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**Influence of Environmental Analysis on Financial
Sustainability of NGOs in Kenya**



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Influence of Environmental Analysis on Financial Sustainability of NGOs in Kenya

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Abstract

Purpose: Environmental analysis is a useful tool in strategic planning. It is a method for identifying all external and internal factors that can influence an organization's performance. The analysis comprises determining the amount of threat or opportunity presented by the factors. These assessments are then used in the decision-making process. The analysis aids in the alignment of strategies with the firm's environment. The purpose of this study is to establish influence of environmental analysis on financial sustainability of NGOs in Kenya.

Methodology: A desktop literature review was used for this purpose. Relevant seminal references and journal articles for the study were identified using Google Scholar. The inclusion criteria entailed papers that were not over 10 years old.

Findings: The study concluded that environmental analysis is a useful tool in strategic planning. This is because it is useful in identifying all external and internal factors that can influence an organization's performance. The analysis comprises determining the amount of threat or opportunity presented by the factors. These assessments are then used in the decision-making process. The analysis aids in the alignment of strategies with the firm's environment. The study also concluded that, external factors had significant positive and negative effects on performance.

Unique Contribution to Theory, Practice and Policy: The study recommended that the government should embrace environmental analysis as it is a useful tool in strategic planning. The government should also establish a favorable business environment for rural SMEs by providing entrepreneurship training and company incubation programs. The findings help define the future of small business reengineering in rural areas by providing information on environmental analysis strategy and innovation management theory. The study recommends that the strategic leaders should do environmental analysis as it will bring an upper hand to the NGO hence be able to assess the threats and opportunity present. The organization can then act on the opportunity at hand and prepare to mitigate the threats present, resulting to financial sustainability of the NGO.

Keywords: *Environmental analysis, Financial stability, NGOs.*

Introduction

Environmental analysis is a useful tool in strategic planning. It is a method for identifying all external and internal factors that can influence an organization's performance. The analysis comprises determining the amount of threat or opportunity presented by the factors. These

assessments are then used in the decision-making process. The analysis aids in the alignment of strategies with the firm's environment (Muscalu, 2004).

Many firms' success or failure is determined by the elements that influence their operations. It is impossible to plan a good strategy or manage a profitable business without considering the impact of environmental factors. The term "external environment analysis" refers to issues that are beyond the organization's influence and control. It should play a significant role in the decision-making and development of competitive strategies. The organization operates in a dynamic and complex competitive environment, which is characterized by frequent changes in business conditions (Harsh, 2020). It works as an open system in a specific field, related directly or indirectly to the influences of the variables that make up this environment.

Organizations nowadays must operate in dynamic and uncertain settings. Organizational processes, methods, and strategies should, of course, be based on and adaptable to changes in the external environment. Dependence on the external environment is not issue in and of itself, as long as the environment in which the organization operates appears static and straightforward when the variables that make it up are examined. The issue occurs as the level of uncertainty, dynamics, and complexity rises. The ability to understand, plan, and predict gets more challenging as complexity develops (Ettema, 2017), necessitating constant study by the organization, which can be accomplished through extensive macro-environment analysis. Scanning the external environment in which the organization operates entails gathering, analyzing, and applying information regarding events, trends, linkages between variables, and learning processes to aid managers in future planning through action (Du toit, 2016). As a result, businesses analyze the environment in order to identify and comprehend the external forces that affect them, and to respond with appropriate actions in order to maintain a competitive advantage (Ahmed, 2018). Environmental analysis is a process that identifies and prioritizes the realities that support actual performance.

Environmental scanning functions as a radar for detecting environmental signals and aids in the development of compatible plans to guide the business in a flexible manner (Torbarki, 2019). As a result, it is a strategic process that works. Environmental scanning predicts and comprehend internal and external organizational factors and their interconnectedness to decrease the level of uncertainty and opportunities that potentially affect performance or jeopardize the organizational sustainability or performance, to gain sustainable competitive advantages. The organization environment consists of external and internal components. The macro environment includes factors with indirect long-term political, economic, social, cultural, technological, and legal impacts. While, the micro environment refers to factors that directly affect organizational functions and outcomes, such as customers, suppliers/resources, competition, and other stakeholders (Zou, 2019)

The organizational environment is one of the aspects that contribute to and boost success in a high-change, high- complexity business environment, because when it happens in changes and

adjustment to the rules, regulations, and techniques utilized to fulfil the organization's mission and objectives; it is not enough to identify opportunities or environmental constraints in the organization's environment; the organization must also be familiar with those opportunities and constraints, threats and develop strategies that lead to investments and the identification of constraints or threats that must be narrowed or adapted in order to achieve goals and maximize potential and resources (Nyiwul, 2019).

The business world has become quick and variable, and this change was reflected on the business environment, where impose them to develop strategies to respond with this change that appeared as a result of the enormous developments occurring in the organizational environment (Al-Hawary and AlSamurai, 2017). Business organizations need to disclose internal and external environment, by collecting data by traditional and untraditional methods, and delivered to managers to analyze and determine the future strategy of the organization, and changes in the internal and external environment is one of the most important issues affecting organizational performance (Al-Mammary, 2019).

Strategic analysis is the main ingredient to determine the appropriate strategic choices, which is important to pursue environmental changes, in order to identify strengths and weaknesses in the Organization's internal environment and discover the opportunities and potential threats in the external environment, and therefore contains a set of operations focused to determine the dimensions and overall enterprise environment variables, as great importance in the interaction between the enterprise as an open system and its environment, and a main way to building and maintaining competitive advantages (Cegliński, 2016).

Strategic planning effectiveness lies in the strategic analysis of the external environment of the Organization to extrapolate the opportunities and potential threats, and analyze the internal environment to identify strengths and weaknesses, and thus generate alternatives and make coordination and cooperation between all activities to implement organization strategy to their goals and mission. Organizations must – at the same time-not to rely on the past as a guide for planning, and remain under the influence of previous thinking, will lose the flexibility to turn change into opportunity (Cegliński, 2016).

Internal environment analysis means a detailed look into the organization, to determine performance levels, the areas of strength, and areas of weakness, in addition to the restrictions, through a comprehensive analysis of the current situation, input elements and the actual position of the organization, to identify the true potential, and its ability to build effective strategies contribute to take advantage of the strengths, and compensate of weaknesses (Omary, 2017). Organizations care to analyze and evaluate all internal factors, to identify strengths and weaknesses of each factor of internal factors, using the results of the analysis of the external factors, which helps to make strategic decisions and choose appropriate alternatives (Shtal, 2018).

Žitkienė (2019), refers that the analysis of the external environment for any organization (opportunities and challenges) insufficient from strategic point since it has to analyze internal environment (strengths and weaknesses). They must look at detailed within organization for determining performance levels and areas of strength and areas of weakness, as well as limitations, such analysis be richer and deeper; analogy to analyze the competition due to its importance in building the strategy and too much information about the areas covered, builds internal analysis to detailed information on sales, profits, costs, organizational structure, management style (Idris & Amours, 2016).

Internal environment includes two elements: Strengths are the available things that contribute positively to the work, or properties that give the organization a good potential foster strength and contribute to complete work with skills and experience. Strengths are represented by financial resources, availability of managerial and organizational competencies, high capacity to compete, and a prominent name and strong reputation. Weaknesses: represented by the points that indicate to low or poverty in the organization's potential, especially when compared with competing organizations resources, or is the situation that makes them unable to compete, or in the case that forcing organization not to reach competitive advantage such as poor physical and human resources, and failed by research and development, as well as poor marketing skills. Opportunities are those circumstances surrounding the organization in a particular place, in a specific time period, the organization can exploit those conditions to achieve strategic goals, successful organizations don't wait for opportunity to come forth, but must work hard and constant research to create and exploit them to maximize their goals and achieve competitive advantage.

Threats are those possible events which if it happens, will cause a danger or adverse effects to the organization. Syahtaria (2019), finds that the analysis of the external environment to identify opportunities and threats are not sufficient to achieve competitive advantage, but also to be seen within the organization to determine the strengths or weaknesses. There has been a divergent view about the concept of environment through contributions of different authors and scholars.

Farkas, (2016) posited two views of perceived environment. The first is inter-organizational view, which considers the environment as a collection of person, groups and other organizations that provides inputs to, or receives outputs from a local organization. The second consideration is that environment is a set of general, social, economic and technological conditions. Ravetz, (2016) says environment is the sum total of the physical and social forces and institutions that are relevant to the organizational goal setting and goal attainment which are taken directly into consideration by members of the organization when making business decisions and plans.

According to Osuagwo (2016), environment has been seen as the totality of the factors that affect, influence, or determine the operations or performance of a business. The environment determines what is possible for the organization to achieve. According to Adeayo, (2012), environmental uncertainty arises from the organization's inability to predict its environment, or in other words,

to predict the factors that characterize its environment. Uzoma, (2014) opinioned that factors in the task environment usually create greater and perceived uncertainty to organizations than factors in the general environment. This is because it is believed that the task environment, which is connected with the short-run, is more volatile than the general environment that is connected with the long-run.

Akpoviro (2018), viewed external business environment as the totality of factors outside an organization that are taken into consideration by an organization in its decision making. These factors depend largely on the complexity and dynamism of the environment. Thus, external business environment has been classified as being stable when it does show any changes, unstable when it shows relative changes, and dynamic when it shows changes continuously. However, perceptions of the organizations about the type of the external business environment to a large extent depends on their size and industry in which it operates.

Owotutu (2018), says that Economic environment is vital concern to an organization. He further said that, the economic environment goes a long way to determine and define the opportunities for an organization; this is because an expanding economy provides operational scope for the organizational existence as well as for the establishment of new ones. However, a period of recession can bring about failures and probably liquidation of the organization. It is of paramount importance that the management should be able to distinguish between short run phenomena and more fundamental changes in its assessment of the overall economy.

Our study will use budget for environment analyses, cost of engaging experts to conduct environmental analysis and number of staff that conduct environmental audits components in relation to financial sustainability.

The ability of strategic leaders to do environmental analysis will bring an upper hand to the NGO as it will be able to assess the threats and opportunity present. The organization can then act on the opportunity at hand and prepare to mitigate the threats present, resulting to financial sustainability of the NGO.

Literature Review

Pulaj (2015), investigated the impact of external environmental factors on organizational effectiveness in a specific industry. The data is gathered using a standardized questionnaire. Changes and developments in the external environment were appraised in sections of the questionnaire. The poll was done primarily in Vlora and in Himara and Orikum at random. According to the study's objectives, all construction companies doing business in Vlora were invited to participate, and their construction project portfolios included infrastructure, residential buildings, industrial constructions, and other structures such as hospitals, universities, government buildings, and so on. To assess the data collected through the questionnaires, statistical tests such as mean, median, and specific weights were used to rank the evaluation influence of each external

component. According to the study, external factors had significant positive and negative effects on performance, and were categorized as qualities that support or create barriers to business.

Chege (2020), did research on the impact of entrepreneurial innovation techniques in environmental analysis on the performance of rural SMEs in underdeveloped countries, particularly Kenya. The article claims that improvements in rural SMEs can be achieved by sustainable environmental analysis methodologies, which can help small businesses in rural areas operate better. A framework was created using a sample of 272 rural companies in Kenya. For content analysis, partial least squares regression and correlation models are used. The findings suggest that environment instability has little effect on the performance of small businesses in rural locations. Entrepreneurs need to be aware of the importance of environmental innovation strategies to cope with disturbances and dynamism of the environment underpinning the performance of rural SMEs. According to the study, governments should establish a favorable business environment for rural SMEs by providing entrepreneurship training and company incubation programs. The findings help define the future of small business reengineering in rural areas by providing information on environmental analysis strategy and innovation management theory.

Suleiman (2017), conducted a study aimed to measure the impact of Environmental analysis on the competitive Capabilities of the commercial banks operating in Jordan. The study population consisted of the general managers, and their assistant of the commercial banks operating in Jordan that amount (10) banks that estimated (93) managers. The Unit of Analysis included the whole population that estimated (93) managers. To achieve the objectives of the study, statistical analytical method was used through A questionnaire that used a major tool for data collection developed at the hands of elite researchers and writers in the field of management, which consisted of (51) items. A number of statistical tools and methods were used such as Mean, Standard Deviation, and Multiple Regression. After the analysis of the collected data and hypotheses, the result of the study showed that there was a significant impact of Environmental analysis represented by (strength, weakness, threats and opportunity) on the competitive Capabilities of the commercial banks operating in Jordan at level ($\alpha \leq 0.05$). Based on the study results the researcher recommends the banks manager to concentrate on the study and analysis of information as one of the most important sources of competitiveness and to make interest how to reduce costs as reflected in the price of the service provided.

Tajjudin (2013), conducted a study to examine the element of strategic management tools associated with the impact of environmental scanning (ES) on organizational performance in the LAs. It explores the above relationship in the context of public sector organizations in Malaysia. The study adopted A quantitative approach has been used for this study where the data were collected through a mail survey ($n=75$) of local authorities in Malaysia, which consists of four categories City Council/City Hall, Municipal Council, District Council and organizations that exercise the functions of local authorities. The results show that the scope of general environmental

scanning is seen as a prerequisite to the successful alignment of competitive strategies as a result of changing the needs and demands of the larger society, and the diverse nature of businesses. In the context of Malaysian LAs, there is a significant relationship between the environmental scanning (operation) and the overall achievement of the organization's performance.

Achuo (2015), conducted a study to establish the environmental scanning practice (s) in large manufacturing firms in Kenya. To achieve these objectives primary data was collected using structured questionnaires from a sample of 100 manufacturing firms picked from the Kenya Industrial Research & Development Institute's (KIRDI) directory. One questionnaire per large manufacturing firm was administered to the Chief Executive Officer (CEO) or a senior manager. A drop and pick later approach were adopted and on many occasions the researcher discussed the contents of the questionnaire with the respondents. A total of 32 firms responded positively giving a response rate of 32%. The data was analyzed with the aid of SPSS software. Simple descriptive statistics were used to present this data. Relationship tests were done to determine the influence of scanning on performance. Kruskal-Wallis or betjes known as the H-test was used to determine any significant differences. The objectives of this study have been met. The manufacturing companies in Kenya do use environmental scanning practices due to the uncertainties and turbulence in the business environment. They only differ on how they conduct the environmental scanning exercise with most preferring market intelligence. The findings of this study further revealed that manufacturing firms have been successful over the last five years, recording above average levels of performance. This confirms the literature review that the manufacturing industry is going through a transition as a result of the stable macro-economic environment, government intervention in promoting export opportunities among others, which have increased investor confidence.

Muthiani (2015), conducted a study on to determine the influence of marketing practices and business environment on performance of the alcohol beverage companies in Nairobi. Marketing practices and business environment play a great role on performance of alcohol beverage companies. These companies have provided more than 40,000 jobs directly in East Africa while indirect jobs created are well over 200,000. This study is carried out to examine the impact of this fast-changing business environment of the alcohol which the companies has developed strategies to cope up with. Browne, (1997) observed that learning is the heart of a company's ability to adapt to rapidly changing environment. Theoretical framework is based on; the Porters 5 forces and the Porters Value Chain. The target population is based on 50 companies targeting 50 employees. Census method will be used in the study. Data was collected using qualitative and quantitative technique and presented by tables and charts. Alcohol beverage companies in Kenya must continue to predict their future through continuous scanning of the environment. This scanning should involve studying and interpreting social, political, economic, ecological, legal, cultural and technological factors. Environmental scanning raises a manager's awareness of potential

developments that could have an impact on industry posing opportunities and threats. Performance has roles in defining business mission analyzing the environment competition and business situations. Business environment according to this study is about setting the right climate (the will to respond), competitiveness (the ability to respond) and capacity (the volume of response). This study recounts that alcohol beverage companies have to continuously scan the environment, and must continuously utilize the management information system to build long term customer value. They must monitor competitors and the impact of substitute products.

Conclusion

The study concluded that environmental analysis is a useful tool in strategic planning. This is because it is useful in identifying all external and internal factors that can influence an organization's performance. The analysis comprises determining the amount of threat or opportunity presented by the factors. These assessments are then used in the decision-making process. The analysis aids in the alignment of strategies with the firm's environment. The study also concluded that, external factors had significant positive and negative effects on performance.

Recommendation

Based on the findings from the literature review; The government should embrace environmental analysis as it is a useful tool in strategic planning. The government should also establish a favorable business environment for rural SMEs by providing entrepreneurship training and company incubation programs. The findings help define the future of small business reengineering in rural areas by providing information on environmental analysis strategy and innovation management theory.

The study recommends that the strategic leaders should do environmental analysis as it will bring an upper hand to the NGO hence be able to assess the threats and opportunity present. The organization can then act on the opportunity at hand and prepare to mitigate the threats present, resulting to financial sustainability of the NGO.

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