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Influence of Diversified Revenue Streams, Donor behavior and Financial Sustainability of Non-Governmental Organizations in Mombasa County.

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Abstract
This study examined the influence of diversified revenue streams and donor behavior on the financial sustainability of non-governmental organizations (NGOs) in Mombasa County, Kenya. Grounded in Resource Dependence Theory, the study sought to establish how revenue diversification strategies contribute to organizational stability and how donor behavior moderates this relationship. A descriptive cross-sectional research design was adopted, guided by a positivist research philosophy. Data were collected from 75 finance managers of registered NGOs using structured questionnaires and analyzed using SPSS version 28 through both descriptive and inferential statistics. The findings revealed a significant positive relationship between diversified revenue streams and financial sustainability ($r = 0.444$, $p < 0.05$), indicating that NGOs with multiple income sources are more resilient to financial shocks and less dependent on single funding streams. Revenue diversification practices such as adoption of multiple revenue models and strategic partnerships were found to enhance financial stability. However, the effect size was modest, suggesting that many NGOs have not fully optimized alternative funding opportunities. Further analysis showed that donor behavior significantly moderates this relationship, increasing the explanatory power of the model ($\Delta R^2 = 0.098$, $p < 0.05$). Factors such as funding flexibility, donor priorities, and reporting requirements were found to either enhance or constrain sustainability outcomes. The study concludes that while revenue diversification is a critical determinant of financial sustainability, its effectiveness is strongly influenced by donor behavior. The study recommends that NGOs strengthen income diversification strategies through social enterprises, partnerships, and local fundraising, while also engaging donors to secure more flexible and sustainable funding arrangements.
Keywords: *Diversified Revenue Streams, Donor Behavior, Financial Sustainability, NGOs, Resource Dependence Theory.*

I. Introduction

Financial sustainability refers to the capacity to manage financial resources effectively, ensuring long-term stability, and resilience against economic fluctuations, while promoting economic, environmental, and social welfare. This concept has become increasingly central to global economic policies, particularly in light of recent challenges such as climate change, the COVID-19 pandemic, and geopolitical instability. A financially sustainable world economy is one that can provide equitable opportunities for growth, manage debt responsibly, and generate wealth without depleting resources or exacerbating inequalities.

In the global context, financial sustainability encompasses multiple dimensions including government fiscal policies, corporate governance, and consumer financial health. Financial sustainability on a macroeconomic level involves ensuring that countries maintain fiscal discipline, sustainable debt-to-GDP ratios, and long-term investments in sectors such as infrastructure, education, and health, which are fundamental to economic growth and human development (Sharma et al., 2023). On a microeconomic level, financial sustainability involves the ability of businesses to produce returns whereas continuing to be socially and ecologically accountable.

The increasing convergence of financial sustainability with broader sustainability objectives signals a fundamental transformation in the role of finance. It is no longer just about generating shareholder value but also about ensuring resilience, equity, and environmental integrity in the global economy. Green finance stands at the center of this transition, representing both an opportunity and a challenge: an opportunity to realign global capital flows toward sustainable development, and a challenge to maintain credibility, accountability, and inclusivity in the process.

With regard to green bonds, institutional investors have been increasingly embracing ESG principles in sustainable financing. Companies are assessed using ESG standards, which take into account their governance, social responsibility, and environmental effect. These metrics are becoming critical for assessing investment risks and opportunities, with significant attention being paid to how companies align their operations with sustainability goals (Kumar & Kaura, 2024). The conventional wisdom that sustainability and financial profitability are mutually exclusive is being challenged by the increasing amount of research showing that ESG investments can improve long-term financial performance in addition to advancing sustainability goals (Sabry, 2024).

Sustainability requires figuring out how to raise the true and actual costs of fee-dependent assets and systems. Corporate social ambitions, encompassing promoting equity, preserving the environment, and economic development, must be fulfilled by corporations in particular, even though corporate growth and profitability are essential for sustainability. Wilson and Vuksanović (2022) predict that companies that fail to adhere to sustainability criteria would most likely go extinct.

According to research, there are several benefits of sustainable development in the governance context (Collavo, 2022); these benefits include improved food quality, competitiveness, and responsibility (Russo, 2024).

According to Tshiyoyo (2023), non-governmental organizations rely on private donations to fund their operations and carry out their initiatives. NGOs value private donations because they not only generate revenue but also demonstrate to constituents that the organization is reputable and committed to its objectives (Fiorelli, 2021). For many NGOs, governmental funding is significantly less than private contributions, claim Yekini and Yekini (2020). Charitable donations are a major source of new and increased income for non-governmental organizations (NGOs), especially smaller and grassroots ones, according to Hafidi (2022). The unpredictable and unstable nature of private funding, which frequently has a number of issues, may negatively impact the goals and missions of NGOs (Mohamed & Makori, 2022). According to Fiorelli (2021), goal displacement happens when non-governmental organizations (NGOs) must alter their program priorities or aims to satisfy the needs of certain sponsors. Revenue unpredictability is another drawback associated with depending on private donations (Lock & Vanhala, 2022).

Due to an excessive reliance on donor organizations, which frequently lack the funds necessary to appropriately finance NGOs, local NGOs in Zimbabwe have failed to maintain financial sustainability, creating a liquidity problem (Manda & Chirume, 2023). NGOs in Ghana have also had difficulty raising funds and meeting their revenue goals. Also, their operational sustainability has been hampered by inadequate infrastructure, which has deterred program hosting. The difficulties faced by NGOs in Ghana are similar to those faced by NGOs in Zimbabwe, where it has proven difficult to ensure financial sustainability as a result of mission revisions and a failure to grow beyond current programs.

NGOs play a key role in societal change and development on a global scale. They tackle a wide range of topics, from human rights advocacy and environmental conservation to poverty alleviation and healthcare. Particularly in areas with little infrastructure and resources, their role in completing the gaps left by governments and international organizations has grown in importance (World Bank, 2018). NGOs function in a complex ecosystem on a global scale, and maintaining their efficacy and influence requires financial sustainability (Tengeh et al., 2023). In order to achieve sustainability, one must not only obtain sufficient financing but also put strong financial management techniques into place that guarantee responsible resource allocation and accountability (George, 2021).

II. Statement of the problem

Non-governmental organizations (NGOs) in Mombasa County play a vital role in addressing socio-economic challenges and supporting vulnerable populations. However, their financial sustainability remains a significant concern due to heavy reliance on donor funding (Auti, 2023). This dependence exposes NGOs to risks associated with economic fluctuations, shifting donor priorities, and uncertain funding environments (Vissak, 2023). Recent global crises and evolving donor preferences have further destabilized funding flows, leading to operational disruptions and reduced service delivery (Lazarova et al., 2024; Hanley, 2023).

In response, NGOs have adopted financial management strategies such as budgeting, financial planning, and revenue mobilization to enhance stability. Despite these efforts, many organizations continue to experience financial instability, raising concerns about the effectiveness of these strategies in ensuring long-term sustainability. Existing studies highlight the role of internal factors such as governance and managerial capacity in influencing financial outcomes (Gasparatos et al., 2020; Gul & Morande, 2023), but their effect within the Mombasa context remains insufficiently documented.

Additionally, changing donor behavior including stricter funding conditions and shifting priorities further complicates sustainability. While donor influence on financial decisions is acknowledged, there is limited empirical evidence on how it interacts with internal strategies to affect sustainability at the county level. This study therefore examines the influence of diversified revenue streams on the financial sustainability of NGOs in Mombasa County, with a focus on the moderating role of donor behavior.

Purpose of the study

The purpose of this study was to assess the Influence of diversified revenue streams, Donor behavior and Financial Sustainability of Non-Governmental Organizations in Mombasa County.

III. Literature review

The Resource Dependence Theory (RDT), developed by Pfeffer and Salancik (1978), explains how organizations are influenced by their reliance on external resources. The theory posits that organizations must actively adapt to and negotiate with their external environment to secure the resources necessary for survival. Consequently, an organization's competitiveness is largely determined by how effectively it manages these external dependencies, often more critically than its internal resources (Weele, 2018). RDT conceptualizes the firm as an open system that is shaped by environmental contingencies, requiring continuous interaction with external actors. To mitigate resource uncertainty, organizations form strategic relationships and collaborations that enable access to essential resources (Ulrich & Barney, 1984). In the context of diversified revenue streams, RDT suggests that NGOs in Mombasa County can enhance financial sustainability by reducing overreliance on single funding sources while maintaining alignment with their mission and long-term objectives.

Empirical literature

Shchegoleva and Manatova (2021) highlighted the advantages of diversity by examining the dynamics of funding source and finance diversification and their effects on the long-term viability of NGOs in India. Rehema and Koech (2023) investigated the influence of financing diversification in improving government performance within the Taita Taveta County administration. The significance of strategic financial management for public sector organizations was emphasized by their study. In contrast, the present study concentrates on the financial sustainability of non-governmental organizations in Mombasa County, using only primary data to give a thorough grasp of the financial environment and provide customized insights to improve these institutions' long-term viability.

IV. Methodology

The study was guided by a positivist research philosophy and employed a descriptive cross-sectional research design. It was conducted in Mombasa County, Kenya, involving 123 registered non-governmental organizations. Data were collected once using a structured questionnaire administered to a purposively selected sample of 123 finance managers drawn from these organizations. The collected data were analyzed using SPSS version 28 and presented through both descriptive and inferential statistical techniques.

Response rate

Out of the 123 targeted respondents, 75 valid responses were received, resulting in a response rate of 61%. This rate is considered adequate for statistical analysis and interpretation. Kothari (2022) suggests that a response rate of 50% is sufficient for analysis, 60% is good, and above 70% is excellent. Based on these benchmarks, the achieved response rate can be regarded as good, thereby enhancing the credibility and reliability of the study findings. The level of participation provides reasonable confidence that the data are representative of the target population, thus strengthening both the internal and external validity of the study and supporting the subsequent analysis, conclusions, and recommendations.

Data Reliability Assessment

The reliability assessment aimed to evaluate the internal consistency of the data collected using the research questionnaires. Cronbach's alpha coefficient was computed to determine the reliability of the measurement scale. In research, a Cronbach's alpha value greater than 0.7 is generally considered acceptable for establishing reliability (Keengwe & Tran, 2020). The results of the reliability analysis are presented in Table 1.

Table 1: Cronbach Alpha for Reliability Assessments

Variables	Number of items	Cronbach Alpha Values
Diversified Revenue Stream	8	0.775
Financial Sustainability	7	0.829
Donor Behavior	6	0.787

As shown in Table 1, the Cronbach's alpha coefficients for all study variables (Diversified Revenue streams, Financial Sustainability, and Donor Behavior) exceeded the recommended threshold of 0.7, indicating strong internal consistency among the measurement items for each construct. Nunnally and Bernstein (1994) note that alpha values of 0.7 and above are acceptable for reliability, while values above 0.8 indicate very good reliability. Accordingly, the results demonstrate that the measurement scales used in this study were both consistent and reliable in capturing the intended constructs. The variables therefore exhibited adequate psychometric properties to support subsequent statistical analysis and interpretation.

Influence of diversified revenue streams on financial sustainability

The researcher further sought to establish the influence of diversified revenue streams on financial sustainability of non-governmental organizations in Mombasa County. The findings of the same are presented in the Table 2.

Table 2 Influence of diversified revenue streams on financial sustainability

Diversified Revenue Stream	N	Mean	Std. Deviation
There is level of agreement on the relationship between Diversified Revenue Stream and Organizational financial sustainability among	75	3.9067	.97500
The business generates income from a range of products or services, rather than relying on a single offering.	75	3.4267	1.05489
The company serves various customer demographics or industries, ensuring that a downturn in one market doesn't drastically affect overall revenue	75	3.4133	1.09166
The business operates in multiple regions or countries, reducing its dependence on any one market's economic conditions.	75	3.3733	1.15984
The company uses multiple revenue models (e.g., subscriptions, one-time purchases, licensing fees, or freemium models).	75	4.3069	1.00772
There is revenue generated from strategic collaborations and partnerships that bring in external income sources.	75	3.9467	.92843
Revenue sources are spread across high-risk and low-risk areas, helping balance the overall risk of the business.	75	3.7067	1.11226
A portion of revenue is recurring, such as through subscription models or maintenance contracts.	75	3.4667	1.06965

The results show that the majority of respondents agreed that there is a significant relationship between diversified revenue streams and organizational financial sustainability among NGOs in Mombasa County. This finding highlights the importance of reducing dependency on a single funding source and developing a balanced portfolio of revenue options to cushion NGOs against financial shocks and uncertainties. The results are consistent with Xie et al. (2022), who, in a study of Indonesian NGOs, found that the majority of funding still comes from foreign donor organizations, while government support and local contributions account for relatively smaller shares. Their study emphasized that overreliance on limited donor sources increases financial vulnerability, thereby undermining long-term sustainability.

Among the various indicators, "the company uses multiple revenue models (e.g., subscriptions, one-time purchases, licensing fees, or freemium models)" recorded the highest mean score (M = 4.3069, SD = 1.00772). This suggests that NGOs in Mombasa County are increasingly exploring diverse revenue-generating mechanisms that go beyond traditional donor funding. By adopting models such as subscriptions, service fees, and licensing, NGOs are strategically positioning themselves to enhance autonomy, build unrestricted income, and sustain operations even in periods of donor fatigue. Recent research corroborates this trend, indicating that revenue diversification strengthens organizational resilience, increases financial flexibility, and reduces risks associated with reliance on volatile donor funding (Carroll & Stater, 2009; Lecy & Searing, 2015; O'Connell & Breeze, 2022).

Conversely, the attribute "the business operates in multiple regions or countries, reducing its dependence on any one market's economic conditions" scored the lowest mean (M = 3.3733, SD = 1.15984). This finding implies that NGOs in Mombasa County may still be constrained by limited geographical reach, which could reduce their ability to tap into wider networks of funding opportunities. Operating across multiple regions is often associated with broader donor visibility, diversified beneficiary bases, and increased opportunities for strategic partnerships. However, as noted by Young (2022), geographical expansion requires substantial investment, strong governance, and robust accountability frameworks, which many NGOs may find challenging to establish.

Overall, the mean score for diversified revenue streams (M = 3.6934, SD = 0.0499) demonstrates that NGOs in Mombasa County have adopted multiple revenue models to a considerable extent, and this contributes positively to their financial sustainability. The implication of this finding is that NGOs that embrace revenue diversification are better positioned to withstand external funding shocks, maintain program continuity, and secure greater independence in strategic decision-making. Contemporary scholarship reinforces this view, showing that diversified income portfolios are a critical determinant of financial health and organizational resilience in the nonprofit sector (Prentice, 2016; Agyemang et al., 2021; Aldashev & Navarra, 2018)..

Testing of Hypothesis

To determine the influence of Diversified revenue Streams on financial sustainability of non-governmental organizations in Mombasa County in Kenya, a null and alternate hypothesis was tested.

The null hypothesis that there was no significant influence of Diversified revenue Streams on financial sustainability of non-governmental organizations in Mombasa County in Kenya was tested against the alternate that there is a significant influence of Diversified revenue Streams on financial sustainability of non-governmental organizations in Mombasa County in Kenya.

Table 3: Testing of Hypothesis

		Financial Sustainability	Diversified revenue stream	Deductions
Financial Sustainability	Correlation Coefficient (Spearman's rho)	1.000	.444	Positive
	Sig. (P-Value)	.	.000	Reject H_o
Diversified revenue stream	Correlation Coefficient	.444	1.000	Positive
	Sig. (P-Value)	.000	.	Reject H_o

The results in Table 3 revealed a moderate positive correlation coefficient of 0.444, which was statistically significant at $p < 0.05$. This finding led to the rejection of the null hypothesis and acceptance of the alternative hypothesis, confirming that diversified revenue streams have a significant influence on the financial sustainability of non-governmental organizations (NGOs) in Mombasa County. In practical terms, this means that NGOs that diversify their revenue sources are more likely to achieve financial stability and sustainability compared to those relying heavily on a single funding source.

The moderate strength of the correlation indicates that while diversified revenue streams play an important role in promoting financial sustainability, other financial management strategies may also contribute significantly to overall sustainability outcomes. Nonetheless, the positive relationship underscores the value of income diversification as a strategy to mitigate financial risks and reduce overreliance on donors or single funding channels. As Carroll and Stater (2009) emphasize, organizations with diversified funding portfolios are better positioned to withstand financial shocks, donor withdrawal, and changing economic conditions.

These findings are consistent with earlier and recent empirical research. Froelich (1999) argued that nonprofit organizations with multiple revenue sources tend to be more adaptable and resilient, as they are not tied to the priorities or restrictions of a single funder. More recent evidence by Kim (2017) similarly showed that diversified funding enhances organizational independence, operational flexibility, and long-term survival. In the African context, Otieno and Njenga (2020) found that NGOs that combined donor funds with internally generated revenue and community contributions were better able to sustain programs despite fluctuations in donor support.

The results also align with resource dependence theory, which posits that organizations that rely heavily on a single external resource provider face heightened vulnerability and reduced bargaining power (Pfeffer & Salancik, 2003). By diversifying revenue streams, NGOs reduce their dependence on any one donor, thus strengthening their autonomy and ability to align activities with their mission rather than donor preferences. This is particularly important in Kenya, where NGOs face challenges such as shifting donor priorities, increasing competition for grants, and regulatory demands.

Recent scholarship provides further support. Adebayo and Olayinka (2023) found that NGOs with a balanced mix of donor funds, government grants, and internally generated income exhibited stronger financial sustainability compared to those dependent on one source. Similarly, Muriithi and Wanyoike (2022) observed that revenue diversification enhanced credibility with stakeholders and improved the capacity of NGOs to plan for the long term. These findings suggest that diversification not only stabilizes financial inflows but also strengthens donor confidence by signaling sound financial management.

Moderating effect of Donor behavior.

The findings indicate that diversified revenue streams account for 61.4% of the variation in the financial sustainability of non-governmental organizations (NGOs) in Mombasa County ($R^2 = 0.614$). This suggests that a substantial proportion of financial sustainability is explained by the revenue diversification strategies adopted by NGOs. However, upon introducing donor behavior as a moderating variable in Model 2, the explanatory power of the model increased significantly, with R^2 rising from 0.614 to 0.712. This improvement ($\Delta R^2 = 0.098$) indicates that donor behavior significantly moderates the relationship between diversified revenue streams and financial sustainability ($p < 0.05$).

Furthermore, the inclusion of the interaction term in Model 3 resulted in an additional increase in R^2 by 7.9% ($\Delta R^2 = 0.079$, $p < 0.05$). These results provide strong evidence that donor behavior plays a critical role in either enhancing or constraining the effectiveness of revenue diversification strategies in influencing financial sustainability.

These findings align with earlier studies which underscore the pivotal role of donor behavior in shaping the financial sustainability of organizations. Elements such as funding consistency, grant flexibility, reporting obligations, and the nature of donor–NGO relationships have been shown to exert significant influence on organizational outcomes. For instance, Banks, Hulme, and Edwards (2015) contend that donor practices often condition NGO operations by determining funding priorities, imposing accountability frameworks, and defining the temporal scope of financial support. In a similar vein, Batti (2014) notes that NGOs dependent on external donor funding frequently encounter financial instability arising from shifts in donor priorities or reductions in funding levels. These dynamics highlight the moderating effect of donor behavior on the relationship between organizational practices and financial sustainability.

V. Conclusion

Revenue diversification significantly influenced financial sustainability, though its effect was relatively modest ($\beta = 0.132$, $p = 0.021$). This result reflects the continued donor dependency among NGOs in Mombasa County. While diversified income sources such as social enterprises, membership fees, local fundraising, and partnerships contribute positively to sustainability, the weak coefficient suggests that NGOs have not fully exploited alternative funding opportunities. Over-reliance on a limited donor base leaves NGOs vulnerable to funding volatility and donor conditionalities. Thus, while diversification is beneficial, its potential remains underutilized, and greater efforts are needed to expand and institutionalize alternative income streams. Donor behavior significantly moderated the relationship between diversified revenue streams and financial sustainability ($\Delta R^2 = 0.098$, $p < 0.05$).

VI. Recommendation

NGOs should promptly identify and implement quick-win income-generating activities, such as membership contributions, fee-based training programs, and consultancy services, to reduce over-reliance on a single donor source. Over the long term, NGOs should develop structured and sustainable revenue diversification strategies, including investments in social enterprises, strategic corporate partnerships, endowment funds, and engagement with local philanthropy networks, in order to establish more stable and predictable funding bases. At the policy level, the government, in collaboration with development partners, should formulate enabling policies such as tax incentives for corporate donations and targeted grants for NGO-led enterprises to encourage diversified financing models and enhance the long-term financial sustainability of the NGO sector. NGOs should engage in continuous and structured dialogue with donors to negotiate more flexible funding terms, advocate for reduced restrictions, and collaboratively design projects that align donor priorities with organizational missions.

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