide a confidential account of the meanings that people attach to their circumstances. A disciplined approach to the collection and analysis of the data serves as evidence of this involvement with the participants. Authenticity also refers to the mandate that originates from the researcher's presence at the research location (Alsharari & Al-Shboul, 2019:51). In this study, the researcher ensured this element of trustworthiness by conducting all interviews in person at the participants' premises.

## **1.9 ETHICAL CONSIDERATIONS RELATED TO THE STUDY**

The researcher collected organisational and management information from participants through semi-structured interviews. Owing to the sensitivity of the NPO sector and the individuals who receive services from NPOs, no personal or identifiable information was captured as part of the research process. No information regarding the NPOs' names was made visible to other parties outside the research team. There were therefore no major ethical considerations identified in the study.

All information captured by the researcher was stored in a password-protected online storage location and only the researcher had access to this information. A confidentiality agreement was signed by the statistician who assisted the researcher with the analysis of the data. The researcher ensured that all participants understood and agreed that they were comfortable with the process of confidentiality and anonymity through signed informed consent forms. The study was further submitted and subsequently approved for ethical clearance by the College of Economic and Management Sciences (CEMS) at the University of South Africa (UNISA) (UNISA, 2016).

The next section provides a summary of the study chapters.

## **1.10 OUTLINE OF THE CHAPTERS**

The study consists of the following chapters:

### **Chapter 1: Introduction and background to the study**

The first chapter provided an introduction to and background on the study, the problem statement, the research questions and objectives, the significance of the study, an overview of the literature and the research methodology that was followed in the study.

### **Chapter 2: NPO management**

The second chapter presents an overview of the existing literature related to the differences between non-profit and for-profit organisations. Furthermore, the chapter discusses organisational factors related to NPO management, including structure, strategic planning, leadership and governance, organisational skills, and financial management of NPOs.

### **Chapter 3: Lussier Business Success Versus Failure Model**

This chapter introduces the Lussier Business Success Versus Failure Model and gives an overview of each factor contained in the model. Its relevance to the NPO sector is also discussed.

### **Chapter 4: Research methodology**

The fourth chapter outlines the research methodology of the study. The research paradigm, philosophy and strategy are presented, and the case study approach is discussed together with the supporting sampling, data collection and analysis methods utilised. The chapter also describes the procedures followed to ensure the trustworthiness of this study.

## **Chapter 5: Research results and findings**

The fifth chapter presents each NPO sample in the form of a case study summary. It further presents demographic and background information of the participants. The identified themes are presented, followed by descriptive analysis results in support of the identified themes, and concludes with a summary of the findings.

## **Chapter 6: Conclusions and recommendations**

The last chapter presents a summary of the study, the objectives of the study are revisited, and the significance of the study is presented. This is followed by the recommendations, limitations of the study and further research areas.

### **1.11 CONCLUSION**

This chapter introduced and provided background on the study and introduced the Lussier Business Success Versus Failure Model, followed by the problem statement and research questions and the objectives of the study. The significance of the study was presented in terms of the insights it provides and the contribution it makes to the NPO field of study. A literature overview followed which outlined the context relating to the definitions and structures of NPOs, as well as government support and funding of NPOs, and introduced the research setting, namely, the Western Cape province.

The research methodology section included the qualitative research method utilised, the research design and strategy, and the research population and sampling technique applied. Furthermore, the data collection and data analysis methods were introduced, including the descriptive and thematic analysis utilised in the study. The elements relevant to the trustworthiness of the study were presented, with supporting ethical considerations.

The next chapter presents the literature on NPOs in context, and their management.

## **CHAPTER 2**

### **NPOs IN CONTEXT AND THEIR MANAGEMENT**

#### **2.1 INTRODUCTION**

This chapter presents an overview of the differences between NPOs and for-profit organisations, as well as the similarities between them. An overview is also presented when starting an NPO and the features of an NPO. NPO management is described by presenting definitions and the classification of an NPO. The strategic planning of NPOs is discussed, including NPO networking as NPOs need to seek the advice of professional advisors. The section on leadership and governance of NPOs discusses transformation leadership and the governance of NPOs. Authentic leadership is introduced as it relates to transformation leadership. In the NPO industry, poor governance has been acknowledged as a problem area. Organisational skills of NPOs are highlighted. The financial management of NPOs is described in terms of income-generating activities, financial risk, and the financial sustainability of NPOs. Financial sustainability is important to ensure the survival of the NPO.

#### **2.2 NPOs AND FOR-PROFIT ORGANISATIONS: DIFFERENCES AND SIMILARITIES**

NPOs are similar to other types of businesses as they experience similar challenges in achieving organisational and financial success. Table 2.1 presents the differences between NPOs and for-profit organisations, while Table 2.2 compares some of the advantages and disadvantages of the two options.

**Table 2.1: Differences between non-profit and for-profit organisations**

Non-profit organisations	For-profit organisations
Provide some public service or have some public purpose that goes beyond serving the personal interests of the members of the NPO (such as the promotion of social welfare, economic development, religion, charity, education or research).	Operate for the purpose of making profits.
May make a surplus but may not distribute their property or profits to their members. They use any profits they make to further their public interest objectives.	Distribute profits to their owners or members.
Frequently do not generate enough income to cover all their expenses, so they fundraise from the public or donors.	Frequently borrow money at a specified interest rate if they cannot self-finance all their capital and operating costs. They calculate that they will be able to pay back the loan plus interest from the profits they intend to make.
On dissolution, any surplus assets, after payment of all debts, are given to an NPO with similar objectives. Assets are not distributed to the members.	On dissolution, after payment of all debts, any surplus assets are distributed to the owners or members.

**Source: Honey (2019:1)**

Table 2.1 shows that for-profit organisations have other drivers that propel them forward (e.g. profit generation, profit distribution to a business owner and, when faced with a lack of money, rather borrow money from investors or banks, and pay those creditor parties back with interest). NPOs do not aim to generate or distribute profits to their members; instead, they go beyond the gains of the parties involved to focus on serving the community they operate in.

**Table 2.2: Comparison of the advantages and disadvantages of for-profit and non-profit organisations**

Function	For-profit organisation	Not-for-profit organisations (NPOs)
Ownership and profits	The primary universal measure of performance is bottom-line profit. Owners are entitled to take profits out of the business.	In mission-driven organisations, there must be an excess of revenues over expenses called “fund balance”. The monies in the fund balance are to be used to further the goals of the organisation. These organisations are not owned.
Revenues	Raised primarily through sales.	Raised through donations, grants, membership and investments, as well as sales or fees. May allow lower costs or no cost to the customer.
Taxes	Pay taxes, reducing net profits.	Tax exemption gives a cost advantage over for-profit organisations in some cases.
Staffing	Primarily all paid employees.	Both volunteer workers and paid employees help keep costs down.

**Source: Heler (2012)**

The focus in Table 2.2 presents the advantages and disadvantages of for-profit organisations and NPOs providing insights into ownership and profits, revenue sources, taxes, and staffing approaches.

Lussier *et al.* (2015:52) state that NPOs also have some similarities. Firstly, *profit objective and business operation* – like a for-profit organisation, NPOs should plan strategically for the future, spend their money wisely, market their goods and services, and manage them efficiently and effectively (Sarasvathy & Venkataraman, 2011). Like for-profit organisations, NPOs need to hire and pay employees with entrepreneurial skills in order to solve social problems optimally (Pallotta, 2012). Secondly,

*entrepreneurial orientation* – non-profit organisations are in need of an entrepreneurial orientation. NPOs seek entrepreneurial behaviour from their paid and volunteer employees, such as innovating ways to achieve the mission by increasing efficiencies, serving more clients, and enhancing what is done for clients. Proactiveness is needed to find new ways of generating the revenue needed for the survival and growth of the NPOs. Risk-taking is also required to start and operate an NPO (Morris, Webb & Franklin, 2011).

### **2.3 STARTING AN NPO AND THEIR FEATURES**

There are many different types of NPOs, which exist in different circumstances and are at different stages of development (Knowles & Wilson, 2018:105). However, virtually all NPOs have a social mission to help their stakeholders or society in general in some way (Lussier *et al.*, 2015:51). According to Lussier *et al.* (2015:52), NPOs are started for the following reasons:

- *Cannot make a profit.* The organisations cannot price the product or service high enough to make a profit. Therefore, government or private grants are needed. In addition, fundraisers and/or raising donations and possibly having investment income are also required to cover the cost of operating the organisation. The NPO can also help to keep costs down by not paying tax and using volunteers.
- *Social contribution.* To keep the price of fees and other costs down, NPOs may be a volunteer organisation, operated as a home business, and does not pay tax.
- *See a problem, find the solution.* Often solutions are best accomplished through NPOs, as problems in their surroundings are recognised by the community.
- *Value guardian.* NPOs are started to promote the beliefs and values of many people, the community, country and society.

NPOs are also characterised by distinguishing features. According to Grant and Jordan (2012:231-233), these features include:

- Firstly, multiple, potentially conflicting goals exist. These organisations often have multiple intangible and conflicting aims. They are faced with “politics”, competing aims and objectives, and the need to take different views into account when formulating and implementing strategy. However, the primacy of shareholders’ interests, in principle at least, makes it easier to prioritise and reconcile competing claims.
- Secondly, NPOs have less autonomy and flexibility. They are subject to direct political influence and managers of these organisations may be highly constrained in the actions they can take. They may have little freedom to change the rules or to exercise personal discretion.
- Thirdly, they experience increased accountability. These organisations are subject to particular public scrutiny because organisational members are vested with public trust and are appointed to act in the public interest.
- Fourthly, NPOs have less predictability. They face more unpredictable environments than private businesses. Pressure from the media, combined with frequent changes in political leadership, make it difficult to plan for the future.
- Fifthly, NPOs employ volunteers. Many staff used to deliver services in NPOs are volunteers. It may be difficult to attract volunteers with specialist skills or to manage the performance of staff who are not being paid for their time and service.
- Finally, NPOs conduct fundraising. The majority of NPOs are actively engaged in fundraising; an activity that has become increasingly competitive in recent years.

NPOs are under more of an obligation to take the views of a broader set of stakeholders into account than their private-sector counterparts. Stakeholder analysis, specifically, can be useful because it seeks to provide the NPO with clearer insight into the individuals and groups that influence, and are influenced by, the organisation's strategy (Grant & Jordan, 2012:234).

## **2.4 NPO MANAGEMENT**

For many NPOs, the requirements to qualify for government contracts to serve the underprivileged force them to apply unique management principles. These include the rejection of citizens who request their services, despite being part of the mission of the NPO. NPOs are required to only select recipients (beneficiaries) who can positively benefit from their service and, at the same time, to ignore certain issues these recipients may experience in their lives. These governing aspects force those who request services from the NPO to share personal information in order to benefit from the services offered by the NPO. Therefore, NPOs must apply strong management and governing principles in their organisations (Siliunas, Small & Wallerstein, 2019:109).

A study conducted in the US found that NPOs that develop strong governance structures and focus on hiring the correct level of executives are more likely to receive the correct industry certifications compared to those that do not focus on these elements (Feng, Neely & Slatten, 2019:218). NPOs are not primarily created to produce a profit, either directly or indirectly, and are largely dependent on government contracts. Therefore, NPOs are not driven by commercial goals and objectives and thus NPO managers face unique challenges in how they manage their organisations (Antonaras & Dekoulou, 2019:219). The sections below define and classify the NPO and present an NPO as a structured organisation. Strategic planning is discussed, including leadership and governance, organisational skills, and the financial management of NPOs.

### **2.4.1 Defining and classifying an NPO**

According to Statistics South Africa (StatsSA, 2017:vi), NPOs are identified as separate institutional units. These institutional units may own assets, incur liabilities, engage in economic activities, and may transact with other business entities. Therefore, an NPO may accrue a surplus, but the surplus may only be reinvested back towards the basic social service that the organisation provided to the community (Association of Chartered Certified Accountants (ACCA), 2015:12).

A study conducted by Meyer *et al.* (2019:1493) found that owing to the unique features of NPOs, there is a strong presence of practical behaviour which originates from the need of NPO managers to generate income to survive while driving social and environmental concerns. In addition, the combination of community principles, informal practices and shared learning have a positive effect on the performance of the NPO (Meyer *et al.*, 2019:1493).

### **2.4.2 NPOs as structured organisations**

An NPO is not merely a group of people with “big hearts” that works for free and gives away everything. There is a great deal of structure to the NPO environment, not only from a legislative perspective but also from the amount of administrative application it takes to run an NPO properly (Simkovich, 2017:1; McKeever, 2018:1). Administrative tasks include selecting a board, raising money, creating and setting policy, scheduling annual board retreats to review the strategic components of the organisation, and writing a code of conduct for board members. The tasks may also include the hiring of the appropriate staff who will serve programme recipients with the same level of passion that they, as NPO leaders, have for the organisation’s purpose and mission.

NPOs must also spend a considerable amount of time on fundraising with private donors or local business donors, and ensure that their fundraising staff uphold ethical standards of fundraising as set out by the organisation (see also section 2.4.6.2). To enable an NPO to serve the community, volunteers are required which necessitates that NPOs carefully select and evaluate potential volunteers (Simkovich, 2017:1).

### 2.4.3 Strategic planning

One of the main factors that may influence an NPO's ability to strive for self-sustainable business activities is strategic planning. Adopting a strategic planning approach assists NPO leaders to respond more efficiently to external environmental changes. To navigate and manage the external social and economic environment effectively, NPOs need to apply strategic planning principles. Strategic planning principles are enabled by the strategic leaders of the NPO, namely, the founders and managers of the NPO. Part of the toolset for creating a strategic vision for the NPO is to gain an understanding of the environment that the NPO operates in. NPO leaders must be aware of the political, economic and technological initiatives in their field by gathering available information on the sector. NPOs can enhance their awareness by connecting with others in the field and using the previous experience of leaders in the relevant sector to address strategic issues in the organisation (Safadi, 2015:13).

Various factors may influence the adoption of strategic planning by NPOs. These factors include the size of the organisation, the characteristics of the board of directors, the type of management of the organisation, agreement on the objectives and goals, and the funding requirements to adopt planning. In many cases, strategic planning is optional for the NPO board. Therefore, the board must be set up with the correct people in such a way as to allocate time and funds to this activity (Ferreira & Proença, 2014:3-5).

Many NPOs experience a challenge in using strategic planning as a management tool. This challenge refers to the inability of the NPO management to ensure the implementation of strategies and the achievement of strategic goals as set in the strategic plan. Engaging in strategic planning may allow organisations to respond to funding uncertainty by developing adaptive strategies, such as collaborating with other NPOs or by developing income-generating activities (Hu, Kapucu & O'Byrne, 2014:85–87).

Large corporate organisations enjoy the benefit of human capital and monetary resources that small NPOs potentially may not have at their disposal for strategic planning activities (Hu *et al.*, 2014:83). A lack of strategic planning activities causes NPOs to be vulnerable to the idiosyncrasies of donors, resulting in an inability to

measure the impact of their services on the community over time. Small NPOs, specifically, can benefit from the use of strategic planning, which may improve their utilisation of limited resources and examination of external opportunities and challenges, and direct their focus on capacity management, instead of focusing on daily operations (Poverty Eradication Network (PEN), 2019:1). A study conducted by Hu *et al.* (2014:93) found that strategic planning assists organisations to maintain community support, pursue new organisational relationships, and augment relations with existing partners. The following section describes networking, as NPOs are required to network effectively.

### **24.3.1 Networking**

A lack of strategic planning can often be attributed to the lack of skills and knowledge demonstrated by NPO leaders. One potential method for overcoming this challenge is to seek the advice of professional advisors. The inability of NPOs to network effectively is a challenge, specifically when organisational tasks are duplicated, which may lead to opposing strategies between the community and the NPO (PEN, 2019:1). According to PEN (2019:1), the lack of learning from previous experience by the NPO may result in a misaligned expectation on the part of the NPO in addressing the social needs of the community they serve. Therefore, NPOs should address the fundamental causes of the social problem(s) by understanding the actual needs of the community they serve. The NPOs' involvement and engagement in their surrounding network may hinder their capacity to access and rally their assets. The reason for this is that the networks are not necessarily well structured, and consequently, the NPOs are not allocating their resources correctly owing to a lack of insight into the prevailing situation or new opportunities. NPOs often join networks that do not add any value to their resource utilisation efforts (Harir, 2015:15).

NPOs of all sizes serve the community at all levels, without necessarily mapping the community environmental projects and implementing projects or giving due consideration to continuing initiatives within the community (PEN, 2019:1–2). Networking with local organisations provides opportunities for shared learning, identifying suitable development projects, producing knowledge assets, aligning on complementary approaches to development, and improving cooperation, collaboration

and coordination with the local government through which the building of adequate local support may be made possible. The creation or joining of conglomerates may activate a source of financing within the donor community; for example, joining larger projects to access the greater donor pool. Large international NPOs may also provide partnership opportunities for small local NPOs. Large NPOs that are interested in the long-term survivability of the local NPO culture may partner with a local organisation and provide growth, technical and financial management support (PEN, 2019:5; Hadden & Jasny, 2019:2).

#### **2.4.4 Leadership and governance**

Transformational leadership is an effective leadership style for managing an NPO and enables NPOs to potentially grow into more sustainable enterprises by overcoming resource constraints and utilising strategic planning in management principles (Hu *et al.*, 2014:96). Not all NPOs are equal, as skills and understanding of effective governance differ between NPOs. As Agbodzakey, Kumah-Abiwu and O'Flannery Anderson (2018:71) explain, non-profit governance is the "lifeblood" of NPOs, irrespective of the organisation's size or the operational location. The following section discusses transformational leadership and its relationship with authentic leadership. NPO governance is also discussed.

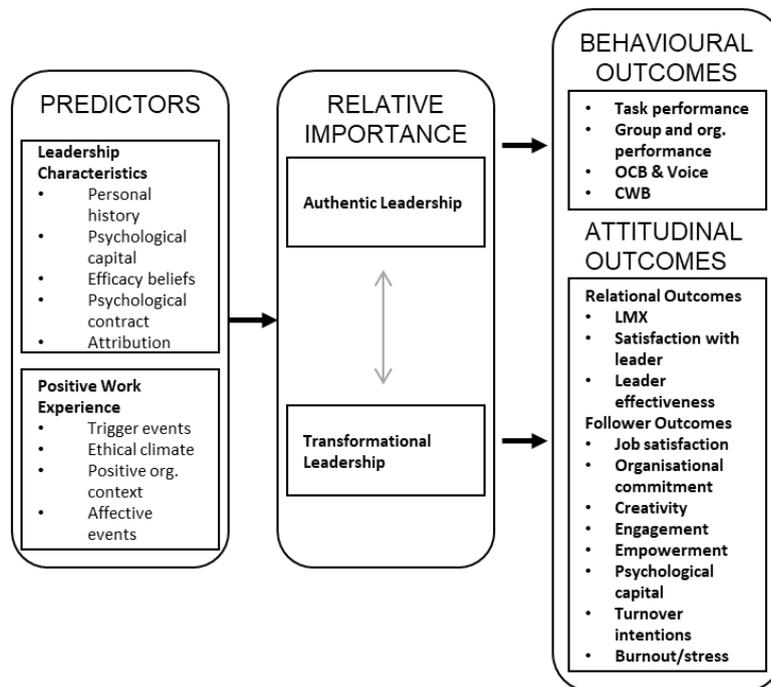
##### **2.4.4.1 Transformational leadership**

Transformational leadership refers to the ability of a leader to select the right team and effectively support the team instead of leading autocratically from the top. A well-supported team is a high-performing team, and as such should focus on coaching each other at all levels of the organisation. Owing to the complexity of modern-day projects and organisations, the selection of well-trained people who are ready to take on a leadership role is a critical success factor for an organisation (Banks, McCauley, Gardner & Guler, 2016:636).

The transformational leadership style emerged as one of the most dominant leadership theories. In transformational leadership, a leader seeks to meet the essential needs of their followers (Banks *et al.*, 2016:636). Transformational

leadership includes four components: firstly, leaders engage with behaviours that encourage followers to identify with the leader; secondly, leaders motivate by driving a vision that inspires followers; thirdly, leaders encourage individuals to challenge the status quo and to take risks; and finally, leaders seek to meet the individual needs of their followers (Banks *et al.*, 2016:636).

Figure 2.1 introduces authentic leadership (AL) and how it relates to transformational leadership.



**Figure 2.1: Transformational leadership**  
**Source: Banks *et al.* (2016:645)**

Figure 2.1 highlights that authentic (transformational) leadership allows leaders to express themselves naturally, openly and honestly which, in turn, results in a positive and ethical work environment. Furthermore, Banks *et al.* (2016:646) note the importance of leader characteristics, which include self-awareness, constructive modelling, follower autonomy, positive social interactions between leaders and their followers, and a caring and principled organisational environment.

NPOs may have small budgets but they can still benefit from building a strong leadership team by applying certain management factors. These may include selecting the right team, building strong one-on-one relationships, creating collaborative mind-sets, and facilitating conflict management built on mutual respect (Roth, 2019:2). NPO leaders challenge their constituents with innovative concepts and ideas to bring change within a community. Strong leadership is also required to drive effective strategic planning to define a clear vision and to plan for their organisation (Rana, Rana & Rana, 2017:169). These principles of leadership and strategic planning form the foundation for data gathering on and the analysis of NPO management factors.

#### **2.4.4.2 Governance**

Governance in the non-profit sector refers to a deliberate effort by the board of an NPO to ensure that the organisation can realise its stated intent and purpose (Agbodzakey *et al.*, 2018:70). NPO governance is also referred to as the board of directors' legal authority to exercise power and control over an organisation on behalf of the community it serves. The board is authorised to establish policies, make decisions that affect the working of the organisation, and is accountable for the actions that follow those policies and decisions (BoardSource, 2010). In the NPO industry, poor governance has been acknowledged as being a problem area, both within individual NPOs and supporting NPO professional bodies.

In many countries, NPOs do not have effective governance structures and, where a board exists, the board may not be effective in providing strategic leadership to ensure that resources are effectively allocated. Furthermore, NPO boards are expected to offer guidance and oversight to the activities of the NPO, but many boards are not aware of their role in resource allocation. In many instances, NPOs do not have governance mechanisms such as constitutions, policies and guidelines and the lack of such mechanisms may scare off potential donors (Harir, 2015:17). Research has also shown that risk management, legal compliance, strategy and business planning, financial management and directors' duties are the most desired governance training topics among NPOs (Nicholson, Newton, McGregor-Lowndes & Sheldrake, 2008). Knowles and Wilson (2018:104) argue that NPO governance has been relegated to passive oversight, window dressing and box-ticking; however, it can be a powerful

tool. NPO leaders have an opportunity to leverage recent improvements by making good governance a source of competitive advantage when attracting funders.

Internal controls form part of governance procedures and include methods which are implemented by an NPO to guarantee the adequacy and efficiency in their compliance with legislation and regulation, efficiency in operations and financial reporting. Internal controls consist of the measures that the NPO undertakes to guard organisational assets against inefficiencies, wastage and fraud. Internal controls also ensure the accuracy and reliability of the accounting and operational data, compliance with the NPO's policies, and the possibility of evaluating the performance levels of the NPO (African Woman's Development Fund (AWDF), 2017:17; Steiss & Nwagwu, 2019:8).

Many NPOs express an inadequate comprehension of why an NPO requires a board of directors. In addition, there is uncertainty as to what exactly the actual role of such a board would be and the function it would fulfil. A study conducted in Kenya by the Poverty Eradication Network (PEN) found that the implementing of good governance standards with the relevant NPO's founder was challenging (PEN, 2019:1). Founders tend to drive their own agendas and resolutions. On the other hand, participants with a more advanced understanding of good governance can appreciate the fundamental need and purpose of a board, which forms part of organisational transparency and accountability (PEN, 2019:1). It was also found that it is difficult to find the right board members, specifically if the NPO is not able, or unwilling, to adequately remunerate or allow for certain stipends for the board members. In many instances, NPOs frequently waste their resources by inviting board members to join their organisation (PEN, 2019:1). There is also rising visibility and risks of the work done by NPOs owing to the type of legal entity embodied by an NPO. Because there are no owners, accountability may be a missing governance element. Therefore, NPOs should strive for transparency and trustworthiness with all stakeholders, internal donors and members of the public (Karanth, 2018:127). Achieving good governance requires NPOs to apply management skills; therefore, good governance requires a focused, dynamic and involved NPO that applies its rights and accountabilities in a professional manner (PEN, 2019:4).

### **2.4.5 Organisational skills**

Every NPO is influenced by different environmental factors, such as fraud or abuse of equipment by staff (internal), withdrawal of a major donor grant, or rapid inflation. NPOs that experience these issues will face unique challenges and opportunities. The ability to respond effectively to challenges often relates to the available skills, tools, and resources that the NPO has at an organisational level (AWDF, 2017:15; Theus, 2019:13). The skills that are lacking in NPOs include adequate leadership, management and marketing skills. The ability to plan, execute and finalise projects with limited resources and time at their disposal is a major challenge for NPOs. NPO management team members are also required to see the “bigger” picture during the definition phase of a project, creating a strategy and scheduling tasks to deliver the project. Project risks should also be identified while developing mitigation strategies for these risks (Global Peace Careers (GPC), 2019:1).

NPO team members need to be effective time managers, as time management is essential for the survivability of NPOs. NPO team members should be agile enough to be both proactive and reactive in the way they work and should be able to balance critical deadlines that may arise. One such time-consuming activity is fundraising and it is crucial for NPOs to find the appropriate fundraising skills to manage these activities. While fundraising skills may not be present in the NPO at start-up, NPOs should cultivate them over time. These may include growing the ability to form new relationships with donor bodies, private individuals and trusts (Mohapeloa, 2017:3; GPC, 2019:1).

Mainstream NPO projects are funded by donors and grants, therefore both transparency and accountability are crucial for NPOs. The skills required of the NPO management also include the application of monitoring and evaluation principles. Managers are required to facilitate the process of reporting back to funders and other stakeholders effectively and accurately. This is valuable for the NPO, as focusing on maintaining a lasting partnership with their donors and granters will enable it to articulate a contract relating to the monitoring and evaluation requisites that are essential to all stakeholders (Bezuidenhout, 2017:27).

The ability to advocate and communicate on behalf of others is an essential skill for an NPO, as it will guarantee that persons in need have a platform that enables the NPO to fulfil that need. If such a platform is utilised effectively, the NPO may gain great support for their cause. The process of advocating on behalf of others also requires effective listening skills. This may lay the foundation for NPOs to understand all the options available, while identifying the appropriate solution to societal issues. For this skill to be effectively utilised, NPO workers should display a high level of emotional intelligence and be strong enough to assist helpless people to go through difficult times (Word & Sowa, 2017:124; GPC, 2019:1). The *Oxford Learner's Dictionaries* (2020a) appropriately describes the concept of emotional intelligence as “the ability to understand your emotions and those of other people and to behave appropriately in different situations”.

#### **2.4.6 Financial management**

The purpose of a for-profit business is to increase shareholder value through growth in the share price of the business. NPOs, on the other hand, have different goals as they do not have a shareholder structure and, therefore, the capital structure is different. Owing to their design, NPOs do not allow for an equity element related to their capital structure but instead can only assign directors or memberships with no equity stake capability (Strydom, 2014:56).

An organisation that provides financial management support for NPOs in Africa is the African Women's Development Fund (AWDF) (AWDF, 2017:1). This organisation provides NPOs with information on financial management principles. The AWDF highlights that financial management is a challenging domain for small community-based organisations and NPOs, as they need support in balancing small and larger project budgets. NPOs experience difficulties in attaining the required specialised support related to financial management, therefore the AWDF aims to develop NPOs' knowledge of financial management by providing training to their finance staff. This training enables NPOs to manage their finances better by improving internal processes and systems, thus enabling them to maintain good financial management principles (AWDF, 2017:3).

Financial management includes the continuous process of planning, organising, controlling and monitoring the financial resources of an organisation to achieve its desired objectives (AWDF, 2017:10; Steiss & Nwagwu, 2019:12-13, 19). The most prevalent motives for drawing up budgets include monitoring, controlling and planning. Planning is the primary purpose of a budget as it stipulates the anticipated stages of income and expenditure as encapsulated in the concept of financial management (Ugoani, 2019:93).

The principles that could assist NPOs in achieving their financial management objectives are shown in Table 2.4.

**Table 2.3: Principles of financial management**

<b>Principle</b>	<b>Definition</b>
Accountability	The legal duty placed on an individual, group or organisation to report on fund utilisation and equipment.
Custodianship	Safekeeping of financial resources within the organisation.
Transparency	The openness of organisational processes to remain visible and trustworthy to those both within and outside operations.
Integrity	Builds upon the reliability, consistency, honesty and dependability of an organisation and those working within it.
Order	Represents the consistency of financial systems over time. The order allows data and space for comparisons, analysis and transparency.
Non-deficit financing	Ensures that sufficient funding is available to cover all activities and therefore meet organisational objectives and sustainable growth.
Standard documentation	Maintains regular financial records that can be understood by an accountant/financial specialist from anywhere in the world.

**Source: AWDF (2017:10)**

The principles in Table 2.4 display the level of ethical behaviour required of an NPO management team, including governance concerning financial record-keeping and reporting. With sound financial control systems in place and a solid funding structure, the focus of NPO managers and founders should be on serving their mission instead of becoming defocused and drifting away from their core organisational purpose (Maretich, Emmerson & Nicholls, 2016:4).

Over and above financial planning and financial reserve buffers, the GPC (2019:1) and Steiss and Nwagwu (2019:19) highlight that monitoring and evaluation enable the NPO to adhere to the correct financial management principles. The organisational monitoring and evaluation of NPO activities enables NPOs to report to their funders and grant sources effectively. Accordingly, effective reporting instils confidence and trust in the minds of these funding sources. Effective reporting and evaluation activities assist NPOs in monitoring their progress by tracking achievements, as well as enabling decision-making to continually improve programmes and projects to guarantee that these are efficient and effective in making an impact on the societies they serve (Steiss & Nwagwu, 2019:31). The following sections discuss the income-generating activities of NPOs, financial risk, and the financial sustainability of the NPO.

#### **2.4.6.1 Income-generating activities**

Many NPOs could generate their own income. The opportunity to do so stems from the fact that some NPOs own excess assets which they could use to generate income, for example the leasing of excess building space in properties that NPOs may own. Other organisational assets may include consultancy services related to the organisational skillsets, the facilitation of training, or selling locally made products (PEN, 2019:5).

Other income-generation approaches include the development of public-private partnerships (PPPs). This funding approach focuses on the creation of a prescribed fee-based agreement with the public or the private sector in the form of joint partnerships. These partnerships provide mutually beneficial services to the societies they operate in and allow the leveraging of intangible and tangible assets that may be useful to the NPO. PPPs are a substantial and nearly unexploited financing channel for NPOs. Nevertheless, the NPO market is aware of these avenues and this results in competition among local NPOs to acquire a local partner. It is therefore crucial for NPOs to develop reliable secular partnerships through which to source funding (Harir, 2015:19). Secular partnerships refer to partnerships with organisations that are not necessarily involved in religious or spiritual matters (Oxford Learner's *Dictionaries*, 2020b). The term "secular" is used in this study to refer to any business organisation

that functions outside the NPO sector and has as its focus conducting business and making profits.

#### **2.4.6.2 Financial risk**

An important aspect that needs to be managed by NPOs is financial risk. Financial risks include activities related to fraud, investment management decisions, misuse of funds and tax liabilities. NPOs tend to be susceptible to fraud and the consequences when fund misappropriation occurs are considerable. NPOs may also be defrauded by their employees, for example the theft of office supplies or stock, the pilfering of funds or where employees inflate their expense accounts (Schwartz, 2019:1). Another example may be where an employee creates a fictional enterprise of their own and then invoices the NPO for services that were not delivered to the NPO. These behaviours can result in the organisation experiencing cash flow issues, a loss of confidence from donors, reduced social services' capability, and even the need to lay off staff (Karanth, 2018:123). The inappropriate allocation of funds may result in the donor withdrawing their contribution, perhaps demanding repayment of the used funds or refusing to provide further donations in the future. Furthermore, fund misappropriation may have legal consequences in that the NPO may lose its tax-exempt status or face other legal litigation (Karanth, 2018:123).

NPOs in South Africa need to deal with the same risks as NPOs in other countries, namely, funding instabilities caused by an amplified global economic crisis. NPO donations, specifically from individuals and private donors, have been reduced (Schwenger, Straub & Borzillo, 2014:11; NGOPulse, 2013:1). Corporate social investment (CSI) budgets of for-profit organisations have also been reduced in an effort to remain self-sustainable. As a result, the funding-to-donor ratio for many NPOs has increased to the level of funding required to survive. This also creates increased competition among NPOs to access the pool of funds in CSI budgets and government coffers (Schwenger *et al.*, 2014:11; NGOPulse, 2013:1).

Donor funds are subdivided into restrictive and unrestricted funds. Restrictive funds refer to the requirement of the donor that the NPO should use the funds only for the reasons stated by the specific donor. Unrestricted funds may be utilised for any

purpose the NPO deems fit to achieve their objectives. The aim should be for the NPO to attain predominantly unrestricted funds that will allow it the freedom to apply the donor funds as it sees fit. Managing long-term survivability requires creating financial buffers for those unexpected events or economic fluctuations. These buffers may be financial reserves that represent the financial resources that an organisation holds back to meet unexpected events in the future (AWDF, 2017:13).

A strategy is important for any organisation to achieve its financing needs and numerous sources of revenue may be developed (AWDF, 2017:13). The risk of having just one or two donor income streams is that having just a couple of sources may result in the NPO being exposed to external environmental shocks. For example, economic downturns may reduce the CSI budgets of organisations. Diversifying revenue streams involves building an extensive organisational network which includes partnerships with local enterprises and the local community, and avoiding dependency on institutional donors alone (AWDF, 2017:13).

### **2.4.6.3 Financial sustainability**

NPOs focus mainly on their cause and struggle with financial sustainability aspects. The concept of financial sustainability refers to long-term financial security and survivability (Williams, 2014:9). NPOs that are financially sustainable display a structure of diversified funding sources. Many small, community-based NPOs tend to focus on their day-to-day operations and not on preparing for changes in their economic environment (Williams, 2014:6).

Long-term NPO survivability is dependent on the stability of political and economic factors. Under a recessive or slow economic recovery, NPOs may experience specific environmental challenges. These may include the attracting of qualified volunteers, retention of high-quality staff, raising sustainable funding and donations, and maintaining a high level of service provision (Hu *et al.*, 2014:83).

NPOs that primarily operate on a non-profit basis are for the most part dependent on donations. This dependency makes their continued existence unpredictable and especially vulnerable when economic fluctuations occur in the form of global

recessions. According to the GPC (2019:1), NPO teams require an entrepreneurial mindset to be able to think outside the typical approach to raising funds and potentially reducing the impact of economic fluctuations. There is a need for NPOs to balance the mission of the organisation with financial survival. This results in a metric which measures both the goals of financial survival and the organisational mission, and has become known as the “double bottom line”. In response to the need to achieve financial stability while realising the mission goals, many NPOs are adopting entrepreneurial strategies and becoming more business-like in order to survive (McDonald, Weerawardena, Madhavaram & Mort, 2014:974; Knowles & Wilson, 2018:105).

To survive in the long term and to be more resilient to environmental factors by adopting management principles present in the business environment, NPOs may improve their performance as an organisation and enhance their ability to solve social problems (Schwenger *et al.*, 2014:13).

## **2.5 CONCLUSION**

This chapter reviewed the differences and similarities between NPOs and for-profit organisations. Reasons were provided for starting an NPO. NPO features were also highlighted. NPOs were defined and classified, and they were discussed as structured organisations. The strategic planning conducted by NPOs assist leaders to respond efficiently to external environmental changes. This section emphasised networking, leadership and the governance of NPOs. The skills that are lacking in NPOs were also discussed. Furthermore, the financial management of NPOs is important, and sound financial management principles were presented in this chapter. The income-generating activities of NPOs, financial risk, and the financial sustainability of NPOs were also discussed.

The next chapter presents the literature describing the 15 factors of the Lussier Business Success Versus Failure Model as applied to the NPO sector.

## CHAPTER 3

### LUSSIER BUSINESS SUCCESS VERSUS FAILURE MODEL

#### 3.1 INTRODUCTION

This study used the Lussier Business Success Versus Failure Model to investigate the management factors applied by NPOs. These factors will assist NPOs in their long-term sustainability and survival.

The Lussier Business Success Versus Failure Model was first developed in 1995 by Professor Robert N. Lussier in the USA. Lussier's (1995) research investigated 96 organisations, including 45 businesses that had filed for bankruptcy and 51 successful businesses (in operation). Subsequently, Lussier (1995) identified 15 factors that had been successfully implemented by these (successful) businesses. Baidoun *et al.* (2018:60) support the view that the factors in this model are significant predictors of business success or failure.

As confirmed in chapter 1 (section 1.1), the model (as presented in Table 3.1) has been successfully tested and replicated by researchers in various countries, namely the USA (Lussier, 1995), Croatia (Lussier & Pfeifer, 2000), Netherlands (Houben *et al.*, 2005), Chile (Lussier & Halabi, 2010), Singapore (Teng *et al.*, 2011), Israel (Marom & Lussier, 2014), Mexico (Guzmán & Lussier, 2015), Saudi Arabia (Al Saleh, 2016), Pakistan (Hyder & Lussier, 2016), and Palestine (Israel) (Baidoun *et al.*, 2018).

The Lussier Business Success Versus Failure Model (Table 3.1) was used by the researcher to investigate how NPOs in the Western Cape province apply the 15 management factors.

**Table 3.1: Lussier Business Success Versus Failure Model**

<b>Factors</b>	<b>Description</b>
Capital	A business that starts with sufficient capital has a higher chance of success.
Record-keeping and financial control	A business that keeps updated and accurate records and uses adequate financial controls has a higher chance of success.
Industry experience	A business managed by people with previous industry experience is more likely to succeed.
Management experience	A business managed by people with previous management experience is more likely to succeed.
Planning	A business that develops focused business plans is more likely to succeed.
Professional advisors	A business that hires specialised consultants is more likely to succeed.
Education	Individuals who have completed higher education and start a business are more likely to succeed.
Staffing	A business that can hire and keep quality employees is more likely to succeed.
Product/service timing	Products/services that are too new or too old are more likely to fail than businesses that select products/services that are in the growth stage.
Economic timing	A business that starts during an expansion period is more likely to succeed.
Age	Younger people who start a business are more likely to fail than older people starting a business.
Partners	A business that is started by one person is more likely to fail than a business started by multiple people.
Parents	Business owners who have parents who own a business are more likely to succeed.
Minority	Minorities are more likely to fail than non-minorities.
Marketing	A business owner with marketing skills is more likely to succeed.

**Source: Lussier (1995:23)**

According to McNamara (2019:1), introspection is an essential activity for any organisation. Introspection is defined as the activities of strategic thought and strategic

planning undertaken by the organisation through the investigation of its internal and external environment (McNamara, 2019:1). Organisations that are willing to undertake introspection activities and are flexible in doing so may respond better to environmental changes, and may enhance decision-making, manage organisational development priorities and create or improve key stakeholder relationships. Organisations can benefit from a focused effort in applying key organisational activities, which may include the identification and analysis of stakeholder needs and concerns, the organisational mission and mandates, internal weaknesses and strengths, external challenges and opportunities, a vision, strategic issues, goals, objectives and implementation plans (Hu *et al.*, 2014:90). These elements are the foundation on which the Lussier Business Success Versus Failure Model is built.

The following sections introduce the 15 factors of the Lussier Business Success Versus Failure Model, as shown in Table 3.1.

### **3.2 CAPITAL**

An organisation that was founded with sufficient capital has a higher chance of succeeding (Lussier, 1995:23). Although businesses struggle to gain access to finance, they are likely to get start-up finance and working capital from informal sources. The founders' relatives and friends are most likely the first port of call when sourcing capital. Larger organisations, however, may find it easier to qualify for loans from the formal sector such as commercial and development banks. A small business, specifically, may experience a lack of proper financing, lack of effective management of finances and lack of management of other business resources, which could negatively affect the growth and survival of the business (Mutoko & Kapunda, 2017:3).

Working capital management refers to the aspect of financial management that governs the levels of current assets required to meet current liabilities. Working capital management includes the management of current assets, namely, cash, account receivables and inventory, the current liabilities of an organisation, including outstanding expenses and accounts payable to suppliers or creditors (Tuffour & Boateng, 2017:9). Therefore, factors that prevent businesses from using effective working capital relate to management factors (Tuffour & Boateng, 2017:11). A study

conducted by Tabot (2015:iii) found that businesses acknowledge that a lack of staff, skill sets, resources and time are constraining factors to the use of effective working capital management. To ensure effective working-capital management, the business should focus on appropriate record-keeping and financial control.

The goals of NPOs differ from those of profit-seeking businesses, as they do not have a shareholder structure, and consequently, the capital structure is different. As a result of this design, an NPO does not allow for an equity element related to a capital structure. Capital budgeting can therefore have a significant impact on the NPO mission (Strydom, 2014:56). The purpose of a for-profit business is to increase shareholder value through the growth in the share price of the business. NPOs, on the other hand, have different goals as they do not have a shareholder structure and, as a result, the capital structure differs (Strydom, 2014:56).

Long-term capital management includes financial strategies related to budgeting and control, while short-term financial management activities include decisions that affect current assets and liabilities, involving cash inflows and outflows during the upcoming year as well as management of inventory and cash and accounts receivable. For most NPOs, the forecasting of future capital and cash requirements and the management of cash are critical areas to focus their efforts on (Strydom, 2014:56).

### **3.3 RECORD-KEEPING AND FINANCIAL CONTROL**

An organisation has a higher chance of success if time is spent on maintaining updated and correct records with overarching and adequate financial controls (Lussier, 1995:23). Record-keeping refers to the ability to document and store important records of events and actions effectively in businesses. To manage record-keeping effectively, businesses require specific skills related to the process of identifying, classifying, storing and protecting essential business records. Record-keeping also includes preserving significant records for evidence and for reference for present and future use (Myeko & Madikane, 2019:2).

Record-keeping requires personnel or accounting staff to ensure that proper books of accounts and accounting records of the organisation are kept, as well as accurate debt

records. This is vital for the long- and short-term financial operations of the organisation (AWDF, 2017:23; Steiss & Nwagwu, 2019:25). Financial reporting and monitoring are necessary for all organisations that receive funds from investors or donors. The monitoring of an organisation's financial affairs requires financial records and related reports. Financial reporting should therefore be timely, complete and accurate; and should be reported monthly or quarterly, depending on stakeholder requirements (AWDF, 2017:40; Schwartz, 2019:3).

An organisation should identify and select key financial record control points that are relevant to their organisation. Foundational elements relevant to ensuring sound financial management include internal controls, accounting records, financial planning and financial monitoring (AWDF, 2017:16). Internal controls may include the segregation of duties for financial activities and authorisation controls, for example the approval for supplier payments (AWDF, 2017:18).

A lack of proper record-keeping in businesses may result in the inability of the owners to sustain growth in the financial transactions of their business. Furthermore, a lack of adequate record-keeping principles affects the ability of the business to borrow money from financial institutions and government agencies (Myeko & Madikane, 2019:3).

Because donations and grants fund NPOs' mainstream activities, the transparency and accountability of financial records should be maintained. With this in mind, individuals involved in NPO management should be able to monitor and evaluate financial management principles and should facilitate the process of reporting back effectively and accurately to funders and other stakeholders. This is valuable for NPOs, as maintaining a lasting partnership with their donors and grant providers will enable them to articulate a contract relating to the monitoring and evaluation requirements that is essential to all stakeholders (Bezuidenhout, 2017:27).

### 3.4 INDUSTRY EXPERIENCE

Business success is not entirely dependent on prior industry experience or business ownership. Enterprises that are created with a vision of sustainability, and a focus on economic efficiency, social equity and environmental accountability, have been proven to be more resilient and may have an increased rate of survival. Factors that contribute to achieving the anticipated results of an enterprise are therefore interdependent, interrelated and require strategic implementation (Miles, 2013:1). An organisation started and managed by people with previous industry experience is more likely to succeed (Lussier, 1995:23), while work experience has also been found to benefit the entrepreneurial endeavour, as skills gathered from previous work environments can be applied to the business (Justino & Tengeh, 2016:89).

Organisations with the chance of being both successful and undergoing high growth have strong correlations with the level of education and industry-specific knowledge of the business founder. It was found that founders of businesses who had previous managerial experience performed better in the start-up phase than those founders with lower levels of prior management experience. It was also found that previous industry experience improves the likelihood of business success. To execute and maintain all aspects of the enterprise and ensure its longevity, the business owner needs to have management experience (Tseka, 2018:2).

Industry experience may also assist the founders and managers of NPOs in managing the risks related to effective positioning and their long-term survival (Rosen, 2017:1). One such risk is the impact that large international NPOs may have on the local NPO market. PEN (2019:3) states that NPOs find it difficult to contend with large national and international NPOs as many large NPOs do not collaborate with small local ones and provide unbalanced competition, with the effect being a lack of development in the NPO sector. NPO managers should attempt to gather information related to innovation initiatives in their sector by investigating the available information, connecting with others in their field, and applying prior experience they may have that has been gathered over the years in this sector (Hamid & Ahmad, 2019:76).

An ability on the part of the NPO to learn from previous knowledge may result in misaligned expectations when addressing the social need (PEN, 2019:1). Therefore, previous experience in a field of work may enable better responsiveness to the challenges faced by NPOs (Southern African HIV and AIDS Information Dissemination Service (SAfAIDS), 2015:17–18). Previous industry experience on its own is not a predictor of success but, partnered with a background in management, may enable effective leadership in an organisation (Rosen, 2017:1).

### **3.5 MANAGEMENT EXPERIENCE**

An organisation that is managed by individuals with previous management experience is more likely to succeed than those one whose manager does not have previous management experience (Lussier, 1995:23). It was found that competencies which are lacking in NPOs include adequate leadership, management skills and marketing expertise (Bezuidenhout, 2017:iii). The lack of appropriate managerial and practical experience is reported to be the leading cause of enterprise failure (Hosseininia & Ramezani, 2016:12). Amankwah-Amoah, Boso and Antwi-Agyei (2018:649) found that previous business failure experienced by a business founder serves as a source of knowledge for the owner. This knowledge assists them to extract critical insights and learnt lessons that shape their behaviours, principles and methods in the future.

Organisations need to staff their enterprises with effective managers. "The best companies have the best managers" (Tracy, 2013:1). It was found that owners or managers of businesses with prior managerial experience are more likely to have a higher growth potential than those enterprises with a shortage of experience, as they are better equipped to plan for the future. A study by Popescu, Iancu, Avram, Avram and Popescu (2020:1) found that there is an increase in the level of sustainability of a business as the experience level of managers grows from managing people. Hatten (2016:95) emphasises that a good management team is the key to transforming the organisation's vision into a successful business. The management team should be balanced in terms of technical skills (possessing the knowledge specific to the type of business), business skills (the ability to successfully run the business) and experience. In addition, the skills and talents of the management team and their experience need to complement each other.

The ability to plan, execute and close projects with limited resources and time at their disposal is a challenge for NPOs. NPO team members require management skills that allow them to see the “bigger” picture during the original phase of a project, create a strategy and schedule tasks to deliver the project. Project risks should also be identified while developing mitigation strategies for these risks (GPC, 2019:1). Gaining an understanding of the environment the NPO operates in is part of the toolset for creating a vision and designing change management processes (Safadi, 2015:7). Previous experience in a field of work may also assist in enabling increased responsiveness to the challenges faced by NPOs (Safadi, 2015:7). A study by Meyer *et al.* (2019:1503) highlighted the view that management experience is directly related to NPO performance.

### **3.6 PLANNING**

There is a link between business and strategic planning, and business success/failure. Business planning refers to planning efforts undertaken by the founders of newly established organisations (Papageorgiou, Petrakis, Ioannou & Zagarelou, 2019:760). Strategic planning describes the process that the business follows in developing its strategies, objectives and relevant actions directed at survival and growth within a specific period of the business (Yakovleva, 2017:46).

One of the main factors that may influence the NPO’s ability to strive for self-sustainable business activities is strategic planning. Adopting a strategic planning approach would help NPO leaders to respond more efficiently to external environmental changes (NGOPulse, 2013:1). According to Al-Tabbaa, Leach and March (2015:5), implementing a strategic planning approach would assist NPO leaders to respond more effectively to external environmental changes. A lack of understanding of the actual value of communicating the NPO strategy and effective relationship management has been proven to constrain NPOs (NGOPulse, 2013:1).

A lack of strategic planning causes NPOs to be vulnerable to the idiosyncrasies of donors, resulting in an inability to measure any impact over time (PEN, 2019:1). According to Feng and Shanthikumar (2017:518), small NPOs, specifically, may benefit

from the use of strategic planning, as it will improve their utilisation of limited resources, assist in the examination of external opportunities and challenges, and direct their focus to capacity management instead of focusing on daily operations.

Organisations need to plan for both the short and the long term; therefore, strategic planning with short-term plans, specifically, is a performance enhancer (Tseka, 2018:67). Research conducted by Tseka (2018:17) found that a lack of strategic planning contributes to the high failure rate among businesses. Organisations whose management teams struggle to set strategic goals are most likely incapable of planning for the future, while lacking the understanding required to adapt to change in order to stay competitive. Strategic planning processes are crucial for the successful management of the business, therefore a fundamental aspect of enterprise success is to identify its strategy whilst understanding the direction that the partners and personnel wish to aim towards (Wiese, 2014:27; Safadi, 2015:6).

Often, a lack of strategic planning may be attributed to a lack of skills and knowledge on the part of leaders, leading to organisations facing challenges in applying their strategic planning activities. These challenges include a low level of resources, limited access to human capital, financial resources and customer capital, and a lack of well-developed administration. It may require the business to seek assistance from outside an organisation to overcome these shortcomings (Wiese, 2014:37).

A business that develops business plans is more likely to succeed (Lussier, 1995:23). Such a plan expresses the goals, products, relevant target market and how to approach the target market through marketing activities. The business plan can be used to communicate the strategy developed by the enterprise to possible investors to exploit their relevant target market (Burns & Dewhurst, 2016:187). Successful enterprises create and follow a written business plan, where careful analysis of the detail in the business plan is required for the effective execution of the business strategy. These enterprises do not merely rely on chance or luck, but plan their activities well and then execute that plan accordingly (Tracy, 2013:1; Weissenberger-Eibl, Almeida & Seus, 2019:6).

Hatten (2016:84) claims that a common problem with business planning is the assumption that it is possible to identify and solve all the problems in a business, which is a “shaky” assumption at best. Therefore, a comprehensive business plan should be the result of meetings and reflections on the direction of the business. This is a major tool for determining the essential operation of the business. The entire business planning process should force the business owner or manager to analyse all aspects of the business and to prepare an effective strategy for dealing with any uncertainties that may arise (Kuratko, 2017:281). Longenecker, Petty, Palich and Hoy (2014:163) propose that if the owner or manager lacks the breadth of experience and know-how, as well as the inclination needed for planning, the business may need an advisor. Such advisors may include accountants, marketing specialists, incubator organisations, business development centres, and regional and local economic development offices.

### **3.7 PROFESSIONAL ADVISORS**

Business decisions made by the business owner at an early stage of the business can have an enormous impact on its prospects (ACCA, 2016:8; Andriani, Samadhi, Siswanto & Suryadi, 2019:1474). A business that focuses on hiring specialised consultants has a higher chance of succeeding (Lussier, 1995:23). With a start-up business, the business likely has limited resources, both in terms of people and monetary resources, and businesses should seek advice from external advisors to increase business growth (Wiese, 2014:21). The accountant of a business is likely to be a principal financial advisor for a start-up business. Accountants can be valuable contributors during the planning stage of the business and can apply their expertise in areas such as business planning, raising business finance, and setting up financial management systems (ACCA, 2016:8).

The majority of business owners seek advice from their customers and peers in their industry. To enable organisations to capitalise on opportunities and use their networks for support and advice, a comprehensive view of their relationships and processes is required (Mukolwe & Korir, 2016:248-249). These advisory networks may include family members or friends, as well as, potentially, friends with either business experience, contacts in a local business or online networks (ACCA, 2016:15). Advice from other organisations can also enable businesses to be more sustainable. The benefits of seeking advice or

collaboration opportunities include a reduction in production costs, shared technologies and new opportunities to network and utilise the advice from these networks (Wiese, 2014:21).

It was found that businesses often lack opportunities to share ideas with peers, given the small staff complement. The advantages of mentorship for the business owner or manager include having an opportunity to develop skills and get to know the business from a different perspective. It gives a unique opportunity to receive feedback on performance and advice on how to improve performance. Clarity on business goals, strategic planning, productivity, turnover and growth are additional benefits that a mentor may provide (Longenecker, Petty, Palich, Hoy, Radipere & Phillips, 2017:529).

However, NPOs' involvement and engagement in their surrounding network may hinder their capacity to access and rally their assets. The reason for this is that the networks are not necessarily structured well, which may result in NPOs not gaining the correct level of visibility, understanding or access to new opportunities for resource utilisation. In many instances, NPOs join networks that do not add any value to their resource utilisation efforts (Harir, 2015:15). The inability of NPOs to network effectively has been identified as a significant challenge (PEN, 2019:1). Some of the effects may be the duplication of specific organisational tasks, which can lead to opposing strategies on the part of the community and the NPO (Hwang & Suárez, 2019:104).

Networking with local organisations provides opportunities for shared learning, identifying suitable development projects, producing knowledge assets, aligning with complementary approaches to development, improving cooperation, collaboration and coordination with local government, as well as building adequate local support. The creation or joining of conglomerates may activate a source of financing within the donor community; for example, joining larger projects to access the larger donor pool (PEN, 2019:5).

Research conducted by Collins (2018:242) has found that the following constraints are often prevalent regarding the role of the NPO's board of directors: firstly, there is a tendency for the board to become too involved in operations; secondly, there is a need to professionalise organisational structures, roles and operations; and thirdly, there is

a lack of formal governance arrangements and performance reporting. NPO leaders therefore need to identify and apply a framework to the way the board (areas of responsibility) works. The style of the board should also be analysed in relation to the strategy and execution of the NPO. Ultimately, an effective board should be engaged only within the parameters of its role.

### **3.8 EDUCATION**

Organisations whose employees achieved a higher level of education are more sustainable in the long term than those whose employees did not (Lussier, 1995:23). This sustainability rests on the fact that such employees had the opportunity to attain knowledge and managerial skills from a university education (Hosseinia & Ramezani, 2016:13).

During their studies, students may develop an “entrepreneurial” attitude, acquire certain critical skills and develop new contacts and relationships, factors which may be valuable in starting a business. It was found that the business benefits from the continuous investment in education (Hunady, Orviska & Pisar, 2018:226). One measure for retaining top staff is formal training. This may include sending staff on refresher courses, workshops, seminars and short courses. The effectiveness, motivation and efficiency of employees are affected by the opportunity to study (Mutoko & Kapunda, 2017:8).

According to Guo, Chen and Yu (2016:1), education and work experience are better predictors of business success than age or gender. A study conducted in the USA found that it is more likely that individuals with tertiary education will start their own business than those without tertiary education. In addition, business owners with a tertiary education generate a considerably higher annual income than those without tertiary education. A study conducted in Kenya has found that business owners with tertiary education, and specifically university undergraduate degrees, were outperforming business owners without degrees. It was also found that those individuals with postgraduate degrees outperform those business owners without a postgraduate degree. Therefore, formal tertiary education is a critical factor for a business to succeed (Peter & Muniyithya, 2015:19).

Studies conducted in Bulgaria, Chile and China confirmed that one of the biggest challenges for people starting a business is the level of education of the citizens of these countries (Bosma, Hill, Ionescu-Somers, Kelley, Levie & Tarnawa, 2020:91, 95, 97). From a study conducted in South Africa, it was found that there is a link between whether an entrepreneur has primary or secondary schooling and the success they achieve in the business. Therefore, education provides the knowledge and abilities required to develop creative and entrepreneurial thinking (Moodley, 2016:69–70).

### **3.9 STAFFING**

An organisation that can hire and retain qualified employees is more likely to succeed (Lussier, 1995:23). A study by Hosseininia and Ramezani (2016:13) confirmed that having the potential to hire and satisfy the best employees is one of the top influencers for the sustainable development of a business. Managers and/or founders should develop the skill to select staff appropriately. The skills and capability to effectively select, assign, manage and monitor those individuals that will determine the success of the business are crucial to business success (Tracy, 2013:1; Klynveld Peat Marwick Goerdeler (KPMG) International, 2017:2). Therefore, the hiring and retention of the most suitable staff is central to the success of the organisation. It was also found that hiring the right people can provide an enormous boost to the overall performance of the business. The presence of even one capable and motivated worker tends to raise the expectations of all the others, and interactions between two or more high-impact employees will often lead to outcomes significantly greater than the sum of the already individual contributions (Longenecker *et al.*, 2017:541).

Businesses with a small number of employees should include their employees in strategic planning, as lower-level employees are very often the individuals who interact with clients. When employees are included in decision-making, they feel part of the business and staff attrition may be reduced (Hu *et al.*, 2014:87). According to Tracy (2013:1), business owners should surround themselves with “great” people. Efforts should be made to hire the best people at every level of an organisation. As confirmed by Sen and Bhattacharya (2019:416), the ability of a business to attract, recruit, manage and motivate qualified people is vital for business success.

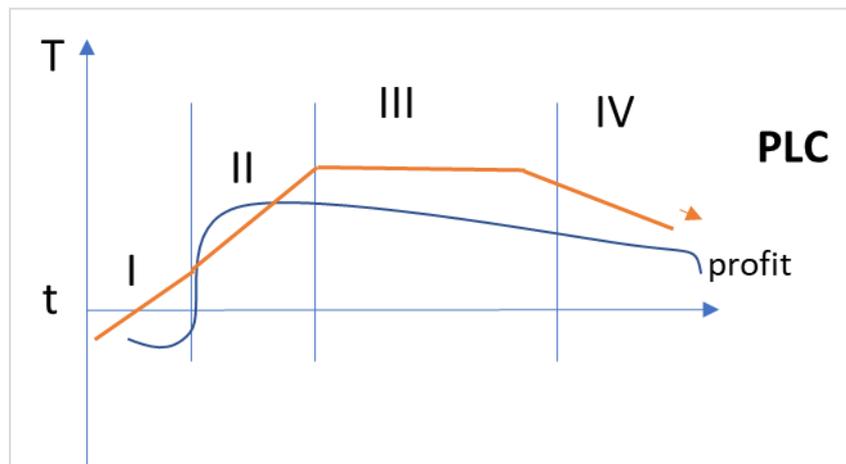
It is beneficial for a business to recruit a workforce that appreciates and respects ethical behaviour on the part of the business. Organisations with a focus on corporate social responsibility (CSR) are often in a favourable position to attract, hire and retain the right staff with more of the desired qualities (Hosseini & Ramezani, 2016:13). Employee satisfaction with CSR activities results in an increasingly positive attitude towards their jobs and such activities may also result in enhanced job satisfaction (Choi, Myung & Kim, 2018:1).

It has been found that NPOs in South Africa face challenges in recruiting experienced staff, such as social workers. One reason for this is the inability of the NPO to afford appropriate remuneration for social workers. Social workers who join NPOs generally use the organisation as a “stepping stone” to gain experience and enhance their employability for other organisations. The attrition rate of social workers in the NPO environment is therefore high and is a loss for the entire NPO industry (Kang’ethe & Manomano, 2014:1498). It was also found that localised or small NPOs find it difficult to find space in the NPO sector to benefit from the available human resource pool, as large international NPOs pay staff higher salaries (PEN, 2019:2). Weerawardena (2018:157) argues that staff are a defining factor in, specifically, a service delivery organisation. As many NPOs deliver services, the staff who deliver such services and their knowledge and ability to deliver such services are important. However, NPOs predominantly rely on volunteers to deliver their services and therefore NPO leaders should pay adequate attention to their acquisition and training, which will motivate and empower volunteers and increase retention rates.

### **3.10 PRODUCT/SERVICE TIMING**

Products that are too old or too new are more likely to fail than products that are in the growth phase (Lussier, 1995:23). An organisation’s business model is closely related to the product life cycle (PLC), and businesses should develop an appropriate business model based on the PLC (Marmullaku, 2015:549). As confirmed by Jabłoński and Jabłoński (2016:1), businesses that are in the various stages of development should adjust their business models to sustain the capacity to creating value for all stakeholders.

The appropriateness and overarching excellence required to deliver the product or service are factors that account for 90% of business success; therefore, the appropriate price to charge is a key focus area of organisations that succeed and grow in any market (Tracy, 2013:1; Sun, Cai, Su & Shen, 2019:11). Figure 3.1 presents the different development stages of the PLC.



**Figure 3.1: The product life cycle Source: Marmullaku (2015:550)**

(T = Turnover, t = Time, I = Introduction, II = Growth, III = Maturity, IV = Degeneration)

The characteristics of business models in the initial stages of development (I) differ from those in mature stages (III) (Jabłoński & Jabłoński, 2016:1). In the introduction stage of product development, the business model is focused on creating value for shareholders and is independent of long-standing partnerships which may include a large number of stakeholders. In the maturity stage, the focus is on the balance between the objectives of stakeholders and building long-term relationships with these stakeholders (Jabłoński & Jabłoński, 2016:1). The growth stage (II) allows for a more favourable environment for formulating a product strategy, as the product is continually evolving in a promising market. The degeneration stage (IV) involves an environment in which the market has reached saturation point with a product and the demand for the product is in a continual decline. At this point, a business may consider different marketing strategies, including the development of new markets, the application of new distribution channels, or various forms of price levels or after-sale services (Marmullaku, 2015:551-552).

Product development goes through the PLC as shown in Figure 3.2, and for certain products in a specific market there may be different iterations in different stages of the PLC development. Therefore, businesses should allocate time for PLC analysis and for determining where the product is in the PLC development cycle. When drafting the strategy in a particular market or market segment, businesses therefore need to adjust their product strategy if it may be affected by the market or economic conditions (Marmullaku, 2015:550-551; Jabłoński & Jabłoński, 2016:2).

It is important when deciding whether to launch a service in a new geographical market that businesses consider when to enter that market; therefore, the timing is crucial (Lo & Kletsova, 2018:1059). A positive correlation has been found between early entry into a market and the performance of the service. The advantages of early entry include reduced competition from other competing businesses, the ability to achieve a strong market position within that particular market and the formation of relationships with key local stakeholders. Early entry also allows the opportunity to create barriers which make it difficult for new entrants that attempt to expand into that area. It also gives the “early starters” an opportunity to monopolise the market (Lo & Kletsova, 2018:1063). Lo and Kletsova (2018) also state that there are some disadvantages to being the first to enter the market, including the lack of resources and knowledge, as well as human capital in that market. Regardless of the disadvantages, businesses generally prefer to enter new markets earlier to gain short-term profits (Lo & Kletsova, 2018:1063).

### **3.11 ECONOMIC TIMING**

A business that starts during an expansion period is more likely to succeed than one that is started during an economic recession. Economic (and political) influences may include wars, revolutions or changes in the investment levels of a country’s infrastructure (Vaňová & Petříková, 2012:103). According to Lussier (1995:23), the development of a product or service in a country is influenced by the state of the macroenvironment and the phase of the economic cycle. In times of a recession, a

country's economy stagnates rather than expand, and this may limit the potential opportunity for funding in the market. An example is where governments are not focusing on entrepreneurship at that stage but instead on more critical elements of the economy. Therefore, business owners and managers need to be aware of economic conditions that affect the target market, such as unemployment and interest rates, total sales and tax rates (Hatten, 2016:68).

A study conducted by Vaňová and Petříková (2012:101) has shown that the economic cycle a country is in affects the performance of a business or product. These influences include the living conditions of the country's citizens, the welfare of society, financial profit and the consumption of products. Through their leadership, management, innovation, research and development effectiveness, job creation, competitiveness and productivity businesses are critical contributors to economic growth. Therefore, business owners and managers will continue to provide the answers to any economic downturn (Kuratko, 2014:16; Kuratko, 2017:15).

The effects of economic cycles are felt by both funders and NPOs. As stated by World Bank (2019:1) Group President, David Malpas: "Stronger economic growth is essential to reduce poverty and to improve living standards." An economic downturn affects the funds available for businesses to support charitable initiatives (Goggins, Howard & Howard, 2009:1). Any global economic crisis contributes to NPOs' funding challenges, as donations, specifically from individual and private donors, will decline significantly (Ratlabyana, Mkhonza & Magongo, 2016:8). Lin and Wang (2016:258) confirmed that the effectiveness of fundraising efforts is influenced by economic events such as a severe financial crisis. The irony of such economic events is that in a time of an economic crisis, the demand for social services by NPOs increases (Lin & Wang, 2016:258). Economic changes and trends therefore demand constant vigilance from the management of the business to revisit the organisation's vision, mission statement, goals and strategies (Brevis & Vrba, 2014:81).

### **3.12 AGE**

Young people who start a business have been found to be more likely to fail than older people, as young people potentially have other methods of decision-making to older

people (Lussier, 1995:23). According to Brevis and Vrba (2014:195), older workers are more cautious, less likely to take risks, and less open to change, though their experience makes them high performers. Young entrants into the South African labour force specifically, often present challenges in the field of communication and management training.

Nádai and Garai (2017:332) highlight the following areas where younger and older people may differ in the start-up phase of a business. Firstly, *internal control versus external control*, where older people apply more thought to their decisions by taking traditional values into account. Younger people act quicker and base their decisions on the perceived expectations of the outside world. Therefore, they seem to override moral impediments in meeting the perceived expectations of the market that they operate in. Secondly, *competitiveness versus solidarity as a driver*, where younger people tend to take more risks in business, irrespective of the potential negative consequences. Contrary to their younger counterparts, older people consider the external environment in which they operate in terms of how their actions affect it and the people in it, thus showing solidarity with others. Thirdly, *formal business dealings versus an informal approach*. Older people strive to approach their business activities with formality in their conversations while valuing the differences in social or business status as a sign of respect. Younger people regard status differences as unnecessary, while formal interpersonal communication such as face-to-face working relationships are widely accepted (Nádai & Garai, 2017:332).

Age is therefore an important factor in business success, as a particular authority or qualification develops as a person's age increases. The skills people possess also improve as they grow older and people learn to manage their time more effectively over time (Sajilan, UI Hadi & Tehseen, 2015:38).

### **3.13 PARTNERS**

An enterprise started by a number of people is more likely to succeed than an enterprise that was started by a single person (Lussier, 1995:23). The motives for forming partnerships include access to the experience of relevant partners. Partnerships may also open doors through the individual partner's experience and

networks, which will allow the business to take part in more diverse markets than previously (Carvalho & Franco, 2015:73).

According to Schaefer (2019:1), the benefits of starting a business with multiple people include, firstly, the fact that financial and other resources are more readily available as these are not dependent on one person. Secondly, better decisions are made, as multiple people contribute to the management of the business and to problem-solving. Decision-making is also less prone to irresponsible and rushed decisions when made by a number of people. Thirdly, flexibility in business operations may enable partners to enact changes to the size or nature of the business, or even the area of its operations, without following legal procedures. Fourthly, risk in the business is more widely spread in partnerships, as all partners own a share of the business. Lastly, the specialisation by partners may contribute to all aspects of the business in line with the partners' fields of specialisation.

NPO networking with other organisations provides opportunities for shared learning, identifying suitable development projects, producing knowledge assets, and improving cooperation, collaboration and coordination with local government while building adequate local support. The creation or joining of conglomerates may activate a source of financing within the donor community; for example, joining larger projects to access the larger donor pool. Large international NPOs may provide key partnerships for local NPOs. Large NPOs that focus on the long-term sustainability of the NPO sector may also provide financial, technical and growth support for these NPOs (Missionbox, 2019:1; PEN, 2019:2).

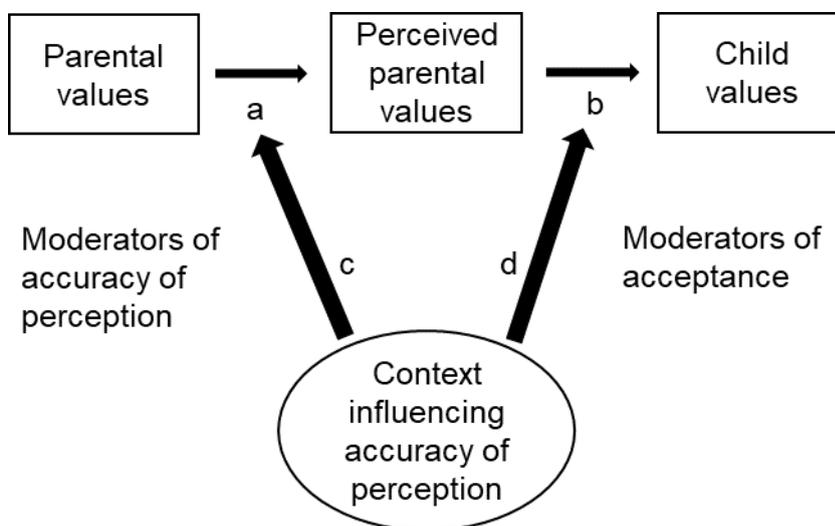
### **3.14 PARENTS**

An entrepreneur with parents who owned a business stands a better chance of succeeding at business (Lussier, 1995:23). It was also found that knowledge of the business gained from previous (business) exposure may have a positive effect on the profitability and growth of the business (Hosseininia & Ramezani, 2016:12).

According to Greenberg (2014:117), the most critical factor influencing a person to choose the option to become self-employed instead of entering the labour market is a

parental self-employment history. Antawati (2016:1) supports this, stating that there is a positive correlation between exposure to business activities through parents or family members and the success of the business. When a young entrepreneur (person) chooses the entrepreneurial route, it may be because they have gained exposure through experienced business people and/or observed the behaviours of their role models such as parents.

Various aspects influence the extent of a person's drive to become an entrepreneur. One of these influences is the social environment in a young person's life, and specifically parental influences and the resulting value system that drives behaviour. The parent is the first educator in a child's life and forms the foundation of the child's value system or mindset (The National Academies of Sciences, Engineering, and Medicine, 2020:11). Figure 3.2 illustrates the creation of foundational values between a child and a parent, where the parent transfers key values to the child, and the acceptance by the child of the perceived behaviour as being correct.



**Figure 3.2: Value transmission process from parent to child**

**Source: Antawati (2016:3)**

The value transmission process in Figure 3.2 describes communication within the family as a crucial factor for the successful transference of values and experiences. Effective communication methods between father and mother are important, as well as between the parents and child. The communication between mother and father

fulfils the role of equalising the values expressed between the father and mother to prevent misperceptions experienced by the children, as depicted by point (a) in the figure. The communication between parent and child fulfils the role of conveying and embedding those values in children (b). This communication will be effective and appropriate if the parents are also involved in the child's activities. Parents should not only give the child advice, but also be involved in the child's activities. Parents should take the time to understand the wishes of the child as this will encourage the child to listen to his/her parents (c). It will also enable the child to understand and accept the values that are being instilled by his/her parents (d) (Antawati, 2016:3).

### **3.15 MINORITY**

Minorities have a greater chance of business failure than non-minorities (Lussier, 1995:23). Minority business owners are business owners who ascribe ethnic diversity attributes to themselves (Small Business Administration (SBA) Office of Advocacy, 2014:2; Barnes, 2019:7). According to Marlow and McAdam (2015:104), ethnic minority groups, by definition, constitute a minority subset distinguishable from the host population by culture, background, racial origin and religious beliefs. By extension, the term "minority" business is used to denote business ownership by any individual who is not of the majority population; that is, an immigrant or a member of an identifiable ethnic group (Richtermeyer, 2012). However, it has also been applied more broadly to include disadvantaged groups such as the disabled, prisoners and the travelling community (gypsies) (Cooney, 2008:120; Cromarty, 2019:10).

The high failure rates of minority business owners indicate that some owners do not adequately prepare before embarking on their business venture. Many minority business owners lack the necessary management strategies that are required to ensure the long-term sustainability of the business (Barnes, 2019:2). Subsequently, a study by Cho, Moon and Bounkhong (2019:327) states that minority-owned businesses have a lower success rate than non-minority-owned businesses (Cho *et al.*, 2019:327; Barnes, 2019:1).

In the USA, access to finance has been stated as one of the most significant challenges faced by ethnic minority businesses (EMB). It was found that an adverse

credit rating result varies among founders who originate from different minority ethnic groups. Black African organisations are four times more likely to be rejected for a loan than white organisations. Risk factors such as the age of an organisation and financial track records rather than discrimination are major reasons for discrepancies between diverse ethnic minority groups. Carter, Mwaura, Ram, Trehan and Jones (2015:52) also found that minority-owned businesses are more likely to miss loan repayments and/or exceed their agreed overdraft limit. This factor, rather than ethnic factors, mainly accounts for the higher loan denial rates.

A study conducted by Ostrower (2007:19) found that educational NPOs were more likely than health NPOs to have minority members on their board. Moreover, NPOs that provide a high percentage of their services to minorities are more likely to have a board with minority members. However, there is still a large percentage of boards that have no minority group members (Ostrower, 2007:18).

### **3.16 MARKETING**

A business owner with marketing skills is more likely to succeed (Lussier, 1995:23). Marketing skills, such as market analysis and marketing planning, form part of the essential elements for business success. The insights gained from conducting a market analysis of the relevant target group may enable a more effective and stronger marketing message. A stronger, more concise marketing message may potentially make the customer feel part of the business, while also feeling part of a broader community with a shared interest (Tracy, 2013:1). Too often, digital marketing is initiated without a clear plan, which makes the success of the marketing campaign nearly impossible (Muller, 2016:3). Therefore, business owners should master marketing and digital marketing skills to exploit digital technologies (Tracy, 2013:1; Ghahnavieh, 2018:54).

NPOs do not have the skills to fully grasp the principles that are the basis for a marketing concept, such as defining the organisation's production, product, selling, advertising and integrated/societal principles (Alkhateeb & George, 2018:2). They also do not understand what is involved in operationalising these principles effectively (Bezuidenhout, 2017:ii). As Palmatier and Crecelius (2019:6) found, marketers should

develop effective marketing strategies that will appropriately address their relevant marketing requirements and barriers unique to their specific market. The following marketing principles that marketers can apply in developing their marketing strategies were also highlighted: all customers differ from each other; all customers change over time; all competitors in the market react; and all resources are limited (Palmatier & Crecelius, 2019:5).

Obviously, marketing communications play a critical role in NPO fund-raising campaigns. However, NPOs, in particular smaller resource-constrained ones, cannot afford to spend on advertising. Most such NPOs operate in a local area serving local communities. However, NPOs could use social media to convey their marketing messages effectively. One such communication approach is content marketing. Content marketing refers to attracting and transforming prospects into customers by creating and sharing valuable free content. In an NPO context, this involves the creation and sharing of valuable but often free-to-use content in webpages, blogs, e-newsletters, podcasts, videos, apps, tweets, Facebook communications and online magazines (Weerawardena, 2018:156–157). Weerawardena (2018:160) states that with increased competition and internal resource constraints, NPOs are compelled to adopt an entrepreneurial leadership posture in managing their strategic marketing initiatives.

A marketing plan is defined as determining a clear and comprehensive approach to the creation of customers (Kuratko, 2017:237). Elements critical for developing this plan include, firstly, current market research (who the customers are, what they want, and how they buy); secondly, current sales analysis (promoting and distributing products and services according to marketing research findings); thirdly, marketing information systems (collecting, screening, analysing, storing, retrieving and disseminating marketing information on which to base then plan decisions and actions); fourthly, sales forecasting (coordinating personal judgement with reliable market information); and finally, evaluations (identifying and assessing deviations from marketing plans) (Marketing Planning, 2016).

Hatten (2016:94) supports the view that the marketing plan of the organisation should show the intention to achieve a sales forecast. Therefore, this plan should explain the

overall marketing strategy, the potential markets, and the motivation for deciding on the best way to reach these goals. In addition, the marketing objectives (what one wants to achieve) and the strategies to use to accomplish these objectives should also be included.

NPOs may face various challenges to the implementation of the 15 factors, as presented in the chapter, of the Lussier Business Success Versus Failure Model (Lussier, 1995). Implementing these factors (principles) successfully will ensure that the business will survive sustainably over the long term.

### **3.17 CONCLUSION**

This chapter introduced the Lussier Business Success Versus Failure Model. The model comprises 15 factors that ensure the success of the business. The model has been successfully tested by researchers in various countries around the world.

The factors included capital, record-keeping and financial control, industry experience, management experience, planning, professional advisors, education, staffing, product/service timing, economic timing, age, partners, parents, minority groups and marketing.

Furthermore, the literature review described each factor as listed in the Lussier Business Success Versus Failure Model in relation to the NPO sector. Implementing the factors included in this model will ultimately ensure the survival and sustainability of the NPO.

The next chapter presents the research methodology applied in this study.

## **CHAPTER 4**

### **RESEARCH METHODOLOGY**

#### **4.1 INTRODUCTION**

This chapter presents the research methodology applied for this study. The chapter describes the research paradigm and philosophy related to a qualitative research approach and further presents the case study research strategy followed. The chapter continues with a discussion on the research data sources (population) and sampling techniques, followed by a discussion on the data collection, the research instrument, and data analysis procedures. Further discussions follow on thematic analysis and its process, and word analysis, word frequencies and the word cloud. The chapter also describes the methods utilised by the researcher to ensure the trustworthiness of the research instrument, namely credibility, dependability, confirmability, transferability, and authenticity. Ethical considerations of the study are also presented.

#### **4.2 RESEARCH PARADIGM AND PHILOSOPHY**

The approach and method used in the research were determined by the nature of the research questions and influenced by practical considerations around the availability of resources and the availability of participants. It is important that the method chosen is aligned with the objectives of the research and allows the researcher to obtain answers to the research questions under investigation. The research methodology chosen for a study relates to the fundamental philosophy and framework of the entire research process (Opoku *et al.*, 2016:32). The description of the research methodology includes the research design, the qualitative research approach, the relevant literature reviewed, the data sources and sampling techniques, data collection, data analysis methods applied, how the trustworthiness of the data was ensured, and the ethical considerations taken into account when conducting the research. All the above elements will be subsequently explained in this chapter.

The research design describes the specific data that is required for the study, what the particular methods are that were applied to gather and analyse the data, and how this answered the research questions (Akhtar, 2016:71).

Research studies are only acceptable when the conclusion and findings are accurate and validated. The research design also outlines how an academic researcher conducts the study to ensure the validity of the findings (Creswell, 2014:31). Researchers develop their research approach in such a way as to rationally and accurately acquire the evidence required to answer the relevant research questions posed by the researcher (Akhtar, 2016:68).

For this study, a qualitative approach was applied. This approach was deemed appropriate as the need for personal questions drove the choice of the research approach. Descriptive methods were applied, and quantitative statistics were utilised in the study to present participant and NPO organisational data. Qualitative studies focus on finding meaning in the data, with semi-structured personal interviews being used. The focus was on four case study organisations. Initial sectional coding (Sections A, B, C, D in the interview guide) based on the Lussier Business Success Versus Failure Model was used to develop the interview guide, where after information from the participants was used for coding and identifying themes across the data set.

A qualitative approach was selected in an attempt to discover meaning in the data gathered and how the information related to the importance of social or human problems within the NPO environment (Sutton & Austin, 2015:228). A qualitative research process involves developing inquiries and processes for data gathering within the context of the participants' environment. In this study, the data analysis process transitioned from narrow to broader themes with the researcher developing and creating meaning from the collected data. The deductive reasoning style of qualitative research allowed for the acknowledgement of the fact that certain situations that NPO management and staff face are complex, and that there is a need for a focus on individual meaning from the participants' responses (Creswell, 2014:32). Descriptive research methods provided an accurate account of the characteristics of the management environment within the NPO research sample (Johnson & Christensen, 2014:366).

A researcher develops the method appropriate to their research based on a fundamental philosophical assumption about what would ensure their research is “valid” (Antwi & Hamza, 2015:217). An appropriate research method will help to ensure validity (Ghauri, Grønhaug & Strange, 2020:4). A qualitative case study method was deemed appropriate for this study as it has the advantage of being able to associate people’s actions with their values and enables researchers to form theories from the data (Alshenqeeti, 2014:43). The current research resulted in an understanding of the circumstances under which the NPO founder, managers and staff operate in their organisation and the extent to which their chosen management principles (factors) are applied.

An interpretivist methodology suggests that “reality is interpreted by people as they work to make sense of the world they experience and of our place in that world” (Robon & McCartan, 2016:24; Kara, 2017:239). Kara (2017:48) confirms that an interpretivist approach is suitable for interviews, focus groups, and participant observation. For the purpose of this study, an interpretivist approach was therefore followed.

Interpretivism is a humanistic qualitative data analysis method that focuses on the relationship between society and the individual (Aliyu, Singhry, Adamu & Abubakar, 2015:4). In interpretivism, the world is understood as complex and dynamic and is constructed, interpreted and experienced by people in their interactions with each other and with wider social systems. It involves the definition of a unique situation created by the human interaction and the human participants’ social construction of reality; it is therefore subjective. The interpretive analysis aimed to gain an understanding of the complex and dynamic environment of the participants in this study (Kivunja & Kuyini, 2017:33) and focuses on the relationship between society and the individual (Aliyu *et al.*, 2015:4).

Interpretivism perceives individual people as constantly creating connotations about the world they live in. People are social beings who constantly seek to understand their surroundings (Aliyu *et al.*, 2015:5). Interpretivism allows for conclusions to be based on subjective emotional elements, and not only on those elements that a researcher can physically observe. These subjective emotional elements include a

participant's principles, morals, motives and understanding of their environment. Therefore, interpretivism allows for an analytical understanding that the world is a multifaceted and dynamic environment (Aliyu *et al.*, 2015:4). Furthermore, interpretivism holds that people's experiences are dynamic definitions of a particular situation created by a person interacting within a social construct of reality, and that reality is subjective to that particular person (Thanh & Thanh, 2015:24–25).

Aliyu *et al.* (2015:5) support that interpretivism accepts that the world is complex and dynamic, and is subject to the understandings or perceptions of the participants. Participants' perceptions of their environment are constructed and understood through their experience and their interactions with other people and with the broader societal system. Therefore, the meaning of situations is created by human interaction and the participants' social constructions of reality. Reality is experienced by people in diverse ways and therefore the subjective interpretation of what people think, feel and see as reality is important.

### **4.3 RESEARCH APPROACH AND METHODOLOGICAL CHOICE**

The process of theory building relates to the design of a research study. Accordingly, theory building may take an inductive, deductive or abductive approach (Saunders *et al.*, 2019:152). An inductive qualitative research style allows for the acknowledgement of the fact that certain situations are complex and there is a need to focus on the participants' individual meanings. In the current study, a key requirement was to obtain an understanding of the complex environment in which the NPO founder, management and staff manage the NPO affairs. Researchers making use of inductive research methods are more likely to be interested in the environment in which the research activities take place and may find it more appropriate to include a smaller sample of subjects rather than the large number of subjects used in a deductive approach. Therefore, researchers applying an inductive research method attempt to establish diverse views on phenomena and are more likely to apply a variety of methods to collect this data (Saunders *et al.*, 2016:147).

A deductive research approach is conducted by developing the research theory and starting by stipulating the research objective. With the research objective stipulated,

the researcher will identify the definitions and assumptions relevant to the study. The researcher will then construct a logical framework based on the identified definitions and assumptions through which the objectives will be achieved. A deductive research approach generally moves from the more general to the specific. In this way, the researcher should develop a logical process to achieve the objectives based on the definitions and assumptions identified (Zalaghi & Khazaei, 2016:24). Researchers applying this type of method to test theories deductively may guard against bias by developing controls to accommodate alternative explanations and generalisations and to enable replication of the findings (Creswell, 2014:32).

A deductive coding approach was used to develop thematic areas and consolidated data from the four organisations. Deductive coding starts with an existing theory, (i.e. the management factors applied by NPOs) where the researcher identifies aspects of the data gathered which are then refined, thus testing the theory (Woiceshyn & Daellenbach, 2018:185). The use of a deductive approach in creating a theory starts by stipulating an objective. Once the objective is confirmed, the identification of definitions and assumptions can be documented. The researcher aims to attain the set objectives through the research. The deductive research process usually moves from the general to the more specific because the researcher requires the development of a consistent structure to achieve the objectives (Zalaghi & Khazaei, 2016:24).

Abductive research includes the collection of data to explore a specific phenomenon, to identify themes and to explain patterns. An abductive approach may also be used to generate a new theory or modify an existing theory which may subsequently be tested through additional data collection (Saunders *et al.*, 2019:153). The benefit of abductive theory development is that it allows the researcher to combine inductive and deductive approaches (Saunders *et al.*, 2016:148).

#### **4.4 RESEARCH STRATEGY**

Case study research designs are aimed at investigating one or more occurrences of a phenomenon in a specific case (Spinks & Canhoto, 2015:1). The use of case studies allows for the number of components of analysis to be restricted. The components are

studied in depth and do not refer to a specific research procedure to be utilised for the research (Welman, Kruger & Mitchell, 2011:193). Case studies aim to examine the underlying characteristics of a single circumscribed organisation. This is usually social in nature and may include a group of people or a community (Welman *et al.*, 2011:25).

This study made use of a descriptive case study research design. Descriptive research designs focus on the unique elements of a particular case and do not attempt to develop a model that would necessarily apply the outcomes to other cases (Lune & Berg, 2017:176). The cases included in this research were four NPO organisations in the Western Cape province.

According to Vogl, Schmidt and Zartler (2019:611), the term “case study” may have multiple denotations and can be used to describe a component of the analysis, such as a particular organisation. Case study research methods make a multi-perspective analysis possible in that researchers are able to study the views of various relevant groups of stakeholders and the interaction among them (Vogl *et al.*, 2019:611). This study utilised multiple participants from each of the case study NPOs. Case study research allows for deeper insight and understanding of the underlying characteristics to be obtained in a particular environment. For this study, the unique individual environment (Yin, 2014:4) of each NPO enabled the achievement of its goals.

Cases are investigated within their natural environment and are not manipulated; rather they study the subjects in their real-life context to investigate the influences of the environment in which the subjects operate (Krusenvik, 2016:5). The researcher conducted interviews with four NPOs in the non-profit sector, collating the data from each interview to describe each organisation and enable a single view, or case study, of each organisation.

Yin (2017:56) confirms that the same study may also contain more than a single case. When this occurs, the study has used a multiple-case design. However, single- and multiple-case designs are variants within the same methodological framework, and no broad distinction is made between the so-called class (single) case study, and multiple-case studies. Multiple cases augment external validity and help guard against observer biases (Singh, 2014:80). Moreover, multiple cases add confidence to the

findings and strengthen the quality and reliability of case study research (Yin, 2003:62). A multi-case design was therefore used, and four organisations (NPOs) were studied.

The unit of analysis, as confirmed by Yin (2017:241), is the case in a case study; and the “case” can also be some event or entity (Yin, 2017:31). The unit of analysis is also defined as where the researcher obtains data for the case study (Singh, 2014:79). Furthermore, the definition of a case (unit of analysis) is also related to the research questions (Yin, 2017:31). For the purpose of this study, the unit of analysis was therefore the four NPOs utilised in this study.

#### **4.5 POPULATION AND SAMPLING**

The population of a study refers to the relevant group or individuals the researcher aims to form conclusions from (Alvi, 2016:11). The population for the study was identified as founders, managers and staff of NPOs operating in South Africa, specifically those operating in the Western Cape province.

According to the Western Cape Department of Social Development (WCDS) (2019:12), in the 2018/2019 financial year there were over 21 000 registered NPOs in the Western Cape province. It was not practical for the researcher to study the entire registered NPO database using the chosen research method of semi-structured interviews, therefore sampling was applied to enable the researcher to select a manageable subset of the entire population (Alvi, 2016:11). Saunders *et al.* (2016:275) argue that it is not practical to research every person, member or case in a population. Hence, a representative sample should be drawn from the population to ensure that the study is manageable and can achieve the objectives.

For this study, convenience sampling was applied. Convenience sampling is a non-probability sampling method which depends on data collected from a group of participants who are conveniently accessible to participate in the study (Etikan *et al.*, 2016:2). One benefit of this sampling method is the cost-effectiveness of the research to be conducted (Lim & Parker, 2020:58).

NPOs which were located close to the researcher were included in the study. Geographical location of the NPOs was therefore a deciding factor in the selection of the sample organisations (NPOs) thus enabling a cost-effective study and reducing the amount of time spent travelling to the NPOs. Accordingly, four NPOs in the Western Cape province were selected as the research sample, due to the close proximity of the NPOs to the researcher.

#### **4.6 DATA COLLECTION**

The data was collected by means of semi-structured interviews. According to Evans and Lewis (2018:2), semi-structured interviews are a flexible method for attaining in-depth information from participants about a specific subject, with predetermined questions being created and used as a guide during these interviews. The use of semi-structured interviews was appropriate for the study as it allowed for in-depth information to be obtained from participants. Semi-structured interviews enabled the analysis of participants' initial responses and for the researcher to probe deeper, or to supplement the research questions with more information to obtain a detailed response from the participants (Alshengeeti, 2014:40). The semi-structured interview technique of data collection also allowed for a confidential and safe relationship between the participant and the researcher (Nze, 2016:71).

According to Segal (2019: 27), the advantage of a semi-structured approach is that it follows general and more flexible guidelines for conducting an interview and allows the interviewer to explore alternative lines of inquiry. Conversely, according to Adams (2015:493), a disadvantage of semi-structured interviews is that they are labour intensive and may take longer than anticipated, hence, this approach is a time-consuming method. The individual tasks of preparing for interviews, arranging the interviews, conducting the interviews and the analysis of interviews may require more effort than researchers allow time for when planning research activities. This becomes evident when conducting the analysis of large amounts of data and sometimes many hours of transcripts (Adams, 2015:493).

It is worthwhile to conduct interviews as it enables the researcher to investigate the information they gather further, which would not necessarily be the case using other methods such as questionnaires or observations. The interview process is not just a

data collection instrument, but also a natural way of interacting with a participant that can transpire under various conditions (Alshenqeeti, 2014:42). Under such conditions, researchers who use interviews can be in a position of influence. This is because the researcher portrays many roles in the framework of the research mechanisms, including the design of the interview questions, the analysis of the data, and the researcher's presentation of the research results and related understandings of the research results to the academic community. Therefore, in structuring the research method the researcher should create controls to manage bias (Wright, O'Brien, Nimmon, Law & Mylopoulos, 2016:98).

The in-depth interviews conducted focused on obtaining rich descriptions from participants and enabled the researcher to understand the motivations and experiences of the participants (Thompson, Glewen, Elmore, Rees, Pokal & Hitt, 2019:2671). The in-depth interviews therefore allowed participants to adequately express their thoughts, feelings and opinions in their own words. Basch, Melchers, Kegelmann and Lieb (2020:285) found that traditional face-to-face interviews are more acceptable to participants than technology-mediated interviews such as surveys. The decision to conduct face-to-face interviews proved useful as the nature of the questions required the researcher to interpret and ask further questions to clarify participants' responses. Being present and in contact with the participants allowed for further inquiries where misinterpretation of the questions by participants was evident. The researcher was then able to expand on the questions to obtain more in-depth participant responses (Adams, 2015:493–494). Interviews were conducted at the offices of the participants, while one interview with a participant from an educational centre (NPO) was conducted in a (private) classroom. Interviews were not recorded as the researcher could not obtain permission from the NPOs to do so.

In case studies, interviews as a data collection method have the advantage of bringing the researcher close enough to, in this case, the real-life experiences of the NPO founder, managers and staff. The most apparent advantage of a qualitative case study approach is that the case study provides a comprehensive collection of data from an individual case, which enables detailed analysis of the captured data (Krusenvik, 2016:5).

Interviews were arranged with the manager of the relevant NPOs. These interviews were arranged telephonically and by email. Participants were assured that the data collected during the interviews would not contain any identifying characteristics. Interviews were difficult to arrange as the nature of the NPO sector does not allow for individuals operating in it to know exactly what their day will hold. Therefore, some interviews were rescheduled, and the researcher had to revisit the same organisation more than once.

Interviews were conducted during May and August 2019 with 12 participants from four NPOs. Participants were either a founder, managers or staff members of the NPOs. Four managers from CS1, three managers from CS2, one manager and one staff member from CS3, and one founder and two staff members from CS4 were interviewed.

According to Vasileiou, Barnett, Thorpe and Young (2018:3), sample size saturation often occurs around 12 participants in homogeneous groups, with 12 interviews being identified as the saturation point for this study. Jensen and Laurie (2016:103) confirm that the researcher has reached saturation once one reaches the point where new cases in the data collection are no longer expanding or modifying the range or depth of relevant ideas that have already come up. The saturation point therefore dictates when the researcher can stop collecting data. The type of case study organisation (services provided by the NPOs), the number of participants and participants' responsibilities are presented in Table 4.1.

**Table 4.1: Case organisation type, number of participants and their responsibilities**

<b>NPO</b>	<b>Type of service</b>	<b>Number of participants</b>	<b>Participants' responsibilities</b>
Organisation 1	Drug rehabilitation centre	Four	One with senior pastor responsibilities One with financial management responsibilities One with social work responsibilities One with medical care responsibilities (nursing and medicine dispensing)
Organisation 2	Homeless shelter and drug rehabilitation centre	Three	One with senior pastoral and logistics responsibilities (transport of goods and food) One with financial management and new beneficiary intake responsibilities One with general management responsibilities (office management)
Organisation 3	Homeless shelter	Two	One with general management responsibilities (office management) One with social work responsibilities
Organisation 4	Educational institution	Three	One with management responsibilities Two with teaching responsibilities

#### **4.6.1 Research instrument**

Predetermined questions are created and used as a guide during semi-structured interviews (Evans & Lewis, 2018:2). Adams (2015:493) states that the advantage of conducting interviews is that a combination of closed- and open-ended questions can be employed, which may allow for follow-up questions to further investigate or clarify responses from participants.

To overcome personal bias that may influence the research results, the use of a single interview guide, the verbatim capturing of responses, as well as the reading back of responses to participants, ensured that the responses captured were a true reflection (Morse, 2015:1317-1318). The researcher also managed bias by creating an interview guide from the 15 factors presented in the Lussier Business Success Versus Failure Model and using the same interview guide with each participant. The interview questions were used to obtain a more specific awareness (Zalaghi & Khazaei, 2016:24) of the

factors present in the NPOs, as well as certain demographic and background information of the participants.

The researcher captured the responses from the participants as accurately as possible and read back the responses to participants for confirmation. Responses were captured electronically by the researcher on a laptop during the interview and stored on the laptop. Responses were stored online on GoogleDrive and were combined into a single sheet to enable the findings to be analysed.

The interview guide was divided into four sections. Section A comprised four questions regarding demographic and background information of participants. Section B dealt with the organisational elements and contained 11 questions. Section C focused on the management components of the organisation with 16 questions. Section D comprised two questions relating to the challenges that the NPOs faced, and their income-generating activities. In total, the interview guide comprised 33 open-ended questions.

Section A sought to gather demographic and background information on the NPO staff. This section of the interview guide was derived from the factors in the Lussier Business Success Versus Failure Model related to the educational background, age of the participant, parental exposure of the participant to the NPO environment, and professional career background of the participants.

The significance of questions related to the organisational elements (Section B) was also drawn from the factors listed in the Lussier Business Success Versus Failure Model relating to the age of the organisation, the number of staff at the NPO, strategic planning activities undertaken by the NPO, strategy implementation efforts undertaken, reviews conducted of the benefits realised, financial goals and social impact goal reviews, social service timing, the maturity of and social need for the organisation within the sector, the director setup of the NPO, and the relevant partners of the organisation.

Section C of the interview guide focused on the management components of the NPOs. The questions also derived from factors described in the Lussier Business

Success Versus Failure Model in relation to the level of capital investment when the NPO was set up, the capital requirements of the organisation, income sources, record-keeping and controls related to financial transactions and expenditures, the existing funding challenges of the NPO, the level of NPO sector experience of the NPO staff, the level of management experience of the NPO staff, the training requirements of the organisation, the existence of short-term business planning activities undertaken by the NPOs, advisors or mentors who assist in decision-making, what other advisors the NPOs require, prior marketing management experience of managers or staff, marketing planning activities undertaken by the NPO, the ability of the NPO to hire appropriately skilled staff, and challenges related to the retention of staff.

Section D of the interview guide comprised two questions, namely, what the greatest challenges faced by the NPO were, and what income-generating activities had been undertaken by the NPO.

#### **4.7 DATA ANALYSIS**

The qualitative research data was analysed utilising thematic analysis. This approach was chosen to identify themes from the collected data in this study. A statistician assisted with the interpretation of the collected data, serving as a control in the validation of the themes identified. Thematic analysis perceives the identified themes as the data relevant to the study. The researcher combined all the captured data in a spreadsheet and analysed the data set to identify words or short phrases that appeared across all participants and which formed themes across the NPO sample set (Neuendorf, 2019:212). Codes which were developed by the researcher during a close investigation of the transcripts emerged as noticeable themes (Neuendorf, 2019:212). The responses and underlying messages identified could then be analysed for themes to emerge, which could be investigated (Vaismoradi & Snelgrove, 2019:10) for relevance in relation to the factors in the Lussier Business Success Versus Failure Model.

The study applied thematic analysis and focused primarily the 15 management factors of the Lussier Business Success Versus Failure Model and were used as a framework to describe what potentially contributes to the success or failure of a business. The

study investigated the extent to which these factors were present in the four organisations and whether the NPOs were applying these factors.

Thematic analysis methods were applied to analyse the data collected. The data analysis process involved two phases: firstly, by consolidating all the captured data into a combined view of all responses, and by coding the responses into a single data set to conduct the analysis from. This allowed the researcher to correlate the responses and identify similar statements between participants. The second phase involved searching for themes between case organisations. The use of word frequency and a word cloud assisted in conceptualising the key terms used by participants. Conceptualising the data assisted the researcher to establish key relationships between the responses. This phase therefore allowed the researcher to organise the participants' thoughts in an attempt to visualise the relevant factors applied across all NPOs. Based on the similarities identified between participant responses, the development of themes was made possible (Ravasi, 2017:243).

#### **4.7.1 Thematic analysis in context**

Thematic analysis is described as the process of identifying, analysing, organising, describing and reporting of themes found within the research data set (Nowell, Norris, White & Moules, 2017:2). A theme is an abstract entity that provides meaning and distinctiveness to a recurring occurrence and its different variations. As such, a theme captures and amalgamates the core of the experience into a meaningful whole. Themes are identified by bringing together elements or pieces of concepts or experiences, which may often be meaningless when observed on its own (Nowell *et al.*, 2017:8). Thematic analysis is also appropriate to extract meaning within a certain context and is a method which is not limited to merely one theoretical framework. Thematic analysis research methods enabled the researcher to identify, analyse and illustrate patterns and themes that emerge from the collected data (Bryman, Bell, Hirschsohn, Dos Santos, Du Toit, Masenge, Van Aardt & Wagner, 2017:350).

The advantages of thematic analysis include the usefulness of investigating the perceptions of the participant sample, thus highlighting comparisons and variances, possible resulting in insights not anticipated by the researcher. The thematic analysis

approach ensured that the researcher approached the study with a well-thought-out and structured plan for handling the data, which in turn helped to yield a clear and well-ordered final description of the findings (Nowell *et al.*, 2017:2). Thematic construction is an advantage in qualitative data analysis, as it assists the researcher to see the breadth of the entire data set (Vaismoradi & Snelgrove, 2019:7). Neuendorf (2019:213) defines thematic analysis as “a way of seeing” and “making sense out of seemingly unrelated material”.

According to Javadi and Zarea (2016:38), there are issues in thematic analysis that the researcher should address when developing the research method. For example, researchers must be unbiased in conducting this analysis as an unprofessional and simplistic analysis and interpretation of the data may negatively affect the value and validity of the research findings. Some disadvantages of thematic analysis include a comparatively small amount of literature on thematic analysis in relation to other approaches in research such as ethnography, phenomenology and grounded theory. This may cause “beginner” researchers to experience pressure from the uncertainty of thematic analysis techniques and the rigorous demands of conducting research using this technique.

The thematic analysis allowed for coding, which is a research analysis method that allowed the researcher to organise the collected data into clusters. Underlying themes in the collected data developed and became visible to the researcher during the research process (Theron, 2015:4). Coding involves representing message content with either abbreviations or symbols, and researchers may apply the codes developed to the information (Neuendorf, 2019:211). The researcher then entered into an effort to familiarise himself with the data by reading it through multiple times. This process enabled the researcher to generate codes from the data, which were subsequently consolidated into similar or related data points, where after the themes that emerged were captured (Archer, 2018:10). Archer (2018:10) states that thematic analysis is a very personal process and unique to the researcher conducting the analysis. An important element of this process is revision, as the process is not linear but rather an iterative process in which the researcher constantly moves between analysis, data collection and making sense of the data (Archer, 2018:10).

### **4.7.1.1 Thematic analysis process**

Thematic analysis consists of six methodical phases, as developed by Braun and Clarke (2006), Jason and Glenwick (2016), and Neuendorf (2019). The phases include:

#### Phase 1: Becoming familiar with the captured data

Familiarisation of the researcher with the consolidated data is standard for methods of qualitative analysis. Researchers must familiarise themselves with the data collected by reading through the data many times and taking note of any initial observations that emerge from the data (Braun & Clarke, 2006:87).

#### Phase 2: Generating the initial codes within the data

Coding is a component of qualitative analysis and involves the generation of labels for significant structures which emerge from the data, and which can be applied by the researcher to answer the research questions (Braun & Clarke, 2006:88). The researcher developed the interview guide with initial coding by separating demographic and background information (Section A) from the organisational elements (Section B) and management components (Section C), together with the challenges experienced and income-generating activities undertaken (Section D) by the NPOs. From the initial code sections, the researcher further coded the corresponding data points from each case organisation and created general codes which included consolidated data from all NPOs.

#### Phase 3: Searching for themes that emerge from the data

Searching for themes includes identifying patterns that emerge from the research data. These themes can then be used to answer the research questions. The analogy Braun and Clarke (2006:89) use to describe this analysis approach is that of a brick-built house. The identified themes form the walls and the roof of the house, and the codes generated from the individual bricks and roof tiles. The analysis started by analysing the codes and considering how the different codes could be combined to form an

overarching theme (Jason & Glenwick, 2016:37). The researcher searched within the codes for similarities between the data, where after themes that emerged from the review of codes were constructed and all coded data relevant to each theme were collated (Braun & Clarke, 2006:90; Neuendorf, 2019:213).

#### Phase 4: Reviewing the identified themes

Reviewing the identified themes is an activity that confirms whether the identified themes are relevant and valid in relation to both the codes developed and the entire data set captured. The researcher reflected on whether the themes interpreted the message as conveyed by the participants. During this phase, the researcher may be required to combine two themes, or to split a theme into multiple themes (Jason & Glenwick, 2016:37). Or they may need to discard other themes initially identified or restart the entire process of developing a theme (Braun & Clarke, 2006:91).

#### Phase 5: Defining the themes

Defining and naming themes involve a detailed analysis of each theme identified. This requires the researcher to ask the following questions: “What story does this theme tell?” and “How does this theme fit into the overall story about the data?” (Braun & Clarke, 2006:92). Through this effort, the researcher can identify the core message of each theme and subsequently construct an appropriate and meaningful name for the themes (Jason & Glenwick, 2016:38).

#### Phase 6: Writing the report

Writing up the final themes in a research report is a critical phase of the thematic analysis process. This involves consolidating the many aspects of the analytic data to communicate to the reader articulately and convincingly how the data relates to the existing literature (Braun & Clarke, 2006:93).

The following themes were identified and are discussed in Chapter 5 (section 5.4):

- Capital structure of the NPOs
- The inability of NPOs to plan ahead
- Marketing management
- Difficulty in retaining skilled staff
- Shortage of staff and skills
- Financial management of NPOs

#### **4.7.2 Word analysis, word frequencies and word cloud**

To create a deeper understanding of how the NPO participants experienced their environment, the study applied word analysis, word frequencies and a word cloud to visually present the words used by the participants (Bletzer, 2015:6). Word analysis was used to link the topics emerging from the data, and to develop new broad codes (themes), namely people, management, and finance (Vaismoradi, Jones, Turunen & Snelgrove, 2016:102). Word analysis and word frequencies were used to highlight the importance of the identified themes (Van Rheenen, Cernaianu & Sobry, 2017:77). Codes which appear frequently in the research responses can potentially be considered to be a theme. The structure of a theme through the frequency of recurrences will have to be defined by applying the researchers' judgment. Although the significance of a theme can be influenced by its level of frequency throughout data, it should rather highlight its importance concerning the overall research questions (Vaismoradi *et al.*, 2016:105). People, management and finance were areas which the research participants focussed much of the interview responses on. People as a broad theme related to those responses focusing on the people within the NPOs, the staff, volunteers, skills of staff, training of staff and the people (beneficiaries) that the NPOs serve. Management as a broad theme related to their lack of management experience and to plan for the long term. Finance is related to their uncertainty of financial survival, their challenges to raise sufficient funds to survive, and the inability to compete with corporate salaries

Word clouds are reliant on a complete description of the observations and reinforce word recognition using the measuring principle of proportions to analyse thematic output (Bletzer, 2015:4). There are various ways in which word clouds could be utilised. A word cloud could be an initial step in refining the important concepts identified by a participant research group. This step could save the researcher time in coding the qualitative data, as the researcher will have an existing awareness of which terms or ideas are shared among the participants, therefore warranting further investigation (Depaolo & Wilkinson, 2014:42). To create the word cloud, the researcher consolidated all the responses into a Microsoft Excel document, where after all the “stop words” (those that carry no value as a response, such as “and”, “then”, “that”, “with”, “the” and “a”) were removed. The researcher then copied the remaining words into a single Microsoft Word document and used the online platform “Wordle” to develop the word cloud based on word frequency (DeNoyelles & Reyes-Foster, 2015:2-3).

The next sections will discuss methods utilised to ensure the trustworthiness of the study.

#### **4.8 TRUSTWORTHINESS**

The concept of trustworthiness relates to the extent to which the methods utilised in the research were applied and is reliant on the researcher maintaining an auditable decision-making process. The decisions researchers make must be transparent and detailed, which should enable an independent researcher to reach a comparable data set or findings (Noble & Smith, 2015:34). Trustworthiness was ensured by the researcher through the use of transparent and clear communication methods throughout the research study process (Gunawan, 2015:4, 11). This was relevant from the first engagement with the NPOs and throughout the research process as well as in the interviews.

As confirmed by Noble and Smith (2015:34), the aim of researchers applying qualitative research methods should be to ensure the trustworthiness of the research findings. The qualitative researcher’s aims regarding designing and combining procedural approaches can augment the trustworthiness of the research findings.

Triangulation is a qualitative research method that involves combining multiple data sources to develop an in-depth understanding of phenomena. Triangulation can also be used to test the validity of findings by amalgamating evidence from various sources of research data (Carter *et al.*, 2015:52). In addition, the reliability of the research results may be enhanced by applying the triangulation across multiple data sources (Fusch, Fusch & Ness, 2018:20). The triangulation of data sources relates to the collection and inclusion of various types of data source, including divergent groups of people, individuals, or communities. The aim is to attain various perspectives from the different participants and to validate the captured data (Fusch *et al.*, 2018:22). For this study, the data source triangulation requirement was fulfilled by conducting 12 interviews with participants from the four NPOs and capturing data based on the same management factors of the Lussier Business Success Versus Failure Model.

According to Largan and Morris (2019:90), qualitative research should provide strategies as to the quality of the research. The criteria of credibility, dependability, confirmability, transferability, and authenticity are proposed strategies to support the research quality and are described in the following sections.

#### **4.8.1 Credibility**

Credibility involves the way in which the researcher ensures that the data and the findings accurately reflect the captured experiences of the participants (Bertram & Christiansen, 2014:188). Credibility is largely used in interpretive research (Bertram & Christiansen, 2014:202) with researchers having to establish the credibility of the results of the research. With this in mind, researchers must ensure that the participants in the study were accurately identified and defined (Elo, Kääriäinen, Kanste, Pölkki, Utriainen & Kyngäs, 2014:2). Bryman *et al.* (2017:44) state that establishing the credibility of research findings includes ensuring that the research was conducted and underpinned by good academic practices. These practices include the research methods applied and the ethical backbone of the research approach, for example confirming the accuracy of the research findings with the participants to ensure that the correct data was captured and interpreted. During the interview process, the researcher communicated the academic process of ethical approval to the four case

study organisations. In addition, the researcher read the captured responses back to each participant during the interviews. This confirmed the correctness of the information that was captured by the researcher.

#### **4.8.2 Dependability**

Dependability within a study involves the researcher's method of inquiry. It also involves the researcher ensuring that the research process is rational, well-structured and independently auditable. Dependability is an alternative to reliability, through which the researcher accounts for the changing conditions in the field of study. This may include the necessity of changes being made to the design because the researcher discovers more relevant characteristics of the research case that enables him or her to understand the research setting more accurately (De Vos, Strydom, Fouché & Delport, 2011:420).

The dependability of data also relates to the consistency of the data over time and under different conditions (Elo *et al.*, 2014:2). Researchers should adopt an approach where merit related to the research can be established. Recording data at every stage of the research process, from defining the research problem and selecting the participants, is critical for replication of the study (Bryman *et al.*, 2017:45). For this study, audio recordings were not appropriate. All responses were captured electronically by the researcher on a laptop computer during the interviews. All electronic sheets (feedback) were stored electronically on the researcher's computer and in secure online storage, with organisation codes being used as identifiers. Interview response files were separated from the transcribed data files and stored separately in their respective folders.

#### **4.8.3 Confirmability**

The concept of confirmability relates to the objectivity of the research conducted, namely, to what extent the accuracy and relevance of the research data can be verified by two or more independent people (Elo *et al.*, 2014:2). Although social studies are not completely objective, the researcher must attempt to avoid imposing personal values and bias that may influence the results of the research (Bryman *et al.*, 2017:45).

The confirmability of a study describes the concept of impartiality (De Vos *et al.*, 2011:421). This entails confirming that an independent person can establish whether the data analysis and interpretation methods used in the study can be replicated. The researcher can enhance the confirmability of their research by applying a transparent research process and should aim to include enough detail for an independent person to confirm that they can reach a similar or identical conclusion (Bertram & Christiansen, 2014:190). The researcher applied a standard interview guide and documented all the participants' responses verbatim as the participants were giving their answers. The researcher read back the statements to the participants to confirm that the correct information had been captured.

#### **4.8.4 Transferability**

The transferability of a study describes the ability of independent researchers to replicate the research method used. This requirement entails structuring the research results in such a way that they are generalisable or transferrable to other environments or groups (Elo *et al.*, 2014:2). Qualitative research involves a researcher gathering in-depth data from individuals or small groups who share commonalities that are unique to that group. This relates to the ability of the findings to be transferable to other research environments (Bryman *et al.*, 2017:45).

According to Bertram and Christiansen (2014:209), transferability includes the degree of transference to another research context or setting. With transferability, the researcher seeks to assess whether the research approach can be transferred from one type of situation or case to another (De Vos *et al.*, 2011:420). This study can be transferred to other environments, as it applied the factors of the Lussier Business Success Versus Failure Model (Lussier, 1995), which has been successfully replicated in various other countries.

#### **4.8.5 Authenticity**

The authenticity of a study relates to the ability of researchers to prove their research was fair, complete and show a variety of certainties (Elo *et al.*, 2014:2). Authenticity

involves the confirmation of a fair, truthful, and balanced account of the experiences and perceptions of participants. In the majority of qualitative studies, the importance of authenticity is captured as an inside view of the participant's world. This inside view provides a comprehensive account of how the participants of the study understand their situations, within their different environments (Neuman, 2011:214).

Authenticity is a substitute for internal validity. The goal is to establish whether the investigation was in fact performed and to guarantee the accurate identification and description of the research subject. Qualitative studies aim to explore a problem or describe an environment, process, social group, or a pattern of interaction; and thus, ensure the validity of the study. An in-depth account describing the intricacies of variables and connections will thus embed the data as derived from the setting thus ensuring its validity. Therefore, within the limitations of the particular research environment, population and theoretical framework, the research will be valid (De Vos *et al.*, 2011:419–420).

The researcher documented the data from interviews accurately and confirmed the data captured from the participants. The researcher ensured this by reading back the captured information to the participants to ensure accuracy and correct interpretation of the responses given by the participants.

#### **4.9 ETHICAL CONSIDERATIONS OF THE STUDY**

When conducting research, participants should be safeguarded against physical harm, humiliation, distress, or loss of privacy. Governing this is research ethics, which is referred to as the standards or values that guide conduct and interactions with others. Ensuring that no one is harmed or suffers negative consequences from the research activities should be the researcher's focus (Cooper & Schindler, 2014:28). The following guidelines should be considered when conducting research; firstly, the benefits of the research to the participant organisation or their sector should be explained; secondly, the rights and protection of the participant should be explained; and lastly, signed consent to participate in the study should be obtained from prospective participants (Cooper & Schindler, 2014:28).

Ethical considerations are particularly important in qualitative studies owing to the personal and in-depth nature of the study method. The importance of ethical issues become even more apparent when conducting face-to-face interviews, as the researcher should ensure that participants do not experience any personal distress during the interview process (Arifin, 2018:32). The researcher was committed to conducting fair and ethical research to ensure compliance with the guidelines as prescribed by the UNISA Policy on Research Ethics (UNISA, 2016). Non-compliance to the policy may result in exposing participants to unfair research practices. Furthermore, as part of this policy, the researcher applied for ethical clearance for the study from the College of Economic and Management Sciences (CEMS), at UNISA. The interview guide also formed part of the original ethics application to CEMS. No interviews were arranged or conducted before the research ethics certificate was issued (Appendix B).

Potential participants should give informed consent to participate in a relevant research study. Potential participants should also be sufficiently informed about the research being conducted to be able to comprehend the information and have the decision-making freedom to independently decide to take part in the study (Arifin, 2018:30). Participants received a participation information letter which served the purpose of communicating the relevance of the study and the approach to be used, as well as informing the participant that they could excuse themselves from the study at any time.

Informed consent, the process of obtaining consent from potential participants, includes that consent should be given voluntarily, and participants should understand exactly what the researcher is asking of them. After initial verbal contact was made with the participants, the NPOs were provided with an informed consent form for approval and sign-off by a mandated official, which were in all cases the most senior person in charge of the organisation.

During the interview process, all individual participants were informed that they had the right to exclude themselves from the interview at any time during the research process and that the information collected would not be distributed without their prior consent. The researcher assured participants that all data captured would be recorded

anonymously, in confidence, and that their responses would not be visible to any other parties in their NPO.

In addition, to ensure the confidentiality of the data collected, the statistician and language editor signed confidentiality agreements. Even so, the researcher was the only person with access to all the research data.

#### **4.10 CONCLUSION**

This chapter presented a description of the qualitative research design used in the study and its characteristics. This was followed by a discussion on the research paradigm and philosophy adopted for this study. Following this was a discussion on the research approach followed and the research strategy choices made. In addition, the chapter discussed the population and sampling approach, the data collection method, research instrument, and analysis procedures applied in this study. The thematic analysis process was discussed, including the word analysis, word frequencies and word cloud. Furthermore, the components ensuring trustworthiness were discussed, namely credibility, dependability, confirmability, transferability, and authenticity. The ethical considerations of the study were also presented.

The following chapter presents the research results and findings of the study.

## **CHAPTER 5**

### **RESEARCH RESULTS AND FINDINGS**

#### **5.1 INTRODUCTION**

The previous three chapters introduced the study and provided an overview of the relevant literature and the methodology applied. Chapter 5 presents the results of the data gathered and answers the research questions raised in the first chapter, namely: What are the characteristics associated with the management factors of the Lussier Business Success Versus Failure Model as applied by NPOs? What are the challenges that NPOs experience in relation to the management factors of the Lussier Business Success Versus Failure Model? What are the themes related to the management factors of the Lussier Business Success Versus Failure Model of NPO, founders, management and staff?

The outcomes (findings) of this study were based on the Lussier Business Success Versus Failure Model (Lussier, 1995), which describes the management factors present in successful businesses. These findings are presented in this chapter.

In this chapter, the findings are divided into sections, namely, a discussion on the organisational case study summaries and reporting on each organisation as a case-study unit with the organisational views from each individual participant's responses being collated to form an overall view of each NPO. In addition, the findings are reported from a demographic and background perspective on both participant and organisation respectively. The next section presents a discussion on the thematic analysis and relates to the six themes, namely: the NPO capital structure; the inability of NPOs to plan ahead; marketing management; the difficulty to retaining skilled staff; the shortage of staff and skills; and financial management. The chapter also presents the results of the descriptive analysis and concludes with a summary of the main findings.

To protect the identity and ensure the confidentiality of the organisations (NPOs), the organisations were coded as "Case Study", that is, CS1 to CS4. The semi-structured

interview guide facilitated the individual interviews with eight managers (managers = M) (M1–M8), one founder (founder = F) (F1), and three staff (staff = S) members (S1–S3).

The next section presents an overview of each NPO (CS). The section describes the NPOs' organisational methods relating to strategic planning, financial management, and income-generating activities, as well as the challenges faced by each organisation.

## **5.2 CASE STUDY SUMMARY PER ORGANISATION**

This section describes each NPO from the information consolidated from the interviews conducted with the 12 participants. Describing each organisation assisted the researcher with an understanding of the management factors applied within each organisation. The section presents information related to the demographic and background information of participants, strategic planning, financial management, income-generating activities and challenges faced by the NPOs (case studies).

Information presented with the case study summary per organisation (section 5.2) to follow in this chapter on (a) strategic planning, (b) financial management, (c) income-generating activities, and (d) the challenges, relate to the research questions of the study, namely: characteristics associated with the management factors of the Lussier Business Success Versus Failure Model, challenges that NPOs face, and to the themes related to the management factors of this model.

Regarding the demographic and background information of the participant, previous work experience is referred to in this chapter as “secular” work experience. “Secular” work experience in this study refers to the individual participants' work experience in profit-seeking organisations, and not the work experience gained by working in a non-profit or religious organisation

### 5.2.1 Case study one (CS1)

Case study one (CS1) (organisation) was founded in the early 1940s. It is a multinational organisation operating in the Western Cape province, nationally in South Africa, and internationally across the globe. The NPO is registered with the DSD and works closely with the DSD and state-run drug rehabilitation centres. Its focus is on drug rehabilitation and freedom from the hold of addiction. Four interviews were conducted with participants from this organisation. The management team consisted of members with a higher average age (53.25) than those of the other three NPOs. The demographic and background information of the participants from this NPO is presented in Table 5.1.

**Table 5.1: Demographic and background information of participants from case study one**

Case study	Participant number	Highest level of education	Age	Parent NPO background	Previous work experience
1	M1	Diploma	56	Both parents in NPO	Post office administrative manager
	M2	Degree	58	None	Only NPO manager experience
	M3	Professional accounting courses	49	None	23 years in a secular environment
	M4	Honours degree	50	Both parents in NPO	Professional nurse

M = Manager

#### Strategic planning

This organisation does not plan for more than one year ahead but has conducted strategic planning sessions in the past, although not at regular intervals. The organisation focuses on practical and short-term issues related to drug addiction care that may arise. These short-term issues include the maintenance of buildings and amenities required to provide NPO services to beneficiaries. Furthermore, the organisation partnered with a gardening consultant who assisted with upgrading and maintaining the centre grounds and residential areas of the organisation. The

organisation has built strong strategic partnerships over the years with private trusts and businesses, and hopes that these partnerships will expose it to improved planning mechanisms such as long-term planning and the operational management thereof. Many of the decisions that this organisation has used to develop its strategies originate from its deep organisational hierarchy. The NPO is regarded as a local branch of the larger international organisation and reports to a regional office, which in turn reports to the national office, which in its turn reports to an international body. This hierarchy, therefore, influences the way in which the local branch plan their activities, as it is governed by the standards and procedures set by head office, including those related to the drug rehabilitation programme and its financial decision-making and financial reporting.

#### Financial management

The organisation requires high levels of financial control and financial reporting owing to their multitiered and internationally governed hierarchy. Therefore, the organisation has a permanent and experienced accountant as a financial manager. The organisation had been in existence for 72 years at the time of the interviews, enabling it to develop regional reporting hierarchies for reporting and budget allocation aspects. The local branch reports to the regional or provincial branch, which in turn reports to the national branch. The organisation faces strict governmental reporting requirements to prove the success of the services beneficiaries receive from the NPO; for example, the number of government-subsidised individuals who have completed the drug rehabilitation programme. As confirmed by the participants, a total of 95% of the NPO's funding comes from the government. Therefore, the NPO has a great reliance on government funding.

#### Income-generating activities

The organisation has tried various income-generation activities and has entertained consultative ideas from external parties. For example, individuals have attempted to convert part of this NPO's assets and land for use in farming or workshops where goods may be produced such as wood or metal goods for sale by the NPO. The initial approach was to convert current buildings into workshops or to build new buildings to

create these workshops. Unfortunately, none of these initiatives have successfully been implemented owing to a misalignment between the external parties involved, the NPO's goals, and the drug rehabilitation environment. Another idea was to establish (open) retail shops on the available land. This initiative was however cancelled as the potential business partners wanted to open a liquor store as well. A liquor store would have exposed the beneficiaries who were part of the drug rehabilitation programme to factors which might have jeopardised their recovery. Only one initiative, which relates to the rental of a part of their property, has resulted in a steady income stream for the organisation. The remainder of its income-generating activities were focused on fundraiser events, such as a "Christmas carols" evening which is held annually.

### Challenges faced by the NPO

At the time of the study, the organisation faced the challenge of depleting financial reserves owing to a large shortfall in monthly income. This shortfall was due mainly to the organisation's large permanent staff complement. Another challenge was the amount of government subsidy received per beneficiary as this did not cover the costs of providing the necessary services to the beneficiaries. A small increase is expected in government subsidy in the year 2020; however, this increase may still not cover the basic costs per beneficiary. Another challenge was the support provided to beneficiaries, many of whom originate from towns and cities that are geographically located far from the centre. These beneficiaries still need to be part of support groups to remain sober once they are discharged from the NPO. This NPO was, therefore, unable to support and assist beneficiaries to remain sober after they had left its care. The aftercare support provided to beneficiaries is the responsibility of social workers, who are either government or private social workers, and who are external to the NPO's control and budget responsibilities. Another challenge related to the geographical location of the NPO is the travel costs of beneficiaries and their families in accessing the centre. Many beneficiaries come from low-income communities, and the public transport system does not always allow easy and affordable access to the NPO, resulting in the NPO being unable to support the beneficiaries after they have completed the programme on site.

## 5.2.2 Case study two (CS2)

Case study two (CS2) (organisation) was established at the private residence of the founder in the early 1980s. Previously, the organisation operated in another province (Kwazulu-Natal) before moving to the Western Cape province in the early 1990s. The NPO is registered with the DSD and collaborates with the DSD and the Sector Education and Training Authority (SETA) to serve beneficiaries. Its focus is on support for homeless, drug-addicted and unemployable individuals. The NPO consists of staff members who had been with the organisation for more than ten years at the time of the interviews. Three interviews were conducted with members of this organisation, whose demographic and background information is presented in Table 5.2.

**Table 5.2: Demographic and background information of participants from case study two**

Case study	Participant number	Highest level of education	Age	Parent NPO background	Previous work experience
2	M5	Degrees in accountancy and engineering	51	Mother	Chartered accountant for 10 years, factory owner
	M6	Trade qualifications in fitting and turning	56	None	Fitter and turner manager for 10 years
	M7	Grade 12	54	Mother (she started an NPO)	Office assistant

M = Manager

### Strategic planning

At the time of the study, it was found that this NPO did not perform long-term planning; however, it did have initiatives in place to provide meals for beneficiaries and to cover their day-to-day needs. The NPO partners with grocery chain stores which donate food and toiletries. It also partners with construction companies for building material donations to expand and/or repair the buildings. The NPO confirmed that planning for three to five years is difficult, as the requirements to serve beneficiaries effectively over such a long period may be unknown. (There might be, for example, a change in

a drug, such as Methamphetamine. This is a central nervous system stimulant that can affect individuals differently. The age of drug-addicted homeless persons has also changed. People are becoming addicted to this drug at a younger age, which often results in homelessness. Therefore, the more people using this drug, the greater the increase in the number of people serviced by this NPO.)

As part of the NPO's strategic objectives, the organisation had started various initiatives to serve the community, such as free schooling for NPO beneficiaries, as well as members of the surrounding communities. Furthermore, they have established a care centre for the elderly who request shelter from the NPO as beneficiaries. In addition, at the time of the study, the NPO provided 1 500 meals a day to members of surrounding communities. These meals were in addition to the 3 000 meals a day provided to beneficiaries of the NPO.

#### Financial management

Defining the financial management structure of this NPO is challenging. The reason for this stems from the donation model used by the organisation which makes it difficult to quantify their donations. Many donations arrive in the form of building material or second-hand items, such as clothes. Building material donations often originate from construction sites when old buildings are demolished to raise new structures. These building materials are then reused by the NPO. The NPO also receives monetary donations from beneficiaries residing at the NPO and donations of food from businesses such as grocery chain stores.

Expenses and cash managed by this NPO are done so by a combined decision-making structure, namely, by management staff members. More than one person has signing power for the purchase of items. The organisation uses receipt books for expenditure, generates financial reports every month, and has been audited annually by an external firm.

## Income-generating activities

This NPO has started a transport business as a revenue-generating initiative and transports goods for business clients, who in return donate food to the NPO. This initiative has also assisted beneficiaries to obtain their driver's licences and to potentially find jobs outside the NPO. This initiative has therefore created the space for beneficiaries to become drivers which could potentially earn more income for the NPO.

The NPO has also explored the possibility of aquaponics, namely, the growing of food for the NPO and the surrounding communities. Aquaponics relies on the recycling of nutrient-rich water, generated as a waste product of fish, into a fertiliser used to enhance the growth of flora (Theaquaponicssource.com, 2019:1). The NPO has also sold cakes and the like to individuals outside of the organisation. It reported that its self-sustaining income-generating activities account for less than 5% of their income requirements.

## Challenges faced by the NPO

The organisation reported that the fact that social workers are overworked is a major challenge. Participants confirmed that the social work sector has become less effective and societal issues involving women and children place an additional burden on social workers. The social work sector also does not make provision for psychological elements that cause people to end up on the street. Some people become addicted to drugs at a young age, while also becoming emotionally stunted at a young age. These individuals may not have the intellectual or emotional abilities to deal with their addiction.

Another challenge mentioned was that the NPO cares for many elderly people and NPO staff members do not have the background or skills to look after them. Volunteers were then required to examine the elderly beneficiaries. The NPO had also established a pre-primary and a primary school, serving children of the beneficiaries, and from surrounding communities. Unqualified teachers were another challenge as the Department of Basic Education (DBE) does not fully subsidise these teachers'

salaries. Therefore, the NPO has had to search for additional funds to pay teachers' salaries. In addition, some beneficiaries require psychiatric therapy to enter the organisation and specialist care but no assistance is provided by any government department in this regard. This need is growing; even though psychiatric issues are not always age- or drug-related, these beneficiaries are nevertheless admitted at the NPO to be cared for.

### **5.2.3 Case study three (CS3)**

Case study three (CS3) (organisation) is an organisation that serves as a night shelter for the homeless but also allows longer-term stay as determined on a case-by-case basis. At the time of the study, it was found that the NPO had created a personal development plan for each beneficiary in the hope of assisting him or her to recover from the grip of homelessness. Some beneficiaries suffer from drug and/or alcohol addiction, while others have psychiatric conditions. This has added to the services required from the NPO. The NPO is registered with the DSD and works closely with the DSD and the Department of Home Affairs (DHA).

The organisation was founded in the late 1990s. It has a structured management team, and a board of directors. The management activities of these entities are separated from their strategic organisational management activities, such as budgeting and planning. Two interviews were conducted with participants from this organisation. The demographic and background information of participants from this NPO is presented in Table 5.3.

**Table 5.3: Demographic and background information of participants from case study three**

Case study	Participant number	Highest level of education	Age	Parent NPO background	Previous work experience
3	S1	Degree in social work	39	Mother managed an NPO	Only NPO manager experience
	M8	Professional business management courses	48	None	South African National Defence Force, and hospitality management experience

S = Staff

M = Manager Strategic planning

The organisation is governed and managed at committee level and consists of both internal and external advisors. The participants interviewed at this NPO were not part of the board of directors nor did they participate in the strategic planning processes. Consequently, they did not have sufficient insight into the strategic planning processes for the researcher to allow the researcher to develop a clear summary of the NPO's strategic planning activities. Participants confirmed that the committee/board of directors met once a year to plan for the year ahead, and no long-term planning (for more than a year) was undertaken. The NPO did have strategic partnerships with other organisations such as old age homes, clinics and hospitals in an attempt to enable the beneficiaries to recover from their homelessness challenges.

The NPO had two long-term projects running. The first project was to open a mobile shelter and had been embarked on three years previously. However, the initiative was delayed due to a lack of funds. The other long-term project was a women and children shelter. This project was also delayed by municipal and community red-tape regarding rental aspects, such as neighbouring property owners who did not want a shelter near their homes.

## Financial management

This organisation reported that they had little financial control in the past. They also confirmed that with the new chairman, the financial controls and financial position had improved. During the interviews, the participants reported that the organisation was in a favourable financial position. It had the ability to pay its expenses, and had structures in place to govern financial management elements of the organisation.

The NPO used computer systems to manage its finances and kept all receipts electronically. All income was recorded electronically and daily reports were generated for the manager, where after the manager manually allocated transactions to different ledgers. Payments to suppliers were managed through an approval process carried out by a manager and two other board committee members before the person responsible for finances (internal) loaded the payment. It was then released by the manager or a board member. Furthermore, all payments by beneficiaries to reside within the NPO are documented in a receipt book.

## Income-generating activities

The NPO was financially supported by a church group but also needed to generate income on its own. The NPO had launched a coffee shop at its shelter premises, which generated additional income for the NPO. An additional ten fundraising events per year were required to assist in their financial shortfall. Most of their financial constraints, including the need for ten fundraising events per year, were due to the public who is sceptical about donating to an adult homeless shelter. The public would rather donate to other types of NGOs, such as women and children shelters, instead of homeless shelters.

## Challenges faced by the NPO

One of the challenges faced was that the NPO social workers focused on the psychological and drug rehabilitation aspects of the beneficiaries, while the shelter management team focused on income generation and the upkeep of the premises. This division of responsibilities created a gap between the social work requirements

and the availability of funds to assist their beneficiaries. Examples included the payment to be made when beneficiaries applied for new identity documents from the Department of Home Affairs (DHA), or to pay for transport to their families who may be located far from the NPO.

There is little communication between the different departments of the organisation, which highlighted a lack of strategic management and skills to effectively connect the different departments. Staff members' skills were highlighted as a challenge, as they are faced with individuals with a multitude of personal issues. Staff work with individuals who lived on the streets previously, or who had suffered from HIV/Aids or cancer, but tend to become demotivated if they cannot find employment. This has resulted in unique sets of issues when treating individual beneficiaries. There was also a gap between the emotions of beneficiaries and how to deal with these emotions. For example, beneficiaries suddenly needed to follow certain rules as enforced by shelter supervisors. These shelter supervisors, in turn, found it difficult to understand these emotions and/or how to deal with them effectively. The training required by supervisors to effectively manage the emotions of beneficiaries is not only a training budget issue, but is also a unique and difficult skill to master through training.

#### **5.2.4 Case study four (CS4)**

The NPO that comprised case study four (CS4) was the most recently registered NPO, and had been in existence for less than ten years. It had just three permanent staff members but had a large volunteer base. The organisation is registered with the DSD. The focus of this NPO is on the after-school care of children from a low-income community. Three interviews were conducted with participants from this organisation, whose demographic and background information is presented in Table 5.4.

**Table 5.4: Demographic and background information of participants from case study four**

Case study	Participant number	Highest level of education	Age	Parent NPO background	Previous work experience
4	F1	Degree	43	None	Teacher for 20 years, manager of a learning centre
	S2	Grade 12	21	None	Waitress
	S3	Grade 12	21	None	No prior work experience

F = Founder

S = Staff

### Strategic planning

This NPO did not have the administrative and planning capabilities of the larger and more established NPOs. Most administrative tasks were left to just one person, namely the founder. However, the founder felt that he/she was still learning how to administrate the organisation as this is an ongoing learning process. Other staff members would have preferred to focus their attention on the children; however, managing the NPO took up most of their time. It was mentioned that the administrative tasks “killed” the passion for the NPO as they needed to provide feedback to donors, and had to constantly generate proposals for new funding opportunities. The organisation would have preferred to appoint additional staff members to oversee these tasks; however, additional funds then had to be generated to remunerate them.

### Financial management

The NPO had limited financial management structures in place and no set policies for the management of financial components, such as income and expenditure controls. Accordingly, the financial management was done entirely by the founder who utilised spreadsheets to document and report to donors, while providing a financial report for each financial year to private donors and grant administrators at municipalities. Every funder, donor or grant administrator received a report of expenditure per year. The founder also reported that this NPO needed someone to attend to administrative tasks,

as time was limited between teaching activities and the reporting requirements, such as reporting on what activities and expenses the grant funding was spent on.

#### Income-generating activities

At the time of the study, the annual budget requirements of this NPO were met by the following: just over 20% of income came from government grants and 20% was generated through fundraising projects; the remainder came from private donors, businesses and trusts. The NPO hosted children's parties to generate income and wanted to expand on this initiative. They had also started a "R5" (5 South African rand) shop but this required staff to work over weekends. The NPO hoped to generate additional income by leasing part of their property, hosting events, and selling goods (i.e. cakes) to supplement their income. Grocery requirements were fulfilled by sponsorships from grocery chain stores twice a week. These food and grocery items were then distributed among staff members, teachers at the school, gardeners, volunteers, and some families of the children who attend the after-school facility.

#### Challenges faced by the NPO

It was highlighted by the NPO founder that he/she finds it difficult to set clear boundaries between those served and his/her personal life. The founder's personal life suffers specifically if one lives where one serves; that is, using one's personal residence (home) as the NPO premises. Sufficient space to teach the children was another challenge and limited funds were available to extend the schooling areas/premises. One staff member who had joined the organisation from the community which the NPO served confirmed that some children lack discipline as a result of their home circumstances.

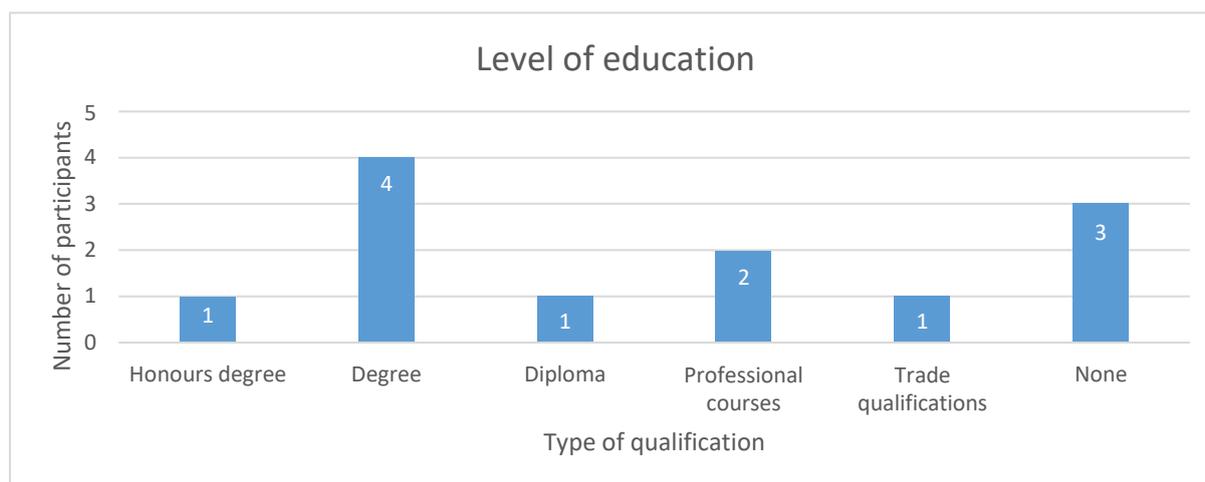
The next section presents the demographic and background information relating to the participants.

### 5.3 DEMOGRAPHIC AND BACKGROUND INFORMATION

This section presents the demographic and background information of participants, as presented in Section A of the interview guide. It includes participants' educational background, age, parental exposure to the NPO sector, and the professional career background of the participants.

#### 5.3.1 Educational background of participants

The educational (after-school/tertiary) background of founders, managers and staff members refers to factor seven of the Lussier Business Success Versus Failure Model, namely "Education", as described in section 3.8 of this study (Question 1 of the questionnaire). Participants' educational background is presented in Figure 5.1.



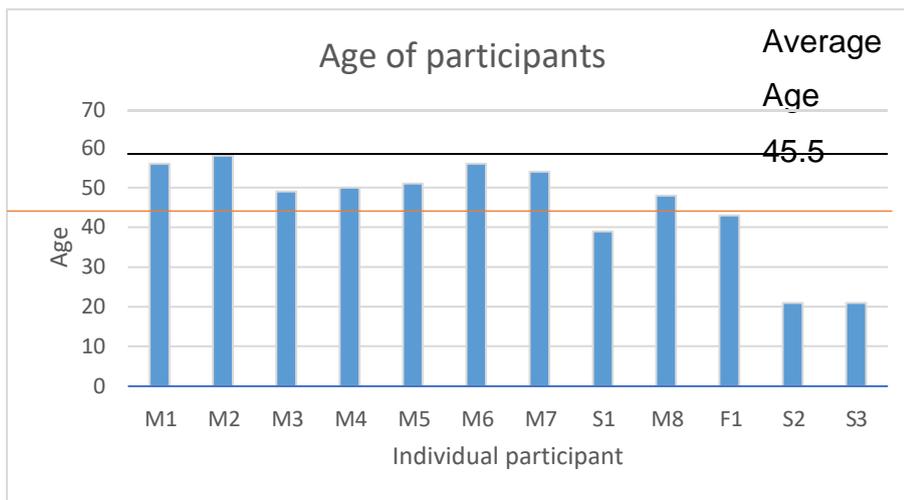
**Figure 5.1: Educational background of participants**

As shown in Figure 5.1, one participant had an honours degree, four had bachelor-level degrees, one a diploma, two had completed professional courses, one had a trade qualification (fitter and turner), while three had no tertiary education. Of the three that had no tertiary education, two worked at CS4, namely, two "teachers". They had no formal tertiary education and viewed their work at the NPO as on-the-job training.

One participant indicated that he/she decided rather to complete professional courses related to their job at the time of their secular employment – specifically hospitality industry training (CS3).

### 5.3.2 Age of participants

The age of the NPO founders, managers and staff members related to factor 11 of the Lussier Business Success Versus Failure Model as described in section 3.12 of this study (Question 2). This question related to younger people who start a business and who are more likely to fail than older people starting a business. The age of participants is depicted in Figure 5.2.



**Figure 5.2: Age of participants**

M = Manager

S = Staff member

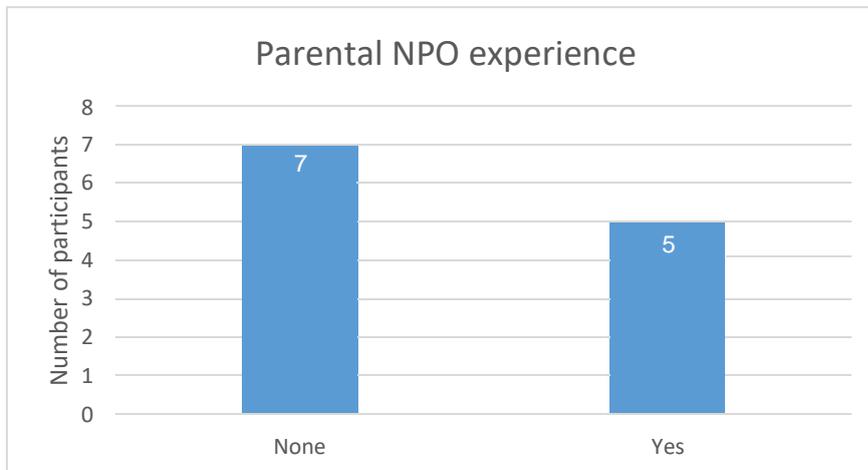
F = Founder

As displayed in Figure 5.2, the average age of participants was 45.5 years, while all managers were above the age of 40 years. One founder (CS4) was just under the mean age at 43, while the staff members across the case organisations had an average age of 27. Older NPOs also had older managers which may have influenced the management factors applied in the NPO.

### 5.3.3 Parents of the participants, and experience in the NPO sector

Factor 13 in the Lussier Business Success Versus Failure Model was described in section 3.14 of this study (Question 3). This question relates to those who have parents

who own a business and are therefore more likely to succeed. Figure 5.3 displays the parental exposure of participants to the NPO sector.



**Figure 5.3: Parental exposure in the NPO sector**

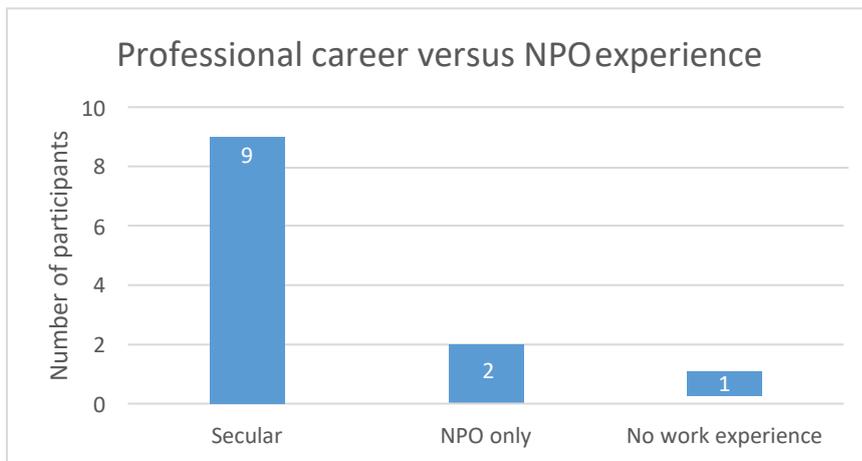
As depicted in Figure 5.3, seven participants indicated that their parents did not work in the NPO sector, while five participants indicated that their parents had been exposed to the NPO sector.

Of the five participants whose parents had worked in the NPO sector, only one (CS1 – M2) had started to work at an NPO after school. Two managers (CS1) had both parents working in the NPO sector, and these managers had joined the NPO sector after working in a secular environment for several years.

There was no direct link between participants whose parents worked in the NPO sector and the career choice of the participant. Some participants had in-law family members working in the NPO sector. Two participants (CS2 – M6 and CS3 – M8) reported that their mothers-in-law worked at NPOs, while one indicated that his/her mother had started the NPO in which he/she was working at the time of the interview (CS2 – M7). One participant (CS3 – M8) indicated that both his/her spouse and sister worked in the NPO sector. Lastly, two staff members (CS4 – S2 and S3) indicated that their parents had no prior exposure to the NPO sector.

### 5.3.4 Professional career background

Participants were asked to describe their professional career background (Question 4). This question related to the third factor listed in the Lussier model and discussed in section 3.4 of this study (A business managed by people with previous industry experience is more likely to succeed). The professional career background of the participants is shown in Figure 5.4. The Figure includes those with secular experience, only with NPO experience, and no work experience.



**Figure 5.4: Professional career background**

As presented in Figure 5.4, nine participants indicated that they have secular experience, two participants had only NPO experience, while one participant had no work experience (before joining the NPO).

In addition to the information presented in Figure 5.4, the following regarding parents with an NPO background, and previous work experience outside the NPO sector:

Table 5.1 for CS1 shows that: (a) 2 participants had parents with an NPO background, and (b) 3 participants had previous work experience outside the NPO sector. (c) Two participants from CS1 had previous management experience.

Table 5.2 for CS2 shows that: (a) 2 participants had parents with an NPO background, and (b) all 3 participants had previous work experience outside the NPO sector. (c) Two participants from CS2 had previous management experience.

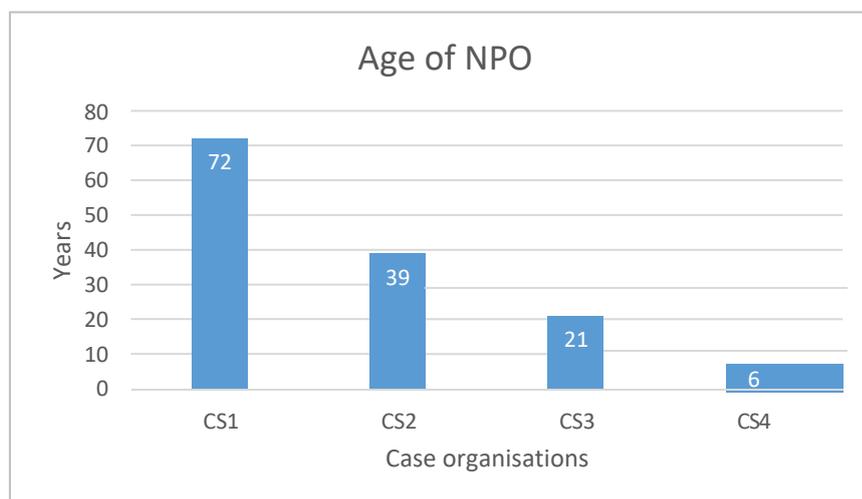
Table 5.3 for CS3 shows that: (a) 1 participant had parents with an NPO background, and (b) only 1 participant had previous work experience outside the NPO sector. (c) Two participants from CS3 had previous management experience.

Table 5.4 for CS4 shows that: (a) none of the participants had parents with an NPO background, and (b) 2 participants had previous work experience outside the NPO sector. (c) One participant from CS4 had previous management experience.

The next two items were presented in Section B of the interview guide (organisational elements), namely, the nature (age) of the NPO founded, and the number of permanent employees and volunteers.

### 5.3.5 Age of the NPO

The age of the NPO may determine the maturity of the organisation (Question 5). This question also relates to factor 11 of the Lussier Business Success Versus Failure Model. The information is presented in Figure 5.5.



**Figure 5.5: Age of the NPO**

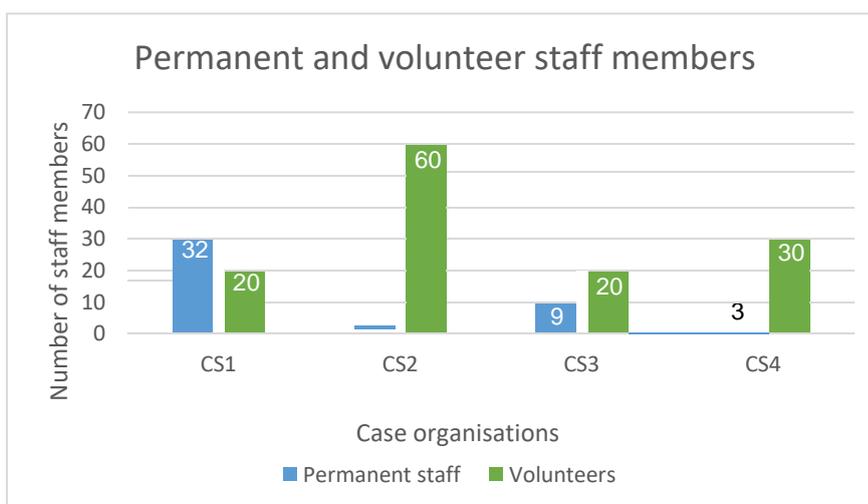
As presented in Figure 5.5, the founding date of the NPOs differed vastly, ranging between six and 72 years. Only one of the participants was the founder of an NPO, and this was the most recently founded of the four (CS4). The other three NPOs had been active for at least twenty years. The oldest of the NPOs (CS1) had been in

existence for 72 years and had a structured financial management process. Its board of directors consisted of individuals located both within the region and nationally, which portrayed a mature governance structure. This was possibly related to the age of the organisation. The second oldest NPO (CS2) had been in existence for 39 years, had a structured management team and served the largest number of beneficiaries. The third oldest NPO (CS3) had been in existence for 21 years, while the remaining NPO (CS4) was rather “new”, having been in existence for six years.

For the purpose of this study, the age of the NPO was considered and not the age of the individual participant as referred to in the Lussier Business Success Versus Failure Model (Factor 12).

### 5.3.6 Size of the NPO – staff members (permanent and voluntary)

The purpose of gathering information on the size of the organisation was to determine the future capital requirements of the NPO regarding salaries and funds to operate (Question 6). This question established the number of permanent employees and the number of volunteers, and was derived from the first factor, and as described in section 3.2 of the study, namely, “capital” (A business that starts with sufficient capital has a higher chance of success). Figure 5.6 presents the permanent and volunteer staff members at the four NPOs.



**Figure 5.6: Permanent employees and volunteers**

As shown in Figure 5.6, three of the case studies (CS2, CS3 and CS4) had fewer permanent staff members than voluntary staff members. Numbers of permanent staff members ranged between three and 32 for the four case studies, with most permanent staff members being employed by CS1, with 32. CS2 had the largest number of voluntary staff members, namely 60. CS3 had the second-largest number of permanent staff members with nine, and CS4 had the lowest number of permanent staff members with three.

The findings of the study indicate that the size of the organisation related to the age of the organisation. The organisations that had been in existence for longer periods had more permanent and voluntary staff members, which increased the financial and/or future capital requirements of the organisations. CS2, which was the second oldest NPO, serviced the largest number of individuals, that is, over 1 000 permanent beneficiaries. They also served approximately 4 500 meals a day, which included meals for members of the surrounding communities.

### **5.3.7 Minority**

Minority groups was discussed in section 3.15 of this study. The researcher did not include a question on minority groups in the interview guide, however, minority was factor 14 in the Lussier Business Success Versus Failure Model. During the interviews, the researcher observed that the sample participants included five males (minority), and seven females.

The next section presents the thematic analysis of the study by describing the themes identified, namely, the NPO capital structure, the inability of NPOs to plan ahead, marketing management within NPOs, difficulty retaining skilled staff, the shortage of staff and skills, and financial management in the NPOs.

## **5.4 THEMATIC ANALYSIS**

Thematic analysis is a valuable technique for examining the perspectives of the different participants, highlighting the similarities and differences between participant responses and generating deeper insights. Thematic analysis is also valuable in

summarising key characteristics of the data set because the technique forces the researcher to take a well-structured approach to managing the data, which may result in a clear and well-structured final report (Nowell *et al.*, 2017:2).

The themes were identified using the steps presented by Braun and Clarke (2006), Jason and Glenwick (2016), and Neuendorf (2019). These steps included the following: familiarisation with the collected data, generating initial codes, searching for themes that emerge from the data, reviewing the identified themes for relevance, refining the essence of each theme and naming the theme, and writing the report in a meaningful and appropriate manner.

The thematic analysis process for this study was discussed in more detail in section 4.7 of this study. Question 32 of the interview guide related to the greatest challenges experienced by NPOs and the themes listed in the next section all relate to challenges experienced, namely, the NPO capital structure, the inability of NPOs to plan ahead, marketing management, the difficulty of retaining skilled staff, the shortage of staff and skills, and financial management.

The following sections describe the six themes identified by the thematic analysis process.

#### **5.4.1 The NPO capital structure**

The first theme refers to the capital structure of the NPOs and is linked to the first factor in the Lussier Business Success Versus Failure Model, namely, capital as described in section 3.2 (Questions 16, 17, 18 and 33). From the data gathered, it would appear that the NPOs did not seek or receive funds from external parties to start their organisations but merely used what the founders had in their personal capacities. This section highlights the items (and questions) that relate to the uniqueness of the NPO capital structure, namely, the capital requirements and sources of income of the NPOs.

#### **5.4.1.1 Ongoing and start-up capital**

All NPOs (CS1-CS4) were founded with no start-up capital (Question 16). The NPO environment is one in which people generally start the NPO from their homes using their personal assets and capital. This is contrary to the investment capital injection that is the case with many equity-driven businesses. Question 17 related to ongoing capital requirements and the results were similar to the start-up conundrum where the NPO cannot raise capital due to its organisational type; that is, being registered and functioning as an NPO.

Although the NPOs survive, it is a constant battle to find financial resources to continue serving communities (Question 17). CS1 management reported that a shortfall of R100 000 per month was experienced. This shortfall is funded from its capital reserve built up over the past decades; a reserve that could potentially run out within the next twelve months. CS1 was operating in the hope that an increase in the level of government subsidies and other fund-raising events would decrease this shortfall (CS1 – M1). CS2 reported that while their financial needs are great, they survive as many of their donations take the form of groceries and food (CS2 – M5). CS3 expressed the need for ongoing capital to complete a project which entails the renovation and rent of a home to house women and children separately from the main night shelter (home) (CS3 – M8). This NPO reported that every day is a challenge to survive. This challenge is experienced specifically when social workers want to send a beneficiary home which may be in another province. Another example is where social workers wanted to assist a beneficiary to obtain their South African identification document from the DHA but were unsure whether funds were available for this (CS3 – S1). CS4 reported that capital is always required to upgrade the property (CS4 – F1). The rental of one part of their property (CS4) could potentially alleviate this requirement, as the rental income could be a consistent income stream to pay for capital projects.

### **5.4.1.2 Sources of income**

The NPOs were asked to indicate their sources of income (Questions 18 and 33). All NPOs attempted to develop additional income-generating activities to cover their shortfall in funding (Question 33).

Two of the four NPOs (CS1 and CS4) reported that they received funding from the government such as the DSD (Question 18). CS1 reported that the services it provides are subsidised by the government, and that this subsidy forms 95% of its income (CS1 – M3). CS1 also had a rental property as a source of income. In addition, it arranged fundraiser events to reduce its monthly financial shortfalls. Although CS2 and CS3 are registered as NPOs, which enables them to receive donations, they reported that no direct funding is received from the government as it does not have mechanisms in place to fund homeless shelters. Hence, CS2 generated income from a truck repair and transport business that they had recently launched (M6). The social grants that the individual beneficiaries received from the government contributed to their living costs at the NPO; however, it did not cover them fully. The individual beneficiaries were not obligated to contribute from their social grants but many did. CS3 is partly subsidised by a church and has established a coffee shop to generate additional income (CS3 – M8), while CS4 had applied for social grants from the DSD and generated income from a “R5” shop it ran from its premises, and periodically hosted parties for children at the venue (CS4 – F1).

The next section presents the second theme identified, namely, the inability of NPOs to embark on long-term planning.

### **5.4.2 The inability of NPOs to plan ahead**

The second theme refers to strategic and long-term planning and is linked to the fifth factor of successful businesses (Lussier, 1995:23), namely, effective planning as described in section 2.4.3 and 3.6 of this study (Questions 7, 8, 9, 25 and 26). The following sections relate to the inability of NPOs to plan ahead and the effectiveness of their short-term plan execution.

#### **5.4.2.1 Executing short-term strategies and planning**

All NPOs reported that they do not undertake long-term planning (Question 7), but that they focus on the short-term to solve immediate issues, and experience great success with all the short-term initiatives that are implemented. Reasons included that they lack strategic planning skills, as well as control over external social factors, such as the change in drugs used by people that cause them to become homeless. One reason particularly was highlighted by participants of three of the NPOs (CS1, CS2, CS4), namely, "We live day-by-day" (M2, M5, F1). It was also stated: "We don't do long-term planning, we would rather feed people today" (CS2 – M5). CS3 reported that they do not plan for the long term as they prefer to focus on solving problems as they arise and as soon as possible (CS3 – M8).

Although the NPOs did not perform long-term planning, they were able to respond to challenges experienced by developing short-term (annual) plans (Question 25) and executing them accordingly. All NPOs reported that they had team members in place to execute project requirements (Question 8). CS1 reported that it was pleased with how the teams executed any plans devised and stated that this was to a large extent due to the right people being in place to execute those plans (CS1 – M1). CS2 stated that even though there may not always be funding available, "It somehow still comes together in the end" (CS2 – M5). It was also reported that, "Plans are big but always seem to be achieved" (CS2 – M6). CS3 reported that it was privileged to have a very effective chairman who worked extremely hard and as a result, "whatever is planned, is achieved" (CS3 – M8). Two staff members at CS4 echoed this, stating that the founder was a fantastic problem solver and executed any plan they had quickly and effectively (CS4 – S2 and S3).

Although the NPOs did not plan for the long term, three (CS1, CS2, CS3) indicated that they conducted annual review meetings in which board members were included (Questions 9 and 26). However, in some NPOs' annual review meetings were not held consistently from a frequency perspective, but only when time permitted. The annual review meetings included a review of the previous year's expenses and planning for the next year. The NPOs felt that they could plan for a maximum of one year in advance, owing to the volatility of the non-profit external environment. The challenge

remains that NPOs are unable to predict how the needs of the community may change in the long run. As CS2 reported: “We don’t know what drug will be released next” (CS2 – M5). The influence of this social trigger is then a driver of the need for the services provided by the NPOs. The type of drug may also change the age at which beneficiaries may require their services, while the age at which they admit young children of drug-abusing parents also changes over time. CS4 is a small and recently registered NPO (six years old), compared to the other NPOs sampled, and does not have a formal board of directors. The founder of this NPO drove all activities and reviewed the success of ideas him-/herself when time permitted (CS4 – F1).

Strategic planning is the foundation of any change or enhancement activity in an organisation. Such activities are those deemed necessary for resolving organisational issues or perhaps a new initiative to address a new problem that has arisen; for example, the need for aftercare for the children of drug-abusing prostitutes. Decisions are then made in response to immediate needs and not long-term potential requirements.

All NPOs were involved in projects that had been running for more than a year. These were not originally planned as long-term projects, but were rather projects that had experienced various delays. The reasons for the prolonged project timelines were related to the availability of funds and not a lack of skills to execute and finalise these projects. This highlights the lack of appropriate strategic planning activities.

#### **5.4.2.2 Social service timing**

This section relates to the ninth factor and to the timing of the organisation’s services. The researcher inquired as to where the NPOs’ services were in the maturity phase of their lifecycle (Questions 11, 12 and 13), with a focus on how the NPOs measured their social impact on their community (Question 11), where the NPOs felt their services were from an organisational maturity perspective (Question 12), and the continued need for their services (Question 13). The NPOs reported that the services they provide are needed by the communities they serve (Question 11). Although not all NPOs were in the same maturity phase, all stated that the need for their services is growing (Question 12) and that they have beneficiaries on their waiting lists who are

in need of their services. It was reported that these needs are growing (Question 13): "Always a waiting list, this is a growing concern in the community" (CS1 – M2). Long waiting lists are a result of the limited capacity at the NPOs, both in terms of physical space and available resources. The larger and more mature organisations (CS1, CS2 and CS3) were integrated into the communities that they served, as they have been operating within these communities for many years. Therefore, these organisations were already in the maturity phase of their life cycles. CS4 had formed a more recent relationship with its surrounding communities. At the time of the study, it was experiencing a move away from the growth stage to a more stable and closer relationship with its community, and therefore was moving towards the maturity phase of its lifecycle (CS4 – F1).

### **5.4.2.3 Economic timing**

In this study, the economic timing of an NPO refers to the economic factors that either drive the existence of the NPO or the financial support received from government institutions. This relates to the tenth factor in the Lussier Business Success Versus Failure Model. The economic cycle of a country influences the available funding, as described in section 3.11 of the literature study. The macroeconomic factors that influence NPOs relate to the funding and support structures that the government has in place, or conversely, it does not have in place.

The NPO (CS3) that operated in the homeless sphere confirmed that no formal governmental structures exist to fund homeless shelters. The Western Cape province is currently part of a pilot project in which the government is trialling a funding grant initiative with certain NPOs. Unfortunately, these grants are limited and do not cover the cost of running these types of organisation. This results in most NPOs being fully dependent on donor funding or fund-raising activities. The government has developed the "2013 Norms and Standards for Shelters for Homeless Adults" in conjunction with the Department of Social Development (DSD) in the Western Cape province. This sets rules and standards to govern the care provided to people making use of the homeless centres. From an economic timing perspective, the South African economy was showing limited growth at the time of the study, resulting in a focus on entrepreneurship and job creation, rather than on creating funding mechanisms to fund

homeless centres. As NPOs provide services to citizens in dire need, a weak economic climate has a direct impact on government support for NPOs.

The next section presents the theme relating to the marketing management of NPOs.

### **5.4.3 Marketing management**

The third theme is linked to the fifteenth factor of the Lussier Business Success Versus Failure Model, as described in section 3.16 of this study (Questions 28 and 29). This factor of successful businesses relates to the capability within an organisation to develop and manage the marketing process (Lussier, 1995:23). The following sections relate to the marketing management within the sampled NPOs.

#### **5.4.3.1 Marketing management experience**

None of the participants had previous marketing management experience (Question 28). However, CS2 had a person performing a public relations (PR) officer role (CS2 – M5). A dedicated marketing person could meet with national and international donors or funders to secure long-term funding or support services, such as for the training of staff members. All organisations listed marketing management as a problem area.

The NPOs used social media platforms like Facebook and Twitter but reported that these were not maintained effectively. This may influence effectiveness when sourcing donations or funding for the NPOs.

#### **5.4.3.2 Marketing plan**

All NPOs responded with a definite “no” to the existence of a formal marketing plan; however, participants understood that there was a need to communicate with the community in some way (Question 29). As discussed in section 5.4.3.1, the NPOs ensure this by utilising free social media platforms; however, this is the extent to which the NPOs form a marketing plan. These communications were not targeted to a specific market segment, but rather a general upload of information. It was reported that due to time constraints experienced by being a founder of an NPO, time to upload

photos on social media or to think specifically about marketing approaches was scarce (CS4 – F1).

One reason for the lack of effective maintenance of NPOs' social media platforms, such as uploading photos and notifications, was related to the time available and the capacity of staff to attend to this, as reported by CS4: "I don't get time for it" (CS4 – F1), and CS1: "We tried to give it to someone but it is not effective as they do it as part of their day-job" (CS1 – M1). All organisations had a website which was set up by a donor or strategic partner of the organisation. CS2 confirmed that its public relations office communicates events and needs to the public via social media platforms (CS2 – M7). CS3 confirmed that it had no formal long-term marketing plan but used Facebook, Twitter and their webpage to post photos, events and newsletters. For example, if a donation was received from a specific organisation, they would load pictures of the donation event on Facebook and on all the social media platforms used by the NPOs and on their websites.

The next section presents the theme relating to the difficulty experienced by NPOs in retaining skilled staff.

#### **5.4.4 Difficulty retaining skilled staff**

The fourth theme relates to the eighth factor of the Lussier Business Success Versus Failure Model, namely, the ability of an organisation to attract and retain the necessary level of qualified staff to their organisation, as discussed in section 3.9 of this study (Questions 4, 6, 22, 23, 30 and 31).

The NPOs confirmed that they had lost key staff members because higher salaries were offered outside the organisation (Question 31). However, all NPOs confirmed that they felt they had sufficiently qualified people within the organisation at the time of the interviews (Question 30), excluding the marketing skills gap as discussed in section 5.4.3.1 of this chapter. CS1 had the largest permanent staff component and confirmed that one of their biggest expenses was the salaries of permanent staff members. An interesting finding from CS2 was that it did not aim to hire additional full-time staff members (Question 6). Most of the people working at this NPO were

volunteers, including the management team who lived on the same premises as the NPO beneficiaries. CS3 also confirmed that they had adequately qualified people in management positions with the required skills and mindset to operate effectively within an NPO environment, while CS4 indicated that it would like to appoint more staff members once the organisation was more mature.

As reported in Chapter 3, section 3.8, the effectiveness, motivation and efficiency of employees are affected by the opportunity to study. However, workers can attain higher-paying jobs outside the NPO as a result of the training and certification they received with the assistance of the NPOs. As reported: "We don't formally train people anymore, as soon as they are qualified, they leave" (CS2 – M5).

All NPOs reported that they had a stable staff and volunteer component. However, they experienced challenges regarding the salary levels and scales of employees. All organisations reported that when a staff member resigns, it is because they have been offered a higher salary by the government or a private business. Although this may not be unique to the NPO environment, the income generated by the NPO may be more unstable than for for-profit businesses because of the limited funds available and the effort of sourcing grant and/or donor funding. The more money is wasted by the NPO, the more they need to source and account for funding to donors and/or government grant departments.

#### **5.4.4.1 Management experience**

This question related to factor four of the Lussier Business Success Versus Failure Model, that is, prior management experience, as discussed in sections 3.4 and 3.5 of this study (Questions 3, 22 and 23).

Businesses managed by people without prior industry experience have a greater chance of failure than firms managed by people with prior industry experience (Lussier, 1995:23). The purpose of this question was to investigate the management (and work) experience of the participants (Question 22).

### Management experience (currently in the NPO)

All four participants from CS1 were managers in the NPO, all three participants from CS2 were managers, one participant from CS3 was a manager, while one participant from CS4 was the founder. (In this case, the founder would also be seen as a manager as the founder fulfilled the managerial responsibilities).

### Management experience (previously – before joining the NPO)

CS1 had two participants with previous management experience, CS2 had two participants with previous management experience, CS3 had two participants with previous management experience, and CS4 had one participant with previous management experience.

### Previous work experience

As shown in Table 5.1 to Table 5.4, CS1 had three participants with previous work experience, CS2 also had three participants with previous work experience, CS3 had only one participant with previous work experience, and CS4 had two participants with previous work experience. (Work experience in this regard refers to “secular” experience).

Figure 5.4 has shown that only two participants had previous NPO experience.

The lack of prior NPO experience by the participants had no apparent influence on their ability to serve the community effectively and with the required compassion (Question 22). However, it was reported that due to their lack of previous experience in NPOs, participants found it difficult to understand the social work environment and suggested training for staff members who had joined from secular industries (CS3 – M8).

#### **5.4.4.2 Training and skills**

Question 24 related to the training required by the individual participants, or the participant's opinion of what training their organisation required. Training relates to factor seven of the Lussier Business Success Versus Failure Model (education), as discussed in section 3.8. Participants from CS1 indicated that management training was a great need, and that they had a private trust in their network which the NPO would approach to assist with mentorship and training (CS1). The founder of CS4 indicated that he/she, as founder, required mentorship and training relating to administration and time management so as to structure the organisation and its activities effectively (CS4 – F1).

The NPOs reported that there was a need for training in social work. This was specifically prevalent in CS2 and CS3, which needed to take care of people with mental health problems caused by drug abuse (CS2 – M5). One participant (social worker) from CS3 (S1) stated that they tried to keep up-to-date with the social work sector through self-study, and that management team members in their NPO required social work training. S1 added that training in drug abuse would be beneficial to improve the way to assist the homeless, as one of the reasons for homelessness relates to drug and/or alcohol abuse (CS3 – S1). The two staff members from CS4 stated that they were receiving on-the-job training at the NPO (CS4 – S2 and S3).

The next section presents the shortage of skills and how NPOs attempt to overcome this challenge.

#### **5.4.5 Shortage of staff and skills**

The fifth theme relates to the sixth factor of the Lussier model (1995:23), namely, that if organisations use professional advisors they have a greater chance of success, compared to those that do not, as discussed in section 3.7 of this study (Questions 14, 15, 26, 27 and 30).

#### **5.4.5.1 Professional advisors**

Questions 15 and 26 related to the advisors the NPOs had in their network. Advising an NPO is a unique challenge, as reported by one participant: “Some external people provide advice but it is not relevant and bespoke enough for the type of organisation, as it is not always faith-based advice” (CS2 – M5). Professional advisors who interact with the NPO must be able to understand the unique requirements and challenges of the organisation and the people working for these NPOs. It was reported from CS2 that with the addition of a school to their premises, a school consultant (advisor) was appointed to assist with the legislative and regulatory requirements to operate a school in South Africa. This interaction would ensure that the school complied with government requirements and regulations (CS2 – M5). Three NPOs (CS1, CS2 and CS3) confirmed that they regarded their board of directors as advisors and that they were satisfied that board members fulfilled the needs of the NPO. CS1 and CS3 had external board members, while CS2 only had internal management as board members. Therefore, in the case of CS1 and CS3, although the NPOs were not able to appoint skilled staff (Question 30), they were able to use the skills of their professional advisory networks or their board of directors (Question 14).

Question 27 enquired about other types of advisor that the NPO may need. CS1 reported that it had a part-time human resource (HR) advisor and would like to have a fund-raising consultant, a legal advisor and a marketing expert (CS1 – M1). CS2 indicated that it needs a legal advisor as some beneficiaries question the quality of care received from the organisation (CS2 – M6). CS3 stated that it did not need the services of an advisor, but would like to receive feedback from beneficiaries for future improvements (CS3 – M8). The founder of CS4 (F1) indicated a more “holistic” need, namely, mentorship, and also help in balancing their personal life with the requirements of the NPO. This participant also indicated that the NPO could benefit from long-term planning mentorship, as this skill did not form part of their management skillset (CS4 – F1).

### **5.4.5.2 Strategic partnerships**

Questions 26 and 27 related to the use of professional advisors. Although the NPOs did not plan for the long term, they did include strategic partners in their planning activities. The NPOs confirmed that they considered the DSD as a strategic partner and, in some instances, the Department of Health (DOH) and the DHA. It was also confirmed that they had advisory partners, donation partners and organisations that specialised in assisting NPOs, be it as board members or donors.

CS1 had partnered with an investment holding company that assists with the annual financial reviews and will provide training to staff members in financial management and income-generating strategies in the future (CS1 – M1). CS2 had partnered with another NPO that assisted with the development of homeless beneficiaries' social skills to create job opportunities. CS3 had partnered with a garden project from a local community where beneficiaries could work to earn some income (CS3 – M8). Furthermore, CS3 had partnered with churches to assist with the spiritual upliftment of beneficiaries (CS3 – S1 and M8). CS4 had partnered with schools for stationery and with universities for volunteer teachers who used the training opportunity to gain credits for their university programmes (CS4 – F1).

Partnering with strategic organisations influences the sustainability of NPOs, as they can apply strategic thinking to their relationships with partners. The strategic partners of an NPO may be other NPOs, corporations, private donors, the board of directors, or individuals that the organisation has engaged with to assist in the operation of the organisation. Professional advisors and partners may provide the NPO with skills that are not available in the organisation.

### **5.4.5.3 Partners/Board of directors**

Factor twelve of the Lussier Business Success versus Failure Model related to the rate of success when a business is founded with multiple people. As discussed in section 3.13, these people are partners in the business and share skills and risks to improve the chances of success of the business. As explained in section 2.2 of this study, NPOs cannot be owned, therefore there are no partners who own part of the

organisation. For this study, the board of directors were taken into account as fulfilling this role. CS1 had multiple directors on its board, from within the organisation, their regional offices, and external trusts who formed part of their board. CS2 had mostly internal board of director members with one external. CS3 had mostly external members occupying board seats with none of the management team holding a seat. CS4 did not have a board of directors and the founder was the only decision maker within the organisation.

The next section presents financial management and its importance.

#### **5.4.6 Financial management**

The last theme relates to the second factor of the Lussier Business Success Versus Failure Model as discussed in section 3.3 of this study. This factor refers to financial management including record-keeping and financial control (Questions 10, 19, 20 and 21) and holds that businesses that keep updated and accurate records and use adequate financial controls have a higher chance of success.

Financial management was found to be a key theme of the research findings (Questions 10, 19, 20 and 21). Although all the NPOs have expenses that need to be paid, how they are paid differ. CS1, the most mature and oldest NPO (Question 5), had a consistent level of monthly expenses, and a set income-generating capacity from government subsidy per person (CS1 – M4), with an accountant tracking the monthly income and expenses. CS2 reported that it could not do financial forecasting, as many of its donations took the form of physical donations, such as building material, food and groceries (CS2 – M7). CS3 reported that reviews of the achievements and financial reporting of the previous year are done at annual meetings, where the management committee, management team and volunteers are present (Question 10) (CS3 – M8). All members present at the meetings may comment, ask questions and make suggestions for the following year. CS4 reviewed and developed proposals yearly, according to the financial needs for the specific year. CS4 confirmed that structures were in place for donor and grant funding, namely, a third of its funding is allocated to salaries, a third to daily running costs, and a third to the NPO beneficiaries.

Feedback on its funding was then reported to its donor and grant funding bodies, such as government (CS4 – F1).

The following sections describe accounting mechanisms and record-keeping methods, financial controls and funding challenges in the NPOs sampled.

#### **5.4.6.1 Record-keeping methods**

Record-keeping methods differed between the four NPOs (Questions 19 and 20). CS1 had a full-time accountant and used an electronic accounting system for record-keeping (CS1 – M3), (Question 19). All NPOs reported that records of expenses were kept and stored electronically and that receipts were issued. CS2 experienced some difficulties with its donor contributions, as some donations do not have a financial value, such as (old) building material and clothes, and food contributions (CS2 – M7). This NPO confirmed that expenditure is managed effectively according to financial best practices. CS3 captured its donation slips electronically and allocated these donations to its ledger accounts, as well as capturing all income from its coffee shop electronically. CS4 used spreadsheets for expenses and income management and did not foresee using another electronic medium soon due to cost, time, and information technology knowledge constraints to implementing such a system (CS4 – F1). Effective recording-keeping benefits the NPOs by ensuring that records are in place for reporting to donors and government departments as required.

#### **5.4.6.2 Financial control**

Financial control also relates to the second factor of successful businesses, namely, businesses should keep updated and accurate records, as those businesses that do not use adequate financial controls have a greater chance of failure than businesses that do (Lussier, 1995:23). The findings of this study confirmed that the NPOs had structured control over their spending (Question 20). Three NPOs reported that sign-off for expenses was done by more than one person. CS1 had the most mature financial management structure and controls and used an accounting system which had adequate segregation of duties to process payments to suppliers (CS1 – M3). This implies that the same person could not load payments and approve them. CS2

made use of receipt books, reported on a weekly and a monthly basis to the management team and, additionally, were audited annually by external auditors (CS2 – M5). CS3 reported that it used an electronic platform for expense and income management. It also used a receipt book for beneficiaries that pay to stay at the shelter, while donations are not accepted without a receipt being issued (CS3 – M8). Controls were also in place for the manager when loading payments, while two board members needed to approve these payments. With CS4, only the founder dealt with funding and purchasing activities which effectively left the founder with responsibility for all financial controls in managing funds (CS4 – S2 and S3).

### **5.4.6.3 Fund management challenges**

Funding management relates to the second factor which involves monetary controls, as explained in sections 2.4.6 and 3.3 of this study. The question focused on the funding management challenges of the NPO (Question 21). The NPOs in this study felt that their funding is managed effectively; however, there is never enough funding available. CS1 stated that it needed to look at ways to curb its costs in the short-term to reduce the financial deficit that it was experiencing at the time of the interview (CS1 – M1). CS2 reported that sectional managers can manage their funding and donations, and should be trusted to do so (CS2 – M6). CS3 stated that it did not experience any funding challenges and that its current funding processes were sufficient (CS3 – M8). CS4 highlighted that it needed someone to document its expenses, as it struggled to deal with the large amount of administration required by donors regarding funding expenditure (CS4 – F1).

The next section presents the descriptive analysis results as consolidated from the individual participants.

## **5.5 DESCRIPTIVE ANALYSIS**

As statistics are not used in qualitative research, a more descriptive or narrative style is used. This helps the researcher to gain new insights and to describe a rich picture of social phenomena (Mohajan, 2018:39). Its specific contexts reveal critical occurrences of key elements as seen from the perspective of the NPO participants.

This section presents the descriptive qualitative data collected in the form of word frequencies and a word cloud. The number of occurrences of words relates to the frequency of keywords appearing in the data as relayed by each participant, and word clouds are the visual representations of the frequencies of those words.

### **5.5.1 Word frequencies**

The analysis of word frequencies included the removal of words that were not relevant for conveying the participants' message, for example conjunctions such as "and", "then", "that", "with", "the" and "a". The words as presented in Table 5.5 were considered by the researcher to be the keywords used by the participants to convey their message. The Table shows the total number of times that words were cited by the participants; the words were sourced from the interview sheets captured during the interviews. All questions were removed from the sheets and only the participant responses were listed. All participant answer sheets were included with the analysis of the word frequencies.

**Table 5.5: Word frequencies**

Word	The total number of times quoted in all interviews (12 interviews)	Average per organisation (NPO) (4 organisations)
78	People	20
53	Management	13
47	Social	12
45	Needs	11
42	Staff	11
37	Funding	9
31	Beneficiaries	8
31	Finance	8
28	Service	7
27	Kids	7
26	Person	7
25	Community	6
25	Volunteers	6
24	Shelter	6
20	Income	5
20	Administration	5
18	Government	5
18	Money	5
17	Food	4
17	Skills	4
17	Support	4
15	Donations	4
15	Parents	4
14	Training	4
13	Manager	3
13	Programme	3
12	Education	3
12	Help	3
12	Planning	3
11	Drugs	3
11	Experience	3
8	Budgets	2

Table 5.5 shows that the most frequently used words were people (78 times), management (53 times), social (47 times), needs (45 times), staff (42 times), funding (37 times), beneficiaries (31 times), and finance (31 times). The number of times a word is mentioned suggests its importance for the participants.

As confirmed by Kara (2017:179), the aim of thematic analysis is also to find clusters of meaning and patterns in the data. Three broad themes were identified through further analysis of the words. These results are shown in Table 5.6 and present the three key aspects of the NPO internal environment, namely, people, management, and finance.

The researcher captured the responses from the participants into an Excel sheet, where after the results were consolidated into one sheet and common English words were removed (and as indicated at the beginning of section 5.5.1). The researcher categorised the most frequent used words which linked to the three broad themes namely people, management, and finance.

**Table 5.6: Word frequencies for broad themes**

Broad themes	Word	Number quoted	Aggregate for theme	Average per case
People	People	78	398	100
	Social	47		
	Needs	45		
	Staff	42		
	Beneficiaries	31		
	Service	28		
	Kids	27		
	Person	26		
	Community	25		
	Volunteers	25		
	Shelter	24		
Management	Management	53	165	41
	Administration	20		
	Skills	17		
	Training	14		
	Manager	13		
	Programme	13		
	Education	12		
	Planning	12		
	Experience	11		
Finance	Funding	37	164	41
	Finance	31		
	Income	20		
	Government	18		
	Money	18		
	Support	17		
	Donations	15		
	Budgets	8		

The analysis resulted in a major focus on people (Chapter 5, sections 5.4.4 and 5.4.5) as the related words were used 398 times, with an average of 100 times per organisation (NPO). Management (Chapter 5, sections 5.4.2, 5.4.3 and 5.4.5) related words were referred to 165 times and on average 41 times per organisation. Finance (Chapter 5, sections 5.4.1 and 5.4.6) related words were used 164 times by participants from the four organisations, with an average of 41 occurrences per organisation.



The next section presents a summary of the findings, and include the NPO characteristics per factor, similarities, dissimilarities and challenges of the NPOs.

## **5.6 SUMMARY OF FINDINGS**

The findings revealed that it is not always possible for NPOs to implement the factors listed in the Lussier Business Success Versus Failure Model (Table 3.1). This is because NPOs are not structured like profit-seeking organisations. Therefore, although these factors exist in NPOs, they occur in a different format to those of the typical profit-seeking business. Table 5.7 presents the 15 factors as listed in the Lussier Business Success Versus Failure Model (Table 3.1), and summarises the characteristics of the data from all NPOs.

**Table 5.7: Summary of NPO characteristics per factor**

Factor	Description	CS1	CS2	CS3	CS4
1. Capital	Sufficient capital when the business starts	No capital at start-up			
2. Record-keeping and financial control	Updated and accurate records and financial controls	Maintain financial records. Have financial controls.	Maintain financial records. Have financial controls.	Maintain financial records. Have financial controls.	Maintain financial records. Have limited financial controls.
3. Industry experience	Previous NPO industry experience	1 participant	0 participants	1 participant	0 participants
4. Management experience	Previous management experience	2 participants	2 participants	2 participants	1 participant
5. Planning	Focused business plans	Yes, 1 year ahead			
6. Professional advisors	Hire specialised consultants	Yes: advisory board, legal, human resources	Yes: education	Yes: External advisory board of directors	Yes: Legal
7. Education	Higher Education	3 participants	1 participant	2 participants	1 participant
8. Staffing	Hire, and keep quality employees	Yes	No	Yes	Yes
9. Product/ Service timing	Services too new or too old are likely to fail than those in the growth stage	Maturity stage	Maturity stage	Maturity stage	Growth stage
10. Economic timing	Starting during an expansion period more likely to succeed	72 years in operation (NPO age)	39 years in operation (NPO age)	21 years in operation (NPO age)	6 years in operation (NPO age)
11. Age	Younger people more likely to fail than older people	Average age: 53	Average age: 54	Average age: 44	Average age: 28
12. Partners	Started by 1 person likely to fail than those with multiple people	Board of directors	Board of directors	Board of directors	No board of directors
13. Parents	Managers/founders who have parents who worked in the NPO sector	2 participants	2 participants	1 participant	No participants
14. Minority <sup>a</sup>	Likely to fail than non-minorities	-	-	-	-
15. Marketing	Owner with marketing skills	Lack marketing skills	Lack marketing Skills	Lack marketing skills	Lack marketing skills

<sup>a</sup> = “Minority” as a factor was not considered, as indicated in section 3.15.

The only “minority” determined for the purpose of this study, was between males and females.

The main similarities, dissimilarities and challenges are presented in the following subsections.

### **5.6.1 Similarities between NPOs**

**Finance and capital:** All NPOs were founded with no start-up capital. It was found that NPOs were dependent on financial donations or grants from the government, such as from the DSD. All NPOs kept financial records for reporting to donors and to the DSD. The NPOs had embarked on income generating activities; however, it was found that it is difficult to successfully implement some of these activities. Some of these activities were also delayed due to limited funds.

**Planning:** NPOs did not plan for the long term, and focus only on the short term. This is due to their daily challenges, the environment in which they function, and the beneficiaries that they serve.

**Management:** All NPOs had individuals on their management teams with previous management experience, including some teaching experience. Three of the NPOs conducted annual review meetings. Three of the NPOs had structures in place for decision-making, governance and expense management.

**Staff, skills and training:** Most participants had a tertiary qualification, and were older than 40 years of age. Most of the participants did not have parental exposure to the NPO sector. Three of the NPOs had more voluntary than permanent staff members, while all NPOs had a stable staff and volunteer component. All NPOs were registered with the DSD. All NPOs had sufficiently qualified people within the organisation; however, they lack experience in marketing, management, administration, planning, mentorship, and time management. Another similarity was that they do not have marketing plans. All NPOs also experienced some difficulty in hiring and retaining skilled staff due to budget constraints.

**Services:** NPOs had waiting lists for beneficiaries and experienced a growing need for the services that they provide. The NPOs also served their local communities.

Networks and partners: NPOs attempted to fill their skills gap by using advisors and strategic partners. Three of the NPOs had a board of directors. The NPOs also partnered with private individuals and trusts, and with other businesses.

### **5.6.2 Dissimilarities between NPOs**

Finance and capital: The sources of funding differed between the NPOs. CS1 received a subsidy from the government for each beneficiary. CS2 did not receive funding from the government although its beneficiaries received government pension (SASSA) grants. CS3 received funding from a church and charged beneficiaries a daily fee. CS4 generated income by various income-generating activities and received grant funding from the local municipality. Some of the NPOs had limited financial management structures in place. The ages of the NPOs different vastly, and ranged between six and 72 years.

Record-keeping and financial control: Two of the NPOs (CS1 and CS3) used electronic systems with financial control and with the capturing, management and approval of financial transactions. Two NPOs (CS2 and CS4) used manual systems for the capturing of financial transactions.

Staff, skills and training: Two of the NPOs (CS1 and CS4) required management training, while two NPOs (CS2 and CS3) required social work training for staff members. Two staff members (CS4) were fulfilling roles as teachers. Some participants indicated that they lack administrative capabilities. Only two of the participants had some NPO sector experience.

Advisors and networks: Three NPOs had a board of directors (CS1, CS2 and CS3), and one NPO was founder-controlled. Professional advisors used by the NPOs were dissimilar in terms of the number of advisors and structures. One NPO had a large external advisory board (CS1), and one NPO had only one external advisor on its board (CS2). One NPO used only external advisors and had no internal staff on the advisory board (CS3). In one NPO, the founder was the only person to make decisions and had a legal advisor to assist (CS4).

Services: One of the NPOs (CS1) was a drug rehabilitation centre with a three-month stay cycle, while one NPO (CS2) was also a drug rehabilitation centre, but with a stay period of a maximum of three years. One NPO (CS3) was a homeless shelter with a three-month stay period and a daily rate to be paid by beneficiaries. One NPO (CS4) functioned as an after-school centre for twenty children on weekdays. CS1, CS2 and CS3 served beneficiaries from across the country, while CS4 only served children from the local communities. One NPO (CS1) served only male beneficiaries of 16 years and older (drug rehabilitation centre), and one NPO (CS2) served beneficiaries of all ages (drug rehabilitation and homeless shelter). One NPO (CS3) also served beneficiaries of all ages (homeless shelter), and one NPO (CS4) provided educational services to 20 children (girls) from the local communities. Only one of the NPOs was a local branch of a larger international organisation.

### **5.6.3 Challenges faced by NPOs**

Finance: A challenge experienced by NPOs was financial stability, and all NPOs were concerned about their ability to fulfil in their long-term financial needs. All NPOs experienced shortfalls in their monthly income. A challenge therefore remains to generate additional income. Government subsidies were not sufficient to serve the beneficiaries. It was also highlighted that it is a constant battle to find the financial resources to continue serving the local communities.

Services: A major challenge related to the care of the beneficiaries once they had completed their programme. This NPO (CS1) served beneficiaries from all over the Western Cape province and the geographical size of the province limited the level of aftercare which this NPO could provide to the beneficiaries. Most of the social workers were overworked and leave the NPO for higher paid salaries offered to them. Some staff members were expected to care for elderly people, however, they are not trained for this task (CS2 and CS3). Psychiatric beneficiaries, and their care, was another challenge experienced, including the need to attend to psychological aspects of some of the beneficiaries (CS2 and CS3). Limited space to serve the beneficiaries was another challenge (CS1, CS2, CS3 and CS4). Another challenge was with overcapacity, with many potential beneficiaries requiring housing and care but the organisation could not accommodate all of them.

Staff, skills and training: One NPO reported that skills of staff members were lacking and these skills included social work, psychiatric support for beneficiaries, and care for the elderly. Limited communication between different departments of the NPO was also highlighted as a challenge. Some participants indicated that managing the NPO took up most of their time. Some staff members needed to attend to administrative tasks of the NPO. A lack of experience by staff members in the NPO sector was another challenge. One NPO also experienced challenges pertaining to the discipline of some children at the after-school facility. Another challenge was a lack of efficient management and administration of the NPO, as the founder was responsible for these functions. A challenge was also to set clear boundaries between work and one's personal life as some of the NPOs are located at a private residence of a staff member.

## **5.7 CONCLUSION**

This chapter outlined the results and findings of the study. The chapter presented summaries of the four case studies and highlighted their strategic planning, financial management and income-generating activities, as well as the challenges that they experienced.

The demographic and background information of the participants was presented and this was followed by an organisational overview of each case. The discussion presented the educational background and age of the participants, parental background in NPO activities, previous work experience of participants, and the age and size of the NPO.

The chapter presented the six themes identified in the research analysis. This included a lack of capital and start-up funding and highlighted the lack of strategic planning activities in the NPOs. Furthermore, the chapter discussed marketing management skills and marketing activities in the NPOs. The difficulty experienced by all organisations related to the retention of quality staff followed, including the dichotomy between training staff; in other words, staff are trained and then they leave. The themes further emphasised the importance of NPOs to include advisors to assist in skills gaps. Financial management was also highlighted as a key aspect of financial

survival, with key controls and record-keeping as important factors for managing donor funds.

A discussion on the word frequencies and word cloud followed. The chapter concluded with a summary of the NPO characteristics per factor, main similarities, dissimilarities and challenges of the NPOs.

The next chapter presents the conclusion and recommendations of the study.

## **CHAPTER 6**

### **CONCLUSION AND RECOMMENDATIONS**

#### **6.1 INTRODUCTION**

This chapter presents a summary of the entire study. The chapter presents an overview of each chapter, and the research objectives of the study are revisited. This is followed by the significance of the study. The chapter concludes with some recommendations, limitations of the study, and areas for further research.

The study highlighted that NPOs are critical to society and provide services which many governments cannot deliver effectively to their citizens. Furthermore, these NPOs do so with minimum support and have to find ways to survive operationally and continue serving the citizens of a country. To do so, NPOs must adopt key management factors for long-term planning and financial survival.

#### **6.2 SUMMARY OF THE STUDY**

This section presents a summary of the study and the objectives of the study are revisited. The main findings of the study are also highlighted.

##### **6.2.1 Overview of chapters**

An introduction and background to the study were presented in Chapter 1. NPOs were introduced and background information was provided on the Western Cape province. The research problem and objectives of the study were presented. This chapter also gave an overview of the literature and introduced the Lussier Business Success Versus Failure Model (Lussier, 1995). An overview of the research methodology utilised in this study was also presented.

The focus of the literature review in Chapter 2 was on the management of NPOs and provided some context regarding the characteristics, differences and similarities between NPOs and for-profit organisations. Some of the most important management

items were described, which included strategic planning, leadership and governance, organisational skills and financial management.

Chapter 3 comprised literature on the 15 factors of the Lussier Business Success Versus Failure Model (Lussier, 1995) which were applied to this study. All factors were discussed, including capital, record-keeping and financial control, industry experience, management experience, planning, professional advisors, education, staffing, product/service timing, economic timing, age, partners, parents, minority, and marketing.

Chapter 4 presented the research methodology applied to this study. A qualitative approach was followed, and interviews were conducted with 12 participants from four NPOs (case studies) in the Western Cape province. The population, sampling, data collection and data analysis applied to the study were discussed. This was followed by discussions on the trustworthiness of the study, thematic analysis, themes and word frequencies. The chapter concluded with the ethical considerations applied to the study.

The research results and findings were presented in Chapter 5. A summary of each of the four NPOs (case study organisations) was presented and focused on strategic planning, financial management, income-generating activities, and the challenges faced by each NPO. The demographic and background information of the 12 participants was presented, as well as background information on each of the four NPOs. A discussion on the results of the thematic analysis followed in this chapter, presenting the word frequencies and broad themes. The chapter concluded with a summary of the main characteristics, similarities, dissimilarities and challenges of the NPOs.

This chapter (Chapter 6) presents the main findings, conclusion and recommendations of the study.

## **6.2.2 Objectives of the study – revisited**

The primary and secondary objectives of the study are discussed in the following sections.

### **6.2.2.1 Primary objective**

The primary objective of the study was to investigate the way in which NPOs in the Western Cape province apply the 15 management factors of the Lussier Business Success Versus Failure Model (Lussier, 1995).

The findings showed that NPOs in the Western Cape province apply most of the success factors as described in Lussier's Business Success Versus Failure Model (Lussier, 1995). These success factors are shown in Table 6.1.

**Table 6.1: Management success factors applied by NPOs**

<b>Factor</b>	<b>Description</b>	<b>NPO application</b>
Record-keeping and financial control	A business that keeps updated and accurate records and uses adequate financial controls has a higher chance of success.	Three of the NPOs kept updated and accurate records of income and expenditure. They had rigorous financial controls. One NPO kept records but with limited financial controls.
Industry experience	A business managed by people with previous industry experience is more likely to succeed.	Two of the NPOs had staff members with previous NPO experience.
Management experience	A business managed by people with previous management experience is more likely to succeed.	All NPOs had staff members with previous management experience.
Professional advisors	A business that hires specialised consultants is more likely to succeed.	All NPOs used advisors and advisory networks. One NPO had only one advisor (legal).
Education	Individuals who have completed higher education and start a business are more likely to succeed.	All NPOs had staff members with higher education qualifications.
Product/service timing	Products/services that are too new or too old are more likely to fail than businesses that select products/services that are in the growth stage.	All NPOs' services were in high demand and had waiting lists for their services. Three of the NPOs were in the maturity stage of the PLC.
Age	Younger people who start a business are more likely to fail than older people starting a business.	The average age of the participants across all NPOs was 45.5.
Partners	A business that is started by one person is more likely to fail than a business started by multiple people.	Due to their legal structure, NPOs did not have partners. Three of the NPOs had a board of directors, while one NPO was merely 'founder-managed'.
Parents	Business owners who have parents who own a business are more likely to succeed.	Three of the NPOs had staff members with a parent(s) working at an NPO before.
<i>Minority<sup>a</sup></i>	<i>Minorities are less likely to succeed than non-minorities.</i>	<i>(With this factor, only the number of males versus females as a minority group was considered).</i>

<sup>a</sup> = "Minority" as a factor was not considered as a success or a failure factor, as only males versus females were considered in this study as a "minority" group.

The (failure) factors which NPOs in the Western Cape province may improve on are shown in Table 6.2.

**Table 6.2: Management factors to be improved on by NPOs**

<b>Factor</b>	<b>Description</b>	<b>NPO application</b>
Capital	A business that starts with sufficient capital has a higher chance of success.	None of the NPOs started with sufficient capital.
Planning	A business that develops focused business plans is more likely to succeed.	NPOs conducted planning only for one year ahead. No long-term planning was conducted by any of the NPOs.
Staffing	A business that can hire and keep quality employees is more likely to succeed.	NPOs found it difficult to hire and retain staff. Higher salaries are offered to staff members from outside the NPO environment.
Economic timing	A business that starts during an expansion period is more likely to succeed.	NPOs are affected by the economic climate and may suffer a lack of funding in difficult economic times. (However, the NPOs were in operation between 6 and 72 years).
Marketing	A business owner with marketing skills is more likely to succeed.	Marketing management skills, marketing plans, and experienced marketing staff members were lacking.

In summary, the NPOs in the Western Cape province had implemented nine of the success factors successfully, and as shown in Table 6.1. One factor (Minority) was not considered as a success or a failure factor. The five factors as shown in Table 6.2 require some improvements to be made by the NPOs to ensure their longterm survival and sustainability.

### 6.2.2.2 Secondary objectives

The secondary objectives of the study were:

- To determine the characteristics of the management factors of the Lussier Business Success Versus Failure Model as applied by NPOs.

In terms of this objective, the NPOs reported on the management factors that were relevant to them. NPOs had in some instances, different characteristics (and structures) that distinguish them from for-profit organisations. The findings revealed that NPOs were not founded with capital (Chapter 5, section 5.4.1). NPOs did not plan for the long term but only for a year ahead (Chapter 5, section 5.4.2). The NPOs responded to short-term problems and needs that arise, while serving their beneficiaries and/or communities (Chapter 5, section 5.4.2). It was also revealed that NPOs made use of social media for marketing their activities; however, no marketing plans were in place (Chapter 5, section 5.4.3).

A brief summary of the NPO characteristics per factor for each CS was also presented in Table 5.7. It was also revealed that record-keeping and financial control were in place, NPOs had previous management experience, and they make use of professional advisors.

- To determine the challenges of NPOs in relation to the management factors of the Lussier Business Success Versus Failure Model.

In Chapter 5 (section 5.2), the NPOs indicated that they experience financial instability and were concerned with their long-term financial survivability. The NPOs confirmed that government subsidies are not sufficient to cover their operational costs. The NPOs also indicated that they are not able to support beneficiaries effectively once they leave the organisation (Chapter 5, section 5.2). Furthermore, the NPOs confirmed (Chapter 5, section 5.2) that social workers are over-worked and this may cause them to leave the organisation. In addition, NPOs lacked the physical space to expand and to effectively serve the beneficiaries in need of their services (Chapter 5, section 5.2). In Chapter 5 (section 5.4.5), it was

indicated that NPOs use large volunteer and advisory networks to compensate for the lack of staff expertise in the organisation. The NPOs also provided critical social services which are a growing need in the communities that they serve (Chapter 5, section 5.4.2). The NPOs also faced challenges related to social services, management, and administrative training and skills that they require assistance with (Chapter 5, section 5.2). Moreover, the NPOs were faced with increased social challenges and are not always prepared and/or skilled with, to attend to the physical or psychological issues of beneficiaries (Chapter 5, section 5.2). Furthermore, discipline and diverse backgrounds of the beneficiaries were found to be a challenge for the NPOs (Chapter 5, section 5.2).

A summary of some of the challenges faced by the NPOs is also presented in section 5.6.3.

- To analyse the themes related to the management factors of the Lussier Business Success Versus Failure Model as applied by NPO founders, management, and staff

Table 6.3 presents the themes that were identified in the study, and a short description of each theme is provided.

**Table 6.3: Themes identified**

<b>Theme</b>	<b>Description</b>
The NPO capital structure	No capital was available at start-up and funding is a constant process of surviving. It necessitates a large amount of time being spent on income-generating activities.
The inability of NPOs to plan ahead	NPOs did not plan for the long term due to the volatility of the environment in which they function. NPOs planned, however, for the short term. They also responded to their immediate needs.
Marketing management	NPOs lack marketing management skills and they did not develop marketing plans. NPOs used free social media platforms to showcase their activities.
Difficulty in retaining skilled staff	NPOs found it difficult to hire and retain qualified staff, and they compete with salary levels offered to staff, from outside the NPO environment.
Shortage of staff and skills	NPOs accommodated skill shortages by involving volunteers and advisors, such as administrative, legal, marketing and planning skills.
Financial management	NPOs exercised record-keeping and financial control, and reported their expenditures to donors and government bodies.

In section 4.7.1.1, the themes are highlighted, while section 5.4 describes the six themes, as presented in Table 6.3.

The researcher acknowledges that there is some overlap between the characteristics of the NPOs, the challenges that the NPOs face, and the themes identified in this study.

### **6.3 SIGNIFICANCE OF THE STUDY**

This study contributed to the existing body of knowledge on the Lussier Business Success Versus Failure Model. The study applied the model from an NPO perspective

and in a South African context. It was found that NPOs may apply the factors as presented in this model to ensure their overall success, survival and sustainability, as well as to assess their strengths and weaknesses, including their shortcomings.

This approach may be used by other researchers and scholars to identify areas in which NPOs can improve to ensure more stable service provision to the communities they serve. NPO staff members, founders, policymakers and the government could benefit from this study as the characteristics, similarities, dissimilarities, and challenges of the NPOs were also identified. The study could therefore be used to plan future NPO projects and initiatives to ensure the survival and sustainability of this sector.

#### **6.4 RECOMMENDATIONS**

The following recommendations are proposed:

##### Strategy and planning

The findings of the study revealed that the NPOs in the Western Cape province survive without implementing all the factors as presented in the Lussier Business Success Versus Failure Model. Taking this into account, NPOs should be given strategic and planning guidance by the government and NPO support bodies, such as the DSD and the Department of Trade and Industry (DTI). The DTI and DSD may develop a proposed model for NPOs to enhance their long-term sustainability and survival. This information should relate to how NPOs can convert their available resources such as buildings or skill assets into income-generating activities to reduce their financial dependency on donor funding.

The government and NPOs should also share their knowledge and ideas on the legality of income-generating NPO activities and the possible legal structures of such entities and activities.

### Funding organisations

It is recommended that the government and private organisations collaborate to create an independent organisation that supports the activities of NPOs. This organisation could be funded by the government and operate to access funding for NPOs from businesses or corporates. In addition, involvement in charitable causes may be increased by sharing information and opportunities for these organisations to become involved with charities.

### Training and skills development

An entrepreneurial mindset will enhance the risk-taking, innovativeness and proactiveness of NPO leadership and staff. For example, it will assist NPOs to explore additional income-generating streams and activities.

NPOs should actively seek improved ways to use technology, specifically for marketing and networking activities. Such technology could also assist NPOs with improved ways to manage their income and expenditure. These improvements may assist in the generation of financial statements, donor proposals and the efficient communication of organisational performance to donors and government bodies.

NPOs may also develop their skills by gathering information on business approaches from business and training centres situated in the Western Cape province. NPOs should also seek information from government supporting bodies such as the DSD and other support organisations regarding available training to assist in upskilling NPO staff.

The government and NPO supporting bodies should create training academies that focus specifically on training in the NPO sector. These bodies should create a funding

mechanism to fund the training of these individuals and members of existing organisations.

### Partnerships and networking

It is proposed that NPOs partner with other NPOs in the Western Cape province to enable collaboration and sharing of resources and to achieve the organisational goals of the NPOs involved.

NPOs could also partner with small businesses and other NPOs to enhance their skills, and to gain access to technology and processes that could assist them with fund management and access to support services. These relationships will enhance the organisation's level of creativity and the generation of new ideas.

Furthermore, NPOs should seek partnerships with other NPOs in an effort to combine their limited resources to achieve their goals. NPOs could share their skillsets with other NPOs where certain skills may not be present in each of the organisations. By identifying key partnerships, NPOs may achieve greater service coverage and will reduce the financial, time and other resource inputs from individual NPOs.

NPOs need to build and strengthen their relationships with the DSD and other government bodies. These relationships may provide NPOs with the ability to gain access not only to grant funds but also to information on changes in the socio-economic environment, such as the emergence of support organisations or free services available to NPOs. This information sharing could benefit the government and contribute to the information database of the DSD and other government bodies that they base their social develop decisions on.

It is also recommended that a central NPO body should be created to guide and provide informational resources for NPOs. This NPO body could share relevant information with NPOs and assist in creating relationships among the NPOs in the Western Cape province. The enhanced information sharing and relationships would improve the survival rate of NPOs in the province and reduce the dependence on government grant funding.

## **6.5 LIMITATIONS OF THE STUDY**

The study was limited to NPOs in South Africa and specifically the Western Cape province. The study was also limited to four NPOs as the resources available to the researcher in terms of time and funds to travel to the NPOs and conduct the interviews were limited. The study was further constrained by limited recent and academic literature on NPOs, and specifically on South Africa and the Western Cape province.

Obtaining permission from the mandated NPO officials to interview the participants, was a limitation. It was difficult to arrange for the interviews with participants as the nature of the NPO sector does not allow for individuals operating within this sector to predict their availability to attend interviews and thus several interviews had to be re-scheduled. Interviews were also sometimes interrupted by other staff members.

Interviews were not recorded as the researcher could not obtain permission from the NPOs to do so. Participants were also not comfortable with the researcher recording the interviews using an audio device. Recording of the interviews could have influenced the way the participants represented their organisations and it might have complicated the interview process if participants had noticed that their experiences, opinions and actions were being recorded, making them more conscious and cautious about what information they revealed and shared during the interviews. However, the researcher read back all the captured data to the participants to ensure that the correct data was captured and that the correct interpretations of the responses were captured.

## **6.6 FURTHER RESEARCH AREAS**

Future studies could focus on just some of the factors presented in the Lussier Business Success Versus Failure Model, as well as on NPOs outside of the Western Cape province, such as from other metropolitan areas, municipalities or provinces. Furthermore, studies could also focus on a single case organisation or a specific sector within the NPO environment.

In addition, further research could focus on NPOs that have implemented management models with success and further research on these success models may

prove useful overall to broaden some focus areas, such as income-generating activities undertaken by NPOs.

A comparative study could also be conducted based on success models for for-profit organisations in the Western Cape province, and South Africa in general. Furthermore, studies could be conducted to compare models and processes applied by NPOs in other countries. These studies may act as comparisons with first-world countries and may include government policies and the available technology used by NPOs situated in first-world countries. These studies could also include comparisons with other third-world countries that face similar challenges as NPOs in South Africa. The research could also include existing organisational support bodies such as central NPO centres or hubs that could provide centrally-managed services for NPOs.

## **6.7 CONCLUSION**

The primary objective of the study was met, namely to investigate how NPOs in the Western Cape province apply the 15 management factors of the Lussier Business Success Versus Failure Model (Lussier, 1995). As the study was on the long-term survival of NPOs in the Western Cape province, the literature overview focused on the management factors applied by successful businesses as listed in the Lussier Business Success Versus Failure Model (Lussier, 1995). This model has been successfully tested in various parts of the world. It was chosen by the researcher for this study and served as a foundation to investigate whether management factors are applied by NPOs, and whether these factors contribute to their long-term survival.

The findings revealed that a lack of start-up capital and planning are key causes of business failure. Several recommendations were made in this chapter which NPO management and NPO supporting bodies may consider when undertaking future planning.

The study on applying management principles of successful businesses towards the survival of NPOs in the Western Cape province showed that even though limitations were experienced regarding capital funding, planning, staffing and marketing management, the NPOs did manage to exist and survive over long periods of time.

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## **APPENDIX A: INTERVIEW GUIDE**

Thank you for making time for the interview. I am busy with research for a Master's degree that aims to investigate management factors applied within NPOs. The researcher applied a model called the Lussier Business Success Versus Failure Model to generate the questions. This model describes 15 factors of successful businesses as found by studies conducted in multiple countries. The research aims to determine whether there are any aspects of the model that may not be present in the NPO sector. The hope is that this research will develop recommendations that can be shared with non-profit organisations that may assist in lowering the dependency on donor or government funding.

The interview will take between one and two hours depending on the depth of the conversation. A mandated official has signed a permission form and the researcher confirms that all data collected will be kept confidential. If there are any questions that you do not have answers to or the answer lies with someone else, please feel free to openly share this information.

### **Section A: Demographic and background information**

1. What is your educational background?
2. What is your age?
3. Did any of your parents work in the NPO sector?
4. What is your professional career background?

### **Section B: Organisational elements**

5. When was the NPO founded?
6. How many permanent employees work at the NPO and how many volunteers?
7. Do you undertake strategic planning activities? If so, how often does your organisation embark on long-term planning, for example planning three to five years ahead?
8. How well do you implement the strategies you have developed?
9. Do you review the benefits gained from strategies implemented?

10. Does your organisation review the financial goals you set out to achieve?
11. Do you review social impact goals?
12. Where is your service in the maturity phase of its lifecycle?
13. Do you feel that the service you provide is still a social need?
14. How many members or directors are involved in your organisation?
15. Does the NPO have corporate, other NPOs or individuals involved to assist the NPO?

### **Section C: Management components**

16. What was the capital invested when the NPO was set up?
17. What are the current or future capital requirements of the organisation?
18. What are your current income sources?
19. Do you keep a record of your financial transactions and expenditures?
20. Do you have structured control over spending?
21. What are the current funding challenges of the NPO?
22. What is the level of NPO sector experience of the NPO staff?
23. What is the level of management experience of the NPO staff?
24. What training do you or the organisation need at this stage?
25. Do you develop short-term business plans?
26. Do you or the NPO have any advisors or mentors that assist in decision-making?
27. Which other types of advisor do you feel the NPO needs?
28. Do you or anyone in the NPO have prior marketing management experience?
29. Do you develop a marketing plan for the NPO?
30. Do you feel that the NPO can hire appropriately skilled staff?
31. Do you have any challenges retaining staff?

### **Section D: Challenges and income-generating activities**

32. What are the greatest challenges your NPO are facing at the moment?
33. What income-generating activities do the NPO undertake?

## APPENDIX B: RESEARCH ETHICS CERTIFICATE



### COLLEGE OF ECONOMIC AND MANAGEMENT SCIENCE RESEARCH ETHICS REVIEW COMMITTEE

Date: 08 April 2019

Dear Mr Dewald Barnard

**Decision: Ethics Approval from  
2019 to 2021**

NHREC Registration # : (If applicable)  
ERC Reference # : 2019\_CRERC\_016(FA)  
Name : Mr Dewald Barnard  
Student number # : 33518505

**Researcher(s):** Mr Dewald Barnard, [Dewald.barnard@gmail.com](mailto:Dewald.barnard@gmail.com), 083 643 9909  
College of Economic and Management Sciences  
Department of Business Management  
University of South Africa

**"Applying Management principles of successful small, medium and micro  
enterprises towards the self-sustainability of non-profit organisations in the  
Western Cape"**

**Qualification: Masters Degree**

Thank you for the application for research ethics clearance by the Unisa College of Economic and Management Sciences Research Ethics Review Committee for the above mentioned research. Ethics approval is granted for 2 years (**08 April 2019 until 07 April 2021**).

*The low risk application was reviewed by the College of Economic and Management Sciences Research Ethics Review Committee on 08 March 2019 in compliance with the Unisa Policy on Research Ethics and the Standard Operating Procedure on Research Ethics Risk Assessment.*

The proposed research may now commence with the provisions that:

1. The researcher(s) will ensure that the research project adheres to the values and principles expressed in the UNISA Policy on Research Ethics.
2. Any adverse circumstance arising in the undertaking of the research project that is relevant to the ethicality of the study should be communicated in writing to the College of Economic and Management Sciences Research Ethics Review Committee.



3. The researcher(s) will conduct the study according to the methods and procedures set out in the approved application.
4. Any changes that can affect the study-related risks for the research participants, particularly in terms of assurances made with regards to the protection of participants' privacy and the confidentiality of the data, should be reported to the Committee in writing, accompanied by a progress report.
5. The researcher will ensure that the research project adheres to any applicable national legislation, professional codes of conduct, institutional guidelines and scientific standards relevant to the specific field of study. Adherence to the following South African legislation is important, if applicable: Protection of Personal Information Act, no 4 of 2013; Children's act no 38 of 2005 and the National Health Act, no 61 of 2003.
6. Only de-identified research data may be used for secondary research purposes in future on condition that the research objectives are similar to those of the original research. Secondary use of identifiable human research data require additional ethics clearance.
7. No field work activities may continue after the expiry date (**07 April 2021**). Submission of a completed research ethics progress report will constitute an application for renewal of Ethics Research Committee approval.
8. Permission is to be obtained from the university from which the participants are to be drawn (the Unisa Senate Research, Innovation and Higher Degrees Committee) to ensure that the relevant authorities are aware of the scope of the research, and all conditions and procedures regarding access to staff/students for research purposes that may be required by the institution must be met.
9. If further counselling is required in some cases, the participants will be referred to appropriate support services.

*Note:*

*The reference number **2019\_CRERC\_016 (FA)** should be clearly indicated on all forms of communication with the intended research participants, as well as with the Committee.*

Yours sincerely,




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APPENDIX C: LANGUAGE EDITING CERTIFICATE

*Alexa Barnby*

*Language Specialist*

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Editing, copywriting, indexing, formatting, translation

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alexabarnby@gmail.com

6 May 2020

To whom it may concern

This is to certify that I, Alexa Kirsten Barnby, an English editor accredited by the South African Translators' Institute, have edited the master's dissertation titled "Applying management principles of successful businesses towards the survival of non-profit organisations in the Western Cape" by Dewald Barnard.

The onus is on the author, however, to make the changes and address the comments made.

