

# STRATEGIC MANAGEMENT PRACTICES AS A KEY DETERMINANT OF SUPERIOR NON-GOVERNMENTAL ORGANIZATIONS PERFORMANCE

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## Abstract

*Based on a review of prior studies, this research seeks to enrich the management literature by examining and empirically testing the impact of each of the strategic management practices (environmental scanning, strategy formulation, strategy implementation, and strategy evaluation-monitoring) on financial and non-financial performance of non-governmental organizations (NGOs). A questionnaire was developed and validated to measure strategic management practices and NGOs financial and non-financial performance. Questionnaires were distributed to projects coordinators, programs officers and administration officers of seventy-nine international NGOs operating in the Palestinian Territories. 237 questionnaires were distributed and 160 questionnaires were returned and were usable for statistical analysis. The research results demonstrates that strategic management practices have positive impact not only on financial performance but on non-financial performance of these organizations. Moreover, the research recommends that NGOs rely on strategic management as a means to achieve high performance.*

**Key words:** financial performance, Non-Governmental Organizations, non-financial performance, strategic management practices.

## Introduction

The question "Why should an organization carry out strategic management practices?" needs to be viewed by understanding the benefits strategic management gives to an organization. Strategic management provides a framework for controlling managerial activities, allocating better resources, supporting objectives and decisions and enhancing performance.

Strategic management brings considerable benefits not only to for-profit businesses and government, but also to NGOs (Allison & Kaye, 2005; Bryson & Roering, 1988; Fowler, 1996). This is due to the fact that NGOs operate in contexts which are characterized by complexity, risks and financial uncertainty. Adding to that, Lewis (2003) claimed that NGOs work in unstable, conflict-prone areas and alongside predatory or 'failing' states which may view their presence with suspicion. In the NGO sector, according to Fowler (1997), the key challenge for NGOs is the struggle to link vision, mission and role clearly. It is strategic management that

offers these organizations the compass, process and strategy to deal with transformation made necessary by difficult environments in order to deliver high quality services at low cost to its customers (Koteen, 1997). Mosley, Maronick & Katz (2012) found that engaging in strategic management efforts allows organizations to deal with funding uncertainty. Thus, the lack of such a philosophy would result in having short-term oriented NGOs which could be harmful for its financial sustainability. However, strategic management can have a fundamental effect on NGOs beyond the potential funding benefits (Crittenden & Crittenden, 2000). For instance, strategic management can help NGOs build and enhance relationships with key stakeholders such as donors and partners and establish collaborations with external organizations (Abzug & Webb, 1999; Allison & Kaye, 2005; Balser & McClusky, 2005; Boyne & Walker, 2004; Brown, 2010; Bryson, 2011). Siciliano (1997) demonstrated that those NGOs who plan, improve their social performance and not only their financial one. Moreover, Strategic management might assist NGOs not only to efficiently utilize limited resources, but also to support program and project effectiveness and efficiency (Mara, 2000; McHatton, Bradshaw, Gallagher & Reeves, 2011; Medley & Akan, 2008). This supports the assumption that management effectiveness may lead to better program performance since such effectiveness provides a foundation for improvement and growth of the NGOs' programs and services (Letts, Ryan & Grossman, 1999).

The literature has heavily underlined the adoption of strategic management in NGOs as a mechanism to improve performance (Allison & Kaye, 2005; Bryson, 2011; Moore, 2000; Morrisette & Oberman, 2013; Poister, Pitts & Edwards, 2010). Still, regardless of what has been written on strategic management in the NGO sector, limitations exist concerning its relationship with the performance. This has been stressed by some writers such as Stone et al. (1999) who claimed that the relationship between strategic management process and NGOs' performance is a black box. Moreover, Poister et al. (2010) added that there is still no empirical support concerning the relationship between strategic management practices and NGOs' performance. Therefore, this research attempts to test the impact of strategic management practices on the performance of NGOs, highlighting the most relevant financial and non-financial performance indicators. The significance of this paper comes from the fact that it outlines research carried out in order to support and enrich and fill the gaps in the literature regarding strategic management and performance in NGOs. It will also generate awareness among these organizations on the importance of practicing strategic management as a means to achieve high organizational performance.

#### *NGOs Financial and Non-Financial Performance: What to Measure*

Thinking of NGOs' performance as a variable to measure is not an easy task, since it is challenging to measure the performance of organizations whose main goal is to promote a social mission (Drucker, 2010; McHatton et al., 2011; Moore, 2000; Oster, 1995; Sawhill & Williamson, 2001). Moreover, these organizations have complicated relationships between their activities and outcomes of their interventions (Fottler, 1981; Hatten, 1982; Kanter & Summers, 1994; Newman & Wallender, 1978; Nutt, 1984). The classical attempts of defining performance in these organizations have always been those of using NGOs' access to funds as the main NGO performance indicator (Pfeffer & Salancik; 1978; Yuchtman & Seashore, 1967). Although access to funds or fundraising efficiency is a valid indicator for measuring the financial strength of NGOs, it doesn't represent the full picture for NGOs' financial performance. In addition to the ability of acquiring funds, a comprehensive measurement of NGOs' financial performance should combine NGOs declaration of their financial activities and their demonstration of financial transparency (Keating & Frumkin, 2003; McCarthy 2007; Whitaker, Altman-Sauer & Henderson, 2004), together with their fundraising ability.

It is important also to treat these NGOs as projects-based organizations: as such the

performance of their programs and services delivery should be scrutinized along with financial performance. For instance, Kareithi & Lund (2012) addressed the fact that these organizations are engaged in providing services and projects to their targeted beneficiaries so their performance has to take into consideration the effectiveness of these services. Lewis (2009) added that efficiency and effectiveness are performance measures of NGOs interventions. Several frameworks have suggested, even if there is still no mutual agreement, that NGO programs can be assessed by programs' impact, efficiency, and outcomes (Benjamin & Misra, 2006; Carman, 2007; Teelken, 2008). In addition, to the previous, mentioned indicators that partnership (Hall & Kennedy, 2008; Niven, 2008) and quality (Hatry, 1997; Niven, 2008) are other important measures of NGOs operations. Table 1 represents a summary of NGOs' performance measures and their main focus.

**Table 1. Summary of performance measures in NGOs.**

	Performance Dimension	Definition/ Focus
Financial Performance	Fundraising Efficiency	The ability of identifying sources of funds and access to them (Andreasen & Kotler, 2008; Kanter & Summers, 1994; Lewis, 2009; Pfeffer & Salancik, 1978; Yuchtman & Seashore, 1967). An organization is fundraising efficient if it gets a high response rate, minimizes its fundraising costs, writes effective funding proposals (Niven, 2008), generates funds using available internal funds (Lewis, 2009).
	Financial Transparency	The preparation and declaration of financial information and reports concerning NGOs programs and services to ensure honesty integrity and accountability (Keating & Frumkin, 2003; McCarthy, 2007; Whitaker et al., 2004). Moreover, it includes the use of external auditors, committing to financial and accounting standards (Geer et al., 2008; Whitaker et al., 2004).
	Financial Efficiency	The best utilization of financial resources acquired for the achievement of the programs desired outputs, facilities (Barman, 2007; Kendall & Knapp, 2000; Median-Borja & Triantis, 2007).
Non-Financial Performance	Outcomes	What is produced as a result of an NGO's services such as improved conditions for the immediate targeted beneficiaries (Bagnoli & Megali, 2011; Barman, 2007; Greenway, 2001; Hall & Kennedy, 2008; Lampkin, Winkler, Kerlin, Harry, Natenshon, Saul, Melkers & Sheshadri, 2006; LeRoux & Wright, 2010; Letts et al., 1999; Moxham, 2009b; Mullen, 2004; Penna, 2011). To what extent is the organization achieving its planned goals and targets (Fine & Snyder, 1999).
	Non- Financial Efficiency	The best utilization of non-financial resources (staff, equipments, time) acquired for the achievement of the programs desired outputs, facilities (Barman, 2007; Kendall & Knapp, 2000; Median-Borja & Triantis, 2007).
	Impact	The ultimate direct or indirect long-term public value/effect and NGO wishes to create for a community as a consequence of its programs and services (Greenway, 2001; Hills & Sullivan, 2006; Lampkin et al., 2006; Moore, 2003; Penna, 2011).
	Partnership	Networking and collaborating with other entities to support an NGO intervention (Bagnoli & Megali, 2011; Hall & Kennedy, 2008; Herman & Renz, 2008; Niven, 2008). Partnership can be assessed by the ability of NGOs to attract local, international and private-based partners. In other terms, it might be assessed by the diversity of the network an NGO can build with other organizations or entities (Niven, 2008).
	Quality	The quality of the services provided by an NGO to its clients (Hatry, 1997; Niven, 2008). Indicators to be taken into account are adherence to standards of quality in service/ project delivery (Niven, 2008) and stakeholders' satisfaction, innovation of the provided services (Keystone for Bond, 2006).

### *Empirical Review and Research Hypotheses*

Strategic management can be interpreted as a process that produces managerial decisions and actions which can be used to reach high levels of efficiency, effectiveness and overall performance. The vast majority of strategic management scholars view strategic management as a process that starts with an analysis of the environments, passes to strategy formulation, strategy implementation and ends up with evaluation and monitoring of its strategies and objectives (Allison & Kaye, 2005; David, 2009; Morden, 2007; Pitts & Lei, 2003; Thompson & Strickland; 2003; Wheelen & Hunger; 1998; Wheelen & Hunger, 2006; Wright et al., 1998). Poister & Streib (2005) mentioned that organizations need not only produce a strategic plan, but also develop implementation plans, and finally link their strategies and plans with their performance evaluation system. These stages in the strategic management process are associated with generating alternatives to problems or strategic issues, making the alternative produced function by adapting the structure and creating a supportive culture, and finally, collecting evaluation feedback concerning the overall progress of these alternatives (Gluck, Kaufman & Walleck, 1980).

The empirical research on strategic management in the NGO sector has been limited, and examining mainly the adoption of several planning techniques. For instance, authors such as Brown & Covey (1987), Crittenden, Crittenden & Hunt (1988), Jansson & Taylor (1978), Jenster & Overstreet (1990), Odom & Boxx (1988), Stone (1989), Tober (1991), Unterman & Davis (1982), and Wolch (1990) found in their studies that some NGOs do not utilize strategic management or strategic planning philosophy, but rather they are more concerned with short-term planning and informal planning procedure approaches. Moreover, the literature reveals that the majority of the studies focus on the impact of organizational factors, mainly size, experience and management styles, on the adoption of planning and how planning can impact strategy outcomes in terms of the organizational hierarchy and mission attainment. According to Odom & Boxx (1988), Tober (1991), Unterman & Davis (1982), Webster & Wylie (1988), Wolch (1990), and Young & Sleeper (1988), larger NGOs are more inclined to develop strategic plans than smaller NGOs. Odom & Boxx (1988) explained the link between size and planning because of the need for greater coordination. Others such as Stone (1989) attributed it to donor prerequisites. Young and sleeper (1988) considered that this is due to the availability of the resources, while Jenster & Overstreet (1990), Unterman & Davis (1982), and Wolch (1990) linked this with the availability of more qualified and experienced managers. Schmid (1992) in his research found that the environment has an impact on the nature of the strategy and structural design in NGOs. Moreover, he concluded that uncertain environments lead to relatively informal decentralized structures while more stable environments lead to more centralized structures. Other studies went on to investigate strategy implementation in the NGO sector in which the majority of them examined which factors can affect the strategy implementation phase. Studies conducted by Bartunek (1984) and Vogel & Patterson (1986) demonstrated that major policy changes in the external environment produce important changes in the structure of the NGO which will ultimately affect the strategy implementation. Martin & Gilsson (1989) demonstrated that the social environment affects the values, leadership style and structure of the NGOs. Moreover, Schmid (1992) concluded that organizational change or instability impact organizational factors that will affect strategy implementation.

Generally, it can be said that the vast majority of studies that addressed strategic management practices and performance were conducted in the business field or in general organization terms. Studies such as Ahituv, Zif & Machlin (1998), Garg, Walters & Priem (2003), Kohn (2005), Miller (1994), and Strandholm & Kumar (2003) found that environmental scanning is an influencing variable on an organization performance. Other studies like Ansoff, Avner, Brandenburg, Portner & Radosevich (1970), Bracker & Pearson (1986), Burt (1978),

Fredrickson (1986), Guth (1972), Robinson & Pearce (1988), Sapp & Seiler (1981), and Welch (1984) demonstrated that engaging in planning and strategies formulation would definitely affect the performance. Also, it has been highlighted that bad or good performance depends mainly on the implementation of strategy (Kennedy, Goolsby & Arnould, 2003; Simester, Hauser, Wernerfelt & Rust, 2000). Kaplan and Norton (2005) claimed that a failure in strategy implementation can result in a gap between strategy and performance. Bonoma & Crittenden (1988) mentioned that the weaker the strategy implementation phase, the poorer the performance will be.

On the other hand, the research on this relationship in the NGO sector is very limited, and the relationship is not obvious (Lubelska, 1996; Singh, 1996 Cited in Courtney, 2002; Poister et al., 2010; Stone, Bigelow & Crittenden, 1999). Few empirical investigations endeavored to test the association between the utilization of formal planning and performance in NGOs. Crittenden, Crittenden & Hunt (1988), Jenster & Overstreet (1990), and Odom & Boxx (1988) claimed that adopting and practicing formal planning by these NGOs was related to organizational performance in terms of access to funding. Siciliano (1997) on the other hand demonstrated a relationship between formal process of planning and both financial measures (represented by total ratio of revenues to expenses) and social mission fulfillment of NGOs. Moreover, several studies demonstrated that there is a positive relationship between the use of planning and key effectiveness indicators including organizational and social measures of effectiveness such as board involvement (Bradshaw, Murray & Wolpin, 1992; Siciliano & Floyd, 1993). Also, studies on strategy implementation did not emphasize the impact of this phase on NGOs' performance. Among those who did, they did not specify the measures and indicators of performance. Some of these studies highlighted general indicators of effectiveness. For instance, Bailey (1992) and Kushner & Poole (1996) mentioned that the level of centralization in the NGO structure and administration systems impact the degree to which the strategy is implemented and the level of effectiveness in NGOs. Also, Golensky (1993) and Murray, Bradshaw & Wolpin (1992) found that the shape of the relationship inside the NGOs affect its effectiveness.

Recently, a few studies were conducted in an attempt to enrich the literature regarding the relationship between strategic management and NGO performance. Blackmon (2008) investigated quantitatively the impact of strategic planning on non-profits performance using the balanced scorecard approach in which he found a significant relationship between strategic planning and NGOs' financial performance. Furthermore, Smith (2008) found, in a qualitative research sampling two nonprofits, that strategic management practices in NGOs result in more productive outcomes in nonprofits' performance. Hu, Kapucu & O'Byrne (2014), who surveyed twenty small community based organizations, demonstrated that strategic management has an impact on the way NGOs serve community needs and deliver their programs and services. Finally, using a large-scale survey of strategic planning, Reid, Brown, McNerney & Perri (2014) found that 93% of the most successful organizations, regardless of size, budget, declared that their strategic management efforts have impact on their overall success. They added that both strategic plan development, an ongoing implementation practices and evaluation and assessment represent strategic management practices.

Based on the previous discussion and given the fact that there still exists a gap in the relationship between strategic management and NGOs' performance, we propose a set of hypotheses assuming that each of the strategic management practices contribute positively to NGOs' financial and non-financial performance. The hypotheses are the following:

H<sub>1</sub>: Environment analysis has a significant positive influence on the (a) financial performance and (b) non-financial performance of NGOs.

H<sub>2</sub>: Strategy formulation has a significant positive influence on the (a) financial performance and (b) non-financial performance of NGOs.

H<sub>3</sub>: Strategy implementation has a significant positive influence on the (a) financial performance and (b) non-financial performance of NGOs.

H<sub>4</sub>: Strategy evaluation and monitoring has a significant positive influence on the (a) financial performance and (b) non-financial performance of NGOs.

### **Methodology of Research**

The research takes a positivist view because the theory is tested by examining relationships among variables without meddling with the variables being examined. A quantitative approach is carried out in this research to test the hypotheses. The research adopts a correlational-survey research design. The questionnaires of the research were distributed and re-collected late summer of 2015 (July-September) using drop-off and pick up method.

#### *Population, Sample and Target Respondents*

The research population includes all the active international NGOs in the Palestinian territories working in different areas and serving different sectors, which totals 99 NGOs according to the United Nations Office for the Coordination of Humanitarian Affairs (OCHA). They were selected because they have the appropriate size, experience and enough resources to practice some forms of strategic management practices, as it's not realistic to select small, inexperienced organizations with poor resources and programs. Larger NGOs are more likely to plan than smaller ones (Odom & Boxx, 1988; Stone, 1989, Tober, 1991; Unterman & Davis, 1982; Webster & Wylie, 1988; Wolch, 1990). Moreover, these NGOs contribute economically to the communities and the target beneficiaries they serve. International NGOs represent a new context for investigating managerial relationships in NGO research. They were also chosen because they were reachable by telephone, fax and email. Finally, these organizations were in a better position to provide the necessary information.

A random sample of 79 NGOs was selected from the "A to Z" list provided by OCHA, Palestine Office. Then, a purposive sampling was used to select the target respondents. The target respondents of the research were program officers, project managers "coordinators", and administration officers. They were chosen for their perceived understanding and knowledge, as appeared to other NGO employees, know more than other employees in the NGOs in terms of policies, strategies, financial position, project performance and performance in general. Moreover, these respondents represents the most important working positions in the NGO context. Three questionnaires were administered to each selected NGO to be filled out by the targeted respondents. Of the 237 questionnaires distributed, 160 (67.5 per cent) usable questionnaires were returned.

#### *Scale Development*

A questionnaire consists of three sections and was designed to explore the relationship between the research variables. The first section includes questions concerning the respondents' profile and the organization's characteristics. The second section is composed of questions used to evaluate the extent to which strategic management practices, including environmental scanning, strategy formulation, strategy implementation and strategy evaluation, are applied in their NGOs. The last section contains questions on financial and non-financial performance of NGOs.

The questionnaire was evaluated by a panel of three arbitrators who have academic and practical experience in NGOs. One of the arbitrators was a senior director of an Italian NGO (We World) based in Milan, the second was the head of the CERGAS research center at the Bocconi university of Milan, and the third was a certified consultant of NGOs and international institutions in the Palestinian Territories. The experts were asked to judge the questionnaire in

terms of the following evaluation criteria: understandability, importance, relevance, and length. Based on the experts judgment, some of the questions were removed, others were modified and new questions were added to some of the research variables. A further step to pilot the questionnaire was to conduct personal interviews with small group (N=6) of NGO's project coordinators, program officers and administration officers. The main objective of the interview was to let the interviewees assess the questionnaire in terms of formatting, wording, design, length. Moreover, they were asked to identify any item that is not clear and to add comments on the overall items of the questionnaire. The results of this procedure were of extreme importance since the respondents had some concerns concerning the length of the questionnaire, which they asked to reduce length. The interviewees had identified some duplicated items. All the comments given by the interviewees were taken into account.

Each of the four strategic management practices was measured using a multi-item scale adapted from previous studies such as Analoui & Samour (2012), Hu et al. (2014), Mosley et al. (2012), and Poister & Streib (2005). Seven items were used to measure environmental scanning, six items for strategy formulation, seven items for strategy implementation, and ten items for strategy evaluation and monitoring. Each item was measured using a five-point likert scale to assess up to which extent strategic management practices are applied in these organizations, with 1 indicating no extent of application and 5 indicating a great extent of application. On the other side, two subjective rankings were developed to measure financial and non-financial performance. Multi items on fundraising efficiency, financial transparency, and program financial efficiency were generated from the literature to measure NGOs' financial performance. Similarly, multi items on program effectiveness, program impact, program non-financial efficiency, partnership, and quality were developed to measure NGOs' non-financial performance. Responses to each item ranged from 1 (strongly disagree) to 5 (strongly agree).

Table 2 represents the scales used to measure strategic management practices. Included are the Spearman Correlation of each item with each scale. The results show that the P-values of the correlations for the items of the scales environmental scanning, strategy formulation, strategy implementation, strategy evaluation are less than 0.05, so the correlation coefficients of items used are all significant at  $\alpha = 0.05$ . Therefore, it can be said that the items of these scales are consistent and valid to measure what they were set for. Also, the internal consistency Alpha coefficients ranged from 0.82 to 0.94. The results of Alpha Coefficients are satisfying and fits with the threshold value of 0.70 of Nunnally & Bernstein (1994).

Similarly, table 3 and 4 show the scales used to measure financial performance and non-financial performance of NGOs. Included are internal consistency correlation values for each item with its sub-scale under the main scale. All correlations of the items of fundraising efficiency, financial transparency, program financial efficiency, program outcomes, program non-financial efficiency, program impact, partnership and quality exceeded 0.50 and their P-values are less than 0.05, so the correlation coefficients of items used are all significant at  $\alpha = 0.05$ . Therefore, it can be said that the items of these sub-scales are consistent and valid to measure what they were set for. The internal consistency Alpha coefficients for both scales and sub-scales were higher than 0.70, except program financial efficiency with an Alpha value of 0.60. This can be tolerated since program financial efficiency was measured using 2 items and the Alpha is sensitive to the number of items used to measure a certain scale or sub-scale.

**Table 2. Questionnaire items used in four scales measuring strategic management practices.**

Item Number	Questionnaire Item Question	Correlated Item-Total Correlation
<b>Environmental Scanning</b>		
1	The identification of the external threats and opportunities.	0.703**
2	The identification of the internal weaknesses and strengths.	0.695**
3	The analysis of environmental factors such as the economic, political, social and technological ones.	0.748**
4	The determination of primary and secondary stakeholders influenced by the organization's interventions.	0.761**
5	The analysis of the needs of the communities and the potential beneficiaries.	0.803**
6	The participation of the organization employees in analyzing the environment.	0.547**
7	The participation of local consultants in analyzing the environment.	0.649**
<b>Strategy Formulation</b>		
1	The establishment of objectives that have long term nature. (more than one year-based objectives).	0.726**
2	The development of strategic alternatives and selecting a strategy among them.	0.833**
3	The revision and modification of the mission statement, strategies and plans in light of threats/ opportunities and strengths/ weaknesses.	0.636**
4	The participation of the internal stakeholders (employees, board, etc) in formulating the strategies and plans.	0.768**
5	The communication of mission and strategies to external the stakeholders (donors, partners, etc).	0.603**
6	The reliance on consultants in developing the strategy.	0.773**
<b>Strategy Implementation</b>		
1	The development of clear rules and procedures to guide strategic plans.	0.784**
2	The development of short term objectives, (equal or less than one year-based objectives).	0.828**
3	The allocation of sufficient financial, human and other resources to implement the strategies and plans.	0.784**
4	The establishment of clear activities or steps needed to accomplish the short term goals.	0.694**
5	The adjustment of the organization structure to adapt with new changes brought by their new strategic plans and decisions.	0.648**
6	The support from leadership to implement strategies.	0.710**
7	The organizational culture (core values, beliefs and norms) enables us to implement our strategic plans.	0.726**
<b>Strategy Evaluation and Monitoring</b>		
1	The development of a monitoring system.	0.886 **
2	Monitoring the strategic plans on regular basis.	0.865**
3	The identification of performance measures and standards.	0.799**
4	The evaluation of the outcomes of the strategies and plans.	0.773**
5	The modification of strategies, if needed, as a result of the evaluation.	0.750**
6	The communication of the evaluation results to the stakeholders.	0.833**
7	The consideration of the donor's priorities in the evaluation of the strategy.	0.827**
8	The consideration of the community satisfaction in the evaluation of the strategy.	0.782**
9	The reliance on consultants in the evaluation to ensure objectivity and transparency.	0.811**
10	The use of various evaluation techniques such as strategic audit, performance appraisal and benchmarking.	0.733**

Note: In rating each item, target respondents were asked, "Please tell us up to which extent the strategic management practices are applied in you NGO using a scale of 1 (not at all) to 5 (to a great extent)." Alpha reliability coefficients were Environmental Scanning, 0.82; Strategy Formulation, 0.87; Strategy Implementation, 0.86; Strategy Evaluation and Monitoring, 0.94.

\*\* Correlation is significant at the 0.01 level

Source: SPSS Analysis



**Table 3. Questionnaire items used in one scale (three sub-scales) measuring financial performance.**

Item Number	Questionnaire Item Question	Correlated Item- Total Correlation
<b>Fundraising Efficiency</b>		
1	The organization writes effective funding proposals.	0.750 **
2	The organization uses available funds to generate more funds.	0.678**
3	The organization achieves high response rate from donors to funding proposals.	0.880**
4	The organization minimizes its fundraising costs as much as possible.	0.858**
<b>Financial Transparency</b>		
5	The organization commits to the international standards of accounting and financial reporting.	0.696**
6	The organization ensures accurate and up to date financial records.	0.833**
7	The organization declares annual financial reports audited by public qualified accountants.	0.763**
8	The organization ensures correct, timely preparation and submission of the financial reports to the concerned donors.	0.818**
<b>Programs Financial Efficiency</b>		
9	The programs of the organization are financially resourced in an adequate manner to enable the achievement of the desired outputs.	0.828**
10	The organization monitors the budget statements of the projects and programs to ensure that the expenditures are in line with budgets.	0.855**

Note: In rating each item, target respondents were asked, "Please indicate your level of agreement using a scale of 1 (strongly disagree) to 5 (strongly agree)." Alpha reliability coefficients were Fundraising Efficiency, 0.81; Financial Transparency 0.82; Programs Financial Efficiency, 0.60; Total Financial Performance, 0.90.

\*\* Correlation is significant at the 0.01 level

Source: SPSS Analysis

**Table 4. Questionnaire items used in one scale (five sub-scales) measuring non-financial performance.**

Item Number	Questionnaire Item Question	Correlated Item- Total Correlation
<b>Programs Outcomes (Effectiveness)</b>		
1	The organization's programs are effectively achieved in contributing to the development of targeted beneficiaries.	0.801**
2	The organization's programs are effective in addressing crosscutting issues.	0.792**
3	The organization's programs are effective in achieving beneficiaries satisfaction.	0.757**
4	The organization's programs are effective in contributing to volunteers development.	0.707**
<b>Programs Non-Financial Efficiency</b>		
5	The organization uses proper activities to transform non-financial resources of the programs into outputs.	0.544**
6	The organization recruits staff with the right skills, experience to achieve the planned outputs of programs.	0.600**
7	The organization commits to time schedule to achieve the programs outputs.	0.693**
8	The organization's programs provides a number of products/services as planned.	0.714**
<b>Programs Impact</b>		
9	The organization's programs contribute to achieving the overall objective of your organization.	0.852**
10	The organization's programs are effective in causing direct effects on the community.	0.891**
11	The organization's programs are effective in causing indirect effects on the community.	0.777**
12	The organization's programs are effective in creating a long term effect or at social, economic, technological level as resulted from the programs.	0.876**
<b>Partnership</b>		
13	The organization considers collaborative partnership in its operations.	0.872**
14	The organization attracts local partners for the organization's programs.	0.805**
15	The organization attracts international partners for the organization's programs.	0.866**
16	The organization attracts private sector partners for the organization's programs.	0.851**
<b>Quality</b>		
17	The organization commits to quality systems and standards in programs delivery.	0.803**
18	The organization provides innovative services and projects.	0.680**
19	The organization's stakeholders are satisfied due to the organization's programs.	0.713**
20	The organizations has strong relationships with the community.	0.692**

Note: In rating each item, target respondents were asked, "Please indicate your level of agreement using a scale of 1 (strongly disagree) to 5 (strongly agree)." Alpha reliability coefficients were Programs Outcomes, 0.84; Non-Financial Efficiency, 0.92; Programs Impact, 0.90; Partnership, 0.89; Quality, 0.73; Total Non-Financial Performance, 0.96.

\*\* Correlation is significant at the 0.01 level

Source: SPSS Analysis

### *Descriptive Statistics: Respondents Profile and Organization Characteristics*

The results show that 41.3% of the target respondents were "program officers", 28.8% were "project managers-coordinators", and 30.0% were "administration officers". 52.5% of the target respondents were "Male", and 47.5% of them were "Female". Third, 3.1% of the respondents' education level was "secondary", 50.0% had "Bachelor" degree, 37.5% of the respondents possessed "master", and finally 9.4% had "PhD" degree. Fourth, 9.4% of the respondents had an age of "less than 25", 28.1% of the respondents had an age of "from 25 to less than 30 years", 43.1% of the respondents' age was "from 30 to less than 40 years", and 15.1% had an age of "40 years and more". Finally, 12.5% of the respondents possessed working experience of "less than 3 years", 28.1% had "from 3 to less than 5 years", 40.6% had "from 5 to less than 10 years", and 18.8% had an experience of "10 years and more" working experience.

The results show that 5.0% of the respondents indicated that their NGO has been operating for "less than 3 years", while 20.6% said that their NGOs had been in operation for "3 to less than 5 years". Moreover, the results show that 74.4% of the respondents said that their NGOs had more than 5 years of operations. Second, 23.8% of the respondents claimed that the number of staff in their NGOs are "less than 10", 38.8% of the respondents were working within NGOs with staff size of "10 to less than 20", 16.3% of the respondents said that the number of staff in their NGOs are "20 to less than 30", 15.0% of the respondents were working within NGOs with staff size of "30 to less than 40", and finally 6.3% of the respondents declared that they work in NGOs with staff size of "40 or more". Finally, 19.9% of the respondents said that their organization provide economic development activities and projects, 14.4% of the respondents indicated that their organization provide democracy and human rights activities, 13.1% of the respondents said that education and training was the main activity of their organization, 8.1% of the respondents belong to health and rehabilitation activity providers, 5.0% of the respondents declared that they work in a women and Child NGO, 3.8% of the respondents clarified that they work in NGOs characterized by culture and art activities, 30.0% declared that they work in social and relief services NGOs, and 5.0% of the respondents belong to the agriculture and environmental sector.

### **Results of Research**

Table 5 below depicts means, standard deviation, and Spearman correlations for the research variables. The mean and standard deviation of environmental scanning are 4.28 and 0.425, respectively. The mean and standard deviation of strategy formulation are 4.11 and 0.527, respectively. The mean and standard deviation of strategy implementation are 3.78 and 0.749, respectively. The mean and standard deviation of strategy evaluation and monitoring are 3.73 and 0.872, respectively. The mean and standard deviation for financial performance are 3.64 and 0.708 respectively while non-financial performance has a mean and standard deviation value of 3.59 and 0.805, respectively. Means and standard deviations of the sub-scales of both financial and non financial performance are also presented in table 5.

As can be seen in table 5, the results show there is a positive relationship between each of the strategic management practices and financial performance indicators (all recording a Spearman coefficient higher than 0.500). Moreover, it can be seen that all the correlations were significant at 0.01 level. For instance, it is found that the correlation between environmental scanning and fundraising efficiency was significant at the 0.01 level with a Spearman coefficient of 0.843. The correlation coefficients between environmental scanning and both financial transparency and program financial efficiency were 0.760 and 0.543, respectively. The relationship between strategy formulation and the three financial performance indicators were significant with

correlation of 0.715 with fundraising efficiency, 0.706 with financial transparency, and finally, 0.602 with program financial efficiency. Furthermore, strategy implementation registered the following correlation with the financial performance indicators: 0.756 with fundraising efficiency; 0.797 with financial transparency; and 0.619 with programs financial efficiency. Finally, strategy evaluation as the concluding practice of strategic management proved a significant positive relationship with financial performance indicators in which the Spearman coefficient was 0.769 with fundraising efficiency; 0.774 with financial transparency; and 0.608 with programs financial efficiency. The results suggest that the strategic management practices are of extreme importance for financial performance in terms of fundraising, programs financial efficiency and financial transparency. This implies that strategic management is vital for money acquisition and utilization in an efficient way in addition to financial integrity.

The results also show that each of the strategic management practices was positively related to the overall financial performance recalling that correlations are significant at the 0.01 level. The Spearman correlation shows strong positive relationship between financial performance and all strategic management practices included in this research. Strategy implementation had a correlation with financial performance in which the Spearman coefficient was 0.850. Environmental scanning, strategy evaluation and strategy formulation scored 0.832, 0.877 and 0.758, respectively.

On the other hand, positive relationships exist between each of the strategic management practices and non-performance indicators. In addition, all the relationships between strategic management practices and indicators of non-financial performance were significant at the 0.01 level. The strategic management practices had the strongest correlations with program non-financial efficiency. The values of the Spearman coefficient were 0.801 with environmental scanning, 0.748 with strategy formulation, 0.838 with strategy implementation, and 0.821 with strategy evaluation and monitoring. These results gives an indication that strategic management practices are positively related to program non-financial efficiency in terms of using the proper activities to produce the required outputs and providing a number of products and services as planned. Similarly, correlation between environmental scanning, strategy formulation, strategy implementation, strategy implementation and strategy evaluation and program impact were 0.660, 0.588, 0.651, and 0.676, respectively. This suggests that strategic management practices might lead to better impact of NGO programs in terms of causing direct, indirect effects and long-term effects on the communities where they operate. Furthermore, strategic management practices, according to the correlation analysis, proved to be beneficial to partnership in which environmental scanning was positively correlated with partnership scoring a Spearman correlation of 0.734, and strategy formulation, implementation, and evaluation were also positively related to partnership with a spearman coefficient of 0.647, 0.746, and 0.766, respectively. Finally, strategic management practices were also positively correlated with quality.

Based on the results, each of the strategic management practices is positively related to the overall non-financial performance. The Spearman correlation shows a strong positive significant relationship between non-financial performance and all strategic management practices included. Among these practices, environmental scanning had a correlation with non-financial performance in which the Spearman coefficient was 0.785. Strategy Formulation scored 0.710 with non-financial performance. Strategy implementation and strategy evaluation scored 0.817 and 0.813, respectively.

Although all the practices were positively correlated with NGOs' performance, it is still necessary to highlight that strategy implementation registered almost the highest correlations with the financial and non-financial performance indicators, suggesting the important role of this phase. This is expected since developing only well formulated strategies and goals are worthless without having a real implementation for these strategies. Hence, an NGO that seeks to achieve good performance has to consider the role of strategy implementation.

**Table 5. Means, standard deviations and correlations.**

Variables	Mean	SD	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Environmental Scanning	4.28	0.425	1												
Strategy Formulation	4.11	0.527	0.740**	1											
Strategy Implementation	3.78	0.749	0.771**	0.650**	1										
Strategy Evaluation & Monitoring	3.73	0.872	0.776**	0.787**	0.771**	1									
Fundraising Efficiency	3.55	0.750	0.843**	0.715**	0.756**	0.769**	1								
Financial Transparency	3.71	0.858	0.760**	0.706**	0.797**	0.774**	0.745**	1							
Programs Financial Efficiency	3.69	0.696	0.543**	0.602**	0.619**	0.608**	0.703**	0.642**	1						
Financial Performance (Overall)	3.64	0.708	0.832**	0.758**	0.831**	0.817**	0.924**	0.927**	0.806**	1					
Programs Outcomes	3.73	0.716	0.649**	0.549**	0.587**	0.602**	0.670**	0.653**	0.719**	0.742**	1				
Non-Financial Efficiency	3.57	1.053	0.80**	0.748**	0.838**	0.821**	0.873**	0.808**	0.731**	0.906**	0.679**	1			
Programs Impact	3.50	0.817	0.660**	0.588**	0.651**	0.676**	0.766**	0.680**	0.742**	0.800**	0.831**	0.834**	1		
Partnership	3.53	1.000	0.734**	0.647**	0.764**	0.766**	0.782**	0.752**	0.696**	0.833**	0.653**	0.907**	0.844**	1	
Quality	3.63	0.859	0.682**	0.600**	0.714**	0.684**	0.670**	0.618**	0.609**	0.703**	0.541**	0.797**	0.673**	0.816**	1
Non-Financial Performance (Overall)	3.59	0.805	0.785**	0.710**	0.817**	0.813**	0.842**	0.786**	0.774**	0.890**	0.803**	0.949**	0.924**	0.950**	0.859**

\*\* significant at the 0.01 level, \* significant at the 0.05 level.

### *Hypotheses Testing*

Since positive relationships were found between strategic management practices, financial performance and non-financial performance in the correlation analysis, it is deemed necessary to employ regression analysis in order to determine whether there are any predictive relationships between the dependent and independent variables. Hence, multiple regression analyses (Enter Method) were performed to predict the research hypotheses. In this analysis, two models were generated in which model 1 predicted the effect of the independent variables on financial performance, while model 2 was performed to see the effect of the independent variables on non-financial performance.

Model 1 had an R square equal to 0.863, indicating that 86.3% of the variations in financial performance are explained by the four variables entered in the model (environmental scanning, strategy formulation, strategy implementation, strategy evaluation and monitoring). The f-statistic (ANOVA) of the model equals 244.429, with a p-value equal to 0.000. The ANOVA finding revealed that the overall model is a significant predictor of the financial performance of NGOs. By looking at each of the individual t-tests, in Table 6, it can be seen that

all independent variables were significant predictors. However, in order to evaluate the strength of each predictor variable in the model, it is important to use the standardized coefficients (beta) (Pallant, 2007). The beta weight indicated that strategy implementation is the strongest predictor ( $\beta = 0.379$ ,  $p=0.000$ ), followed by strategy evaluation ( $\beta = 0.248$ ,  $p=0.000$ ), next is the environmental scanning ( $\beta = 0.220$ ,  $p=0.000$ ), and, finally, strategy formulation ( $\beta = 0.168$ ,  $p=0.002$ ).

The R-square of model 2, predicting the effect on non-financial performance, was 0.825 indicating that 82.5% of the variations in non-financial performance are explained by the four strategic management practices. The model is a significant predictor since the f-statistic (182.81) is significant with a p-value equals to 0.000. All the independent variables entered were significant predictors. The beta weight indicated that strategy evaluation is the strongest predictor ( $\beta = 0.313$ ,  $P=0.000$ ), followed by strategy implementation ( $\beta = 0.295$ ,  $p=0.000$ ), next is environmental scanning ( $\beta = 0.232$ ,  $p=0.000$ ), and, finally, strategy formulation ( $\beta = 0.153$ ,  $p=0.013$ ).

In summary, all the strategic management practices were significantly associated with financial performance and non-financial performance of NGOs. An increase in each strategic management practice would not improve only financial performance but also program performance.

Finally, in both models, multi-collinearity was not serious, since the tolerance values ranged from 0.269 to 0.308 ( $>0.10$ ) and the variance inflation factor (VIF) ranged from 3.243 to 3.722 ( $<10.00$ ) (Pallant, 2007). Moreover, the Durbin-Watson value of model 1 was 2.151, and model 2 was 1.678, suggesting no evidence of autocorrelation of the errors. The values of Cook's Distance for model 1 ( $0.084 < 1.00$ ) and for model 2 ( $0.111 < 1.00$ ) suggest that in the models there are no potential problems with the outliers (Tabachnick & Fidell, 2007).

**Table 6. Multiple regression for variables predicting financial and non-financial performance.**

Independent Variables	Model 1. Dependent variable: Financial Performance			Model 2. Dependent variable: Non-Financial Performance		
	Beta ( $\beta$ )	T-value	P-value	Beta ( $\beta$ )	T-value	P-Value
Environmental Scanning	0.220	3.942	0.000**	0.232	3.682	0.000**
Strategy Formulation	0.168	3.131	0.002**	0.153	2.522	0.013*
Strategy Implementation	0.379	6.610	0.000**	0.295	4.551	0.000**
Strategy Evaluation and Monitoring	0.248	4.406	0.000**	0.313	4.920	0.000**
	$R^2 = 86.3$ $F$ statistic= 244.429, Sig=0.000 Std error of the estimate=0.2651 Durbin Watson= 2.151 Cook's Distance, Maximum=0.084			$R^2 = 82.5$ $F$ statistic= 182.817, Sig=0.000 Std error of the estimate=0.3410 Durbin Watson= 1.678 Cook's Distance, Maximum=0.111		

\*\* significant at the 0.01 level, \* significant at the 0.05 level.

## Discussion

The objective of this research was to explore the effect of strategic management on NGOs' performance. A set of hypotheses, using correlation analysis and multiple regression analysis, were tested to better explore the relationship between strategic management practices (environmental scanning, strategy formulation, strategy implementation and strategy evaluation and monitoring) and both financial and non-financial performance of NGOs. The correlation

analysis revealed a strong positive relationship between the strategic management practices and financial and non-financial performance. Then, multiple regression analysis indicated that each of strategic management practices showed statistically significant positive association with both financial and non-financial performance, supporting hypotheses H<sub>1a&b</sub>, H<sub>2a&b</sub>, H<sub>3a&b</sub> and H<sub>4a&b</sub>. Strategy implementation was the strongest predictor on financial performance in NGOs, while strategy evaluation and monitoring was the strongest predictor variable on non-financial performance of NGOs. These results provide compelling evidence in support of the effects of strategic management on the performance of NGOs. In general, the results suggest the those who aim to achieve higher financial performance in terms of fundraising, financial sustainability, credibility and financial efficiency of programs, should consider the role of strategic management practices, and these practices, furthermore can lead to better program performance in terms of effectiveness, efficiency, impact, partnership and quality. These results are certainly in parallel with prior writings on the importance of a strategic process for NGO performance, such as Allison and Kaye (2005), Barry (1986), Bryce (1992), Bryson (1988), Bryson (2011), Hay (1991), Moore (2000), Morrisette & Oberman (2013), and Poister et al. (2010).

The results suggest that these practices are fundamental for NGOs' financial performance, as has been suggested by Mosley et al. (2012). The results are consistent with Blackmon (2008), Crittenden, Crittenden & Hunt (1988), Odom & Boxx (1988), and Sciliano (1997). The results also suggested that strategic management practices can lead to better non-financial performance or 'program performance'. These results are consistent with Hu et al., (2014), Mara (2000), McHatton et al. (2011), Medley & Akan (2008), and Smith (2008). The results are also consistent with Letts et al. (1999) who claimed that management effectiveness and program performance are linked.

### Implications for Managerial Practices

This research highlights the role of strategic management in NGOs' performance. The research suggests that those NGOs which analyze their present situation, including evaluating the opportunities, threats, weaknesses, strengths, stakeholders, and needs of the communities; define their strategic alternatives in terms of mission, goals and strategies; implement their plans and strategies taking into account the important strategy implementation drivers; and finally, monitor and evaluate their progress and strategies; would have better performance from a financial aspect in terms of generating funds and utilizing these funds efficiently and effectively. Moreover, it is clear that NGOs with better strategic management practices deliver their services and projects successfully. Based on the results, we suggest the following strategic management practices be adopted by the NGO sector as a vehicle to achieve higher performance:

1. An analysis of the present situation of the NGO in terms of services, beneficiaries and stakeholders.
2. External environmental analysis: evaluating opportunities and threats in terms of its competitors, donors, the economic and socio-political influences and stakeholder analysis.
3. Internal environmental analysis: assessing internal strengths and weaknesses.
4. Developing specific, measurable, achievable, realistic and time-based, long term objectives and short term goals.
5. Defining strategic alternatives in terms of objectives and strategies.
6. Regularly reviewing the goals, objectives and mission statement in light of changes in the working environment.
7. Taking into account the importance of the organizational culture, structure, leadership

- as major drivers of the strategy implementation process.
8. Developing a monitoring system.
  9. Regularly monitoring and evaluating goals, strategies and overall progress of the organization to ensure that it is both flexible and adjustable.
  10. Using a participatory approach to formulate mission statement, goals, strategies.
  11. Taking into account the importance of participation of experts and consultants in the strategic efforts of NGOs.

### Conclusions, Limitations and Future Research

This research provides an important contribution to the empirical body of knowledge of NGOs research through filling in an existing research gap of the relationship between strategic management and NGOs' performance, whereas there are less defined relationships in this area. The results suggest a strong link between strategic management practices and financial and non-financial performance of NGOs. Hence, these results give a clear indication of the necessity of strategic management practices to enhance NGOs' performance. Second, the research overcomes the classical way of measuring performance only in terms of access to funding. In this way, this research has an advantage over many studies, which investigated the relationship only between the utilization of formal planning and financial performance measured in terms of access to funding or income generation, ignoring other important elements in the financial performance of NGOs, such as financial transparency and efficiency. Moreover, this research gives a more sophisticated understanding of this relationship by including both financial performance measures and non-financial measures believed to be of extreme necessity to explore such a relationship. Finally, previous studies highlighted only the use of planning, ignoring other important elements in a comprehensive strategic management approach, such as implementation and evaluation.

The research, however, has some limitations. First, the research targeted only the international NGOs working in the Palestinian territories. Future research might replicate and extend this research to enrich and enhance these preliminary findings by including also local NGOs. Another limitation is that data was gathered by a single data collection method which might introduce a kind of bias. Although it has been argued that it is incorrect to assume that single data method implies systematic bias, it is still recommended for future research to utilize a quantitative-qualitative approach with multi data collection methods such as questionnaires and interviews. Moreover, the inclusion of a qualitative investigation would be extremely useful to understand how strategic management practices impact the performance of NGOs. Finally, the research aimed only to explore the direct effects of strategic management practices on NGOs performance. Future research might include some mediating or moderating variables such as donors policies, conditional funding, external constrains. The inclusion of these variables in further research will provide a much deeper understanding of the strategy-performance link in NGOs.

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