

Relationship marketing and financial viability of Non-Governmental Organization: A case of NGOs in Nairobi City County, Kenya.

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ABSTRACT: *This study is part of an on-going PhD dissertation from University of Nairobi. The purpose of this study was to examine the effect of relationship marketing on financial viability of NGO. The study was informed by realization that not for profit organizations do not appreciate the role of marketing in their activities yet one of their greatest challenges is attracting funding to run their affairs. Data was collected from NGOs operating in Nairobi City County in Kenya. The study revealed that relationship marketing has positive linear relationship with financial viability of NGOs. NGOs managers should develop relationship with a variety of stakeholders of their organizations for smooth running of their affairs. The study recommends training of NGOs managers on roles of relationship marketing within their organizations with the aim of changing culture. This would make them treat their clients and donors as partners which will result in not only attaining financial viability but improved overall performance.*

Keywords: *Donor funding, financial viability, Non-Governmental Organizations, Relationship Marketing, Trust*

I. INTRODUCTION

Relationship Marketing is the new trend and paradigm in world of marketing in twenty first century shaping marketing activities globally. Marketing practioners and other stakeholders in business have realized the significance of developing concrete mutually satisfying relationship for all prayers for success of business ventures. What is relationship marketing? (1) Relationship marketing also called customer relationship marketing refers to marketing characterized by an emphasis on building a long-term customer relationship with selected customers. (2) Relationship marketing is also viewed as “the process of identifying, developing, maintaining, and terminating relational exchanges with the purpose of enhancing performance.” On their part (3) viewed relationship marketing as the “ongoing process of engaging in cooperative and collaborative activities and programs with immediate and end-user customers to create or enhance mutual economic value, at reduced cost.” (4)Emphasized that relationship marketing as the development of long-term relationships between the customers and the suppliers, in order to generate advantages for all those involved and to allow the co-creation of value rather than its unilateral distribution). (5)was one of pioneers of relationship marketing and defined it as attracting, maintaining and-in multi-service organizations-enhancing customer relationships.(6) referred to relationship marketing as marketing oriented toward strong, lasting relationships with individual accounts while (7) viewed relationship marketing as all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges.

From these definitions we view relationship marketing as where the individual organization seek to identify, establish, enhance and continuously improve their interaction with all stakeholders for mutual gain at lowest cost possible. It is a deliberate, well-orchestrated marketing strategy of maintaining an edge in the market by taking into account the interest of all stakeholders. (8)argued that organizations should view stakeholders as partners, the process of dealing with stakeholders as a means of creating value and the resulting partnerships as tools for increasing the firm's ability to compete.

Dimensions of relationship marketing significance in this study include but not limited to trust, commitment, social bond, empathy, good experience, internal relationship marketing and communications. On their part (9)identified levels of relationship marketing as financial, social and structural relationships. They concluded that relationship marketing was essential for organizational profitability.Non-Governmental Organizations (NGOs) also referred to as Civil Society Organizations (CSOs) or Public Benefit Organizations (PBOs) are self-governing, private, not for profit organizations that are geared to improving quality of life for disadvantaged people (10). The (11) defines non-governmental organizations as not-for-profit groups, principally independent from government, which are organized on a local, national or international level to address issues in support of the public good. Financial viability of NGO refers to their ability to attract donor funding and run their operations smoothly. It is measures on aspects such as consistency in attracting funds from current and potential donors, asset base of the NGO, sufficiency of funds for daily operation (cash flow) as well as receiving of funding and other forms of resources from diverse sources.

II. MARKETING IN NOT FOR PROFITS ORGANIZATIONS

Application of marketing in not for profit organizations has been a controversial debate over the years. Some scholars such as (12) dispute application of marketing in nonprofit organizations claiming that “marketization” of the nonprofit sector is not healthy for the civil society. They argue that this would lead to potential deterioration of the distinctive contributions that non-profit organizations make in creating and maintaining a strong civil society.(13)Argued that in particular the “marketization” of official NGO funding tends to work against NGO efficiency, in contrast to the efficiency enhancing effects expected by the proponents of marketization. (14)On his part argued that it is difficult for non-profit to pursue financial imperatives of the market without compromising their social mission.

On the other hand, (15) and (16) strongly support application of effective marketing strategies by nonprofit organizations in order to compete for donor funding that is in short supply and to build good reputation in the market place. Further, (17) as well as (18) assert that NGOs must embrace sound marketing management strategies in order to attract donor-funding necessary for survival.(19)Suggested that majority of non-profit organizations have an “organization-centered” marketing mindset and may falsely believe that their product or service is needed by the market. On adoption of marketing by nonprofits, (20) indicated that marketing lagged behind compared to other business practices like accounting, financial management, and formal planning. (21)On study of application of marketing in nonprofits found out that more than 80% of nonprofits engaged individual with no formal marketing training in their marketing department and also concluded that many non-profit organizations still demonstrate a distinct lack of understanding of what the principles of marketing are and largely focus their efforts on sales and promotional activities. The challenge of applying marketing in nonprofits may be summarized by two significant quotes: one from Hunt and the second from Kotler&Andreasen.

“Sadly, most administrators of nonprofit organizations and many academicians in other areas still do not perceive that many problems of nonprofit organizations are basically marketing in nature, and that trained marketing practitioners can help to resolve these problems. (22).”

“Many of those who could use marketing principles do not do so because they do not see the relevance of marketing to their tasks. But we would argue that, in nonprofit organizations, public relations specialists, fund-raisers, volunteer recruiters, and employee supervisors are all at one time or another marketers. And, as such, they can all benefit from understanding the philosophy and approach to marketing (23)”

III. RELATIONSHIP MARKETING IN NON-PROFITS

(24)was one of pioneers of relationship marketing and argued that the time had come for a shift in marketing paradigm. He pointed to relationship marketing as the basis for future marketing replacing the marketing mix model. Gronoos approach of relationship marketing was however limited as it was only concerned with customers. Relationship marketing model incorporates all stakeholders and not just customers.(2)traces development of marketing theory from 1950s and 1960s where institutional economics, sociology, and psychology disciplines were key contributors to relationships. This was followed by exchange and power and dependence theories borrowed from sociology in 1970s and 80s. 1990s and 2000 saw the development of relational contracting, social exchange and transaction cost economics theories which form part of foundations of relationship marketing theories. From 2000 Relationship marketing theory has evolved as a conglomeration of theories such as Commitment-trust, Resource-based view of interfirm, Interfirm relationship marketing, network and Micro theory of inter- personal relationships. The future is bright for relationship marketing as it seems to capture majority of issues raised in business performance.

Extant literatures shows that most of work on Relationship Marketing has been carried out in commercial organizations. For instance (25)(26)(27) and (28) assessed application of relationship marketing in commercial banks in Kenya. They found out that majority of these banks practiced relationship marketing and was incorporated in their strategy. They were of the view that more needs to be done to integrated relationship marketing in operations of these organizations as means of achieving organizational effectiveness and productivity. (29) Carried out a study whose purpose was to evaluate the applicability of the stakeholder relationship-marketing model to Chinese businesses. From their analysis, they concluded that the stakeholder relationship-marketing model and its measurement instrument were as applicable to Chinese businesses as they were to Western businesses.

(30)Found out that relationship marketing was unknown and not practiced in some nonprofit institutions in Kenya. There is great need to ascertain the level of awareness of relationship marketing especially in nonprofit institutions in Kenya. This study was done as a case study of one institution and therefore its findings may not be relied upon for generalization.A study by (31) found out that marketing is significant and essential for communicating mission and vision of nonprofits thereby persuading donors to believe that by financing the non- profit organization, their values are given a shape and voice. They further concluded that the

role of relationship marketing was understood by majority of NGOs but not linked to formation of long-term relationships. Relationship marketing was found to be a tool that can give an NGO a competitive edge. This study was however based on proportions (percentages) and therefore need for a study based on inferential statistics.(32)Identified achievement level while being a member of the organization, time affiliated with the organization, involvement level as a result of affiliation with the organization, family members' affiliation with the organization, respect for the organization's leaders, and satisfaction with the organization in general, and felt reciprocity as key variables that influenced relational exchanges between nonprofits and donors. This was echoed by (33) who found out that NPOs that adopted relationship marketing were more likely to attract donor funding compare with those that applied traditional marketing tool such as collection tills in shops and charity shops. "Collection tills in shops are just not enough these days, organizations need to be proactive in order to find and keep donors as well as to make sure that they remain loyal to their organization and cause(34).(35)Emphasized that much of the research on relationship marketing success had focused on relationships that, are primarily economic in nature, involve business-to-business marketing, and involve for-profit firms. They were of the view that relationship marketing could also be applied in not for profit organizational to achieve their objectives. In their study they observed that many exchanges involve both economic and noneconomic (i.e., social) benefits, that firms are turning to relationship marketing strategies to communicate exchange benefits and that most research in relationship marketing has not focused on the factors key to success.

IV. RESEARCH PROBLEM

From the reviewed literature, a number of issues were sighted that informed this study. First the realization that there are opposing views on the role of marketing in nonprofit organizations and more so in NGOs calls for rigorous studies in this area. Second the understanding that relationship marketing was unknown and not practiced by some nonprofits in Kenya calls for more work on this area. According to (36) financial challenges was listed as number one problem faced by NGOs in offering services in Kenya. It was necessary to find out whether suggestion by (22) and(35) that if NGOs embraced marketing practices that majority of their problems would be addressed successfully. Finally the realization that majority of work in relationship marketing has been done in profit making organizations, it was significant to find out whether relationship marketing would have similar effect in the not for profit sector.

V. RESEARCH METHODOLOGY

The study adopted descriptive cross-sectional survey as the appropriate research design. Data was collected from 122 NGOs operating Nairobi City County in Kenya. The study aimed at examining the effect of relationship marketing on financial viability of NGOs. A questionnaire was developed for data collection. The questionnaire was tested for reliability through Cronbach's Alpha test and confirmatory factor analysis test. Correlations were used to test convergent validity. The study used correlations to assess whether there was any association between the study variables. The study further used regression analysis to test the strength of the relationship between the independent variable and the dependent variable.

VI. FINDINGS

Cronbach's Alpha test was first carried out to assess the reliability of the questionnaire on the independent variable (relationship marketing), and the dependent variable (financial viability) and the results are indicated in Table 1.

Table 1: Cronbach alpha test results

Construct	Number of Scale items	Cronbach alpha
Relationship marketing	11	.829
Financial viability	10	.854

Cronbach's Alpha test is the most common measure of internal consistency that indicates the extent to which a set of items can be treated as measuring a single latent variable. The recommended value of 0.7 was used as cut off point as any value less than 0.7 implies that internal consistency among items is weak (37). All the items scored higher than this and therefore were qualified for further analysis. Confirmatory factor analysis test was carried out to determine critical factors that were underlying the three variables. The results are presented in Table 2.

Table 2: Factor analysis

Variable	Factors	Cumulative Variance explained
	Service quality	

Relationship marketing practices	Responsiveness	61.878%
	Customer support	
Financial viability	Operating capital	67.957%
	Access to funds	
	Financial sustainability	

The results indicate that relationship marketing practices had three significant factors (service quality, responsiveness and customer support) accounting for 61.9%, while financial viability produced three critical factors accounting for 68%. KMO and Bartlett's Test were all significant for the two study variables. Table 3 present Pearson correlation analysis results. The results indicate that there was a moderate correlation between relationship marketing and financial viability.

Table 3: Correlations analysis

Correlations			
		1	2
Relationship Marketing	Pearson Correlation	1	
	Sig. (2-tailed)		
Financial Viability	Pearson Correlation	.432**	1
	Sig. (2-tailed)	.000	
** . Correlation is significant at the 0.01 level (2-tailed).			
N= 122 (sample size)			

The study further sought to examine the relationship between relationship marketing and financial viability of NGOs by testing the hypothesis that there is a significant relationship between relationship marketing practices and financial viability of NGOs through regression analysis. Prior to testing this hypothesis, data was tested for normality, linearity, homogeneity and independence. These conditions are necessary before regression analysis can be carried out.

Test of normality was carried out using One-Sample Kolmogorov-Smirnov Test and the results are presented in Table 4. These results indicate that the data was normally distributed and could be subjected to further tests. Test of homogeneity of variance was carried out using Levene test. The results in Table 5 shows that Levene test statistics is insignificant and therefore the condition of homogeneity was met. Data was further tested for linearity and the results are presented in Table 6. These results show that a linear relationship exist between the independent and dependent variable and therefore the data was appropriate for further analysis. Test of independence of error was done using Durbin Watson through regression analysis and the results are presented together with regression models.

Table 4: One-Sample Kolmogorov-Smirnov Test

		Relationship Marketing	Financial Viability
N		122	122
Normal Parameters ^{a,b}	Mean	4.1378	3.3049
	Std. Deviation	.52055	.80578
Most Extreme Differences	Absolute	.112	.074
	Positive	.063	.062
	Negative	-.112	-.074
Kolmogorov-Smirnov Z		1.233	.816
Asymp. Sig. (2-tailed)		.095	.518
a. Test distribution is Normal.			
b. Calculated from data.			

Table 5: Test of Homogeneity of Variances

		Financial viability		
	Levene Statistic	df1	df2	Sig.
Relationship Marketing	1.393	21	89	.144

Table 6: Test for linearity for Financial viability * Relationship Marketing

ANOVA Table							
			Sum of Squares	df	Mean Square	F	Sig.
Financial viability * Relationship Marketing	Between Groups	(Combined)	32.445	32	1.014	1.957	.007
		Linearity	14.655	1	14.655	28.281	.000
		Deviation from Linearity	17.790	31	.574	1.107	.346
	Within Groups		46.118	89	.518		
	Total		78.563	121			

To test hypothesis that there is a significant relationship between relationship marketing and financial viability of NGOs, relationship marketing practices was regressed against financial viability and results presented in table 7. The results indicate that the simple linear regression model was statistically significant $F(1,120) = 27.517, p < 0.000$ R square .187 and accounted for 18% variance. From these findings we fail to reject the hypothesis and conclude that there is a significant relationship between relationship marketing practices and financial viability of NGOs. The beta coefficient presented in table 8 was significant and indicates that for every change in a unit of relationship marketing practices there would be 0.432 change in financial viability. This relationship is summarized in equation.

$$Y = 0.539 + 0.669X$$

Where

Y = Financial Viability

X = Relationship Marketing

Table 7: Model Summary for relationship marketing predicting financial viability

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.432 ^a	.187	.180	.7297754	.187	27.517	1	120	.000	1.887
a. Predictors: (Constant), Relationship Marketing										
b. Dependent Variable: Financial viability										

Table 8: Beta Coefficient for relationship marketing predicting financial viability

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.539	.531		1.013	.313
	Relationship Marketing	.669	.127	.432	5.246	.000

VII. DISCUSSION

Application of marketing in nonprofits has proved to be a challenging given the embedded culture in these organizations. The findings from this study suggest that there is a linear positive relationship between relationship between relationship marketing and financial viability of NGOs. This implies that a unit change in relationship marketing would have significant effect on financial viability of NGOs. The study findings are in agreement with the works of (33), (34), (35) and (7) that indeed relationship marketing can improve financial viability of NGOs. This study further has disputed works of (12), (13), and (14) and (30) who had argued that marketization of not for profit organizations would result in poor performance. One of objectives of NGOs is to raise funds and the study has shown that indeed relationship marketing would be a key contributor to this. However as (19) had noted, majority of not for profit organizations do not embrace relationship marketing and continue to suffer from financial crisis. The problem had been worsened by the fact that NGOs were known to employ people with no formal training on marketing as indicated by (21). As (38) had suggested it is the time for paradigm shift and that if managers of NGOs were sincere in addressing their financial challenges, they would have to consider marketing approach with relationship marketing at the fore front.

The study further determined critical factors that constitute relationship marketing in the context of NGOs. These were service quality, responsiveness and customer support. This implies that in developing relationship marketing strategy, the NGOs must seek to deliver what the stakeholders consider as quality. In approaching donors and other stakeholders there is need to demonstrate how their organizations are offering quality service as they would affect donor's decision. They must also show how they are sensitive and responsive to the needs of their clients as this would impress financiers. Customer support is significant as emphasis in any marketing approach is the need to put customer first. Customer support may be offered in a variety of ways such as free telephone calls and customer care department in service facilities.

VIII. CONCLUSION

Application of marketing in not for profit organizations is a debate that has taken years. This study supports the view that relationship marketing is a key ingredient in determining success and future of NGOs. The management must embrace relationship building and seek to build a culture of relationships within their organizations. They must identify their key partners and especially the donors and seek ways of building mutually satisfying relationship for both parties. The study recommends that management and their employees need to be empowered on relationship building through training. The NGOs way of recruiting employees should be based on qualifications. The public relations/marketing departments should recruit employees with background training in marketing and the other employees be mentored on ways of building relationship. This will ensure NGOs survival in a competitive environment where resources are dwindling and the number of NGOs are on increase.

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