

LONG-TERM SUSTAINABILITY FOR NON-PROFIT ORGANISATIONS

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## **Plagiarism Declaration**

I, hereby declare that this is my own and personal work, except where the work(s) or publications of others have been acknowledged by means of reference techniques.

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# **Chapter 1: Introduction**

## **1.1 Background**

A challenge facing many not-for-profit organisations (NPOs) is that of financial sustainability; an organisation's ability to remain sustainable despite the rules that govern NGOs, environmental challenges faced and demands placed on the organisation by that of their donors. This paper explores the challenges faced by NPOs in the South African context and possible models that could be used by NPOs to become sustainable. To achieve this, and provide some context, Cell-Life, a non-profit Section 21 company based in Cape Town South Africa will be used as a case study to highlight the challenges faced by NPOs to achieve financial sustainability and introduce possible models that could be used to address these challenges.

## **1.2 The Problem Statement**

Legislative restrictions and the process in which donor funds are allocated and expected to be spent do not allow NPOs to become sustainable and make long-term strategic plans.

Legislation within South Africa allows NPOs to operate outside the normal business requirements that are imposed on normal for-profit organisations. This legislation encourages for-profit companies to support NPOs and provide certain benefits to NPOs in terms of structure and tax.

Despite these benefits, legislative restrictions imposed on NPOs in terms of financial profit/surplus does not allow NPOs to become sustainable and make any long-term plans with regard to programme/product development and the ability to employ staff on a long-term basis. Thus NPOs are operating to address current concerns, as that is attracting the most funding, and not building programmes that would make longer term impacts.

Donors within various sectors fund programmes for a specific period of time. In many cases donors decide what impact they would like to make, in some cases with limited knowledge, and would award funding for a certain period of time for very specific deliverables. The funding limitations are so stringent that NPOs cannot use this funding to strengthen internal systems or products as they do not have a direct impact on the focus area of the donor. This limits product/programme

development and organisational development that would allow NPOs to address the wider sector and attract more donors.

The funding period is very specific, be it one year or three years, with all unspent funds to be returned to the donor or spent within the given period. NPOs cannot use these funds to plan for the forthcoming year and have to try and secure further funding from alternate sources in order to remain in operation. No donor would fund the establishment of a team dedicated to secure funding for an NPO. Funds for this would have to come from any surplus generated.

Legislative and donor restrictions do not allow NPOs to save enough of a surplus that, should there be a period where funding is in short supply, the NPOs would be able to sustain itself until further funding is secured. Any period, regardless of how short, where an organisation is outside a funding cycle could possibly lead to the closure of the organisation.

### **1.3 Research Objectives**

**Identify legislative restrictions that govern how this could be used to generate income for self sustainability.**

In South Africa, legislation for NPOs was imposed by government to create an environment in which they could flourish. For NPOs to qualify for these benefits there are very strict limitations that have to be adhered to. These benefits allow NPOs to qualify for special financial privileges that reduce the amount of tax they pay, as well as encourage donors to fund them. Failure to adhere to these legislative requirements may result in loss of status and penalties that may not be anticipated by the organisation could lead to its closure.

This paper seeks to identify the legislative requirements of NPOs in South Africa and determine how they could be applied to the advantage of an NPO that would allow it to generate income that could be used to become sustainable.

**Identify Models that NPO could use in order to achieve sustainability**

Once all legislative requirements have been identified, strategic models are applied to determine how these models would aid the organisation in achieving sustainability. These models are applied

to Cell-Life, as well to NPOs as a whole using the lessons learnt by Cell-Life that could be applied to other NPOs. These strategic models look at corporate and competitive strategy development that can be used to achieve a competitive advantage and long-term sustainability

### **Identify business and internal structural changes required to pursue a sustainable model**

It is important for an organisation to have strategic objectives clearly defined, but it is essential that once strategy has been identified that the business structure is aligned it to achieve these objectives.

The importance of aligning organisational structure to strategy is addressed with possible structural models introduced that would enable an organisation to meet strategic objectives. This will again be applied to Cell-Life, with possible lessons learnt applicable to all NPOs.

Strategic business models are also identified that would allow an organisation to achieve sustainability. These models look at possible strategic alliances, organisation structure in relation to how the NPO has been legally set up and possible models that allow NPOs to generate income that could be used to become sustainable within the legislative restrictions without jeopardising NPO status.

### **Determine whether pursuing sustainability through commercial ventures is viable for Cell-Life given its current capabilities and the markets in which it operates in**

An analysis on the products offered by Cell-Life and the majority of these products in terms of commercial viability is carried out. The aim here is to determine whether there is commercial demand for the products and whether this could be used to generate income for the organisation.

Using the information generated though the strategy process, the analysis looks at what the market is demanding, what the current capabilities of Cell-Life products are, and what changes are required internally, structurally and to the products for Cell-Life to achieve a competitive advantage.

## **1.4 Thesis statement**

Cell-Life is a non-governmental organisation (NGO) Section 21 NPO working from a head office located in Cape Town, that develops and implements open source technical systems to support the



fight against HIV/AIDS. The organisation implements three products; Communicate, Capture, and IDART. Projects are focused mainly on HIV/AIDS awareness with each team having to fulfil obligations made to their various donors (Cell-Life: 2012).

Cell-Life uses their donor funding to identify and develop technical information and communication tools that increase the capacity of NGOs working in the HIV/AIDS sector (Cell-Life: 2012). The challenge that Cell-Life is currently faced with is that donors would more likely fund organisations that are directly working with patients or in the community than an organisation undertaking software development. Donors have to show the impact of their work; and showing a direct impact is more attractive than showing what software they helped fund. Due to the current tough economic situation, access to donor funds has become much more difficult and donors would rather fund initiatives that have a more obvious direct impact on the HIV/AIDS epidemic.

Donor funds have to be spent in an allocated period of time to show donors that the funds are being used within their defined financial period, which the donors in turn can show their various stakeholders that the money is being used effectively and is making an impact. The challenge here for Cell-Life is that, as an NPO that is mainly donor funded, it is tough to generate adequate reserves that could sustain Cell-Life in times where donor funds are difficult to access.

Cell-Life supports 30 staff members who each have a real drive to make an impact within the HIV/AIDS sector, and with all the research and hard work that has been put into the organisation, it would be a travesty if Cell-Life should cease to exist. This not only for the staff at Cell-Life, but also for the organisations that have come to appreciate the technical assistance and support that they have been receiving, which has not been forthcoming by any other organisation.

As donor funds become more and more scarce, Cell-Life has to generate income from sources other than that of donor funds but still maintain its NPO status that enables the organisation to access certain benefits. This alternate income-generation strategy should not alienate it from donors that would question Cell-Life's NPO status and stop donor funding for the organisation. The strategy would also have to stay within the original vision and mission of the organisation.

Thus, the challenge for Cell-Life is how should a Section 21 NPO become sustainable without affecting its NPO status and still stay within its vision and mission. These challenges faced by Cell-Life

are not unique to the organisation. The same challenges affect many NPOs working within South Africa.

This paper aims to use the lessons learnt in the context of Cell-Life and identify which strategic models could be of value to other NPOs aid them in achieving sustainability

## **1.5 Delineation and Limitations**

While this paper draws from experiences of NPOs that may be based outside of South Africa, the findings only relates to NPOs and the legislative laws that govern them within South Africa.

This paper only relates to NPOs and companies registered as such, and is therefore restricted to this sector. Organisations that may operate for social good but not registered as an NPO according to South African law may not face the same challenges as presented in this paper.

The organisations used in this paper is limited to the health and technology sector of NPOs and may not cover all variables or be applicable to organisations outside of these sectors. While there may be aspects of this paper that could provide organisations operating outside health and technology with some guidance, caution should be used when implementing any models presented.

The sample criteria used when identifying organisations in this study are specific to donor-funded organisations that receive their funding through the proposal process with no other means of income. There are NPOs that use alternate means of income generation – charity drives for example but these are excluded from this study and the models may therefore not be applicable to them.

## **1.6 Definition of terms and concepts**

NPO:	Non-profit organisation
NGO:	Non-government organisation
ARV:	Antiretroviral therapy
iDART:	Pharmacy dispensing system
Capture:	Mobile data capture software
Communicate:	Mobile communication system
HIV:	Human Immunodeficiency Virus

AIDS:	Acquired Immunodeficiency Syndrome
TB:	Tuberculosis
KSF:	Key Success Factors
ICT:	Information and Communication Technology
TFM:	Transitional Funding Mechanism (Global Fund)

## **1.7 Significance of study**

Many NPOs face the challenge of financial sustainability on a daily basis. They are conflicted with having to spend money as demanded by their various donors within a given time frame and the prospect of financial turmoil once all donor money has been spent. For many business-minded people entering this sector, the rules at times makes no sense. How can an organisation knowingly spend money in the current financial year despite the obvious challenge this will pose in forthcoming year?

Another challenge faced by NPOs is striking the correct balance in securing the donor funds required for the current and forthcoming financial years and not over exerting the organisation to a point that the demand and deliverables of the donors cannot be met. NPOs need donors to survive, but they also need to attract the right donors that would provide support over the course of a few years.

The importance of this study is highlighting the financial challenges faced by NPOs based on the law within South Africa and the general requirements demanded by donors. This paper seeks to guide organisations through the possible challenges they can expect with regard to financial stability and profitability as well as research possible business models that can be used by these organisations to establish a corporate and competitive strategy that would aid it in becoming sustainable within the industry it has chosen to operate in.

The benefits of this paper is that NPOs will be able to see how various business strategy models can be used to aid self sustainability and the challenge the use of each model will be faced with. The models take into consideration the South African law that govern NPOs to ensure that its application will not adversely affect the accreditation and the benefits afforded to NPOs with South Africa.

## 1.9 Brief Chapter Overview

Chapter Two reviews the literature regarding the NPO sector as a whole and identifying the need for NPOs, challenges faced by NPOs, strategic models used by NPOs and the restrictions imposed on NPOs. The aim of the literature review is to present an overview of the NPO sector as a whole that would allow us to gain an understating as to why NPOs exist and the role NPOs plays in society.

The literature review starts by deifying what an NPO is and why they are formed. Government and legislation has allowed NPOs special financial omissions that entitle NPOs to benefits that create an environment in which they can flourish, these however do come with limitations. The literature highlights the benefits and states the restrictions imposed on NPOs.

NPOs play a critical role in society and may, in some cases, be vital for government to achieve their objectives. These roles played by NPOs are addressed and shows how government and NPOs are working together to impact on society.

There are significant differences between NPOs and for-profit companies both in structure and in operations. These differences may add to the challenges of sustainability for that of the NPO. The literature review will highlight these differences and illustrate how they add to the challenges faced by NPOs.

An overview of the NPO sector is provided by looking at the impact of NPOs on society, challenges faced and why so many NPOs close despite making a significant difference. In many cases it is the donors who, despite supplying vital funding to NPOs, contribute to their demise. This may be due to the way in which funding is allocated, the requirements placed on NPOs as well as the current political and financial environment. The literature review seeks to identify how donor funding is allocated, the restriction imposed by donors and the alignment and, in some cases misalignment, of donor and NPO objectives.

Chapter Three explores the method in which the research has been conducted. The research design will determine what sample size of organisations will be required to receive a good understanding of the sector and the challenges faced by these organisations. Certain criteria has been established, which all organisations in the sample fulfilled, to ensure that the comparative analyse is consistent.

Data collection methods explain how qualitative and quantitative data was collected. The data collected specifically focuses on organisational strategy, operations and challenges faced by the NPOs.

Ethical consideration is addressed to ensure that organisations have given the necessary approvals before any sensitive information is divulged.

In Chapter Four the outcomes of the data collected is analysed, identifying similarities as well as differences between the organisations identified in the sample. Based on the findings in these interviews, challenges faced are highlighted and possible business and strategic models identified to address these challenges.

In applying these models to Cell-Life, a strategic analysis is done to identify the organisation's Key Success Factors and how these could be incorporated in the strategy process. Possible business strategic models that would enable Cell-Life to achieve their objectives as well as address the sustainability challenges of the organisation are then introduced.

Finally, the lessons learnt are highlighted as well as the possibility of applying these to other NPOs in the same sector or NPOs that face similar challenges to that of Cell-Life

Chapter Five concludes this paper. The findings from the literature review are again highlighted. The challenges faced by the NPOs interviewed are then be broken down and how these NPOs address these challenges are discussed. This includes strategic approaches suggested to address the challenges faced by NPOs and possible strategic business models that could be used to address the issue of long-term sustainability for NPOs

The strategic planning approach used by Cell-Life to address these challenges is surmised, identifying the high-level goals and objectives of this strategy as well as how it allows Cell-Life to adapt internally to changes in the external environment in which it operates in.

Chapter Six contains the appendices to the various chapters.

Chapter Seven contains the bibliography of the all research mentioned throughout the research paper.

## **Chapter 2: Literature Review**

### **2.1 Introduction:**

NPOs face many challenges that are common across the various sectors they work in. These challenges may range from receiving government or corporate buy-in to programmes they have identified, reaching their target demographic, to identifying donors that are willing to sponsor programmes that would make a wider social impact. NPOs, by their very definition, are set up not to make a profit and are more focused on making an impact. The biggest challenge thus faced by NPOs is that of sustainability.

This literature review starts by defining what an NPO is and the importance of NPOs to society. Comparisons are made with for-profit organisations identifying the structural and legislative differences between the two types of organisations. Government regulations that define and restrict NPOs are highlighted, identifying the how these restrictions and benefits can be used to the NPOs' advantage.

Donors are essential to the survival of NPOs, but by the restrictions and requirements attached to donor funding, donors limit NPOs' ability to be sustainable. This literature review identifies some of these requirements and restrictions and what role it plays on the sustainability of NPOs

Challenges faced by NGOs are addressed and the need for financial sustainability is highlighted. Finally, possible strategic business models that could be and have been used by NPOs are identified and how these could be and have been used by NPOs to ensure their survival.

### **2.2 Defining an Non Profit Organisation (NPO): South Africa**

The NPO Act 71 of 1997 is legislation that defines and governs what constitutes an NPO and the scope in which NPOs can operate.

According to the Act, an NPO is defined as a trust, company or other association of persons that are:

- Established for a public purpose; and
- The income and property of which are not are not distributable to its members or office-bearers except as reasonable compensation for services rendered.

(South Africa 1997:2)

NPOs are thus limited to operating in a sector that provides services that would be of benefit to the public, and not to benefit shareholders or owners driven to make a profit.

This regulation limits the benefits afforded to NPOs as well as restricts the way in which income and property can be distributed. The goals of the NPO Act 71 of 1997 are to:

- Create an environment which NPOs can flourish;
- Establish administrative and regulatory frameworks within which NPOs can conduct their affairs;
- Encourage NPOs to maintain adequate standards of governance, transparency and accountability and to improve those standards;
- Create an environment within which the public may have access to information concerning registered NPOs; and
- Promote a spirit of co-operation and shared responsibility within government, donors and amongst other persons in their dealings with NPOs.

(South Africa 1997:4)

NPOs cannot operate in the same way as commercial organisations in terms of profit generation and distribution of income. The challenges thus faced by NPOs differ significantly to that of a commercial organisation. All sectors of commercial business operate in competition where income is used to upgrade existing products, services and operations that ensure efficiency and profitability. NPOs however cannot generate these profits and thus require assistance from government that allow them to work for the common good despite the financial, external environmental challenges and internal operational challenges faced by the organisations.

Helen Starke (2009:8) identifies three common factors of NPOs:

- All money accruing to the organisation is utilised in the pursuit of the objectives of the organisation, whether the money is obtained by way of donations or in the pursuit of a for profit company;
- Members of the organisation do not share in any surplus, but are retained for furthering the objectives of the organisation; and
- The organisation exists to provide public service, that is, it has a public benefit purpose.

NPOs are essentially set up to address gaps in services that cannot be provided by governments or add capacity to programmes that have been set up by government. The NPO Act 71 of 1997 has been implemented to create an environment in which NPOs can flourish as government has realised that NPOs provide valuable assistance in achieving their objectives and they should therefore

collaborate with them for the greater good. The Act however does regulate and limit the benefits afforded to NPOs in order to ensure that these benefits are not exploited.

The NPO Act 71 of 1997 details government's responsibility to NPOs to create an enabling environment that NPOs could thrive. The Act commits government to the following initiatives:

- Establishment of Directorate for NPOs, with the objective of creating policy, ensuring good standards of governance, implementing multi-sectoral and multi-disciplinary campaigns, model documents and codes of good practice;
- Designation of director of NPOs in charge of Directorate to perform the function of implementing the law in terms of the Act; and
- Establishment of a Technical Advisory Committee.

(South Africa 1997:4)

Due to the valuable role NPOs play in South Africa in assisting government in achieving their objectives, assistance from government is required to aid NPOs in achieving their objectives. Government thus established a Directorate that would regulate the industry, providing standards and models of good practice. Many NPOs do not have the funds to focus on operations and invest in internal systems as their funds have been allocated to projects with little excess available for internal investment. This Directorate thus establishes policy and standards that would aid NPOs but does not directly implement these standards in NPOs.

The Directorate also ensures that regulations, as stipulated in the ACT, are upheld as there is a possibility for exploitation as NPOs are set up just to receive the financial benefits afforded to them by government. Should this not be carefully monitored, these types of NPOs could have a detrimental effect on the availability of donors should donors feel that NPOs are just trying to access their money and not using funds for the allocated purpose.

### **2.3 Benefits for NPOs**

NPOs are set up to provide services for the public's benefit. These services also assist government in achieving their objectives. NPOs have a deeper understanding of the sectors they are working in and may be more effective in identifying and implementing initiatives that will make a substantial impact. Government thus affords NPOs certain benefits as stated in the NPO Act 71 of 1997.



Financial Benefits are afforded to NPOs are in terms of the Income Tax Act that was created to contribute in achieving financial sustainability. According to Ricardo Wyngaard Attorneys (2011:2) the main benefits available to NPOs are:

- Fully exempt from paying Income Tax if it carries on or is limited to trading activities;
- Being able to receive donor deductible contributions if approved in term of Section 18 A. This will allow donors to make deduction from their taxable income; and
- Other benefits include exemption from transfer duties, estate duty, capital gains tax, donations tax, the skills development levy and dividends tax.

(Ricardo Wyngaard Attorneys 2011:2)

These financial benefits allow NPOs to fully utilise the income received from their donors. By limiting the exemption to the trading area, government ensures that the funds used by NPOs are allocated to the sector in which they have been established to make a difference. NPOs that operate outside these areas may be trying to access money or donations for ulterior motives.

## **2.4 Importance of NPOs**

According to Wallance and Dollery (2005:497), policymakers should show considerable interest in NPOs as they can assist in providing frameworks to help them address important issues in social policies, namely, the extent to which government should rely on NPOs as opposed to for-profit firms or government agencies to deliver social services.

Many NPOs work on the ground with the people they are trying to assist. They therefore have a better understanding of the issues faced by the people as well as the challenges that would be encountered when implementing any programme or policy. Government resources are thinly spread and in many circumstances may not have the understanding or resources to implement programmes that will have the desired effect. NPOs thus play a critical role in providing consultation services to government as to how best to formulate programmes and policies that would achieve the desired outcome as well as provide extra resources in implementing these policies and programmes.

## **2.5 Difference between NPO and For-Profit Organisation**

Due to the nature, structure and legislation regarding NPOs, factors that influence their survival and stability are different to that of for-profit organisations. According to Miller (2005:2), not only are

NPO rules that govern money and business dynamics different to those of the for-profit sector, they are largely unknown, even among NPOs and their funders. Clara Miller (2005:2) lists the following rules that are dependable in the for-profit sector but for which the answers are false in the NPO sector:

- The consumer buys the product;
- Price covers costs and eventually produces profits or else the business folds;
- Cash is liquid;
- Price is determined by producers supply and consumers ability and willingness to pay;
- Any profits will drop to the bottom line and are available for enlarging or improving the business;
- Investment in infrastructure during growth is necessary for efficiency and profitability; and
- Overhead is a regular cost of doing business, and varies with business type and stage of development.

Clara Miller (2005:2)

As these are the basis of for-profit business one can start seeing the challenges that are faced by NPOs that operate and implement projects despite not being able to fully cover overheads and may have to implement projects that are not financially viable.

NPOs like Cell-Life, who are reliant on donor funding, face constant challenges to remain in operation. According to Zietlow (2008:238), slow economic growth, high unemployment, plunging stock prices, low inflation, low interest rates, and unstable currency affects the funding received from donors. During these times, demand for NPOs services increase and could place excess financial strain on the organisation.

## **2.6 Donor Funding Landscape**

Focusing on donors that supply funding to South Africa more specifically the health Sector, two major donors have contributed funds that have been distributed to many NPOs as well as the South African government that have enabled them to implement many of the health operations to service the community. These two funders are the Presidents Emergency Plan for AIDS Relief (PEPFAR) and the Global Fund.

PEPFAR is a U.S. Government initiative to help save the lives o those suffering from HIV/AIDS around the world and is one of the largest initiatives by a single nation to combat a single disease

internationally (PEPFAR 2012). PEPFAR has allocated its funding to support sustainable strategic objectives of programmes in various countries that meet the following requirements:

- Sustainable programmes must be country owned and country driven;
- Sustainable programmes must address HIV/AIDS within the broader health and development context; and
- Sustainable programmes must build upon strengths and increase efficiencies.

(PEPFAR 2012)

PEPFAR has realised the need to implement sustainable initiatives and initiatives that will be able to generate its own means of income to continue making an impact once they have left. Statistics of funding provided by PEPFAR since 2004 to 2011 in US\$ millions:

2004	2005	2006	2007	2008	2009	2010	2011	Total
<b>\$89.3</b>	\$143.3	\$221.6	\$397.8	\$590.9	\$561.3	\$560.4	\$548.7	\$3113.4

(PEPFAR 2011)

Impact made by PPEFAR funding in the 2011 fiscal year include:

- 1,139,500 individuals on antiretroviral treatment;
- 2,400,000 HIV-positive individuals received care and support;
- 556,600 orphans and vulnerable children receiving support;
- 720,100 pregnant women on PMTCT (prevention of mother to child transmission);
- 236,100 HIV-positive pregnant women on ARV prophylaxis; and
- 6,850,200 individuals received counselling and testing.

(PEPFAR 2011)

Reduction in funding or withdrawal of funding will directly impact the treatment individuals in South Africa require. PEPFAR cannot provide funding for an indefinite period of time and by funding programmes with the aim of sustainability in mind will allow them to continue even after funding has ended. Funding may however not continue as forecasted as economic pressures may directly impact funding initiatives, which would then have to be adjusted accordingly, as seen in the case of the Global Fund.

The Global Fund was established as a public private partnership and international financing institution dedicated to attracting and disbursing additional resources to prevent and treat HIV/AIDS, TB and malaria (The Global Fund: 2012) Global fund believes in the concepts that

countries take ownership of their own programmes based on their own priorities, with the funding provided to achieve their own priorities and objectives (The Global Fund: 2012). South Africa has been one of the countries that have received funds from the Global Fund to implement programmes in HIV/AIDS, TB and malaria.

The world economic crises affected the Global Funds ability to meet their strategic objects, which has lead to the Global Fund cancelling Round 11 of their funding. As presented in the twentieth board meeting of the Global Fund in Ghana on 21-22 November 2011, the latest resource projection for the Global Fund indicated that continuing uncertainty on availability of resources, including a potential deficit, required immediate action. Due to these factors, implementing the Global Fund Strategy would have to be delayed and Round 11 would have to be cancelled; affecting the signing of some of the Round 10 grants (The Global Fund 2011:1). These actions were taken as a result of the following projections:

*Key amounts in US\$ billion*

<b>1. Original forecast of assets available for new grants as at December 2013 (Dec 2010)</b>	<b>US\$1.6</b>
2. Revised forecast presented at the last board briefing (September 2011)	US\$0.8
3. Revised forecast without risk adjustment (November 2011)	US\$ (0.1)
4. Current forecast with risk adjustment (November 2011)	US\$(0.6)
5. PLUS: Additional resources applying possible measures	US\$ 1.2
<b>6. Net potential available for new grants as at December 2013</b>	<b>US\$0.6</b>

(The Global Fund 2011: 4).

The principle reasons identified for this decline according to the Secretariat for the Global Fund are:

- A reduced forecast of donor contributions;
- A reflection of the timing of receipt of several major contributions;
- Lower investment returns in the period 2011-2013;
- Changes in the currency exchange rates; and
- An understatement of operating expenses.

(The Global Fund 2011: 3-4)

Between 2001 and 2010 the Global Fund managed to raise US\$18 billion with pledges from various governments for the period 2002 to 2015 US\$283.3 billion to the fund of which US\$20.7 billion has been received (SAFAIDS:2012).

As a response to these challenges faced by the Global Fund, a Transitional Funding Mechanism (TFM) was implemented and closed on 31 March 2012 (The Global Fund: 2012) This mechanism's aim was to provide funding to continue essential services. This mechanism has, however, more stringent requirements to access, which places additional challenges for NPOs that rely on Global Fund as a source of funding, as well as the people affected by the programmes.

The current economic climate has severely affected access to donor funding in South Africa and has thus affected the ability of NPOs to remain in operation. In **Frank Julie's article on "Fundraising for Non Profits in a time a crises"**, he recognises the change in how South Africa is now viewed as a *middle-income country* capable of taking care of itself (Sangonet: 2012). As a result, many NPOs are now being shifted to the periphery as more international donors exit South Africa. Looking specifically at the funding being received in the HIV/AIDS sector, the two major funders to the sector has been PEPFAR and the Global Fund. With these funders struggling in the current economic crisis, the aid received by South Africa has decreased, which has not only affected the treatment received by HIV-infected people, but also the survival of many NPOs that rely on their funding. In South Africa, government's budget has been affected by the shortage of funding from international donors, which has directly affected their social service delivery.

## **2.7 Challenges faced by NPOs in the current economic climate**

Conradie (1999:1) indicates that NPOs operating in social development are established, only to run out of funds after a few years with drastic implications for those involved, supported and employed by the organisation. Conradie (1999:1-6) aims to provide a framework for sustainability for NPOs to assist them in financial stability and management requirements. These are the very issues that face Cell-Life on a day-to-day basis. According to Conradie (1999:1-6), NPOs worldwide fail even after a promising start due to financial instability. Sound management thus plays an important role in the success or failure of the organisation.

Hull and Lio (2006:63) suggest that NPOs are extremely risk averse and may be at a disadvantage on learning capacity and risk-taking propensity. This could be due to the lack of finances available to invest in improving on learning skills and also due to the financial restrictions placed by donors on the funds sponsored. Hull and Lio (2006:63) illustrates that low tolerance to risk and less learning capacity make the pursuit of innovation needed by the organisation a dubious decision. The

organisation thus has to pursue far less risky means for product innovation required in order for the organisation to remain competitive within the sector it operates in.

## 2.8 Financial Sustainability

Accountancy SA, in their article “The NPO Arena – A Complex Environment”, identifies financial sustainability as a major challenge facing NPOs and recommends the creation of endowments to grow investments so that the organisation can continue to grow in perpetuity (Accountancy SA: 1998)

Richard Holloway (Accountancy SA 1998) cites the most common means of establishing an endowment, reserve, or sustainability fund as follows:

- A substantial grant that has as its primary focus ongoing contribution to operating core of NPO;
- Accumulation of substantial grants to form an endowment that is large enough to generate income to support both core and project costs;
- Provision of an endowment as a form of challenge to other donor agencies supportive of the objectives of the NPO; and
- Accumulation of undesignated funds including interest.

(Accountancy SA: 1998)

This financial strategy for financial sustainability will provide a sense of security to trustees, management and staff, assist in the cash flow of the NPO and there is a possibility that resources can be redeployed into the programme work of the NPO that would otherwise not be funded, but is vital to the improvements and sustainability of the various programmes implemented by the NPO (Accountancy SA: 1998).

The challenge though is to find a donor that would provide funds that is not allocated to a certain project or objectives. As indicated, donors allocate funds to areas that meet their programmatic areas and would be applicable to indicators they would like to impact. Donors also have shareholders to answer to who want to know where the money went, what the project was and how it affected their key indicators. Many donations received have very strict budget lines, with funds only allowed to be spent within those budget lines. Any unallocated funds are either returned to donors or re-allocated to future projects. What this means is that excess funds cannot easily be moved to an endowment policy, and even if it is possible these funds are not big enough to generate a substantial income through interest that would allow NPOs to cover the cost of the operating core.

## 2.9 Strategies

According to Bryson, Gibbons and Shaye (2001:271), NPOs come in different shapes, sizes and legal forms to address the important social needs. They highlight the importance of NPOs addressing these needs and interest in a way that will be self sustaining over the long haul or risk its long-term sustainability without it achieving its mission. Bryson, Gibbons and Shaye (2001:272) introduces an enterprise scheme model for NPOs that could be used in strategic planning processes that places emphasis on coherence across its components and on the importance of self sustaining dynamic feedback. This Enterprise Scheme Model addresses the following key areas required when formulating a sustainable strategy:

- Understanding social needs of stakeholders and their interest;
- Pursue meaningful mission and fulfilling mandates;
- Building and drawing on core distinctive competencies;
- Pursing competitive and collaborative advantages;
- Employing coherent and effective strategy and operations;
- Producing desirable results and securing needed resources; and
- Cultivating legitimacy and support.

(Bryson, Gibbons and Shaye 2001:272-276)

Viney and Gleadle (2007: 7-8) considers strategy formulation and the logical progression from organisational objectives through to strategy implementation. They look at the link between corporate strategy and competitive strategy where corporate strategy deals with the interrelationship of business units and the scope in which the organisation works, and competitive strategy focusing on how the firm competes within a particular industry or market. For organisations to become sustainable within the markets they operate in, it is important that there is synergy between their corporate strategy and competitive strategy to exploit opportunities that may exist to achieve a competitive advantage and become sustainable within the NPO sector.

Goerke (2003:317) emphasises the importance the role NPOs play in providing essential social services and the need of NPOs to become more competitive as they are fighting over smaller funding budgets while having to implement business practices that will make them more accountable, profitable and attractive to prospective business partnerships. Business partnerships may include partnerships with donors or for-profit organisations. According the Goerke (2003:325) NPOs need to make themselves attractive to potential partners and move away from dependency models towards

a more proactive model This started in Australia where NPOs started appointing business development managers responsible for strategic planning and development, brand managers and public relations managers Goerke (2003:325).

One of the most important requirements in sound strategy formulation is the need for a good leader to steer the company. Wallis and Dollery (2005:488-489) distinguishes the difference between a manager and a leader; where managers are more focused on what needs to be done, and leaders are concerned with strategy and direction. Nanus and Dobbs (1999: 8-9) identifies six distinctive tasks of a NPO leader:

- Develop a credible and compelling vision of what they want to achieve and securing stakeholders to share in this vision;
- Formulating effective strategies and frameworks to realise the vision;
- Acting as a spokesperson and advocate of the NPO, enlisting external allies in pursuit of this vision;
- Empowering, motivating and inspiring individuals to learn and grow to realise full potential as they serve the community and organisation; and
- Ensuring the NPO is positioned for the future.

According to Kong and Prior (2007:119), NPOs need to act more like private companies as they may be sharing the same territory, and should build and sustain a competitive advantage within the sector in which they operate in. Kong and Prior (2007:119) argues that intellectual capital can be utilised as a competitive tool in NPOs and used to gain a competitive advantage. According to Kong and Prior (2007:119), “by combining resources and knowledge in ways that provide access to multiple, unique sustainable market opportunities, a firm can create and maintain its core competency”.

Kong (2008:293) highlights the importance of knowledge as critical to both for-profit organisations and NPOs, as well as the need for NPOs to change the way they manage and operate. According to Kong (2008: 293), NPOs need to adopt and implement a strategic management framework that allow the organisation to keep their independence and their ability to pursue social missions and simultaneously enhance the organisations efficiency and effectiveness to compete with for-profit organisations. Improving on the organisation’s efficiency in delivering services and improving the effectiveness of these services also allows the NPO to reduce it costs in achieving its objectives, which will aid in keeping the organisation sustainable.



Knox and Gruar (2007: 115-116) explores the theory of relationship marketing strategy in NPOs and finds that relationship marketing in NPOs plays a greater importance to that of for-profit companies and that this should carefully be considered before any strategic changes are made. Knox and Gruar (2007:118-119) stresses that in “developing a marketing strategy, management has to have a clear view as to who and what matters before carefully managing the consequence of any strategy shift”. Based on these findings the consequences will have to be carefully managed as donors collaborate with each other and will know how donor funded organisations interact with their sponsors.

Grant (2008:7) identifies four common factors that stand out, are conducive to success and that is required in the strategic planning process. These elements are:

- Goals that are simple, consistent and long term;
- Profound understanding of competitive environment;
- Objective appraisal of resources; and
- Effective implementation.

(Grant 2008:7)

The organisation should have a clear, recognised goal that it aims to achieve. This goal is to be clearly understood by all within the organisation so that everyone has a clear understanding as to why certain initiatives are undertaken. An understanding of the competitive environment allows informed decisions to be made and design strategies that incorporate challenges and opportunities that may influence the organisation’s competitiveness. Identifying internal strengths and weaknesses allows the organisation to address areas that require attention and exploit the strengths of the organisation to take advantage of any potential opportunities. Grant (2008:11) highlights the importance of effective implementation of strategy, without which the best-laid strategies are of little use.

Boojihawon and Segal-Horn (2006:29-36) identifies the three stages in the strategy process and the analysis required as follows:

- Analysing: Stakeholder analysis, environmental analysis and resources and strategic capabilities.
- Choosing: Identifying options, evaluating options and selecting a strategy.
- Implementing: Culture and manage change, organisational structure and management systems.

They emphasise the need for the strategy process to be iterative through time as organisations operate within a dynamic environment facing constant changes and uncertain futures.

Grant (2008:12) states the four elements of successful strategy are recast into two groups, the firm (corporate strategy) and the industry environment (competitive strategy). Grant (2008:12) lists three elements in each group as follows:

- **The Firm**
  - Goals and values;
  - Resources and capabilities; and
  - Structure and systems.
  
- **The Industry environment**
  - Competitors;
  - Customers; and
  - Suppliers.

“The task of business strategy then is to determine how the firm will deploy its resources within its environment and so satisfy its long-term goals, and how to organise itself to implement that strategy” (Grant 2008:12).

For NPOs to implement a comprehensive strategy it has to clearly identify its goals and objectives. Once these have been identified any strategy implemented will have to take into consideration the need for NPOs to take a more structured and corporate approach to its operation ensuring that all systems required in for-profit organisations are implemented within the NPO. The strategy implemented should thus ensure the NPO works toward improving its efficiency and effectiveness in delivering its product thus making it more attractive to donors or potential strategic partners.

- **Corporate Strategy**

As indicated, corporate strategy focuses on the organisation, what its goals, objectives, resources, capabilities, structure and systems are. We will now look at various models and considerations that could be used to define an organisations corporate strategy. These models will include:

  - Stakeholder analysis;
  - Organisational purpose;
  - Key Success Factors;
  - Growth vectors; and
  - Structure and systems.

Organisations are set up to provide projects, products or service that affects various stakeholders. Freeman (1984:25) defines stakeholders as “any group or individual who can affect or is affected by the achievements of the firm’s objectives.” According to Viney, Dixon Gleadle and Stapleton (2007:8), there are some advocates for shareholder theory who argue that organisations are set up to create value for a wide range of parties by focusing on maximising value for its owners. For the purpose of this paper, stakeholder theory will be used as the focus of NPOs to provide valuable products and services that is directed for providing a public service for social good.

A stakeholder analysis will thus take into account key individuals and organisations that either directly or indirectly affect the organisation. Stapleton (2007:11-15) identifies stakeholders as either internal or external stakeholders to the organisation. Examples of stakeholders provided include:

- Internal Stakeholders: Employees, owners, investors, trustees; and
- External Stakeholders: Lenders, donors, suppliers, customers or clients, government, general public.

In formulating a strategic plan for an NPO, a full stakeholder analysis is used to determine what their requirements are and how the products and services provided by the organisation affects or is affected by these requirements. This will allow the NPO to fully understand how the strategic choices made affect these stakeholders and what the possible outcomes or repercussions of the strategic choices will be.

Organisations are established for a reason. It is thus important that its purpose and objectives is identified to know what it aims to achieve. Viney, Dixon, Gleadle and Stapleton (2007:10) define purpose and objectives as follows:

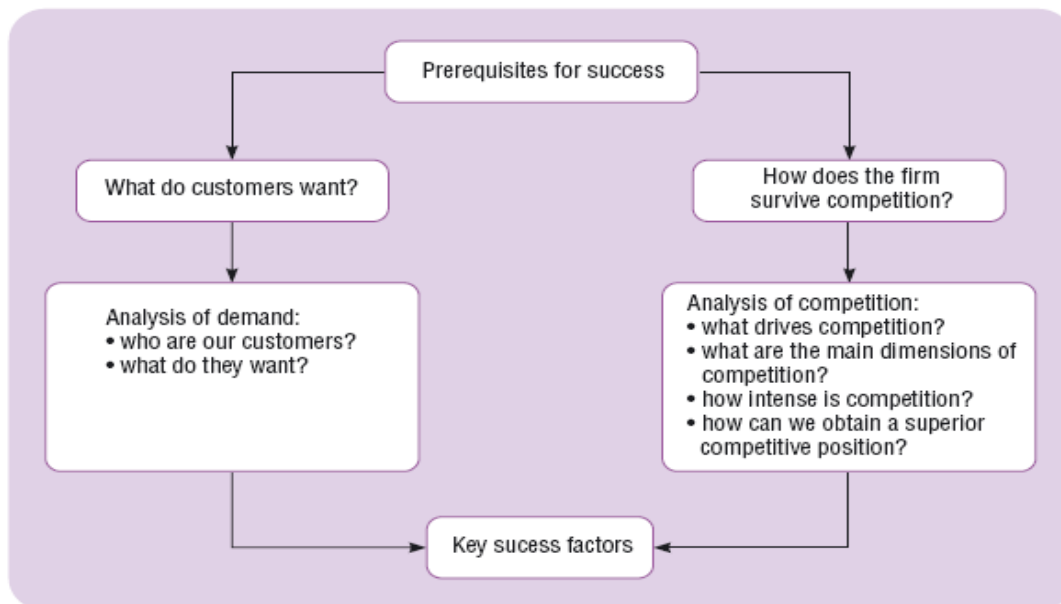
- Purpose: values and beliefs of the main stakeholders in the organisation.
- Objectives: more specific than purpose and express the expectations of stakeholders or specify particular milestones of achievement.

Viney, Dixon, Gleadle and Stapleton (2007:24-27) identifies the best way for organisations to communicate what its purpose and objectives are in its ‘Vision’ and ‘Mission’ statements, which illustrate its values, beliefs and strategic direction. They define the contents of the mission and vision statements to include the product or service provided, company goals, philosophy, self concept, present and future public image and attitude toward insider and outsider stakeholders.

- **Determine Key Success Factors (KSF)**

According to Bakhru (2006:59), KSFs are the minimum entry requirements of a particular market and hence are those elements in the industry that are considered important by customers”.

**Figure 1** presents KSF Model (Bakhru 2006:60)



KSFs are considerations the organisation has to make for it to be successful. This follows from the visions and mission statements, looking at the organisations customers and how the firm survives competition. Customer considerations include identifying who the customers are and what they want. Competitor analysis looks at what drives competition, the intensity of the competition and how the organisation can achieve strategic advantage. For existing organisations it is important to identify what has been the strengths of the organisation that have contributed to its success as well as weaknesses that have to be addressed to remain competitive and achieve a strategic advantage within the market it operates.

- **Growth Vectors**

Viney and Gleadle (2007:63) cites Grant (2002) definition of the role of corporate strategy is to define the scope of the firm in terms of industries and markets in which it operates” Organisations need to determine what products or services they want to provide and in what sector they are going to operate to achieve their vision and mission. Viney and Gleadle (2007:68) presents Ansoff’s (1965) argument that the process of identifying organisations scope should begin by focussing on the

products or services it provides, and the markets it serves. According to Ansoff (1965), organisations seek growth using either Organic or Diversification Strategies.

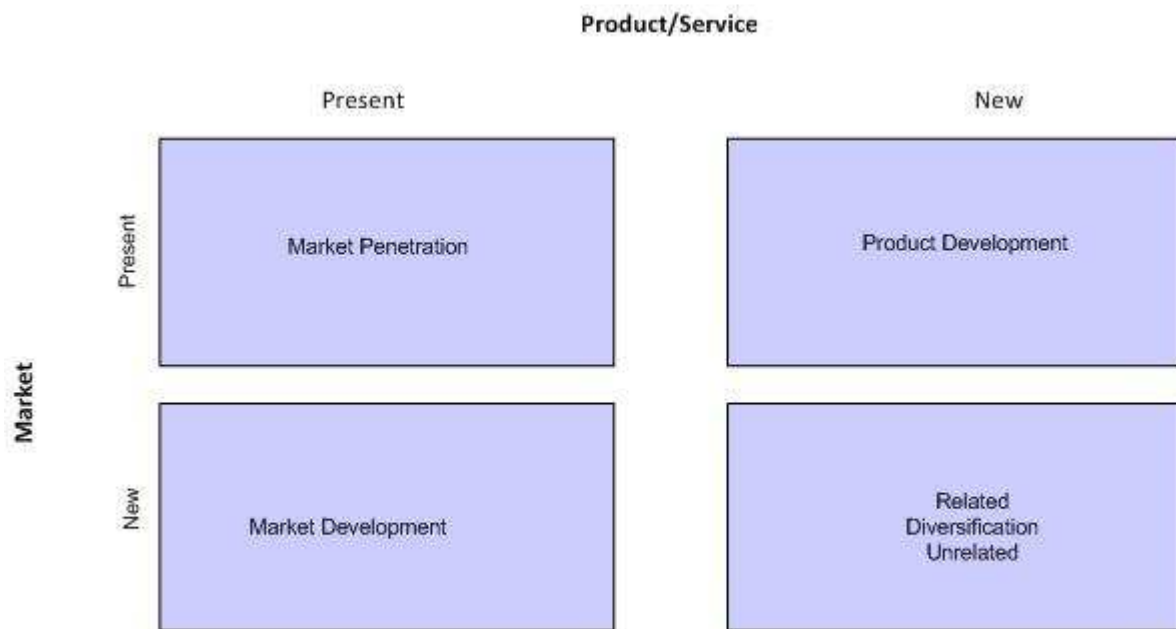
Organic strategies involve the exploitation of existing products or markets, and diversification: strategies that involve moving beyond its existing products or market (Viney and Gleadle 2007:68).

Ansoff’s Growth vector model defines organic and diversifications strategy options as:

- Organic: Market penetration, market development and product development; and
- Diversification: related an unrelated, vertical and horizontal integration, mergers and acquisitions, co-operative strategies and divestment.

(Viney and Gleadle 2007:68-90)

**Figure 2** represents Ansoff Growth Vectors (Viney and Gleadle 2007:68)



**Ansoff Growth Vectors (Ansoff, 1965)**

**Market Penetration:** Seeks to grow its existing market share by selling more of its existing products or services to its existing customer base.

**Market Development:** Taking existing products to and services into new markets.

**Products Development:** Developing existing products to exploit all available opportunities.

**Diversification:** Strategy involving either development beyond existing product or market within same industry, or movement beyond the boundaries of existing industry.

(Viney and Gleadle (2007:68-90)

The decision thus required by the organisation in formulating its corporate strategy is whether they want to work within its current products or markets, exploiting opportunities that arise, or whether it wants to diversify its options beyond current products and markets. This decision will directly affect the structure and systems within the organisation. Once corporate strategy has been identified it is essential that the existing structure and systems be aligned to ensure that the organisation can meet its corporate strategic objectives.

- **Organisation Structure and Systems**

Boojihawon (2005:9) defines structure as the mechanisms in which people interact when working, and the flow of information throughout the organisation.

Henry Mintzberg defines 6 basic parts to the structure of any organisation:

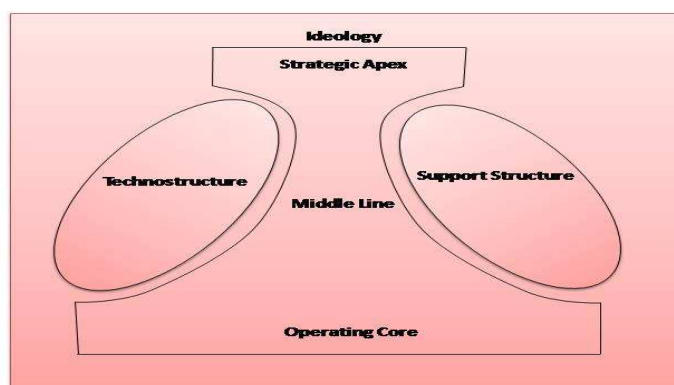
- Strategic Apex: Top management
- The Technostructure: Analysts who design systems;
- Middle Line: Managers stand in direct line relationship between Strategic Apex and operating core;
- Support Staff: Specialists that provide support outside work flow;
- Ideology: Beliefs and traditions; and
- The Operating Core: Basic work of production.

(Segal-Horn 2009: 246-249)

**Figure3** represents Mintberg Six basic Parts (Boojihawon 2005:16)

### **Mintzberg's Six Basic Parts of the Organisation**

**Adapted from H. Mintzberg, in S. Segal-Horn, pp. 247**



The challenge in successful strategy implementation is to identify the correct organisational structure and understand how structure will aid implementation to achieve organisational objectives.

Organisational structure that supports strategic direction is critical for successful strategy implementation. Olson, Slater and Hult (2005:47) highlight the importance of managers to define the key activities for their organisation and develop systems that promotes these activities. According to them effective strategy implementation can prove to be difficult and it is thus important that there is appropriate co-ordination throughout the organisation.

Olsen, Slater and Hult (2005:47-48) emphasises the role that an organisations marketing strategy plays and that mangers should, based on marketing strategy determine the proper relationship between strategy, structure and behaviour. This will determine how the internal structure will be set up to meet the strategic and marketing objectives set by the organisation.

According to Olsen, Slater and Hult (2005:49-51) organisational structure is a critical strategy implementation dimension that consists of three structural dimensions, namely

- Formalisation: degree which decisions and working relationships are governed by rules and procedures;
- Centralisation: whether decisions are made by top management or middle and lower management; and
- Specialisation: how tasks and activities are divided in the organisation.

Olsen, Slater and Hult (2005:53) suggest that there is strong evidence to link organisational structure to performance. It is thus important that the structural dimension compliments organisational strategy to maximise performance and meet strategic objectives.

According to Crittenden and Crittenden (2008:303), for an organisations operations to be efficient and effective, the correct organisation structure should be adopted. They identified four structural levers that affect formulation, implementation and implementation performance, namely:

- Actions: who what and when cross-functional integration and company collaboration;
- Programmes: continuous improvement and learning;
- Systems: strategic support systems; and
- Policies: supportive policies.

(Crittenden and Crittenden 2008:304)

Crittenden and Crittenden (2008:304) suggest that for successful strategy implementation, it requires the support and co-operation of all internal stakeholders. Organisations have to look at the structural levers identified by Crittenden and Crittenden (2008:304-209) to identify and evaluate what areas are working well and what areas require improvement, given the organisational strategy and the current internal and external environment it operates in.

A study conducted by Heide, Grønhaug and Johannessen (2002) on barriers experienced in a Norwegian Ferry cruise company on successful strategy implementation listed the following:

- Communication barriers;
- Organisational structure barrier;
- Learning barriers;
- Personnel management barriers;
- Cultural barriers;
- Political barriers; and
- Resource barriers.

(Heide, Grønhaug and Johannessen (2002: 224)

Communication barriers received the most instances of reported barriers followed by structural barriers. Reasons for this ranged from lack of interaction among employees to poor structure with too many managers (Heide, Grønhaug and Johannessen 2002: 223-224).

Obstacles to strategy implementation can be overcome if there is commitment from all stakeholders involved. Once the buy-in of management is secured from the top level to the lower levels of management and is properly communicated to all concerned, with clear understanding of roles and responsibilities, strategy becomes easier to implement and easier to identify which structural changes are required to meet the strategic objectives of the organisation.

Systems refer to the mechanisms used by organisations to operate. Boojihawon (2005:37) defines systems as "mechanisms used for formal and informal flows of information used for planning, decision making, co-ordination, co-operation, and control operational and strategic levels".

Boojihawon (2005:37) introduces two types of systems namely:

- Operational Systems: mechanisms including working practices and routines; and
- Control Systems: Mechanisms that monitor the achievement of strategic goals.



According to Garvin (1998:33), operational systems are a collection of tasks that transform inputs into outputs. He defines inputs and outputs to include materials information and people.

Organisations face the challenge of losing focus of what their strategic objectives are when it comes to strategy implementations. In the strategy process, managers are faced with formulating strategy and implementing systems to achieve strategic objectives as well as having to deal with everyday operational challenges. Without adequate strategic control systems, organisations run the risk of system operations not being aligned to strategic objectives. According to Atkinson (2006:1446) strategic control systems can be used by organisation to identify short term targets that deliver long-term goals by preparing detailed strategic plans and implementing them. This thus balances out long-term goals with short term action.

Reviewing literature on strategy implementation and identifying systems that assist operational efficiency, the Balanced Scorecard appears to take a holistic approach for organisation to achieve strategic objectives.

Using Kaplan and Norton's (1996:9) Balanced Scorecard Approach, Atkinson (2006:1448) observed examples of strategic control systems in:

- Financial: Shareholder satisfaction, measuring income, sales growth , cash flow and market share;
- Customer: satisfaction , measuring time, quality, service and costs;
- Internal Business: measuring skills, competencies, processes and technologies; and
- Learning and growth: long-term goals, improving flexibility and investing in future opportunities.

By measuring and reviewing these aspects in strategy implementation, the organisation is able to identify areas that require improvement, as well as measure the effects of systems meant for improvement and how these systems assists the organisation in achieving its strategic objectives.

Atkinson (2006:1448) argues that the Balanced Scorecard allows management to focus on drivers of performance and provides a powerful link between strategy and operations. Haapasalo, Ingalsua and Lenkkeri (2006:713) identify six practices for successful implementation of the Balanced Scorecard: *Clear project model in implementation*: Facilitates and accelerates implementation

- Connections between metric and strategy and to critical success factors: transfers strategy into information for practice;
- Discussion over different perspectives: based on companies vision and objectives;

- Define causal connections: understand strategy, allocate resources , eliminate system overlaps: Implementing a learning process inside the organisation: using the measurement defined, the organisation will analyse these to determine if the strategy is realistic and what goals should be used on a daily basis to achieve long-term goals; and
- Courageous introduction of metrics: evolution of measurement system to meet organisational changes. Metrics should not be considered as final and will evolve.

Organisations have to recognise the importance of communication in strategy implementation so that all internal stakeholders involved understand why and how strategic objectives is created and implemented.

Organisations should also have systems of learning to evolve strategy implementation in changing markets to meet organisations goals. The Balanced Scorecard was introduced as a tool that analyses and measures financial, customer satisfaction and internal business performance and identifies changes required to maintain operational and control efficiency. According to Raps (2005:142), “when implementing strategy, an integrative point of view should not only take into consideration organisation structure, but also cultural and human resources should be considered”.

- **Competitive Strategy**

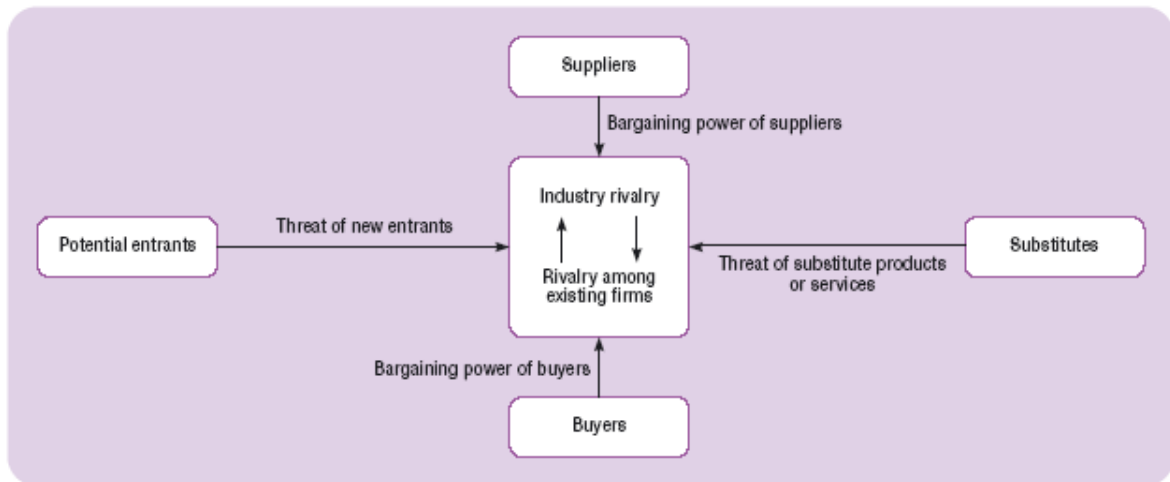
Viney and Gleadle (2007:15) summarises competitive strategy as the formulation of strategy that enables an organisation to compete with other organisations within the industry, sector, based on identifying potential sources of competitive advantage. They highlight the need for competitive strategy to consider potential resources available to the organisation, nature of external environment and the objectives of key stakeholders. As earlier indicated competitive strategy looks at the industry environment by focusing on its competitors, customers and suppliers

Before identifying what competitive strategy to implement it is important to understand and asses the industry attractiveness. Michael Porter (2008: 80) identifies five competitive forces that shape industry competitiveness and attractiveness. These forces include:

- Potential Entrants: the threat of new entrants;
- Industry Rivalry: rivalry among existing firms ;
- Buyers: the bargaining power of buyers;
- Suppliers: the bargaining power of suppliers; and
- Substitutes: the threat of substitute products or services.

(Porter 2008: 80-86)

**Figure 4** Represents Porters Five Forces (Bakhru 2005:20)



Summarising the effects of Michael Porters five forces on industry attractiveness:

- Potential entrants: Barriers to entry provide advantage of incumbents over relative new comers.
- Industry Rivalry: High rivalry limits profit and depending in the rivalry, it may transfer profits. directly from an industry to its customers. Depending on the industry, a high level of rivalry may make the industry less attractive.
- Buyers: Buyers the less price sensitive the buyers the more attractive the industry for incumbents and less attractive to new firms entering the industry.
- Suppliers: The more powerful the suppliers to an industry the less attractive as suppliers can squeeze profitability out of an industry.
- Substitutes: When the threat of substitutes are high, industry profitability suffer. If industries do not distance themselves from substitutes through product performance or marketing it will suffer in terms of profitability.

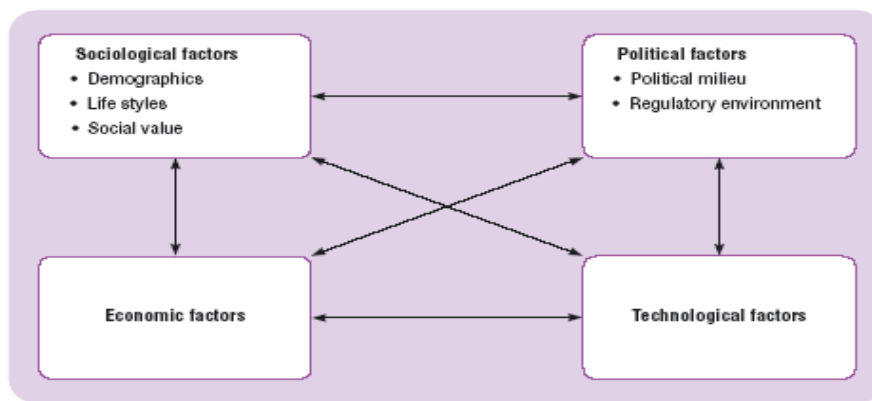
(Porter 2008: 80-86)

### **External Environmental Analysis**

Fahey and Narayanan's (1986: 28-34) identifies four factors that require analysis for identifying tracking and projecting trends in the global macro environment. These factors as represented in the diagram are:

- Sociological factors: for example, values, life style, demographics;
- Technological factors: for example, research and development;
- Economic factors: for example, economic growth, inflation, interest rate, employment; and
- Political factors: for example, competitive policy, legislation, political parties.

**Figure 5** represents Environmental Factors (Bakhru 2005:20)



When identifying, choosing and implementing strategy, these four factors and the influence it has on the industry in which the organisation operates in has to be considered as it will directly affect the success or failure of the strategy chosen and implemented. Bakhru (2005:9) uses this model as a framework for macro-environmental analysis. He stresses the importance of scanning the environment to detect on going and emerging themes, monitoring specific environment and patterns to determine their evolution, forecasting the future direction of environmental changes and assessing current and future environmental changes for their strategic and organisational implications. By considering these factors and analysing them as accurately as possible will allow the organisation to effectively implement strategy that would allow it to achieve a strategic competitive advantage. Failure to do so might lead to the implementation of a strategy that does not meet industry requirements or is not applicable to the environment in which it operates. The external environment changes constantly and it is essential that the organisation constantly monitors the changes in the environment in order to make strategic changes if required.

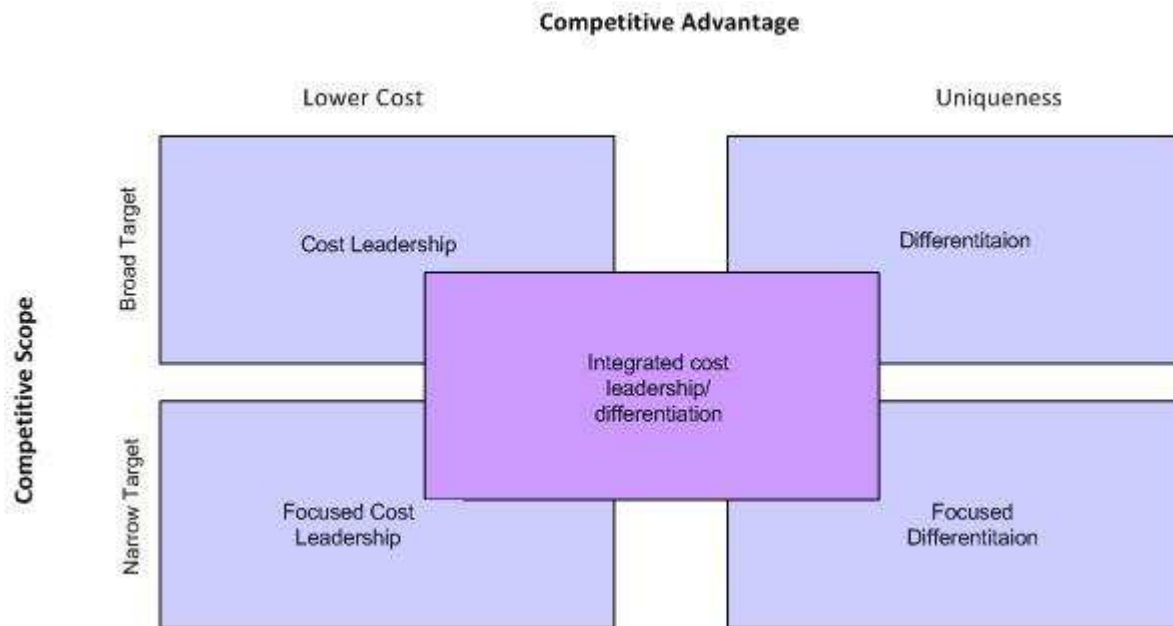
• **Porters Generic Strategies**

Grant (2008:218) identifies two possible strategies a firm can use to achieve higher profits and achieve competitive advantage. Either firms can supply products at a lower cost than its competitors or it can supply products or services that are differentiated from that of its competitors so that customers are willing to spend more on the products.

Lowering costs would entail ensuring that there is efficiency in production, supply and implementations of goods and services, ensuring that all possible sources of cost reduction are identified and exploited.

Differentiation on the other hand is achieved through the provision of unique products or services, or gives the customer a sense of achievement or status that they are willing to pay for even at a price higher than that of its competitors.

Porters Generics strategies (1995,1998) as identified by Viney and Gleadle (2007:15) further expands on the strategies of achieving competitive advantage as illustrated in Figure 6 by introducing Focus and integrated strategies to the model (Viney and Gleadle 2007:15).



These strategies can be summarised as follows:

- Cost Leadership: Aim to be low cost producer using various sources of potential cost advantage.
- Differentiation: Unique in the industry, along one or more dimensions that are valued by buyers.
- Focus Cost Leadership: Cost leadership within a specific segment.
- Focus Differentiation: Differentiation within a specific segment.
- Integrated cost leadership/differentiation: Differentiated product at a relatively low price.

(Viney and Gleadle 2007:18)

Focus strategy is where an organisations seeks to achieve competitive advantage using either the cost or differentiations strategy in a very specific market segment by determining where the focus is and how narrow or broad the market segment is to compete in.

The integrated strategy aims to be a cost leader within the market the organisation operates in while still being able to differentiate itself from its competitors. This process may require more

sophistication in how products and services are produced so that the products provide additional value to consumers without sacrificing on the quality of the product.

In the pursuit of achieving a competitive advantage an organisation would have to ensure that it has the resources internally to meet its strategic objectives. Bakhru and Gleadle (2007:23) argue that the key difference between firms is the resources and capabilities they possess and it is these capabilities that contribute to an organisation achieving a competitive advantage. To identify current organisation capabilities, they start by introducing a resource audit in which an organisation looks at its current resources and identifies the strengths of the organisation that can be exploited and weakness that need to be addressed to achieve strategic advantage.

Grant's (2008:128-129) model introduces a resource-based view on an organisation and emphasises that each organisation is unique, and the key to profitability is not doing the same as other organisations, but by rather exploiting the differences. This model categorises organisations resources into three categories; tangible, intangible and human resources.

Tangible resources according to Grant (2008:128-131) model include financial and physical resources, for example, building and equipment. Financial resources incorporate the balance sheet and the valuation of the business (Bakhru and Gleadle 2007:24). An audit of financial and physical resources will allow the organisation to understand the capabilities of its current tangible resources and areas that requires strengthening.

Intangible resources are assets that are a bit harder to evaluate as they are invisible assets and include things such as the organisations intellectual property rights, culture and its reputation (Bakhru and Gleadle 2007:25).

Human resources refer to the services carried out by humans within the organisation. These relate to their skills, knowledge, reasoning and decision making abilities (Bakhru and Gleadle 2007:26). It is as complex and difficult process to identify models for appraising human resources, and should be done at the time when they were recruited as well as throughout the employment period (Grant 2008:133)

Grant (2008:131) indicates that the primary goal of conducting a resource analysis is not to determine the value of the company but to understand the potential for creating competitive advantage. Once organisations' resources have been identified, looking at the organisations'

capabilities assesses its capacity to deploy resources to achieve the desired end result (Grant 2008:135). According to Grant (2008:435-136) there are two approaches in assessing capabilities, either doing a functional analysis identifying capabilities in relation to each other, or doing a value chain analysis separating the organisations activities into a sequential chain. Bakhru and Gleadle (2007:27) identifies Michael Porter (1985) model to conduct a value chain analysis, which breaks down the activity path through an organisation in achieving an end result. The importance of this value chain is that all primary and supporting activities are represented and thus provides an understanding of capabilities in relation to functional areas (Bakhru and Gleadle 2007:29). This model will allow the organisation to identify areas that it does well, areas that require strengthening and identifying missing links in the value chain required that will strengthen the organisations objective of achieving a competitive advantage.

Grant (2008:157) summarises the framework for analysing resources and capabilities in four steps:

- Resources and Capabilities: Identify organisations resources and capabilities;
- Explore the linkages between resources and capabilities;
- Appraise Resources and capabilities in terms of strategic importance and relative strength; and
- Develop strategy implications in relation to strengths and in relation to weakness.

These models introduced are a process which the organisation undertakes to develop a strategy to achieve a competitive advantage.

**Figure 7:**



In Figure 7, (Grant 2008:131) illustrates the link between the resources and capability process, and determines what KSFs have in deriving a strategy that would enable the organisation to achieve a competitive advantage. This process allows the organisation to identify areas that are required to achieve success, determine the organisations resource and capabilities strengths and weaknesses

and how then determine a strategy that would incorporate industry key success factors, exploit strengths and strengthen weaknesses.



## Chapter 3: Method

### 3.1 Introduction

NPOs face challenges in achieving sustainability. Sustainability in a sense that they are not able to sell a product or service they are providing for a profit. Funds are allocated to very strict budget lines with any excess funds either being returned to donors or reinvested in future projects. This does not allow the NPOs to invest in internal operations, product development or donor funding that cover the general overhead of the organisation.

The purpose of this study is to identify the challenges faced by NPOs in achieving sustainability from a financial perspective and possible models that could be used whether strategic or business models that would allow the organisation to generate enough income that covers their project and operating expense, as well as surplus that would ensure their survival in times when funding is scarce.

Firstly, an analysis of Cell-Life is done to identifying the current organisation business model, structure and strategy. The challenges faced by Cell-Life are addressed and how the organisation has been responding to these challenges is discussed.

A comparative analysis will then be done with two other NPOs; one that works and provides similar services to that of Cell-Life working in the healthcare sector and the other an organisation that works in the same sector, but provides a different service.

To gather strategic information interviews will be held with key individuals ranging from the general manager, operations manager, financial manager and project managers from within the organisation to gather comprehensive understanding of what the organisation does, the challenges faced and how these challenges are addressed.

Discussions cover the following areas:

- Why the NPO was established;
- What are the strategic objectives of the organisation;
- Organisational structure;
- Donors: type of donors and donor requirements;

- Challenges faced – financial and operational; and
- Government assistance and co-operation.

By the end of this paper, one should have a comprehensive understanding of the operational and financial challenges faced by NPOs specifically in the healthcare sector within South Africa. Based on the findings, possible business and strategic models will be identified that could respond to these challenges. These models will take into consideration the rules and regulations that are applicable to NPOs within South Africa and its implementation will not jeopardise the legal status of the NPO.

### **3.2 Research Design**

To gain a good solid understanding of the challenges faced by NPOs, a fully representative sample is used. From this sample qualitative and quantitative data are collected to better understand the sector, what the organisations do, how they operate and what financial sustainability challenges they are faced with.

This information is then used to reinforce the findings of the main organisation in the case study, how Cell-Life relates to these challenges and what lessons can be learned from the various models used by these organisation to ensure their financial sustainability.

It is also important to understand what donor demands are placed on the organisations financially, and how this affects the funded organisations these donor demands and implications will only be done through findings in the interview process. It has been requested by all NPOs agreeing to provide information to this study, that no specific donors are mentioned in this research as not to jeopardise any funding opportunities that may arise. Generalisations are thus made in terms of requirements and the challenges posed in by donors. These generalisations are, however, researched to ensure its validity.

The sample used consists of the following

- Cell-Life as the main case study;
- One NPO that work primarily in health and the social aspect of it; and
- One NPO that provide technical solutions to the healthcare sector.

The NPO that works on the social aspect of healthcare will allow the research to understand how their funding received and allocated as well as the criteria they have to meet to receive this funding. It will also provide an understanding of the challenges faced in achieving sustainability.

The NPO that provides technical solutions allow the research to do a comparative study of organisations similar to that of Cell-Life and the challenges that they face. These challenges may be different to that of the NPOs working on a social level as these organisations may never have direct contact with a patient, but their systems implemented directly impacts on the quality of the service received by the patient.

### **3.3 Methodology**

#### **Data Collection Methods**

##### ***Qualitative Analysis***

- **Interviews**

To gain a better understanding of the various organisations; what they do and the challenges that they are faced with key people within each organisation will be identified and interviews structured in a way that would aid the study.

Key people identified for the interviews as follows:

- General Manager;
- Operations Manager;
- Financial Manager; and
- Project Manager.

The general manager will provide a good understanding as to what the organisation does and the challenges faced.

The operational manager will provide an understanding as to how the organisation operates and the challenges faced on an operational level

The financial manager will provide an understanding on how funds are received, allocated and spent during the financial year. Here we can also understand how financial forecasting is done and the challenges faced in forecasting and achieving financial sustainability

Project manager will provide an understanding as to how projects are expedited and the financial challenges faced with meeting donor financial requirements as well as project deliverables

- **Donor requirement documentation**

Donor requirement documentation is analysed to understand what financial and project challenges these requirements may present. This analysis provides an understanding as to what criteria the NPO has to meet in order to be a recipient of the donor funds and the limitations imposed on the organisations with regard to the spending of the allocated funds.

### ***Quantitative analysis***

The quantitative analysis here will provide an understanding of the impact the global economic crisis and how funding to South Africa has been affected. This is presented in the literature review under the heading “Donor Funding Landscape”, which presents statistics of two major funders and how funding has been affected by economic pressures.

### ***Criteria***

This study will be focused particularly at the not-for-profit sector in South Africa. The following criteria will be used in identifying organisations for this study.

- **South African Organisation**

The organisation should be based within South Africa.

- **Section 21 NPO**

All organisations used in the study have to be registered and operating as a Section 21 NPO according to South African law.

- **Healthcare Sector**

The organisations have to be working within the healthcare sector in South Africa.

- **Service Orientated**

Each organisation should be providing a service that impacts either directly or indirectly on improving services delivered to patients.

- **Donor funded**

The organisations should receive the 80% of their funding from donor funding.

- **Department of Health**

Each organisation should be engaging in projects with the South African Department of Health, either on a local level or at a national level.

- **Three years of operation**

The organisations used in this study should be operating for a minimum of three years.

- **Annual turnover of R5 million**

The annual turnover of the organisations should exceed R5 million per annum.

### **3.4 Limitations**

Legislative requirements, restrictions and benefits applicable to NPOs refer only to that of South Africa. There is a possibility to expand the study to other countries that receive major funding from first world countries like the United States of America and England. A comparative analysis could be done with African countries as well as with South American, European and Asian countries and how government legislation is drafted to restrict and assist NPOs.

This research method covers just NPOs that operate within the healthcare sectors of South Africa. This research could be expanded to other services sectors that include education, security, sanitation and housing. These sectors operate with different branches of government and may face different challenges not found in the healthcare sector. Again a comparative analysis could be made to other countries and how they address the challenges faced. This could be a comparison with other healthcare sectors as well as other services.

The donors used in this study supply funding specifically to healthcare, with very specific financial and operational requirements that need to be met to have access to their funds. Donors from other sectors have not been considered. Donors in other sectors could be identified and a comparison of their requirements and motivation could be made.

### **3.5 Ethical Considerations**

Potential ethical problems that require approval from NPO directors or managers include:

- Access to financial statements;
- Access to strategic information;
- Organisation structure; and
- Donors of NPOs in the study and the amounts funded.

Once organisations have been identified, formal approval has been obtained from the organisation's directors or senior manager with the authority to grant such access. Financial statements of NPOs

receiving donor funds will be advantages in the analysis but not a requirement as the analysis focuses more on challenges and strategic initiatives than actual financial spend and income received

However, the use of these statements if provided will be covered in the letter of approval to ensure that the organisation understands why the analysis is being done. In some it is requested that donors are not mentioned when it comes to requirements and the challenges they pose. In these cases requirements are generalised to all donor if applicable in order to prevent alienation from the NPOs current donors.

### **3.6 Conclusion**

The method used is to identify as many challenges experienced by NPOs working within the healthcare sector of South Africa. By limiting the sample to a minimum three years in operation and an annual turnover of a minimum of R5 million it allows us get an insight by NPOs that have already faced many challenges within the sector.

Using this information Cell-Life as a case study will be used highlighting the financial, operation and strategic challenges faced by the organisation. Based on these findings a comparative analysis will be done with organisations working in the same sector will be made. This analysis will seek to identify similarities and possible lessons that could be learned by Cell-Life.

Finally, using business theory and incorporating legislative requirements and restrictions recommendations will be made to Cell-Life as to what their options are that would allow them to achieve sustainability, grow the organisation and possibly secure the future of the organisation

## Chapter 4:

### 4.1 Introduction

NPOs face many challenges unique to the sector that by their very definition makes it difficult to implement business models that would enable it to become sustainable in times when donor funds are scarce due to a volatile economic climate.

Interviews are conducted on organisations identified that meet the criteria as defined by the 'Research Design'. These interviews will provide a good understanding on the following key areas:

- Why the NPOs were established;
- The strategic objectives of the NPOs;
- Operational challenges faced by the NPOs;
- Financial challenges faced by the NPO;
- How donor funds are allocated and spent;
- The NPOs' interaction with government and the role government plays in their success and/or failure;
- What effect legislation has on the NPOs; and
- Are the NPOs sustainable or do they foresee any possible threat to their existence.

Based on these interviews and the challenges faced by the NPOs, possible business and strategic models are identified that could aid the NPOs in identifying ways of becoming sustainable. These models incorporate the legislative restrictions imposed by government to ensure that the NPO status of the organisation is not jeopardised.

The models are then applied specifically to Cell-Life. Firstly, a strategic analysis of the organisation is conducted using different strategic tools that will allow Cell-Life to clearly define its mission and vision and what key success factors are required for the organisation to be successful and sustainable.

Once Cell-Life strategy has been identified, its operations would then have to be aligned to ensure that its strategic objectives are achieved. Possible operational considerations are presented that would allow Cell-Life to structure the organisation in a way that would enable them to meet the strategic objective defined.

Finally, based on these finding lessons learnt from this analysis will be highlighted indicating possible business and strategic models that could be used or consideration that should be made by NPOs that would assist them in becoming sustainable and not being over-reliant on donor funding.

## **4.2 Case Studies**

To gain a better understanding of Cell-Life's structure, objectives and challenges faced by the organisation, interviews were conducted with key personnel within the organisation. Peter Benjamin is the General Manager and Managing director of Cell-Life and the link between what happens operationally and the board of directors. Graham Salter, Financial Manager, responsible for all financial allocations, budgets, spend and reporting. Mahdi Hendricks (Author), Senior Project Manager, responsible for ensuring projects is delivered according to client requirements.

Jembi Health Systems and Community Media Trust (CMT), two NPOs operating in South Africa have been selected to provide a comparative analysis on their strategic process as well as challenges they have faced in securing their long-term futures. Jembi Health Systems was selected as they are organisations similar to that of Cell-Life developing, customising and implementing technology systems to the health sector. CMT allows us to get an insight into the challenges faced by NPOs that provide social services to the community to support health programmes run in South Africa by government.

Key people have been identified in each organisation that have an in depth understanding at an operation level of the challenges faced, how it impacts the organisation and how it could be overcome. Based on these interviews, an analysis is made to determine emerging themes that these organisations have in common, and using theses finding a strategic process is developed that will take these challenges into consideration and recommend models of analysis using Cell-Life as the main case study that would allow the NPOs to identify a process in which a corporate and competitive strategy plan can be developed to achieve a competitive advantage and secure the long-term sustainability of NPOs.

### **4.2.1 Cell-Life**

#### **Background**

Cell-Life had originally been established to identify how information and communication technology (ICT) could be used to address some of the challenges faced within the HIV/AIDS sector. Products



where thus developed specifically focused at the HIV/AIDS sector. The type of products developed were later expanded to cellphones and identifying ways in which cellphone technology could be used to assist the HIV/AIDS sector in improving communication and between NGO, hospitals and clinics with their patients or community in which they work.

### **Challenges**

Funds received have been mainly from donors within the HIV/AIDS sector in which Cell-Life built its reputation. Donor funds specifically in the HIV/AIDS sector has slowly been decreasing as focus has shifted towards building self sustainable projects as donors start to withdraw funds to the sector. A major impact on the availability of donor funds in the HIV/AIDS sector was the Global Funds' cancellation of its latest round of funding, which has left many countries facing a challenge of relieving services in HIV, Tuberculosis and Malaria. Cell-Life is currently totally reliant on donor funds as they are an NPO, any negative economic change or change of donor focus will directly impact Cell-Life and its long-term sustainability.

A common theme amongst NPOs is its struggle to cover its overheads outside that of its project costs. This has mainly been due to how donors funding is allocated. Donors only allow organisations applying for funding to charge actual salary costs with overhead used to cover any other costs which may include administration, lights water and electricity. This overhead line is not enough to ensure that all operating costs are covered. NPOs thus have to find ways in which to cover these operating costs with limited sources of alternative income.

Forecasting within NPO is very difficult with NPO having to rather work on actual cash flow to ensure that any changes in income and the impact of the changes are considered. Many NPOs' do not have sufficient reserves that allow them to cover expenses if income from donors is delayed. It is therefore critical that cash flow within NPO is as accurate and up to date as possible.

The way in which donors disperse their money also affects NPOs. Some donors would provide advances to NPOs either on a monthly or quarterly basis. There are also donors that require invoices to be submitted after services have been rendered. The challenge here for NPOs in delivering projects to donors that require invoices after service have been rendered is that NPOs would have to incur costs before any money is received. How do these NPOs fund these projects without any working capital? This is a requirement many donors should change when working with NPOs.

Donors reporting requirements place major strain on the NPOs as they have very different reporting requirements and templates that have to be completed as part of the funding agreement. These may incur many administrative costs that are not covered in the project costs. Donors also have different funding cycles and financial years to each other that may also be different to that of the NPO. Reporting could thus be required at different periods for s different financial years and funding cycles, all adding to the administrative costs not covered in the project budgets.

When discussing possible changes to donor funding requirements to assist NPOs in achieving long-term sustainability, a common suggestion was for donors to revise the way donor funds are allocated in budget lines. Donors should allow NPOs to factor in a charge out fee above actual salaries that would allow NPOs to cover operating costs not allowed for in the budgets and the overhead lines. Graham Salter at Cell-Life highlighted the fact that any service industry outside NPOs charge a fee for services above that of the actual salaries of required. These charge-out fees cover costs that may not be chargeable in the project budgets. With donors requiring NPO to charge actual Salary costs to the project they do not aid NPOs in become sustainable and any lag in the organisations ability to access new donor funds could result in the NPO closing in a very short space of time.

As Cell-Life area of work has been focused at the HIV/AIDS sector, there is now a need to expand Cell-Life scope in order to tap into other sources of funding. Cell-Life has started revising its strategy as there is now a need to expand its scope of work to areas outside the HIV/AIDS but remain within the healthcare sector to ensure that it could access funds that may look other areas within Health care. Expanding organisations scope of work to areas in which they could make an impact is critical in order to ensure that any change in donor focus minimises the financial impact on the NPO.

NPOs are focused on providing services to areas that government may or may not have adequately covered. NPOs thus have to work very closely with government and form partnerships that would allow them to improve on government services and receive support from government on any initiatives that they have undertaken. A common problem however when working with government is the challenge identifying the right people at the right level of government who understand the need for the service and has the ability to support and in some cases assist in the funding of the initiatives. There are many levels of government, from local, provincial and national government. These levels of government may have different strategic objectives as well as may require different levels of approval before any project initiative will be undertaken. The challenge thus for NPOs is to

try and influence government at all levels depending on the size of the project so that the approval and the collaboration required is made a bit easier. This however may take considerable time to achieve and may incur unexpected overhead which NPOs may or may not have access to the funds. Government is however a key stakeholder and should be approached in order to ensure the success of many NPO projects.

### **Current strategy process**

In the Cell-Life, the board of directors are responsible approving the strategic objectives of the organisations. These boards of directors may not be paid by the organisation but they have judiciary responsibilities. In some cases the board may not be as involved in the daily operations of the organisation and the sector in which it operates. The board does however have certain expertise that add is used to ensure that the organisation achieves its objectives within legislative requirements and advises on potential strategic initiatives that would allow the organisation to achieve these objectives, These strategic decision also rely on input from management and staff who provides and understanding of what is happening on the ground within Cell-Life and the sector to ensure strategic initiative respond to these opportunities and challenge. Strategy is created for a five year period as well as including annual reviews to ensure that the strategy remains aligned to the sector.

### **4.2.2 Jembi**

#### **Background**

Jembi Health Systems (Jembi) is a NPO based in Africa focused on the development of eHealth and information systems in developing countries (Jembi 2012).

The Vision of Jembi is “A world in which health and information advance global health” and Mission that defines the organisation as” we are an African Non-profit-organisation improving global health by developing information systems, growing partnerships and building local capacity, with a focus on developing countries” (Jembi 2012)

Jembi provides technical skills tool and implementation expertise to develop health information systems to areas that have resource challenges. Implementation is done through strategic partnerships with government, local and international nongovernmental organisations and donors to facilitate work, knowledge sharing and project implementations (Jembi 2012). Information

systems are developed by using and customising open architectures to respond to requirements.

Services offered by Jembi include:

- Health information systems development and implementation;
- Enterprise and system architecture; and
- Analysis, design and development of software for health systems.

(Jembi 2012)

The interviews were conducted with Carl Fourie, Technical Manager and one of the founder member and Jonnea Smith, Finance and Contracts Manager.

### **Challenges**

The global economic crises have had an effect on Jembi and its ability to access additional funding. Jembi response to mitigate the risk is to diversify funding streams to prevent over-reliance on one funder. Jembi main source of funding is from international donors. World economic changes depending on the source of income directly affects the amount of funding Jembi has access to as well as the affecting existing funding being received. In order to anticipate these effects Jembi monitors the following elements to ensure they can respond accordingly:

- Exchange rates;
- Recession; and
- External factors that may affect funding.

Donors don't have an understanding of the challenges faced within Africa and resource challenged settings. Project expectations are based on what is experienced in other world markets. It is thus important that donors have an understanding of African challenges and expectations are managed accordingly as not to appear to be in breach of contract or failure to deliver as planned.

Under spending and overspending has been a challenge as funds are allocated within specific budget line and cannot be spent on anything that does not relate to the project. Implementation of projects in Africa experience unique challenges not experienced in countries outside Africa. Again continuous communication with donors is required for donors to be a bit more involved in the project to understand these challenges would be recommended.

Donor requirements in terms of what kind of companies they will fund and the structure and systems required when the funding is provided varies between donors. This may take additional resources and incur unexpected costs. In response to this Jembi has looked at the internal structure

and systems, and aligned it to the strictest donor requirements. By doing this they have ensured that with efficient structure and systems they are able to meet donor requirements and effectively budget for time and costs incurred.

NPOs struggle to cover overhead costs, and a recommendation made to donors that would aid NPOs and allow them to secure their long-term sustainability is that they provide African NPO access to unrestricted funds. Measurements should still be in place to ensure that funds are spent as intended, but the unrestricted funds will allow NPOs to build up their reserves and implement strategic systems that will allow it to remain in operation when access to donor funds are is reduced. Reserves is what Jembi uses to build on its service offering which in turns allows them to implement systems that boosts its effectiveness and opens the organisation to new funding opportunities.

### **Strategy process**

Jembi has recently undertaken a strategic planning process in which the vision and mission of the organisation has been revised. The aim of this process was to evaluate whether the organisational objectives of Jembi is aligned to the environmental and governmental factors that are prevalent within the market it operates. This also allowed Jembi to establish if they have achieved what they set out to achieve and how this process can be used to provide Jembi with a direction in achieving a competitive advantage.

Financial forecasting within Jembi is done for a one-year-three-month cycle and is always done on the most negative situation. The challenges with donor funding is that the actual project may kick off months after the project has been agreed upon. This directly affects organisations cash flow. Forecasting is thus done based on as accurate information as possible to ensure that the actual cash flow of the organisation considers all possible delays that could be expected in the receipt of funding.

An option that have been explore is that of commercially selling its services a for-profit model and whether this model will bring in enough funds to be a financially viable strategy.

Jembi has also looked at systems and structure to determine areas that require improvement that will allow the organisation to operate effectively and efficiently. Strategic partnerships have also been explored to identify whether donors or partners can be aligned to enhance to effectiveness of projects in achieving common strategic objectives. This alignment included looking at government

strategic objective and how their systems and technology can be used to enhance government in achieving their objectives.

### **4.2.3 Community Media Trust: CMT**

#### **Background**

CMT is a NPO media production company that produces HIV/AIDS and public related material such as radio, print and television to support programmes run by the South African government (CMT 2012). CMT vision and mission is “for the purpose of promoting knowledge, transparency, accountability and democracy in all areas affecting the quality of life of communities in South Africa and Southern African states.” (CMT 2012). One of CMT major campaigns is the Siyanyinqoba Beat It! which is a television campaign that aired on eTV and South African Broadcasting Corporation (SABC) and is in its seventh season. This campaign has been focused on breaking stigma associated with HIV/AIDS, promoting role modelling people living with HIV and promoting the treatment and prevention campaigns and the adoption of safer sexual practices (CMT 2012). The interviews were conducting with Debbie Kroon, Outreach Project Manager and Jean Pierre Zeelie, PMTCT Research project Co-ordinator, and focused on challenges faced by CMT and how they have responded to these challenges.

#### **Challenges**

CMT like many other NPOs have been affected by the economic crises. One of the first budget allocations to be reduced is that of donor funding. Many of CMT funders are from international sources. With the reduction in their budgets, this has lead to financial challenges within CMT which required structural changes leading to closure of offices and loss of staff

Another challenge faced by CMT is that of how donors provide funding to the organisation. Some donors may provide advances, whereas other may pay after services have been rendered. Depending on the timing of the funds received, CMT may have to dip into their reserves in order to fund project implementation.

The loss of staff has a high cost to CMT who has invested in their training and provided them with valuable experience. Should any more projects be implemented in the future the cost to retrain staff is high and will also have to be factored in. CMT has to thus focus on securing a core staff that would allow it to achieve its objectives and deliver on its commitments. The organisations structure is thus

important so that it allows the organisation to operate effectively even though the number of staff has been reduced.

CMT has been able to successfully work with government and compliment their strategic objectives. This however may be a long process when implementing programmes due to the many levels of bureaucracy within government. Every province has their own lines of approval which also has to go through national government to ensure that the programmes are aligned to government objective. This is a time consuming process as this process and may be very challenging when implementing project especially if commitments have been made to donors.

Covering operational costs with the budgets allocated is also a challenge. Budgets allow for an overhead line, but this line may not be sufficient to cover all operation costs incurred by the organisation. Some donors are very strict as to how funds are spent and may only allow it to be spent on the projects. This does not assist the organisation as some expenses are just not allocable to projects but they do contribute indirectly to ensure that project implementations are successful.

A recommendation is for donors to work more closely with NPOs to gather an understating of the actual operational challenges faced by the organisation when implementing projects. Many times NPOs are just a proposal or a line that has been allocated funds, but should some donors for involved they would understand the need for unallocated funds to allow the NPO to operate without the added challenges of ensuring all costs are allocated and covered by budgets.

Unreserved funds would allow NPOs to operate more effectively as a lot of time is spent ensuring the organisation can cover all operational costs, this time would be better spent ensuring the successful implementation of projects.

### **Strategy process**

CMT is governed by a board of directors each with specialised skills in various sectors that contribute in the decision making process and provide strategic direction to the organisation. CMT has just undertaken a strategic planning process in which a five year strategic plan has been developed to address the challenges faced by the organisation and determine whether the strategic direction CMT is undertaking to ensure its long-term sustainability. This strategic session was attended by the board of directors and senior management that provided an insight into programmatic and operational challenges that needed to be included in the process.

As a response to the economic crisis CMT has started looking at ways of diversifying funding streams removing reliance on a few funding sources and exploring the possibility of setting up a for-profit entity with the aim of generating funds to secure an alternate source of income for CMT to implement their objectives. This process has been supported by donors as they have recognised the need for NPOs to implement programmes that removes some of the reliance on donor funds as the only source of income.

#### **4.2.4 Emerging Themes**

Common themes emerging from the various interviews conducted is that of all three NPOs have just recently undertaken a strategic planning process to respond to environmental factors and challenges that have affected the organisations. They have all identified the need to identify and implement a strategic plan that would allow their organisations to remain sustainable, achieve objectives and identify means on achieving a competitive advantage in the various sectors they operate in. Key areas that have triggered and been identified in the strategic planning process has been:

- Clearly identified objectives;
- Response to economic crisis;
- Financial challenges in achieving sustainability;
- Structure and systems;
- Strategic alliances; and
- Working with donors.

All three organisations have identified the need to clearly identify its vision and mission to determine whether its current objective allows it to exploit all market possibilities and not restrict it from possible opportunities. This process also enables the organisations to clearly identify what they do and how they intend to achieve it.

The global economic crisis has affected many NPO working in South Africa. This financial challenge has lead to unexpected financial challenges faced by NPOs that could directly affect it ability to remain in operation. Each organisation has begun looking at its current funding streams and is trying to establish how best to address this challenge by diversifying income streams either through new markets for the possibility of selling its service in a for-profit model to generate funds for the NPO.



The organisations have looked at the structure of the organisation. In some cases they had to undergo structural changes due to financial constraints. The organisations structure allows it to effectively implement its projects and services. Systems determine how efficiently the organisation is able to implement project and services. The organisations have looked at the systems, to determine what systems are required that will allow it to deliver projects and achieve objects without incurring unnecessary costs.

Strategic alliance is critical for successful strategy implementation for NPO. Whether these alliances are with donors or with government, strategic objective have to be aligned to improve the effectiveness of these projects and programmes.

Government plays an important role for NPOs as many of their programmes are aligned to compliment governmental initiatives. Working with government however may prove challenging due to the main chains of command and policies and procedure, NPOs struggle to get government support, buy in or approval for project to be implemented. Donors will only fund projects that have this alignment and these challenges may impede the NPO to access for delays receipt of funds.

Financial challenges faced by these NPO include access to funds that allow the NPO to build up reserves as well as cover all operational costs. NPOs in Africa struggle to get access to unreserved funding. It is these types of funding that allows the NPO to ensure operation in tough times as well as expand on their service and products that will allow them to access further funding.

Financial forecasting is also very challenging as donors have different funding cycles and payment cycles. In some cases donors pay after implementation whereas other funds may be received as an advance. Depending on the funding portfolio of the NPO, if the NPO has more funders that pay after implementation, the NPO may struggle to meet projects deliverable and experience cash flow challenges. Financial forecasting is thus done on the most negative stance only taking into consideration actual funds incoming and eliminating probable funds as much as possible. Any delays in funding may place tremendous strain on the organisation as it may struggle to fund project out of its reserves. NPO must be one of the only types of organisations where more projects may be refused even if they are paid for as it might place financial strain on the organisation. Cell-Life uses actual cash flow to forecast income and identify financial challenges that could be expected due to delays in funding been released.

All three NPOs interviewed identified the need to work closer with donors. They have recommended that donors improve their understanding of the projects they are implementing and be more aware of the challenges faced in the African context which may not be experienced anywhere in the world. Should donors be exposed to this information first hand they will be able to better understand why funding was not spent in the allocated time or why more funds than expected is required in order to achieve the objective identified in the contract.

They have also recommended alignment of donor reporting and programme to increase the effectiveness of programmes implemented through strategic alliances as well as easing the administration strain in customising systems to donor requirements which vary between donors.

Taking these common themes into consideration the strategy process recommended will identify models and considerations required that will allow the NPO to gather a full understanding of the industry it operates in and identify early possible responses to external changes to the environment in which it operates that will allow it to remain sustainable and competitive within its chosen industry.

### **4.3 Identifying Strategy: Cell-Life**

In formulating a strategy for Cell-Life and models that could be used by NPOs it is important to consider the challenges faced by NPOs within the various sectors they operate in and build a strategy that would allow the organisation to address the challenges in an innovative way to ensure the long-term sustainability of the organisation. Key challenges identified faced by NPOs are

- Availability of donor funds in the sector NPO is working in;
- Effects of the Global economic climate;
- Change in donor focus;
- Allocation and monitoring of funds;
- Over-reliance on donor funds;
- Establishing a relationship with government; and
- Identify a market that would pay for the services provided by the NPO.

For Cell-Life to secure its long-term sustainability and move away from its reliance on donor funds, a revision in the organisational strategic objectives was is required. This revised strategy should incorporate the challenges faced by NPOs, and address the need to remove reliance on donor funding, expand scope of work to cover for change in donor focus, improve working relationship

with government, establish a structure that improves efficiency and effectiveness and identify a market that is willing to pay for the services rendered by the NPO.

In identifying strategic plans and models, the following processes will be undertaken. The first step in the strategy process is the establishment of a Vision and Mission of the organisation to incorporate the change in strategic objective of the organisation. The Key Success Factors (KSF) of Cell-Life will then be identified, the factors that have lead Cell-Life to this point and factors that have to be considered in the strategic planning process that will lead to long-term sustainability of the organisation. Once the KSFs have been identified, an analysis of the industry attractiveness will be done using Porter's five forces model. Then an analysis in the macro-environment will be conducted to determine the factors that may influence the success of Cell-Life. Porter's Generic strategies will be used to determine what strategy could be used to achieve competitive advantage. Ansoff's growth vector model will then be used to define the scope of the firm's corporate strategy.

Once the corporate and competitive strategies have been identified an internal analysis will be done to determine what structural changes will be required for Cell-Life to meet the objectives as set out in the organisations strategy.

This approach to strategy will allow Cell-Life to form a comprehensive strategy taking into consideration both internal and external factors that influence the organisation and develop an approach that will address any challenges or potential challenge faced by Cell-Life.

The objectives of the strategy process are:

- The determination of basic long-term goal and objectives and the adoption of courses of action and allocation of resources necessary for those goals;
- Every business, sub-unit and individual have a clearly defined purpose or goals deliberately chosen to prevent drift in undesirable direction;
- Analysis of achieving competitive advantage; and
- Identify, build and deploy resources to attain objective.

#### **4.3.1 Corporate Strategy**

Using Grant's (2008:12) definition of corporate strategy in defining organisational objectives by focusing on the firm, its goals and values, resources and capabilities and structure and systems, an analysis will be done on Cell-Life and how these models can be used to develop a corporate strategy

that will incorporate these considerations in its strategic plan. The corporate strategy process used will address the following aspects of the Cell-Life:

- Organisational purpose;
- Stakeholder analysis;
- Key success factors;
- Growth vectors; and
- Structure and systems.

The models used in developing a corporate strategy for Cell-Life are considerations that can be made by all NPOs, with the idea that these considerations will provide an understanding as to how defining a corporate strategy aids NPOs in becoming sustainable within the markets they operate.

#### ***4.3.1.1 Organisational Purpose***

All organisations are established for a reason. Whether this reason is to make profit or to respond to social needs, it is important that all stakeholders internal and external to the organisations understand what that reason is. Purpose defines the values and the beliefs of the organisation or main stakeholder and objective specifically focused on the expectations of stakeholders in achieving milestones (Dixon, Gleadle and Stapleton 2007:10). Common ways of expressing organisational purpose and objectives are through the Vision and Mission statements of the organisation. These are normally public statements with the aim of providing a clear understanding of what the organisation is about and what they intend to do (Dixon, Gleadle and Stapleton 2007:24-27).

For Cell-Life this mission and vision statement has evolved over time. Reason for this as we will further explore relates to the landscape in which it has been operating in. The organisation was initially set up to address the technological challenges faced specifically in the HIV/AIDS sector. At the time Cell-Life was established there was a need to introduce Information and Communication Technology (ICT) to the HIV/AIDS sector in a way that addressed the challenges faced with reporting, distributing and recording information in relation to the distribution of ARV's and care to patients infected and affected by HIV/AIDS. As the sector has evolved and the products developed by Cell-Life evolved there might be a need to revise its organisational purpose as the technology may be applicable in other areas of the sector or other markets. Without a defined organisational purpose, these changes may lead to Cell-Life responding to every opportunity that arises which may lead to an identity crisis in the organisation. The sector might not know exactly what it is the organisation does, as well as the people in the organisation may lose track of exactly what it is that they are trying to achieve.

To avoid this, Cell-Life has to relook vision and mission of the organisation to see whether the old statements are still applicable to the current environment in which it operates in. What the organisation has to consider is, what the internal and external environment looks, what its objectives are and how relevant the old objectives are based on these findings. These factors will be addressed when conducting the environmental analysis later in the paper.

A good way in to have this statement evaluated is to include all stakeholders involved in the organisation as well as strategically selected external stakeholders that can act as consultants that would provide a good outsider perspective on the vision and mission and whether it relates to the organisation. Cell- Life conducted this process and identified the need to re-evaluate the statements as follows:

- **Vision (WHY?)**

A world where the health and wellbeing of people is improved by the application of knowledge and technology.

- **Mission (HOW?)**

We are a not for profit organisation that makes technology and services accessible where needed to improve health and meet social challenges.

(Cell-Life 2012)

What this re-evolution of the vision and mission did was to allow Cell-Life to maintain its sense of identity but also allow it to pursue other opportunities that arise to increase the reach of its products to the entire healthcare sector. The statements now incorporated the industry and economic challenges faced by the organisation as well as increase its range of activities outside that of HIV/AIDS.

NPOs face a challenging environment and may be more affected than for-profit organisations to economic changes whether local or international. Social changes and challenges also affect the relevance of the programmes run by the NPO. It is thus important that the vision and mission statements are constantly reviewed to ensure that it is relevant and not too restrictive should there be any environmental changes in the industry. These statements should also clearly illustrate what the organisation purpose and objectives are.

Appendix four has been developed to present the thought process that Cell-Life would have to undertake should it wish to broaden its strategy. The Corporate strategy process will further explore these implications.

#### 4.3.1.2 Stakeholder Analysis

The purpose of the stakeholder analysis is to take into account the requirements and expectations of key individuals that directly and indirectly affect the organisations in achieving its objectives. The analysis should consider who the stakeholder are and what their requirements are. It is these requirements that contribute to the Key Success Factors of the organisations (KSF) which will be introduced in the next stage of the corporate strategy process. Stakeholder analysis and the process of defining the organisations vision and mission should be done in parallel as they complement each other. The vision and mission may determine who the organisations stakeholders are while the stakeholder analysis may directly impact the formulation of the organisations purpose.

Dixon Gleadle and Stapleton (2007:8). Stapleton (2007:11-15) separates stakeholders into internal stakeholder and external stakeholders. An analysis of stakeholders on Cell-Life conducted should include who the stakeholder is, what role or influence they have on the organisation and what their requirements are.

- **Internal Stakeholders**

1.	Internal Stakeholder	Members
	Role	<ul style="list-style-type: none"> <li>• Consist of experts in various fields that contribute to Cell-Life understanding of various aspects of its sector.</li> <li>• Providing Strategic Direction to Cell-Life</li> <li>• Ensure Cell-Life remains focused on achieving its strategic objectives</li> </ul>
	Requirements	<ul style="list-style-type: none"> <li>• Strategic direction and advice to be approved by the members.</li> <li>• Feedback from Directors and Management on any operational issues and changes experienced in implementing projects and identifying clients</li> </ul>
2	Internal Stakeholder	Directors
	Role	<ul style="list-style-type: none"> <li>• Provide strategic Direction</li> <li>• Each director holds a portfolio</li> </ul>

		<ul style="list-style-type: none"> <li>○ Jean Pierre Kloppers: Chief Executive Officer</li> <li>○ Nkulu Madonko- Human Resources</li> <li>○ Michael O Dea- Financial</li> <li>○ Peter Benjamin- Managing Director</li> </ul> <ul style="list-style-type: none"> <li>● Directors hold fiduciary responsibility over Cell-Life</li> <li>● Meet with Clients to finalise contracts and new business</li> </ul>
	Requirements	<ul style="list-style-type: none"> <li>● Implementation of chosen strategy</li> <li>● Management reports on: <ul style="list-style-type: none"> <li>○ Financial Management Accounts</li> <li>○ Operations Reports</li> <li>○ Project Reports</li> </ul> </li> </ul>
<b>3.</b>	<b>Internal Stakeholder</b>	<b>Management</b>
	Role	<ul style="list-style-type: none"> <li>● Implement Strategy</li> <li>● Ensure Operations are running smoothly</li> <li>● Manage and implement projects</li> </ul>
	Requirements	<ul style="list-style-type: none"> <li>● Strategic Direction from member and Directors</li> <li>● Consideration of operation requirements</li> <li>● Assistance in dealing with challenges faced when implementing projects or meeting with Clients</li> </ul>
<b>4.</b>	<b>Internal Stakeholder</b>	<b>Staff</b>
	Role	<ul style="list-style-type: none"> <li>● Implement projects as required by clients according to roles and responsibilities as detailed in their Job description</li> <li>● Represent Cell-Life professionally and competently</li> </ul>
	Requirements	<ul style="list-style-type: none"> <li>● Comfortable and safe working environment</li> <li>● Clear identification of what is expected from them</li> <li>● Management support when experiencing challenges in project implementation</li> <li>● Feedback on performance and areas that need to be addressed</li> <li>● Possibility of career advancement within the organisation</li> </ul>

- **External Stakeholders**

<b>1.</b>	<b>External Stakeholder</b>	<b>Government</b>
	Role	<ul style="list-style-type: none"> <li>• Define Health Policy</li> <li>• Define Strategic objectives to be achieved by the South African Government</li> <li>• Appoint contractors through a tender process that would aid them in addressing strategic areas</li> <li>• Creates and sets standards within the health sector</li> </ul>
	Requirements	<ul style="list-style-type: none"> <li>• Technology that will allow them to track, report and distribute products and services to South African citizens that requires health services</li> <li>• Technology that is easy to use and can be implemented to work on technology that is available to the majority of South Africans</li> <li>• A solution that will allow them to provide valuable information directly to patients</li> </ul>
<b>2.</b>	<b>External Stakeholder</b>	<b>Government Institutions(Hospitals and Clinics )</b>
	Role	<ul style="list-style-type: none"> <li>• Implements government health policies and services</li> </ul>
	Requirements	<ul style="list-style-type: none"> <li>• Technology that allows them to be more efficient and increase capacity</li> <li>• Technology that allows them to remain in contact with patients</li> <li>• Technology that allows them to provide strategic information to government in order to get the support they require from a provincial or national level.</li> <li>• Comprehensive training to efficiently use the systems provided</li> <li>• Technical support if required</li> </ul>
<b>3.</b>	<b>External Stakeholder</b>	<b>Donors</b>
	Role	<ul style="list-style-type: none"> <li>• Provide funding to social causes that have been identified by their stakeholders</li> <li>• Align funding streams to national government objectives</li> </ul>
	Requirements	<ul style="list-style-type: none"> <li>• Organisations that will enable them to achieve their mandate</li> <li>• Constant reporting on project implementation</li> </ul>



		<ul style="list-style-type: none"> <li>• Funding provided to be spent within the time allocated to meet their funding targets.</li> <li>• Funds to be spent within the approved budgets</li> </ul>
<b>4.</b>	<b>External Stakeholder</b>	<b>Other NPOs</b>
	Role	<ul style="list-style-type: none"> <li>• Implement projects that meet the social needs of the community they serve</li> </ul>
	Requirements	<ul style="list-style-type: none"> <li>• Technology that would complement their projects in a way that increases their capacity to deliver and the effectiveness of their programmes</li> <li>• Direction of technology and how it can be used to their advantage</li> <li>• Technical training</li> <li>• Technical support on systems purchased</li> </ul>
<b>5.</b>	<b>External Stakeholder</b>	<b>Patients (anyone that requires Health services)</b>
	Role	<ul style="list-style-type: none"> <li>• Recipients of health services</li> </ul>
	Requirements	<ul style="list-style-type: none"> <li>• Effective health services</li> <li>• Easy access to health services and information</li> <li>• Services that does not require direct access to clinics and hospitals</li> <li>• A means of contacting health service providers to receive advice and counselling</li> <li>• Technology services that works in the most rural of settings that works on the most basic of technology services that is at no cost or minimum cost to them</li> </ul>
<b>6.</b>	<b>External Stakeholder</b>	<b>Technology Communities</b>
	Role	<ul style="list-style-type: none"> <li>• Open source communities that provide many developers all around the world to create new products</li> </ul>
	Requirements	<ul style="list-style-type: none"> <li>• A worthy product with potential to impact a large user base</li> <li>• Product to be new and innovative</li> </ul>
<b>7.</b>	<b>External Stakeholder</b>	<b>Competitors</b>

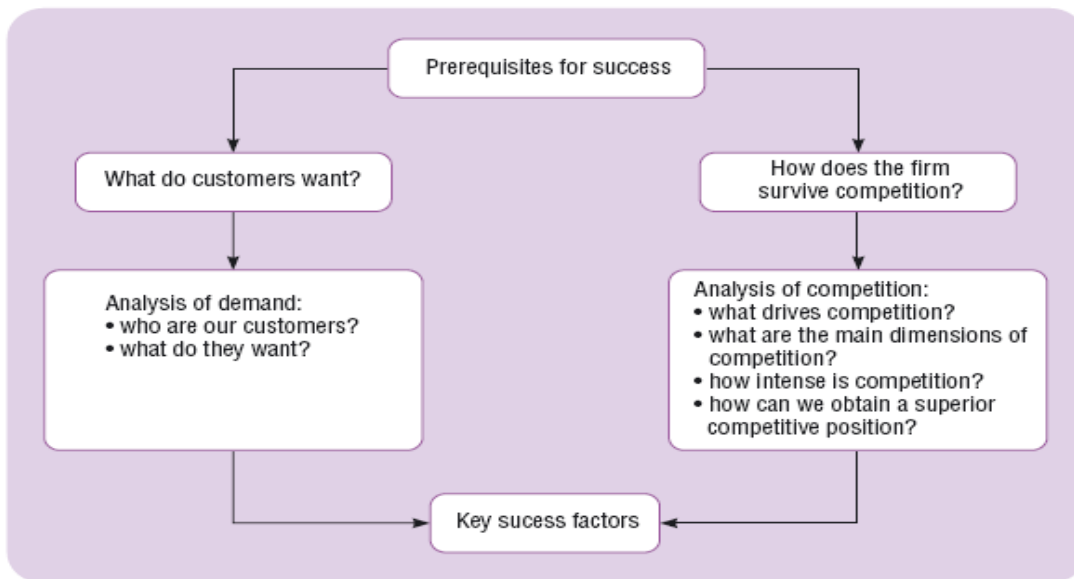
	Role	<ul style="list-style-type: none"> <li>To access clients that they share with Cell-Life</li> </ul>
	Requirements	<ul style="list-style-type: none"> <li>Technology that gives them a competitive advantage over Cell-Life</li> </ul>

The stakeholder analysis provides NPOs with and insight as to what areas need to be incorporated into their strategic process in order to develop and create a corporate strategy that addresses internal and external stakeholder requirements to remain relevant to the industry they are operating in as well as assisting in achieving strategic objectives. It is important to fully understand who all the stakeholders are or even who potential stakeholders may be in when creating the corporate strategy and defining organisational purpose as this may also influence how the vision and mission statements is structured.

#### **4.3.1.3 Key Success Factors**

Once the organisational purpose has been defined and a stakeholder analysis has been conducted Key Success Factors (KSFs) will allow the NPO to identify what it has done and what it needs to do to become or remain successful within the industry it operates. The KSFs model allows the organisation to determine what the minimum entry requirements are within a particular market (Bakhru (2006:59). This is model is also applicable for firms that are currently in operation within the market as it allows them to determine what KSFs are addressed in their strategic plan and what KSF has to be included in the corporate strategy. The KSFs model looks at eat two prerequisite for success namely:

- What do customers? Analysis of demand; and
- How does the firm survive competition? Analysis of competition.



(Bakhru 2006:60)

Applying the KSF model to Cell-Life will allow the organisation to determine what it has to do to build on its current success.

### **Analysis of Demand**

- Who are our customers?

The external stakeholder analysis has already identified many of Cell-Life customers and what their requirements are. Cell-Life customers include those that have a demand to use the technology developed as well as those that is affected by the use of the technology. The organisational purpose also limits the application of the technology to organisations and people operating within the healthcare sector, but does not limit this to just local markets and thus a can be applied to international markets as well.

- What do they want

Customers already identified in the external stakeholder analysis include:

- Government;
- Government institutions (Hospitals and clinics);
- Donors;
- NPOs working in the health sector; and
- All recipients of health services.

Requirements of these customers include:

- Technology Systems that allow effective distribution and dispensing of drugs (medication) to patients;
- The technology should allow easy generation of reports on medication distribution;
- Communication systems that allow two way communications to and from patients/staff/community using technology that is accessible to all stakeholders at a minimum cost to the end user;
- Technology that allow for anonymous counselling via cellphone technology;
- Technology that allow research institutions to collect and analyse data;
- Technical training on all software solutions created; and
- Technical support.

By identifying customers and their requirements Cell-Life can start creating products and services that will allow it to access these customers by providing solutions to their technological challenges faced.

NPOs should have a clear understanding of who their customers/target community is as well as their requirements in the sector they operate. Based on strategic objective of government, donors or other customers identified, requirement might evolve over time. It is thus critical that NPOs continually conduct an analysis of demands of its customers to ensure that the products or services they provide are relevant to the demand of their customers.

### **Analysis of Competition**

- What drives competition?
- What are the main dimensions of competition?
- How intense is the competition?

In conducting a competitor analysis for Cell-Life there was not one specific competitor that delivered all the same service offered by Cell-Life. The analysis had to be conducted based on each product, as each product would face competition with various motivations dimensions and intensities. Competitors for Capture and Communicate compete offering the service but none of the competitors specialise in the health sector. iDART competitors are specific to the health sector where the intensity of the competition is higher as each organisation attempts to secure their share of the market with the single client being the Department of Health. A full analysis of competitors for each product has been done with finding in Appendix 5.

The list below summarises each competitor:

- CAPTURE: Appendix 5A
  - Rapid SMS
  - Frontline SMS
  - Mobenzi researcher
  - EpiSurveyor
  - Nokia Data Gathering
  
- iDART: Appendix 5B:
  - RX solutions
  - Therapy edge
  - Bookwise HIV and AIDS Clinical Management Systems (Virtual Purple)
  
- Communicate: Appendix 5C:
  - Rapid SMS
  - Frontline SMS
  - Praekalt (VUMI)

Cell-Life strength in comparison to that of its competitors lies in its understanding of the health sector, experience in working in rural challenging settings and its ability to apply software solutions that can work on the most basic of technology. The competitors to Capture and Communicate have technology that are a bit better in terms of functionality but it is this advancement that provides Cell-Life with the advantage as its products can essentially fulfil the same function at a reduced cost but still meeting the requirements of clients.

iDART on the other hand has competition that is more intense where functionality is important to meet the client's requirements. What has worked in iDART favour thus far has been the inability of government to define its requirements. iDART competitors have access to greater resources than Cell-Life and is Propriety software. IDART however has been tried and testing the South Africa setting working in the most rural of clinics, with implementation and training costs minimal in comparison to that of its competitors. iDART has also been proven to work with little to no support required after implementation, which is advantages when the clinics don't have access to telephone lines or the internet. It is thus important for Cell-Life to exploit the strengths of iDART and also build on its functionality so that it may be technologically equal to that of its competitors.

- How can we obtain a superior competitive advantage

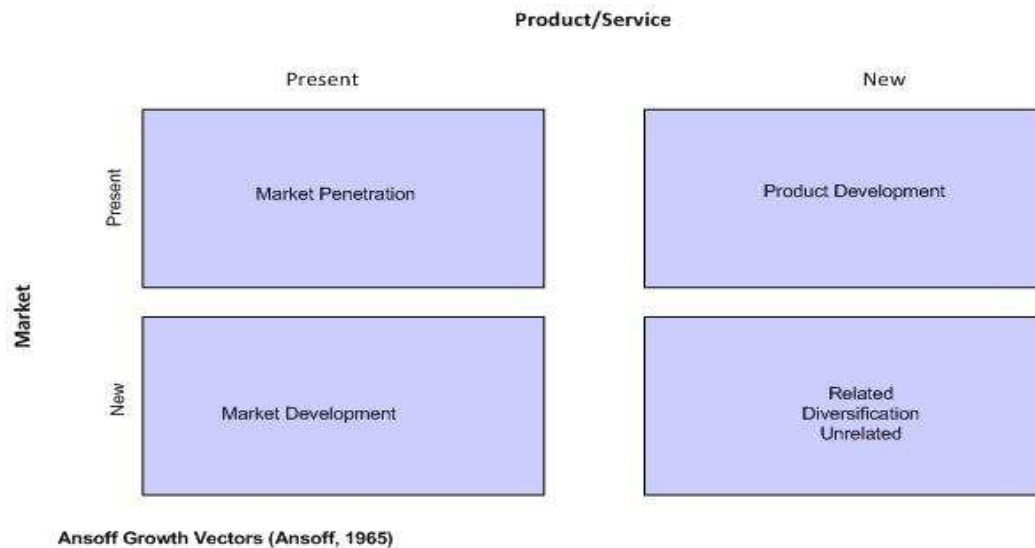
Cell-Life technology products are not the most advanced products available that could address customer requirements. One of the main reasons why Cell-Life has been able to provide continuous services to the HIV/AIDS sector and maintained the ability to be relevant when there have been more advanced technology available, is Cell-Life's ability to develop and implement technology that works in the most rural of settings and works with quick training, comprehensive training manuals and the ability of the products to remain stable and operate with minimum technical support. This has been one area that competitors to Cell-Life has not yet been able achieve. It is matter of time though and it is important that when that time does come that products are equivalent if not more advanced to that of its competitors.

NPOs looking to develop a corporate strategy have to fully understand what KSFs are required if they want to remain success, relevant and competitive within their chosen markets. KSFs may change as the external environment changes and NPOs have to continuously re-evaluate KSFs to ensure that they fully understand their customers demand as well as understand how their competitors have adjusted strategy, products and services to obtain a competitive advantage.

#### **4.3.1.4 Growth Vectors**

The Growth Vector model allows an organisations to determine whether they will seek growth through organic strategies or diversification strategies, where organic strategies involve exploitation of existing products or markets and diversification strategies that involve movement beyond existing products or markets (Viney and Gleadle 2007:68).

Using Ansoff's (1965) Growth Vectors to determine what strategies Cell-Life will implement to seek growth through Market Penetration, Market Development, Product Development and Diversification strategies (Viney and Gleadle 2007:68-90).



(Viney and Gleadle 2007:68)

Based on the findings in the competitive analysis, and Cell-Life establishment of its vision and mission, Cell-Life has already expanded the market it works in from just the HIV/AIDS sector the health sector as a whole. Cell-Life’s competitors have access to more resources and advanced technology that that as a NPO Cell-Life cannot compete with. Cell-Life does, however, have an advantage in its understanding of the health sector and challenges faced in the South African as well as African context. These should be areas that Cell-Life would seek to exploit in selecting its strategy to achieve a strategic advantage.

Based on these findings a Diversification strategy that allows Cell-Life to access more health sectors outside its specialised HIV/AIDS sector in which products are developed and customised based on the strength of Cell-Life in using technology innovatively to deal with challenges in South Africa. Cell-Life should distinguish itself from its competitors by providing products and technology that would otherwise only be accessible by more affluent communities to the low income sector without compromising on the quality of the services it provides. This could also be achieved through its access to open source communities and developers that are looking for innovative application of technologies developed. By tapping into these resources Cell-Life would be able to distinguish itself from its competitors in a niche market otherwise either neglected or misunderstood by its competitors.

Another aspect of diversification is the need to diversify its funding portfolio. Cell-Life cannot be too reliant on one donor or funding streams from one sector of the health. Should any donor become susceptible to economic pressure and reduce funding, Cell-Life could be heavily affected and could result in closure of the organisation. In our discussions with Jembi we highlighted the fact that

donors also provide funds through various payment methods. Some donors provide funding in advance, whereas other may provide funds after the services has been delivered. Should an NPO have more donors that pay after implementation than those that provide advances, the NPO may struggle to fund implementation projects and as a result lead to cash flow challenges which could adversely affect the NPO. In some cases it may be detrimental to the NPO to accept more projects if the funding is reliant on post implementation payments.

NPOs using the Growth Vector model, should based on its findings using KSF model determine how best to respond to the challenges within its current market or the need to grow its products or services in existing or other markets should it prove to be more profitable, socially required or strategically significant in achieving organisational purpose. By determining its strategy for achieving growth NPOs will then be able to structure itself internally in order to respond and compliment its corporate strategy with a structure that allows it to achieve its strategic objectives.

#### ***4.3.1.5 Organisational structure***

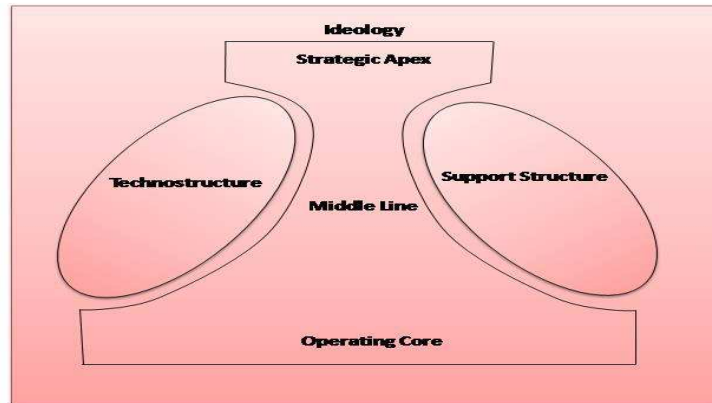
It is critical for successful strategy implementation that the organisational structure compliments that of the strategy selected in order to achieve objectives. Henry Mintzberg divides and organisation into Six Basic parts that should be considered and aligned to compliment strategic objectives (Segal-Horn 2004: 246-249). These parts include:

- Ideology;
- Strategic Apex;
- The Technostructure;
- Middle Line;
- Support Staff; and
- The Operating Core.



## Mintzberg's Six Basic Parts of the Organisation

Adapted from H. Mintzberg, in S. Segal-Horn, pp. 247



(Boojihawon 2005:16)

### Ideology

Ideology of Cell-Life has been entrenched in the way the organisation has been established and by the passion and vision of that of its member's directors and staff. It is this ideology that is constantly passed from the old or existing staff members to new staff that has joined Cell-Life. The organisation does not have the ability to compete financially in relation to salaries with that of for-profit organisation but it has established a good ideology that allows people to learn grown and fulfil the passion of helping people that require assistance in the health sector, and make a real difference. In Cell-lie recruitment process, ensuring that staff hired share this passion and buys into the ideology of the organisation will ensure that Cell-Life drive to make a difference in the sector is achieved.

### Strategic APEX

At the strategic APEX we have the Managers, Directors and Members playing a critical role in determining the strategic direction of Cell-Life.

At a manager level this input would come from the Sales and Marketing Manager, General Manager, Financial Manager, Technical Development Manager and Support Manager. These managers understand the challenges faced by Cell-Life and can provide valuable input into the operation and strategic challenges faced by Cell-Life. This information will then be forwarded to the Board of Directors.

Based on information provided by managers, the Board of Directors will advise on the best route forward and strategic adjustment required based on experience within the sector.

### Operating Core

### ***Administration***

The role of Administration is to ensure that the day to day running of the organisation is as smooth as possible. Currently the Admin department covers the following areas:

- Reception
- Meeting arrangements
- Stationery requirements
- Travel Arrangements
- Courier and postage
- General office management

An effective administration department ensures that the rest of the organisation operates effectively providing operating support as required.

### **Middle Line**

#### ***Projects and Research***

Project Managers ensures that the projects signed with donors or clients are implemented according to the budgets allocated, timelines and deliverables agreed upon. In 2011 Cell-Life opened a new department which focused on the research aspect on the project implemented. The role of this department was to determine the impact technologies used by Cell-Life had on the target market/patients/organisations. After evaluating the role the Project Managers and Researchers played, there had been many similarities in the way the two departments functioned. Research had evolved to a point that many of the proposals required a research component in order to justify the funding. Research had thus evolved to focus more on the management of projects. There is thus a need for projects and research to be combined to form a single department namely Projects. It will thus be the role of Projects to manage all new projects that have been signed and allocate the work accordingly.

#### ***Business Analyst***

Business Analyst plays an important role in bridging the gap between the client and developers.

Business analysts play two functions:

- Determine client needs and create functional specification that can be understood and created by the developers; and
- Determine new requirements by the market in which Cell-Life operates in and formulate business cases to management relating to new functionality and products.

The business analysts also form a critical link between the techno structure and the support structure of the organisation. The business analyst has to ensure that any new products and

solutions created by the developers are adequately handed over to Support to ensure that clients receive the necessary training and can be efficiently assisted should any challenges arise during the implementation of the solution

### ***Sales and Marketing***

The role of sales and marketing is critical in ensuring Cell-Life remains in operation. Sales team is focused on the identifying possible new projects or donors, establishing relationships and submitting proposals to secure funding. The end of 2011 was a difficult period for Cell-Life with the threat of possible retrenchments. It is thus imperative that Sales focus on bringing in new funding to ensure the existence of Cell-Life. Sales and Marketing should also complement the objectives set at the strategic apex. In many ways it is the sales and marketing that identifies the clients that would help the organisation achieve its objectives, There should thus be a constant feedback mechanisms between sales and marketing with the strategic apex to ensure that challenges are highlighted and trends in the industry is considered and implications are incorporated into strategic

### **Techno-Structure**

#### ***Developers***

Developers play a critical function in developing the ICT tools required in Cell-Life meeting its Vision and Mission. The role of the developers is to enhance and maintain current products (iDART, Capture and Communicate). Developers should also research new technologies that could aid in achieving strategic objectives.

### **Support Structure**

#### ***System and Client Support***

The role of support is to provide the adequate training and technical support on all products or solutions provided by Cell-Life. Support officers should have the technical understanding of software and hardware provided as well as the skill to train users with limited knowledge on computers.

Support plays a critical role in ensuring that clients/donors are properly supported and happy with the service provided by Cell-Life. This in turn will ensure that these clients/donors return to Cell-Life for any future projects

#### ***Systems***

Systems compliment structure as it allows the structure to operate efficiently. All internal stakeholders should have a clear understanding of how things are done and what is expected from

them within Cell-Life. Kaplan and Norton (1996:9) identified systems that allow the organisation to measure performance at various functional areas in order to determine how well the organisation is performing. These measured areas within Cell-Life should include:

Financial:

- Management Accounts
- Donor budget management and reporting
- Financial forecasts
- Cash flow statements

Customer satisfaction

- User acceptance testing report
- Technical implementation feedback
- Project Feedback reports

Internal Business

- Clear definition of roles and responsibilities
- Staff Performance measurement scales
- Continuous technology evaluation and development requirements
- Review process on interlinked systems to determine areas that require fine tuning

Learning and growth

- Identification of technology development
- Continuous strategic re-evaluation process
- Skills development of management and staff

By using these performance measurers, Cell-Life will be able to determine how well they are operating in order to achieve objectives, areas that require attention based on the measurement systems and how best to deal with the inefficiencies to improve on the organisations performance. These improvements will make Cell-Life more attractive to donors as Cell-Life will build a reputation as an organisation that will deliver a quality product in the time and budget allocated within the requirements and restrictions for the funding agreements. This is exactly what donors want, as they need to meet their own objectives and an organisation that can promise them a transparent efficient system is a preferred project partner.

NPOs need to develop a corporate strategy to ensure that they do not lose focus on what it is it hopes to achieve and what organisational adjustments are required that would allow it to effectively

and efficiently achieve its objectives. Clear communication of these objectives to all stakeholders both internal and external to the organisation is a critical requirement when formulating and implementing a corporate strategy. This will allow the organisations to create an identity for themselves which clients can relate to. Grant's (2008:7) four common factors for successful strategic planning of, keeping goals simple and consistent in the long term, profound understanding of competitive environment, objective appraisal of resources and effective implementation strategy should be factored in when undertaking the planning process in developing corporate strategy

#### **4.3.2 Competitive strategy**

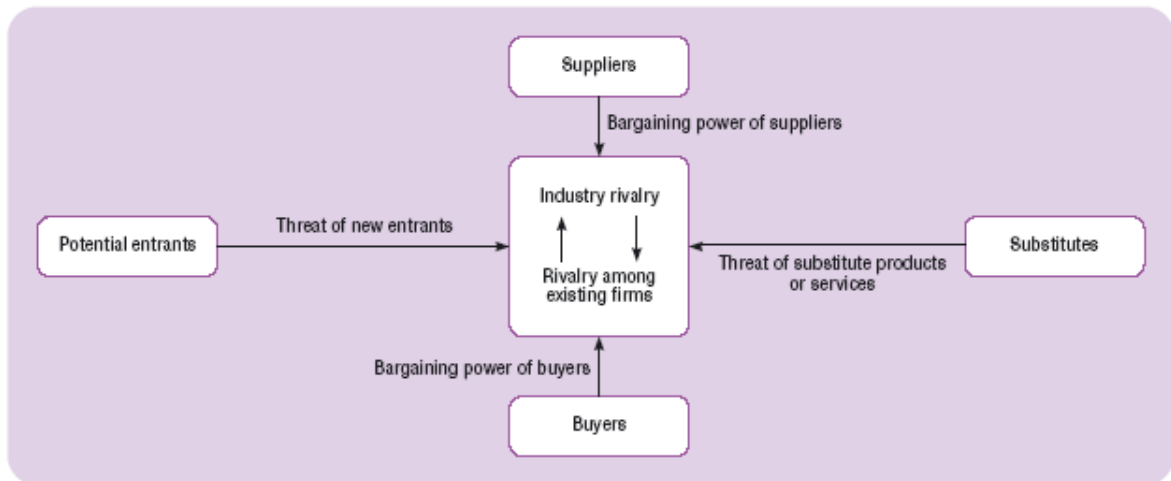
Competitive strategy is the formulation of strategy that enables the organisation to compete within their chosen strategy industry by identifying sources of competitive advantage (Viney and Gleadle (2007:15). Despite NPOs providing critical services to address social needs they still operate in an industry where funding is limited and access to donors or clients that are in need of their services are subject to competition either by other NPOs or for-profit organisations that have identified a means of creating profit out of social services. It is thus essential that NPOs develop a strategy that allows it to achieve a competitive advantage within the industry it operates.

Competitive strategy models will be used to highlight forces that determine industry attractiveness, environmental factors that influence organisations and strategies options that NPOs could use achieve a competitive advantage within its chosen industry. Competitive models that will be applied in the process include:

- Five competitive forces (Industry attractiveness);
- Environmental analysis;
- Porters generic strategies; and
- Value chain analysis.

##### **4.3.2.1 Five Competitive Forces**

Michael Porter (2008:80) identifies five forces that shape industry attractiveness and competitiveness. These forces include the threat of potential entrants in the industry, industry rivalry, bargaining power of buyers, bargaining power of suppliers and the threat of substitute products.



(Porter 2008: 80-86)

In applying this model to Cell-Life it is hard to apply it to the organisation as a whole as the products and services offered by the organisation is too diverse and has different competitors for each product offered. Application of the model will thus be done on product level.

**Capture:**

1.	<b>Industry Rivals</b>	<b>5 Main Competitors</b> <ul style="list-style-type: none"> <li>• <b>RapidSMS</b></li> <li>• <b>FrontlineSMS</b></li> <li>• <b>Mobenzi Researcher</b></li> <li>• <b>EpiSurveyor</b></li> <li>• <b>Nokia Data Gathering</b></li> </ul>
2.	<b>Potential Entrants</b>	Medium barriers to entry <ul style="list-style-type: none"> <li>• Few players with international competition</li> <li>• Requires specialised products and knowledge</li> <li>• Requires big investment in development cost to create a comparable product</li> </ul>
3.	<b>Buyers</b>	Medium to high buyer power <ul style="list-style-type: none"> <li>• Demand for services growing</li> <li>• Relatively new industry with competitors fighting for position</li> </ul>
4.	<b>Substitutes</b>	Low to Medium threat of substitutes <ul style="list-style-type: none"> <li>• Online surveys available with low switching costs</li> <li>• Growth of Android and Apple applications</li> </ul>
5.	<b>Suppliers</b>	High Supplier Power in terms of funding <ul style="list-style-type: none"> <li>• Funders</li> </ul>

		<ul style="list-style-type: none"> <li>• Wasps (Vodacom, MTN 8ta, Cell C)</li> </ul> <p>Low Supplier in terms of hardware</p> <ul style="list-style-type: none"> <li>• Solutions work on most basic Cellphone suppliers in clued all mobile phones (Nokia, Sony, Samsung, HTC)</li> </ul>
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In the analysis of Capture, there is a growing market that requires the technology to capture data using mobile technology. Buyers are still coming to grips with the possibilities of mobile data collection and may be easily influenced through efficient marketing strategies. The biggest force that influences the success of Capture is the threat of potential entrants into the market. As this is a growing market international cellphone producer, android and apple applications that are free and easily downloadable may claim a larger percentage of the market share as Smartphone technology grows within South Africa. Cell-Life will have to respond to technology trends and customise their solutions to work not only on the basic cellphones, but also Smartphones that have become cheaper and more easily available.

#### ***iDART***

<b>1.</b>	<b>Industry Rivals</b>	<b>3 main competitors</b> <ul style="list-style-type: none"> <li>• <b>Rx Solutions – USA</b></li> <li>• <b>Therapy edge - Europe (Luxembourg)</b></li> <li>• <b>Bookwise HIV and AIDS Clinical Management System – UK</b></li> </ul>
<b>2.</b>	<b>Potential Entrants</b>	<p>High Barriers to entry</p> <ul style="list-style-type: none"> <li>• High cost of product development</li> <li>• Government approval</li> <li>• Specialised knowledge and understanding the sector and challenges required</li> </ul>
<b>3.</b>	<b>Buyers</b>	<p>High Buyer Power</p> <ul style="list-style-type: none"> <li>• Government main clients and has the ability to dictate requirements</li> </ul>
<b>4.</b>	<b>Substitutes</b>	<p>High threat of substitutes</p> <ul style="list-style-type: none"> <li>• Pharmacy management systems</li> <li>• Clinic management systems</li> <li>• Hospital management systems</li> </ul>
<b>5.</b>	<b>Suppliers</b>	<p>High Supplier Power Funding</p> <ul style="list-style-type: none"> <li>• Donors fund system implementation and source of funding</li> </ul> <p>Low supplier power (hardware)</p>

		<ul style="list-style-type: none"> <li>• Computer hardware prices competitive with low switching cost (HP, Acer, for example)</li> </ul>
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iDART operates in a very specialised market with technology that requires a high level of sophistication and customisation. The client for iDART being Department of Health (DoH) has high buying power with the ability to influence implementation and the success of iDART projects. It is thus important that iDART remains relevant and compliments government strategic objectives in order to remain competitive in the market. IDART has to undergo continuous development and customisation and responds to market trends, as up to now the technology has focused only on the dispensing of ARVs and should government strategic objectives change to a system that requires full patient and clinic management, iDART may not be able to compete in the market.

### **Communicate**

<b>1.</b>	<b>Industry Rivals</b>	3 Main Competitors <ul style="list-style-type: none"> <li>• <b>Rapid SMS</b></li> <li>• <b>Frontline SMS</b></li> <li>• <b>Praekalt</b></li> </ul>
<b>2.</b>	<b>Potential Entrants</b>	Low Barriers to entry <ul style="list-style-type: none"> <li>• Technology has been available in the cellphone sector for years. Minimum customisation to existing systems required</li> </ul>
<b>3.</b>	<b>Buyers</b>	High Buyer Power <ul style="list-style-type: none"> <li>• Switching cost low</li> </ul> Lower Power for Customised services <ul style="list-style-type: none"> <li>• Campaign management specific to health sector offered by limited number of organisations</li> </ul>
<b>4.</b>	<b>Substitutes</b>	High threat of substitutes <ul style="list-style-type: none"> <li>• Many WAPS that can offer similar services</li> </ul>
<b>5.</b>	<b>Suppliers</b>	High supplier power <ul style="list-style-type: none"> <li>• MTN, Vodacom, Cell C, 8ta are the only service providers available to supply access to technology and are required for all services.</li> </ul>

Communicate strength lies in its ability to manage health communication campaigns. There is a high threat of competition in the sector with many potential competitors with low cost to move between

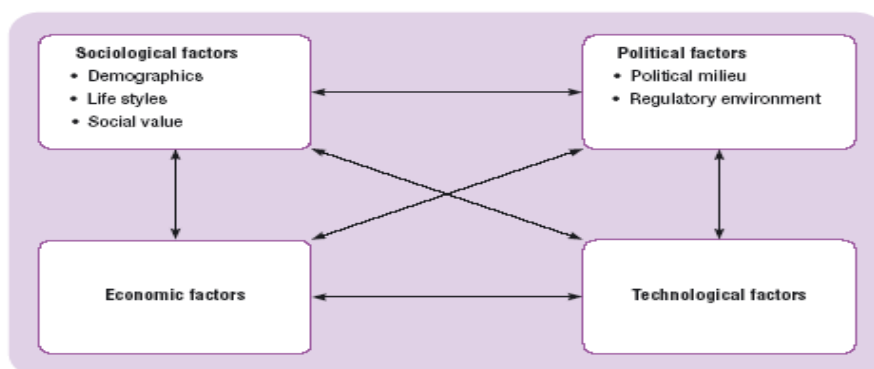


competitors. The technology itself is easily accessible, but it is the application of the technology that has differentiated Cell-Life from that of its competitors. For Cell-Life to achieve and maintain a competitive advantage in this sector it should focus on its niche, which is its understanding of the health sector, the communication and technology challenges faced in the African setting and its ability to quickly implement a customised solution.

NPOs using this model will be able to gather an understanding of the industry it operates in what factors influence it and its competitors and areas that can be exploited in order to build on its strength or develop products and services that will allow them to achieve a competitive advantage over that of its competitors.

#### 4.3.2.2 Environmental Analysis

The environmental analysis looks at the global microenvironment and using this analysis tries to project trends that may affect the NPO (Fahey and Narayanan’s (1986: 28-34). This analysis will look at the four factors and the considerations that Cell-Life has to make in formulating and implementing a competitive strategy.



(Bakhru 2005:20)

#### **Sociological factors**

As previously illustrated, NPOs are set up to address the gaps in services that cannot be provided by government. Social factors and trends thus directly affect the products and services are required or not provided by government. It is thus important for NPOs to understand what social factors affect their projects or programmes to ensure that they remain relevant and provide services that is required and funded.

For Cell-Life these social factors may include logistical challenges experienced by health service providers and patients, health issues affecting South Africa and literacy rates.

- **Logistical Challenges**

Logistical challenges faced by health services providers include distribution of medication, tracking of medication and patients, collation of relevant reports, collection of data and communication to patients. These factors directly influence the quality of service provided by the health sector.

- **Health Issues**

Currently the prevalence of HIV/AIDS in South Africa is one of the highest in the world. There is however other health challenges faced by South Africans which include Tuberculosis, hypertension and diabetes. The prevalence and impact of these health challenges directly affects the programmes developed and projects implemented by Cell-Life.

- **Literacy Rates.**

Literacy rates determine the successful implementation of health services as well the successful implementation of programmes developed by Cell-Life. Patients have to understand the implication of the disease they are faced with and need access to critical information that will keep them healthy or in the case of those susceptible to the disease, what they need to do to remain healthy and prevent exposure. The information should also be provided in format that is understandable and available to the target market.

Literacy also affects the success of implementing technology products. The end user has to understand how to effectively and efficiently use the system to their advantage. End users may not have experience using technology, and may require comprehensive training for effective project and programme implementation

### ***Political Factors***

Political factors for NPOs directly affect the relevance of their projects, the funding available for their projects as well as the rule that govern them operationally. In countries it is the government of the day that establishes a strategic objective that they would like to achieve, and for NPOs to be successful they have to compliment these strategic objectives. This will allow it to gather political support and access to funding as donors provide funds along government strategic plans.

Political factors that affect Cell-Life are legislative restriction and government's national health strategic plan.

- **Legislative restrictions**

Cell-Life has to adhere to the rules and regulations as stipulated in the NPO Act 71 of 1997. Failure to do this could result in Cell-Life losing its NPO status as well as all the benefits afforded to it. Financial benefits allow the organisation to certain tax breaks that aid NPOs. Should Cell-Life be in breach of these requirements it may have to pay tax that have not be factored in it financial forecast and cash flow. As we have established, cash flow is critical for NPO sustainability.

- **National Strategic Plan**

The Department of Health in South Africa has developed the National Health Strategic Plan 2009/10-2011/12. It is this plan that determines the strategic objectives of government and issues that affect South African citizens that will be addressed as well as how they will be addressed. Donors will look at this plan and provide funding along the these strategic objectives, for Cell-Life to increase their accessibility to funds, it has to be able to provide projects and services that will aid government in achieving these strategic objective.

### ***Economic Factors***

NPOs are very susceptible to economic pressures experienced in world markets. Donor funds are not as readily available to South African markets as donors experience an economic crunch and have access to fewer funds. Donors are also changing their perception of South Africa as they are now viewing the country as a middle income country. NPOs have to understand the international markets, where the funding has been allocated and how best to access the funding within the strategic objectives of government.

For Cell-Life, factors that affect their funding include:

- Global Economic crisis: Limits their access to funds; and
- Exchange rate: funds received in dollars and change it exchange rates affect the rand value of the funds received.

NPO like Cell-Life has to plan for these changes and know how these changes will impact on the organisation. One of the highest overheads NPOs have is that of salaries. Any action that affects the

salary of staff is one of the hardest issues to address. NPOs have to thus anticipate the influence on this budget line and structure contracts in way that clearly illustrates to the staff how these challenges will affect them as well as protecting the NPO.

Economic crises may also affect the sustainability of the NPO and may lead to the organisation closing its doors. NPOs have to find means of increasing their reserves so that these can be accessed when required to take the NPO through times where funding has been limited.

### ***Technological Factors***

Technological factors relate to the technology available within the sector that may be applicable to projects and programmes to enhance its effectiveness. For Cell-Life as an NPO focused on ICT development and implementation, the end user as well as the latest innovative technology available to developers always be factored in to ensure that their programmes and projects are technologically relevant to ensure success as well as continuous access to funders wanting their programmes implemented.

Technological factors affecting Cell-Life include:

- Type of mobile technology available in South Africa;
- Type of cellphone available in South Africa; and
- Open Source development programmes happening internationally that is applicable in South Africa.

Mobile technology and services provided by service providers (Vodacom, MTN, Cell C) are constantly improved upon. Cell-Life has to identify how these improvements can be used to strengthen to effectiveness and relevance of the projects.

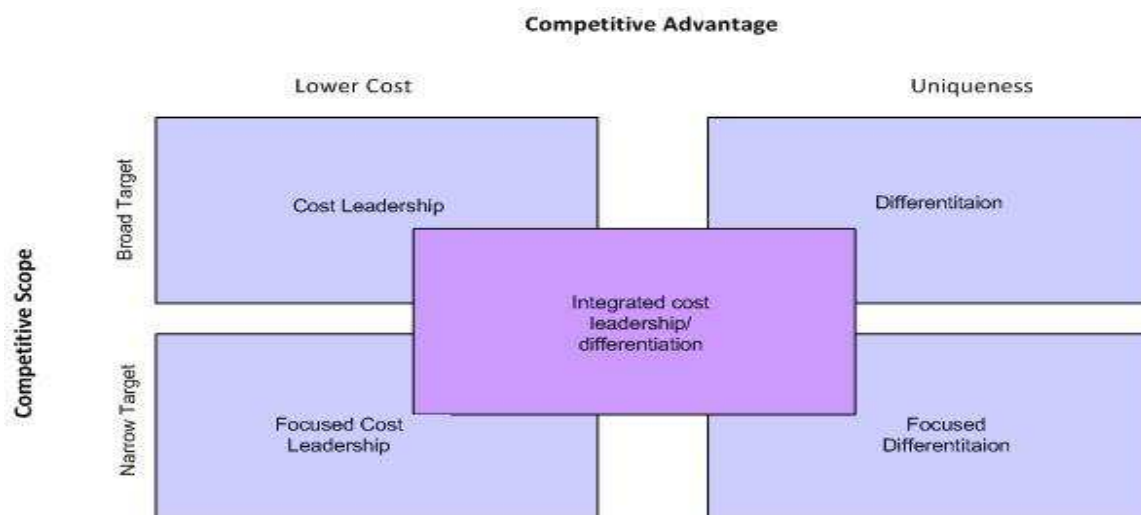
Cell-Life has also been focused on technology that works on the most basic of Cellphones, as this available to the majority of South African. There is however an increase in the use of Smartphone's as the price of Smartphone's decrease. Cell-Life has to assess whether changes in focus is required now or anticipate when this is required to respond effectively as the market changes.

Cell-Life operates as a developer of Open Source products. Develops in Open Sources communities are thus accessible to Cell-Life and should be used to either tap into resources to improve Cell-Life products or identify products available that could improve the effectiveness of programmes and projects implemented.

The environmental analysis will allow the NPO to understand exactly what factors influence the industry they operate in. By understanding the impact of the factors the NPO will be able to either exploit potential sources of competitive advantage by responding to the needs and requirements within the industry or mitigate any risks that may adversely affect the organisations long-term sustainability.

#### 4.3.2.3 Generic Strategies

Grant (2008:218) identified two possible strategies that firms can use to increase profits. These strategies included either lowering cost or differentiating the products from that of the competitors. Porter (1995 and 1998) further expanded to this model further by adding a focused cost and differentiated strategy along with an integrated strategy of cost reduction with products differentiation.



(Viney and Gleadle 2007:18)

For NPOs minimising of costs is essential for successful project implementations. NPOs should always seek to implement it services efficiently and effectively making the most out of the funding provided. Inefficient systems might lead to funds not being spent as efficiently as intended.

The work conducted by NPOs deal with social service inefficiency which means the quality of the products provided should be of a standard that will allow it to achieve its organisational objectives. Access to donor funding is also challenging for many NPOs and it has to establish a product or service that will allow them to stand out from other NPOs bidding for the same funding. The

programmes thus have to be unique or innovative in achieving objectives as donors prefer funding initiatives that find new efficient ways of meeting their objectives.

Cell-Life faces these challenges as the products developed by Cell-Life may not be as comparable to that of products developed by for-profit organisations. What Cell-Life does have is an understanding of the health sector and how best to apply the products and services effectively that will address the technology challenge. This is where Cell-Life has developed and can build on a niche market. The best strategy for Cell-Life to explore is that of an integrated cost leadership/differentiation strategy. The following areas Cell-Life should focus on in exploring an integrated cost leadership/differentiation:

- Cost reduction
  - Improve internal systems: Identify internal systems that can be implemented to speed up project delivery without affecting quality.
  - Department interdependencies: identify interdependencies between departments and ways of ensuring information is communicated effectively.
  - Financial Management: Budgets are allocated and implement systems that effectively track spend to ensure projects do not overspend on budgets.
  
- Product differentiation

The best way to differentiate the products used by Cell-Life to identify products used in the information and communication technology sector and find ways and means in which these technologies can be customised to work in the Cell-Life context that minimises the cost to the end user but achieves the same results. Cell-Life might struggle to fund development of new products but can gain a competitive advantage in the sector in the application of products to address the health challenges with South Africa.

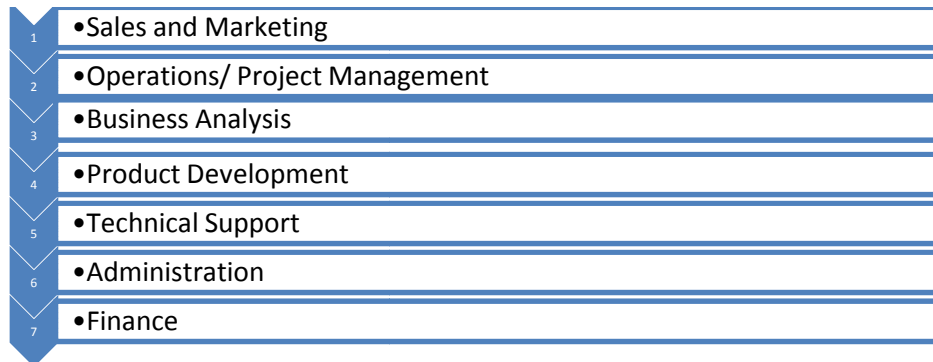
For NPOs and integrated cost leadership/differentiation might be the best of the generic strategies to pursue in order for it to achieve a competitive advantage over other NPOs or for-profit organisations.

#### **4.3.2.4 Value Chain**

As identified in the generic strategy process to increase profits organisations will either reduce cost or differentiate their products and services from that of its competitors. Once this competitive strategy

has been identified, to find out if the organisation has the ability to implement the strategy, an analysis of current resources and systems is require. Using a Value Chain analysis, an organisations will be able to break down the activity path of the organisation in implementing their products and identify areas that and missing links that will strengthen the organisations objective of achieving a competitive advantage (Bakhru and Gleadle 2007:27-29).

The below details the activity path of Cell-Life:



Analysing the activity path of Cell-Life as well as the implementation of the Mintzberg six basic parts of the organisation will allow Cell-Life to determine systems that can be refined to improve efficiency. Interdependent activities are normally areas which require special attention as this is where critical information can be lost that directly impact on the success of projects.

NPOs should use the Value Chain analysis to determine whether all functional areas required to successfully implement projects and programmes are in place to meet organisations objectives.

#### **4.4 Strategy Conclusion Link Between Resources Capabilities and Competitive Advantage**

Aim of undertaken a strategic planning process is to achieve a competitive advantage over competitors and secure the long-term sustainability of the organisation. The strategy process detailed presented models that could be used by NPOs to establish a competitive and corporate strategy. Grant (2008:131) presents a model that brings together corporate and competitive strategy and using these to establish a competitive advantage within the market the NPO operates in.



(Grant 2008:131)

The corporate strategy process allows the organisation to define organisational objectives, establish goals and values, identify and establish resource and capabilities focusing on determining requirements and measurements of performance and establishing structure and systems that would allow effective implementation of organisational objectives.

The competitive strategy process addressed identifying a strategy that would enable the organisation to compete within their sector and identify possible sources of competitive advantage. NPO undertaking this process will develop an understanding on competitive forces they are affected by and understand who their competitors are and what motivates them. It also allows an NPO to identify what strategy would enable them to achieve a competitive advantage using resources and capabilities they have access to. The process also allows the NPO to identify whether they are operationally able to achieve their competitive objectives and identify weaknesses and systems required to address these weaknesses to effectively implement competitive strategy and gain a competitive advantage.

Corporate strategy should compliment competitive strategy to effectively and efficiently allow the organisation to achieve its strategic objectives. The key to successful strategy implementation is as identified by Grant (2008:7) keeping goals consistent and long term, develop a profound understanding of competitive environment objective appraisal of resources and effective implementation of strategy. NPOs operate in a competitive environment and should embrace the need to act more like for-profit organisations, despite opposing objectives they both are susceptible to similar operational and environmental challenges in achieving their objectives. The models presented should allow NPOs to understand the market forces that affect them. For NPOs to secure their long-term sustainability they have to undertake a strategic planning process to adequately plan and implement initiatives that will allow them to gain respond to market challenges and requirements and gain competitive advantage.



## Chapter 5:

### 5.1 Conclusion

This paper highlighted the differences between NPO and for-profit organisations and sought to identify a strategic process which could be used by NPOs to achieve sustainable and a competitive advantage. The South African Government has recognised the need for NPOs and the important role they play in delivering social services, and has thus established the NPO Act 71 of 1997 to implement legislation that allows NPOs to prosper.

Despite these initiatives NPOs are still highly susceptible to economic changes that directly affect its ability to remain in operation despite the need for the essential service they provide. Recent economic crises has placed strain on the sector which has led to a reduction in the access of donor funds with some important funding streams having to cancel funding altogether in the short term. NPOs thus have to find ways in which they could reduce their reliance on donor funds to ensure the service they provide can continue. Focus has thus shifted in NPOs to establishing sustainable initiatives and identifying alternate sources of funding that will ensure their own sustainability.

Through the research an interview process, the challenges faced by NPOs highlighted included:

- Effects of global economic challenges has led to reduced access to funding
- Requirement to increase donor support to project initiatives
- Challenges experienced in Africa are unlike any other challenges faced in the world. It is these challenges that affect the success and implementation of projects. Funders need to properly understand this and how it affects projects and budgets
- Need to become sustainable and remove reliance on donor funding
- Challenge implementing projects with government.
- Need for strategic alliance of social initiatives

Through this research process it was identified that NPOs have to act operationally more like for-profit organisations of how they approach the market. Despite facing different challenges the need to effectively and efficiently implement projects and services are common. Both types of organisations also require an effective strategic plan that allows it to achieve a competitive advantage or in the NPO case, a strategy that will allow it to attract more donor funds and implement initiatives that removes total reliance on donor funds to ensure their sustainability.

To achieve this, it was identified that NPOs need to implement a corporate and competitive strategy that will allow it to achieve its objectives and ensure sustainability. Corporate strategy focused on clearly identifying what its strategic objectives are, who the key stakeholders are that need to be considered, what the key success factors are to achieve objectives, what strategy they are going to implement to achieve growth and what internal system and structural changes are required that would enable the NPO to achieve their objectives effectively and efficiently. Competitive strategy addressed the need to formulate a strategy that enables the NPO to compete in the industry they have chosen. This process analysed the industry the NPO operated in identifying the industry attractiveness, conducted an environmental analysis to determine factors that need to be considered that affect the NPO, identified approaches to strategy formulation based on these findings and identified process and systems required to ensure successful strategy implementation.

Cell-Life has faced many of the challenges experienced by many NPOs working in the health sector, and application of this strategic process to Cell-Life has illustrated how these strategic models can be used by other NPOs. The paper sought to provide the NPO with a strategic business process required to identify how they could approach the industry, taking into consideration the challenges faced. Whether this process involved remaining reliant on donor funds or implementing models that focus on generating their own source of income, there is always a need for NPOs to differentiate itself in a competitive market to achieve a competitive advantage and ensure long term sustainability.

## **5.2 Future Research**

Future research could be conducted on the following areas:

- A comparative analysis on whether the challenges faced in the health sector are similar to challenges faced by NPOs that operate outside this sector.
- Relevance in the application in the strategic models highlighted to sectors outside health
- A comparative analysis of NPOs that operate in South Africa and NPOs in the rest of the world.

Expanding this research will that would add valuable information to NPOs in identifying strategic models and learning from different approaches taken by NPOs to ensure their sustainability in other markets.

## Chapter 6: Appendices

### Appendix 1: General / Operations Manager Interview Questions

1. Why was the organisation established?
2. What is the vision and mission of the organisation?
3. What is the current structure of the organisation?
4. What role does the board and directors play in the organisation?
5. Has the organisation undertaken a recent strategic analysis?
6. What was the goal and objectives of this strategic analysis
7. What were the key areas highlighted in strategic analysis that would allow the organisation to achieve its goal and objective
8. What are the main challenges identified in meeting strategic objectives
9. How are strategic decisions relayed to the staff of the organisation?
10. How are funds obtained?
11. Who are the organisations main funders?
12. Did the donors request any changes that were unique to their requirements?
13. How has the current economic climate affected the organisations ability to access funds?
14. How are funds allocated to cover internal operations requirements outside project scope of work
15. How does the organisation fund research and development of new products not funded by donors
16. What is the current working relationship with government
17. What are the challenges faced when working with government
18. How sustainable is the organisation and reliant on funding
19. What can the organisation do to become more sustainable

### Appendix 2: Financial Manager Interview Questions

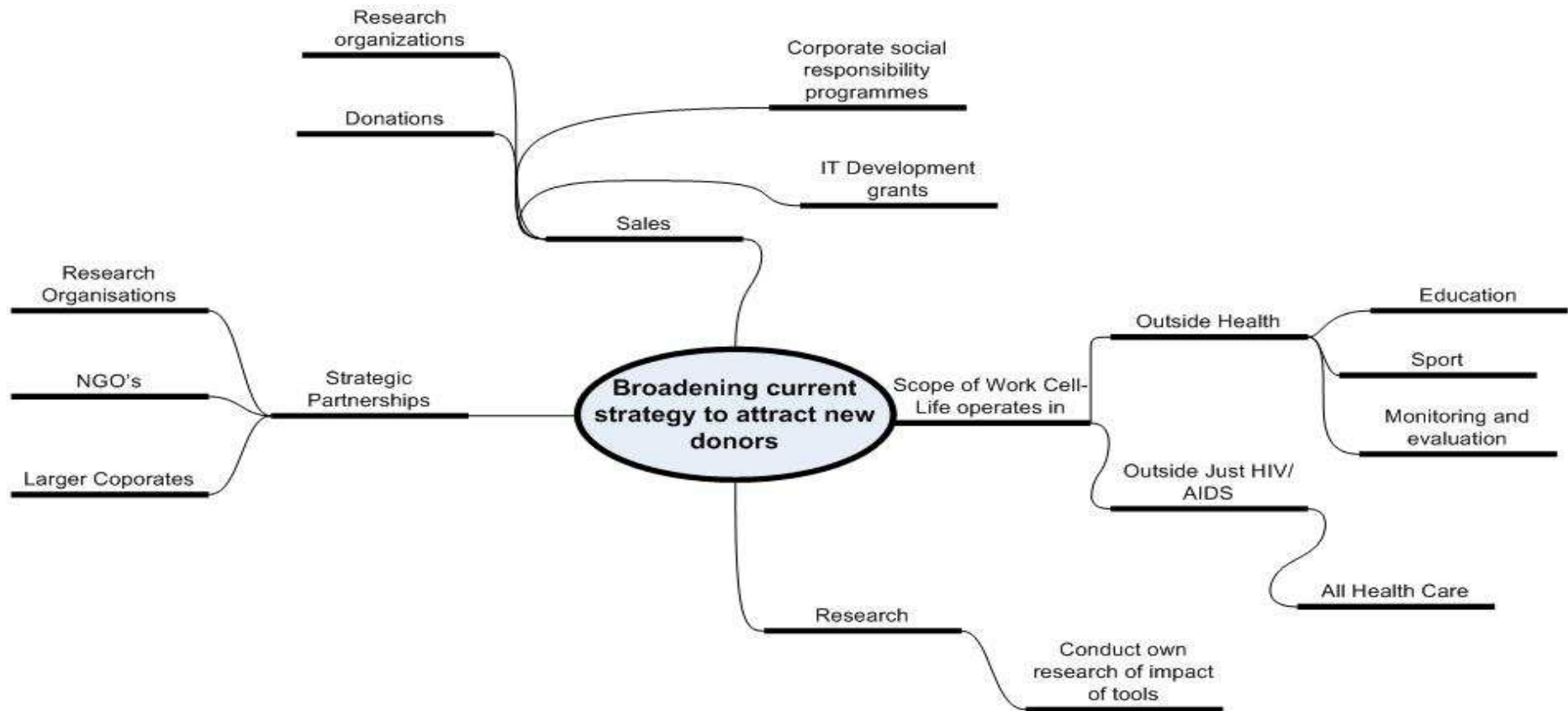
1. What is the organisations main source of income?
2. Does the Organisation receive income from source other than donor funding
3. What is the income percentage split
4. Is the organisation registered with Section 18 A
5. Has section 18A allowed the organisation to access funds that would otherwise not be accessible
6. What models are used in generating project quotations?
7. How are funds allocated to projects?
8. How does the organisation cover operating expenses outside project expenses?

9. How is forecasting done within the organisation?
10. How accurate are forecasts?
11. What are the challenges in doing financial forecasts?
12. How are budget allocations done?
13. How often are donor payments received? Do they give an advance or expect to invoice after costs incurred?
14. What are the challenges when generating financial reports to donors?
15. Do all donors use the same financial reporting system?
16. If not how easy is it to report using different reporting?
17. What financial challenges are faced by the organisation?
18. What changes to donor requirements could be suggested that would aid NPOs?
19. How sustainable is the organisation or how reliant is the organisation on donor funding?
20. What changes if any would be required to remove reliance on donor funding and become more self sustainable
21. What changes in the external environment would have a detrimental effect on the organisation?

### **Appendix 3: Project Manager Interview Questions**

1. How many projects are currently undertaken by the organisation?
2. By how many different donors is the organisation funded by?
3. How are budgets allocated?
4. Do donors have similar or different reporting requirements?
5. How much time does it take to generate reports?
6. Do donors provide assistance to the organisation in achieving objectives other than financial assistance?
7. How are resources allocated to projects?
8. What are the challenges if any with working with donors?
9. What are the challenges if any with working with government institutions?
10. What is the best way to prioritise projects with the limited resources available?
11. Does cutting project costs allow funds to be redistributed to other areas of the organisation outside that of the project
12. How does the organisation fund Research and development of new products not funded by donors

## Appendix 4



## Appendix 5: Analysis of Competition

### Appendix 5A: Capture:

	<b>RapidSMS</b>	<b>FrontlineSMS</b>	<b>Mobenzi Researcher</b>	<b>EpiSurveyor</b>	<b>Nokia Data Gathering</b>
<b>Developers</b>	UNICEF's Innovation Group	Kiwanja	Clyral	DataDyne.org	Nokia
<b>Summary</b>	RapidSMS is the underlying framework used to build a number of SMS-based application for data collection, logistics and communication.	Open Source platform that provides for data collection using basic phones and as a result collects data only via SMS.	Mobenzi Researcher is a 'cloud-based' service that enables data collection via SMS, WAP, and/or HTML.	Episurveyor is a 'cloud-based' service that enables collection of text and GPS data using a variety of mid-ranged handsets. Software resides on EpiSurveyor servers and interfaces with client software on handset.	Nokia Data Gathering (NDG) allows for text and GPS data collection via advanced handsets. Client (mobile) and server software are free to download and install.
<b>Basic description of system</b>	Browser-based application resides on server, communicates with basic phones.	Stand-alone software application used to manage SMS messaging via cellular phone or GSM modem.	Cloud-based service where all data is sent and received from centralised servers. Accounts managed via internet connected PC.	Cloud-based service where all data is sent and received from centralised servers. Accounts managed via internet connected PC.	Server software resides on local PC and communicates with client software on cellular phones.
<b>Data Type Collected</b>	Text (SMS)	Text (SMS)	Basic text (SMS), (WAP, Mobile App Channel)	Primarily Text data via mobile web forms. Can also collect location with GPS enabled phones.	Text data via forms. GPS and image data can also be gathered.
<b>Operating System</b>	Linux, Mac, Windows	Linux, Mac, Windows	Multiple (externally hosted - accessed via browser)	Multiple (externally hosted - accessed via browser)	Linux, Windows
<b>Handset</b>	Basic Phones	Basic Phones	Depends on channel used. Basic to sophisticated.	Java, Android, BlackBerry or Palm.	Nokia S40 (Java enabled) or S60 (Symbian) Smartphone. Windows
<b>Network</b>	GSM (SMS)	GSM (SMS)	GSM (SMS), GPRS (WAP), EDGE, 3G	GPRS, EDGE, 3G	GPRS, WiFi
<b>Software customisation</b>	Open Source, completely customisable.	Open Source, completely customisable.	Core application not customisable. Does provide APIs for extending product.	Core application not customisable. Does provide APIs for extending product. Handset clients are open source and customisable.	Open Source, completely customisable.
<b>Licensing</b>	Open Source	Open Source	Proprietary	Proprietary, Handset clients Open Source	Open Source

**Appendix 5B: iDART**

	<b>Rx Solutions - USA</b>	<b>Therapy edge - Europe (Luxembourg)</b>	<b>Bookwise HIV and AIDS Clinical Management System - UK</b>
<b>Developers</b>	Rx Solutions	Therapy edge	Virtual Purple
<b>Summary</b>	The Rx solution software is an integrated computerised pharmaceutical management system. the software supports best practices for procurement, storage, distribution, and dispensing of pharmaceuticals and medical supplies It can also manage and track stock transactions, product usage; has modules for budgeting, procurement, receipts, requisitions, dispensing and Down referrals. Also has modules for Billings and Private Healthcare capabilities	TherapyEdge’s, web based and local TherapyEdge Box Systems allow clinicians to identify and deliver the best therapies for people living with complex, chronic diseases by utilising advanced artificial intelligence technology to organise an assimilated state of the art medical and clinical trial data TherapyEdge’s real-time intelligent alert system automatically checks for potential drug interactions, commodities and significant past medical histories, as well as abnormal lab results and accuracy of drug dosing.	Comprehensive chronic disease management system-hosp administrative system integrated with HIV clinic management system. Biometrics, smartcard technology, links with lab management system, integrated Pharmacy module, alerting module, SMS module evaluation of key performance indicators
<b>Architecture</b>	Very extensive pharmaceutical management system. They have a large amount of modular functions. They have the ability to work within managed care environment, as well as public and private sectors. Rx solutions more advanced than iDART	The TherapyEdge system is deployed via the internet to permit web access, or via the local network of the clinical site. Its flexible architecture permits the systems to seamlessly communicate with other computer systems.	Very similar to iDART, though much more advanced
<b>Requirements</b>	Computers, scanners, printers, servers.	Computers/servers. After integration with iDART, they will require scanners and printers.	Computers, scanners, printers, servers.
<b>Internet</b>	Yes	Yes	Yes
<b>Connectivity required for data collection?</b>	No, can collect offline	No, can collect offline	No, can collect offline
<b>Customisation</b>	Proprietary (closed)	Proprietary (closed)	Proprietary (closed)
<b>Overview</b>	Not available off the shelf.	Not available off the shelf. Funded by donor organisations.	Not available off the shelf.
<b>Licensing</b>	Proprietary	Proprietary	Proprietary

## Appendix 5C: Communicate

	<b>Rapid SMS</b>	<b>Frontline SMS</b>	<b>Praekalt (Vumi)</b>
<b>Developers</b>	Rapid SMS	Frontline SMS	Praekalt
<b>Summary</b>	RapidSMS is a free and open-source framework for dynamic data collection, logistics coordination and communication, leveraging basic short message service (SMS) mobile phone technology.	Simple to use desktop based mass messaging platform. More targeted towards data collection, though can be used as a mass-communications system.	Vumi is a super scalable "conversation engine" that enables communication across all platforms.
<b>TECHNICAL</b>		Stand-alone software application used to manage SMS messaging via cellular phone or GSM modem.	[Simon to go into detail]
<b>Customisation</b>	Open-source and completely customisable.	Open-source and completely customisable.	Open-source and completely customisable.
<b>Licensing</b>	Open-source	Open-source	Open-source
<b>Language</b>	English		English
<b>Support</b>	Through the various implementers: Dimagi, UNICEF, Tostan, App Africa and others		



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