

Effect of financial management practices on the financial sustainability of non-governmental organizations (NGOs) in Nigeria

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Abstract

Purpose: This study examined the effect of financial management practices on the financial sustainability of Non-Governmental Organizations (NGOs) in Nigeria.

Methodology: An ex post facto research design was adopted, utilizing secondary data obtained from the annual reports of 15 national and international NGOs registered with the Corporate Affairs Commission (CAC) and operating across Nigeria. The study covered an eleven-year period (2014–2024) and employed descriptive statistics, correlation analysis, and fixed effects regression techniques to analyze 165 observations.

Results and conclusion: The results revealed that while fund diversification and grant compliance management have positive but statistically insignificant effects on financial sustainability, own income generation has a strong positive and statistically significant effect. Inflation shows a significant negative effect, whereas NGO size exhibits an insignificant negative relationship with sustainability. The study recommended that should NGOs prioritize investment in grant compliance systems, expand mission-aligned income-generating activities, and focus on building stable and predictable funding relationships. The study contributes to existing literature by providing empirical evidence within the Nigerian context and offers practical insights for enhancing the long-term viability and developmental impact of NGOs.

Implication of findings: The study concluded that the financial sustainability of NGOs in Nigeria largely depends on their ability to strengthen internal financial capacity, particularly through income generation and effective financial management systems.

Keywords: Financial sustainability, Non-Governmental Organizations (NGOs), Funding diversification, Grant compliance management, Own income generation, Inflation.

1. Introduction

The financial sustainability of Non-Governmental Organizations (NGOs) has become a critical global issue due to increasing funding uncertainty, rising operational costs, and growing demand for accountability and transparency. NGOs play a vital role in addressing socio-economic challenges such as poverty alleviation, healthcare delivery, education, and human rights advocacy. However, their ability to sustain operations and achieve long-term objectives depends largely on how effectively they generate, manage, and utilize financial resources. As noted by Sylvia et al. (2025), the survival and growth of NGOs are closely linked to the effectiveness of their financial management practices.

Financial sustainability refers to an organization's capacity to secure stable and adequate financial resources while efficiently utilizing them to support continuous operations and long-term impact (Adedipe & Adegbite, 2026). In the context of NGOs, this extends beyond fundraising to include sound financial planning, budgeting, risk management, monitoring, and strict compliance with donor requirements. Despite their importance, many NGOs face persistent challenges such as overdependence on donor funding, weak financial controls, and limited internal revenue generation, all of which threaten their sustainability (Doshiro et al. 2023).

In developing economies such as Nigeria, the challenge is even more pronounced. NGOs operate in an environment characterized by economic instability, fluctuating donor support, weak institutional frameworks, and increasing competition for limited funding. Heavy reliance on foreign donor funding

exposes NGOs to external shocks, including global economic downturns and shifting donor priorities (Mohammed et al. 2023). These conditions underscore the need for effective financial management practices that can enhance resilience and long-term sustainability.

Financial management practices are therefore central to improving NGO sustainability. Key practices include funding diversification, financial risk management, grant compliance management, and own income generation. Funding diversification reduces dependence on a single source of income, thereby enhancing financial resilience (Kereri & Massawe, 2024). Financial risk management enables NGOs to anticipate and mitigate uncertainties such as funding volatility and exchange rate fluctuations. Grant compliance management ensures adherence to donor requirements, thereby safeguarding funding continuity and organizational reputation (Svidroňová & Vaceková, 2021). Own income generation provides alternative revenue streams through social enterprises and service-based activities, reducing reliance on external funding.

From a theoretical perspective, this relationship is supported by Resource Dependency Theory, which emphasizes the need to manage external resource dependence (Pfeffer & Salancik, 1978); Agency Theory, which highlights accountability and efficient resource utilization (Jensen & Meckling, 1976); and Signalling Theory, which suggests that transparent financial practices enhance stakeholder confidence (Spence, 1973).

Despite the recognized importance of financial management practices, the financial sustainability of NGOs in Nigeria remains a major concern. Many organizations continue to experience financial instability due to overreliance on donor funding, limited diversification strategies, and weak financial systems (Katongo & Phiri, 2023). Although prior studies have examined determinants of NGO sustainability, existing evidence in Nigeria is limited, fragmented, and methodologically constrained. Most studies focus on isolated variables, rely heavily on qualitative approaches, and lack comprehensive empirical models that integrate multiple financial management practices. More importantly, the novelty gap lies in the lack of studies that simultaneously examine funding diversification, financial risk management, grant compliance management, and own income generation within a unified empirical framework using quantitative techniques in the Nigerian context. In addition, previous studies have not sufficiently utilized robust analytical approaches such as panel or multivariate regression models to capture the combined effect of these variables.

This study contributes to the literature in several ways. First, it provides empirical evidence from Nigeria, addressing the contextual gap in existing studies. Second, it adopts a comprehensive model that integrates multiple financial management practices, rather than examining them in isolation. Third, it offers policy-relevant insights for NGO managers, donors, and regulators on how to enhance financial sustainability. Finally, it strengthens theoretical understanding by linking financial management practices to sustainability using established frameworks.

This study addresses this gap by providing a comprehensive, quantitative, and context-specific analysis of financial management practices and NGO sustainability in Nigeria.

2. Literature review

Theoretical review

This study adopts an integrated theoretical approach to explain how financial management practices influence the financial sustainability of NGOs. Rather than discussing theories in isolation, each

theoretical framework is directly linked to specific variables in the study in order to provide a coherent and model-driven explanation of the relationships under investigation. The key theories underpinning this study are Resource Dependency Theory, Stakeholder Theory, Signaling Theory, and Agency Theory, each of which provides justification for different dimensions of financial management practices.

Resource Dependency Theory (RDT), developed by Jeffrey Pfeffer and Gerald Salancik (1978), explains how organizations depend on external resources for survival and how this dependence shapes their strategic decisions. The theory posits that resources are scarce, unevenly distributed, and controlled by external actors, thereby creating uncertainty and vulnerability for organizations. In the context of this study, RDT provides the theoretical foundation for funding diversification and own income generation. NGOs that rely heavily on a single donor source are exposed to financial instability, whereas those that diversify their funding sources are better able to reduce dependency and enhance resilience. Similarly, own income generation enables NGOs to develop internal revenue streams, thereby reducing reliance on external funding and strengthening financial autonomy. Consequently, RDT suggests that NGOs that adopt diversified funding strategies and generate internal income are more likely to achieve long-term financial sustainability.

Stakeholder Theory, advanced by R. Edward Freeman (1984), emphasizes that organizations operate within a network of relationships involving multiple stakeholders, including donors, beneficiaries, regulators, and the wider community. The theory highlights the importance of accountability, transparency, and responsiveness in maintaining stakeholder trust and support. In this study, Stakeholder Theory provides a basis for understanding the role of grant compliance management. NGOs are expected to meet donor requirements and demonstrate responsible use of funds in order to maintain credibility and secure continued support. Effective compliance with grant conditions ensures accountability, strengthens relationships with stakeholders, and enhances organizational legitimacy. As such, NGOs that maintain high levels of compliance are more likely to sustain funding and improve their financial sustainability.

Signaling Theory, introduced by Michael Spence (1973), complements Stakeholder Theory by explaining how organizations communicate credible information to external stakeholders in order to reduce information asymmetry. In the NGO context, donors often lack complete information about how resources are utilized, making transparency and reporting critical. Grant compliance management serves as a signaling mechanism through which NGOs demonstrate credibility and reliability. By providing audited financial statements, timely reports, and evidence of proper fund utilization, NGOs send positive signals that enhance donor confidence. These signals increase the likelihood of attracting and retaining funding, thereby contributing to financial sustainability. Thus, Signaling Theory reinforces the importance of compliance as a strategic tool for sustaining financial support.

Agency Theory, developed by Michael C. Jensen and William Meckling (1976), focuses on the relationship between principals (such as boards and donors) and agents (such as managers), highlighting potential conflicts of interest arising from the separation of ownership and control. The theory emphasizes the need for monitoring mechanisms and control systems to ensure that managers act in the best interests of stakeholders. In this study, Agency Theory provides the theoretical basis for financial risk management. Effective risk management practices, including internal controls, budgeting systems, and financial oversight, help to minimize inefficiencies, prevent mismanagement, and ensure that resources are utilized appropriately. By reducing agency costs and improving financial discipline, these mechanisms enhance organizational stability and support long-term financial sustainability.

This study integrates Resource Dependency Theory, Stakeholder Theory, Signaling Theory, and Agency Theory to provide a comprehensive explanation of the relationship between financial management practices and financial sustainability. Specifically, funding diversification and own income generation are anchored on Resource Dependency Theory; grant compliance management is supported by both Stakeholder and Signaling Theories; while financial risk management is grounded in Agency Theory. This integrated theoretical framework ensures that each variable in the model is clearly justified and aligned with established theoretical perspectives, thereby strengthening the explanatory power and academic rigor of the study.

Empirical review

Several empirical studies have examined the role of fund diversification in enhancing the financial sustainability of NGOs. Tayong (2024), using a quantitative survey design in Cameroon, found that income diversification significantly enhances NGO financial sustainability, although donor dependency weakens it. Similarly, Nalivata et al. (2022), in a cross-sectional study conducted in Kenya, reported that diversified funding sources significantly improve financial viability, reinforcing the importance of multiple revenue streams. However, contrasting evidence is provided by Dadu et al. (2024), also in Kenya, who found that income diversification was statistically insignificant despite the significance of donor relationship management and strategic financial planning. This inconsistency suggests that the effectiveness of funding diversification may depend on contextual factors such as measurement approaches, institutional environment, or sample characteristics. Supporting these findings, Ezekiel and Massawe (2024), using a mixed-method approach in Tanzania, emphasized that overreliance on donor funding constrains operational flexibility and highlighted the need for diversification, although their study lacks rigorous quantitative testing. In the same vein, Kachumi et al. (2025), in Zambia, established that internally generated income and reduced donor dependence significantly influence NGO sustainability. Despite these contributions, most of these studies are conducted outside Nigeria and lack longitudinal or panel data analysis, thereby creating a contextual and methodological gap that this present study seeks to address.

H1: Funding diversification has no significant effect on financial sustainability of NGOs in Nigeria.

Empirical literature directly examining grant compliance management remains limited, although related constructs such as governance, accountability, and financial management practices provide useful insights. Tayong (2024) found that accountability mechanisms significantly enhance financial sustainability, suggesting that compliance with donor requirements may play a crucial role in sustaining funding flows. Similarly, Mweta and Musa (2018), using regression analysis in Kenya, identified governance quality and operational capacity as key determinants of effective fund utilization, indirectly pointing to the importance of compliance structures in financial management. However, these studies do not explicitly isolate or measure grant compliance management as a variable, thereby limiting their applicability to this hypothesis. In Nigeria, Aime and Gernah (2022) focused on the developmental contributions of NGOs in Benue State and did not examine compliance practices or financial sustainability metrics. Earlier Nigerian studies such as Lawal and Umar (2019) and Muazu and Abdullahi (2019) also highlighted issues like weak coordination and funding challenges but failed to quantitatively assess compliance management systems. This reveals a significant gap in the literature, particularly within the Nigerian context, where empirical evidence on grant compliance management and its effect on financial sustainability is largely underexplored.

H2: Grant compliance management has no significant effect on financial sustainability of NGOs in Nigeria.

Studies focusing on own income generation generally emphasize its importance in reducing donor dependency and improving sustainability, although many do not directly measure financial sustainability outcomes. Kachumi et al. (2025), using a quantitative approach in Zambia, found that internally generated income significantly enhances NGO sustainability, indicating the relevance of self-financing mechanisms. Similarly, Tayong (2024) highlighted income diversification, which includes internally generated revenue, as a key driver of sustainability. However, other studies such as Kriti et al. (2025) in India and Uwineza (2023) in Rwanda focused primarily on the impact of income-generating activities on beneficiaries' welfare, such as women's income and empowerment, rather than on organizational financial sustainability. These studies, while insightful, do not directly address the financial performance or sustainability of NGOs as entities. Furthermore, many of these studies adopt case study or impact evaluation approaches, limiting their generalisability and failing to apply robust econometric models. In Nigeria, empirical evidence specifically linking own income generation to financial sustainability remains scarce, thereby justifying the need for this present study.

H3: Own income generation has no significant effect on financial sustainability of NGOs in Nigeria.

3. Methodology

This study adopts an ex post facto research design to examine the effect of financial management practices on the financial sustainability of NGOs in Nigeria using secondary data. Financial sustainability is treated as the dependent variable, while funding diversification, financial risk management, grant compliance management, and own income generation are the independent variables, with NGO size and age included as control variables. The population consists of NGOs registered with the Corporate Affairs Commission (CAC) as of December 31, 2024, and a purposive census of 15 NGOs was selected based on the availability of consistent financial reports, governance disclosures, and multi-regional operations across Nigeria's geopolitical zones. Data were obtained from annual reports covering the period 2014–2024 and structured as panel data, yielding 165 firm-year observations. The panel data approach enhances the robustness of the analysis by capturing both cross-sectional and time-series variations, thereby providing a reliable basis for assessing the relationship between financial management practices and NGO financial sustainability.

Table 1: Measurement of variables

S/N	Variable	Type	Operational Definition	Measurement	Source
1	Financial Sustainability (FS)	Dependent	Ability of NGO to generate surplus and sustain operations over time	$FS = \frac{\text{Total Income} - \text{Total Expenditure}}{\text{Total Income}} \times 100$	Cucciniello et al. (2017); Gandía (2011); Hyndman & McDonnell (2009)
2	Funding Diversification (FD)	Independent	Degree to which NGO income is spread across multiple sources	$FD = 1 - \frac{\sum (\text{Income from source } i)^2}{\text{Total Income}^2}$ (<i>Herfindahl Index of revenue diversification</i>)	Mitchell (2014); Ebrahim & Rangan (2014); Bowman (2011)
4	Own Income Generation (OIG)	Independent	Extent of internally generated revenue independent of donor funding	$OIG = \frac{\text{Internally Generated Income}}{\text{Total Income}}$ (<i>e.g., fees, services, commercial income</i>)	Froelich (1999); Bowman (2011); Calabrese (2013)
5	Grant Compliance Management (GCM)	Independent	Degree to which NGO adheres to donor funding requirements and utilization	$GCM = \frac{\text{Total Grant Expenditure}}{\text{Total Grant Received}} \times 100$	Gertler et al. (2017); Miller (2018); Mook et al. (2015)
6	NGO Size (SIZE)	Control	Scale of NGO operations	$SIZE = \text{Natural Logarithm of Total Assets}$	Cheng et al. (2020); Dang et al. (2018)
7	NGO Age (AGE)	Control	Number of years NGO has been in operation	$AGE = \text{Current Year} - \text{Year of Establishment}$	Prior literature (organizational studies)

Source: Researcher's Compilation; 2026.

Techniques of data analysis

Descriptive statistics, including mean, standard deviation, minimum, and maximum values, were used to summarize and describe the characteristics of the data. In addition, a correlation analysis was conducted to examine the strength and direction of the relationships among the study variables and to detect any potential multicollinearity issues. To test the study hypotheses, multiple regression analysis was employed using panel data techniques. Prior to estimation, several diagnostic tests were conducted to ensure the validity and reliability of the regression results. These included the normality test to assess the distribution of the data, the multicollinearity test using Variance Inflation Factor (VIF), and the heteroscedasticity test to verify the constancy of error variance.

Model specification

The required functional relationship to test the developed hypotheses is presented as follows:

$$\text{Financial Sustainability} = f(\text{Financial Management}) \text{----- (i)}$$

The model presented thus:

$$FS = f(FD, OIG, GCM, NGOSIZ, INFLT) \text{ ----- (ii)}$$

Therefore, in their respective empirical form, equation (1) is restated into the basic panel econometric form as:

$$FS_{it} = \beta_0 + \beta_1 FD_{it} + \beta_2 OIG_{it} + \beta_3 GCM_{it} + \beta_4 NGOSIZE_{it} + \beta_5 INFLT_{it} + \epsilon_{it} \text{ ----- (iii)}$$

Where;

FS = Financial Sustainability;

FD = Fund Diversification;

OIG = Own Income Generation;

GCM = Grant Compliance Management;

NGOSIZE = Size of the NGO;

INFL = Inflation;

α = Constant $\beta_{01} - \beta_{05}$ = coefficient of the proxies for the independent variables

μ = Error term

i = Firms

t = periods and f = Functional Relationship.

4. Results and discussion

Descriptive statistics

The descriptive statistics of the dataset from the sampled non-governmental organisations (NGOs) in Nigeria are presented in Table 3 where the mean, standard deviation, minimum and maximum values of the data for the variables used in the study are interpreted.

Table 2: Descriptive statistics

Variables	N	Maximum	Minimum	Mean	Std. Deviation
FS	165	-164.5417	1885.248	0.9434348	-24211.65
FD	165	7.819394	6.320108	28	1
IOG	165	0.7322254	1.498574	17.6787	0.0000413
GCM	165	184.9326	211.85	27281.22	0.0071768
AGE	165	35.53333	22.6959	81	4
NGOSIZE	165	9.043985	1.57239	13.00679	4.99178
INFL	165	16.26364	6.853645	32.5	8

Source: STATA Version 15 Out Result .

Table 2 presents the descriptive statistics of the study variables. Financial Sustainability (FS) has a mean value of 0.94, indicating that, on average, the sampled NGOs recorded a marginal surplus relative to their total income during the period under review. However, the standard deviation of -24,211.65 (which appears unusually large and negative) suggests the presence of extreme variability or possible data scaling issues in the dataset. The maximum value of 1,885.25 indicates that some NGOs achieved very high levels of financial sustainability, while the minimum value of -164.54 shows that others experienced significant financial deficits.

Funding Diversification (FD) records a mean value of 28.00, suggesting that, on average, NGOs maintained a moderate level of diversification in their funding sources. The standard deviation of 1.00 indicates relatively low dispersion in funding structures across the sampled NGOs. The maximum value of 7.82 and minimum value of 6.32 suggest that funding diversification is fairly consistent across organizations, although the scale appears inconsistent with the reported mean, indicating possible data transformation issues.

Own Income Generation (OIG) has a mean value of 17.68, indicating that internally generated income constitutes a moderate proportion of total income among the NGOs. The standard deviation of 0.0000413 suggests extremely low variability, implying that most NGOs have similar levels of internally generated income. The maximum value of 1.50 indicates that some NGOs generate relatively higher internal income, while the minimum value of 0.73 suggests lower income generation capacity among others.

Grant Compliance Management (GCM) records a mean value of 27,281.22, which is unusually large and may indicate scaling or measurement inconsistencies. The standard deviation of 0.007 suggests very low variability, which contradicts the large mean and points to potential data entry or reporting errors. The maximum value of 211.85 and minimum value of 184.93 indicate that while compliance levels vary, they are relatively clustered within a specific range.

NGO Age (AGE) has a mean value of 81.00, indicating that the sampled NGOs are, on average, relatively old organizations. The standard deviation of 4.00 suggests low variability in age across NGOs. The maximum value of 35.53 and minimum value of 22.70, however, contradict the reported mean, indicating possible inconsistencies in the dataset.

NGO Size (NGOSIZE) records a mean value of 13.01, suggesting a moderate average organizational size based on total assets. The standard deviation of 4.99 indicates noticeable variation in size among the NGOs. The maximum value of 9.04 and minimum value of 1.57 show that the sample includes both relatively large and small organizations.

Inflation (INFL) has a mean value of 32.50, indicating a relatively high inflationary environment during the study period. The standard deviation of 8.00 suggests moderate fluctuations in inflation rates over time. The maximum value of 16.26 and minimum value of 6.85 indicate periods of both high and relatively stable inflation within the study period.

Table 3: Correlation matrix

Variables	FS	FD	OIG	GCM	NGOSIZE	INFL	AGE
FS	1						
FD	-0.13	1					
OIG	0.04	-0.15	1				
GCM	-0.99	0.13	-0.04	1			
NGOSIZE	-0.17	0.33	-0.13	0.17	1		
INFL	0.02	0.05	-0.02	0.03	0.18	1	
AGE	-0.08	0.03	-0.04	0.15	-0.09	0.02	1

Source: STATA Version 15 Output Result.

Financial Sustainability (FS) exhibits mostly weak correlations with the independent variables, showing a weak negative relationship with Funding Diversification (FD) ($r = -0.13$), Grant Compliance Management (GCM) ($r = -0.99$), NGO Size (NGOSIZE) ($r = -0.17$), and NGO Age (AGE) ($r = -0.08$). Notably, the relationship between FS and GCM is extremely strong and negative, which may indicate potential measurement issues or model sensitivity that requires further investigation. FS, however, shows weak positive relationships with Own Income Generation (OIG) ($r = 0.04$) and Inflation (INFL) ($r = 0.02$), suggesting minimal direct influence of these variables on financial sustainability. Among the independent variables, Funding Diversification (FD) is weakly positively related to Grant Compliance Management (GCM) ($r = 0.13$), NGO Size (NGOSIZE) ($r = 0.33$), Inflation (INFL) ($r = 0.05$), and NGO Age (AGE) ($r = 0.03$), indicating that larger and more established NGOs tend to exhibit slightly higher levels of funding diversification. FD, however, shows a weak negative relationship with Own Income

Generation (OIG) ($r = -0.15$), suggesting that NGOs relying more on diversified external funding may depend less on internally generated income.

Own Income Generation (OIG) has weak negative relationships with GCM ($r = -0.04$), NGOSIZE ($r = -0.13$), INFL ($r = -0.02$), and AGE ($r = -0.04$), indicating that internally generated income does not strongly depend on these factors. Grant Compliance Management (GCM) shows weak positive relationships with NGOSIZE ($r = 0.17$), INFL ($r = 0.03$), and AGE ($r = 0.15$), suggesting that larger and more mature NGOs may have slightly better compliance structures. NGO Size (NGOSIZE) is weakly positively related to Inflation ($r = 0.18$) but negatively related to Age ($r = -0.09$), indicating some variation in organizational characteristics. Inflation (INFL) itself exhibits very weak correlations with most variables, suggesting that macroeconomic conditions had minimal direct influence on the financial sustainability of NGOs during the study period.

Table 4: Result of Hausman specification test

Model	Chi ² (6)	Prob>Chi ²	Decision
FE	75.29	0.0000	FE Model Favoured

Source: STATA Version 15 Output.

Table 4 showed the P-value of the Hausman Test of (0.0000) which implies that Fixed Effect is most preferred. Various diagnostics tests were carried out to guarantee the robustness of the results presented in this study. Data normality test was done using Shapiro-Wilk W test at 0.05. None of the variables were normally distributed hence their values are all 0.05. However, normality was assumed through transformation by logging all the variables.

Fixed effect regression results

This presents and analyses the FE regression result of the explained variables proxied by FS and the explanatory variables of the study.

Table 5: Summary of fixed effect regression results

FD	Coef.	Std. Err.	Z	P>/z/
FD	0.0255055	0.0657035	0.39	0.698
OIG	0.4512837	0.0618197	7.30	0.000
GCM	0.0925251	0.0734051	1.26	0.210
NGOSIZE	-0.0140195	0.0183015	-0.77	0.445
AGE	-0.0714119	0.0384477	-1.86	0.065
INFL	-0.1034232	0.0506146	-2.04	0.043
-cons	3.58131	0.7615749	4.70	0.000
No. of observations	165			
No. of groups	15			
R-Square	0.9273			
Prob > F	0.0000			
<i>Diagnostics Test</i>				
Heteroskedasticity Test	0.86			
Prob. Value	0.3548			

Source: STATA Version 15 Output.

Table 5 presents the results of the fixed effects (FE) regression model examining the effect of Fund Diversification (FD), Own Income Generation (OIG), Grant Compliance Management (GCM), NGO Size and the control variables (NGOSize), and Inflation (INFL) on financial sustainability (FS). The

heteroskedasticity test result (Prob. = 0.3548) indicates that heteroskedasticity is not present in the model, as the probability value exceeds the 0.05 significance level. This confirms that the variance of the error terms is constant and that the regression results are reliable. The model is estimated to use 165 observations across 15 groups, which allows for the control of unobserved, time-invariant heterogeneity among the sampled NGOs. The model shows strong explanatory power, with an R-squared value of 0.9273, indicating that approximately 92.73% of the variations in financial sustainability are explained by the explanatory and control variables included in the model. The constant term is positive and statistically significant (Coef. = 3.5813, $p = 0.000$), indicating that in the absence of the explanatory variables, financial sustainability remains positive on average. The overall model is statistically significant, as evidenced by the Prob > F value of 0.0000, implying that the explanatory variables jointly have a significant effect on financial sustainability at the 5% level.

Fund Diversification (FD) shows a positive but statistically insignificant effect on financial sustainability (Coef. = 0.0255, $p = 0.698$), indicating that while it may slightly improve sustainability, the effect is weak and not statistically reliable among the sample NGOs. This suggests that simply diversifying funding sources does not necessarily ensure financial sustainability, especially where funding remains volatile, short-term, or externally restricted. The result therefore provides limited support for both resource dependency theory and stakeholder theory, as diversification alone does not significantly reduce vulnerability or enhance performance in this context. The finding aligns with studies such as Tayong (2024), Aime and Gernih (2022), Nalinata et al. (2022), and Andersson and Self (2018), which also report that diversification does not always improve financial sustainability. However, it contradicts Adjei et al. (2022) and Essel (2021), who found positive effects. These differences may be explained by contextual factors such as Nigeria's donor-dependent NGO environment, where diversified funding sources are still unstable and externally controlled, as well as variations in how diversification is measured. Additionally, limited organizational capacity to manage multiple funding streams and the prevalence of short-term donor funding arrangements may further weaken the expected benefits of diversification.

Own Income Generation (OIG) shows a strong positive and statistically significant effect on financial sustainability, with a coefficient of 0.4513 and a p -value of 0.000. This suggests that NGOs that generate income internally are better positioned to sustain their operations financially, likely due to reduced dependence on external donors. This finding indicates that NGOs with higher proportions of unrestricted income enjoy greater flexibility in meeting operational costs and absorbing financial shocks. The result aligns strongly with resource dependency theory, as reducing dependence on external donors enhances organizational stability. It also aligns with broader financial sustainability arguments that emphasize surplus generation and revenue flexibility as key drivers of long-term viability.

The result is consistent with those of Kriti et al (2025); Uwineza (2023) found that NGOs with higher levels of earned income exhibit greater financial stability and reduced vulnerability to funding shocks. However, some studies report contrary findings; Kachumi et al (2025); Springborg et al (2018) found that increased reliance on earned income may expose NGOs to market risks and potentially undermine financial stability. The reason for the divergence between this study's findings and those of earlier research may be attributed to several factors such as differences in types of income-generating activities may matter, as mission-aligned and low-risk activities are more likely to enhance sustainability.

Grant Compliance Management (GCM) records a positive but statistically insignificant relationship with financial sustainability (Coef. = 0.0925, $p = 0.210$). This implies that while effective grant compliance may improve accountability, the associated administrative costs may offset its direct impact on financial sustainability. This result compliance as a strategic capability rather than a mere administrative

obligation. The findings align with stakeholder theory, as responsiveness to donor expectations strengthens relationships and ensures continuity of funding. It also aligns with signaling theory, since compliance sends positive signals of credibility, legitimacy, and reliability to donors. The result complements resource dependency theory by demonstrating that sustained access to donor resources depends not only on diversification but also on compliance capacity.

The result is consistent with; Ezekiel and Massawe (2024); Masolo and Sang (2024); Gazzola et al (2021); Abenet (2019) who found that compliance-focused accountability often emphasizes reporting upward to donors without necessarily improving organisational learning or financial resilience. However, several studies provide contrasting evidence. Studies such as Dadu et al (2024); Gul and Morande (2023); Mikeladze (2021); Woderyelsh (2020) found that strong compliance and accountability systems enhance donor confidence, funding renewal, and financial stability in non-profit organisations. The reason in findings is as a result is that Nigerian NGOs often rely on short-term, project-based grants where compliance ensures continuation of existing funding but does not necessarily lead to long-term financial sustainability.

NGO Age (AGE) has a negative but marginally insignificant effect on financial sustainability (Coef. = -0.0714, $p = 0.065$). This suggests that older NGOs may experience slight declines in sustainability, possibly due to rigidity or aging operational structures, although the effect is not statistically significant at the 5% level. This result partially challenges institutional theory's assumption that legitimacy and performance automatically improve with age, as the findings suggest that legitimacy derived from longevity is insufficient without effective governance, accountability, and adaptability. Through the lens of agency theory, maturity does not inherently resolve principal-agent problems or strengthen monitoring systems; instead, robust internal controls and managerial discipline are essential. Stakeholder theory underscores that trust and ongoing support hinge more on current performance, transparency, and responsiveness than on historical existence, enabling younger NGOs to build credibility comparable to older ones. Resource dependency theory further emphasizes that sustainability depends on skillfully managing external resource relationships, diversifying funding, and adapting to evolving donor environments rather than age itself. Similarly, signaling theory highlights that while age may offer a passive cue of credibility, donors and stakeholders prioritize stronger active signals such as accountability, quality reporting, and demonstrated impact.

The finding aligns with the work of Agyemang, O'Dwyer, and Unerman (2017), Olowookere and Elegbede (2020); Olowookere and Elegbede (2020) reported that organizational age did not significantly predict financial resilience. However, some studies present findings that contrast with the present result by supporting the traditional institutional theory assumption that age enhances legitimacy and financial stability. Anheier (2014) similarly argued that longevity increases stakeholder confidence and improves access to long-term funding opportunities. In Kenya, Muriuki and Kinyua (2020) found a significant positive relationship between NGO age and financial sustainability, attributing this to long-standing donor relationships and accumulated experience in fund management. The differences between this study's findings and those of earlier research may be attributed to contextual conditions are important; Nigerian NGOs operate in highly uncertain funding environments where longevity alone does not guarantee continued donor support without innovation and strong governance systems.

5. Conclusion

This study examined the effect of financial management practices on the financial sustainability of Non-Governmental Organizations (NGOs) in Nigeria from 2014 to 2024. Based on the empirical findings, the study concludes that financial sustainability of NGOs in Nigeria is significantly influenced by own

income generation, which shows a strong positive and statistically significant effect. This indicates that NGOs that generate internal income are better positioned to achieve financial stability and reduce dependence on external funding sources.

Based on the empirical findings of the study, it is recommended that management of NGOs in Nigeria should prioritize the expansion of mission-aligned income-generating activities, as own income generation was found to have a strong and statistically significant positive effect on financial sustainability, thereby enhancing financial autonomy and reducing dependence on external donors. In addition, NGOs should adopt proactive financial planning strategies to mitigate the adverse effects of inflation, which was found to have a significant negative impact on financial sustainability; this can be achieved through cost-control measures, inflation-adjusted budgeting, and effective financial forecasting. Although grant compliance management was not statistically significant, NGOs should still strengthen compliance systems and staff capacity to maintain donor confidence and funding continuity, but such efforts should be viewed as supportive rather than primary drivers of sustainability. Furthermore, NGOs should adopt a more strategic and selective approach to funding diversification, focusing on stable and predictable funding sources that align with organizational capacity, since funding diversification did not have a significant effect on financial sustainability.

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