

Evaluating the impact of frequent policy reviews on the liquidity of non-profit welfare organisation in South Africa

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Abstract

Examining the impact of the frequency of policy reviews on the liquidity levels of welfare non-profit organisations (NPOs) in South Africa. The study followed a research survey methodology and was confined to welfare NPOs in all nine provinces of South Africa. An electronic survey was implemented due to the vast area of coverage. A quantitative approach was used because of the financial and policy-based nature of the research hypothesis which aimed to test the theoretical literature. The study revealed that majority of organisations follow a formal policy review approach which is managed by the finance committee. The results show that 90.4% of the finance committees meet annually. That's also the time when most policy reviews take place. At the same time, the financial statements are due for approval, which is a statutory requirement. The results indicated that organisations which have more frequent policy reviews have improved liquidity levels. It is recommended that NPOs need to increase the frequency of their policy reviews to improve their liquidity levels. The following conclusions emanated from the data analysis: more emphasis needs to be placed on adopting the correct policy approach and the frequency of policy reviews needs to increase and be more adaptable to result in improved liquidity for NPOs. Limiting the running of organisations only to compliance with statutory requirements is impractical and does not achieve performance. The creation of sustainable NPOs whose added value can contribute to society within the country is necessary based on the basic services these organisations offer.

Keywords: Working Capital Management Policy; Non-Profit Organisation; Liquidity; Current Assets; Current Liabilities

1. Introduction

1.1. Background and Context

According to the Department of Social Development (DSD), South Africa has over 95 000 registered welfare organisations (DSD, 2022). These welfare organisations provide services to the destitute, orphanages, the aged, disabled individuals and abused women and children. They take care of the most vulnerable in the country and form a bridge between the government and corporate sectors to ensure societal upliftment. The compliance of these organisations is regulated by the DSD.

Over the years, research organisations such as Trialogue have performed surveys to determine the health of NPOs within the country. Their study in 2021 cited that the cash reserves of organisations had dropped by 53% between May 2021 and June 2021 (Triologue, 2021). Reduced funding has placed a burden on the operations of these organisations.

Mazanec (2022) states that working capital is a critical pillar of finance and, according to Hung and Hager (2019), cash is the lifeblood of an organisation. A decline, much less a stoppage, in the management of this working capital component will result in an organisation downsizing or failing and eventually having to close.

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1.2. Working Capital and Liquidity Imperatives

The internal control of working capital is regulated by policies that manage each component thereof. This study examined the impact of the frequency of policy reviews on the liquidity of NPOs in South Africa. Liquidity is an indication of the number of financial resources available to an organisation to cover all its expenses. One of the indications of an NPO's financial performance is its liquidity management.

This research aimed to understand the liquidity levels of the welfare NPOs in the nine provinces/strata of South Africa and how policies have affected these liquidity levels. Policies provide structure and enable the control of an organisation if they are managed effectively and take cognisance of changes within the organisation.

In the questionnaire used to acquire the research data, respondents were requested to provide their organisation's liquidity status for the last financial year. They had to answer questions about the frequency of policy reviews, the adaptability of policy reviews and the overall performance of the organisation. Their responses provided improved awareness of the importance of working capital management and indicated the corrective actions that needed to be taken. Additionally, other sectors were provided with a learning opportunity.

This kind of research had not been performed on any South African NPOs and would therefore provide a view into this sector and its financial management practices. The study concluded with a recommendation on the comparison of policy management, liquidity performance, statutory regulation and active management and recommended whether the status quo required re-alignment with advancement.

1.3. Research Scope and Objective

The Research Question been addressed are:

- Does the frequency of policy reviews have an impact on liquidity in non-profit welfare organisation in South Africa?
- The main hypothesis of the study was as follows:
- H_1 : The frequency of policy reviews has an impact on liquidity levels in welfare non-profit organisations.
- H_0 : The frequency of policy reviews has no impact on liquidity levels in welfare non-profit organisations.

Many different factors cause liquidity problems in organisations. Internal financial management is considered one of the most practical and relevant of all because internal financial management is embedded in the day-to-day operations of an organisation. Working capital management policies are there to assist individuals and guide them with their daily functions in finance. Thus, the research question aimed to understand whether the policies that are implemented within an organisation enable or disenable the achievement of optimum financial performance. Financial performance has been linked to liquidity as this indicator drives the daily finance mechanisms – cash, accounts receivable, inventory, accounts payable and short-term liabilities – of organisations.

Other factors which impact the working capital management policy variable that were also analysed were the policy decision-makers and their impact on the decision-making process. The key understanding required was the level of frequency and participation by these decision-makers in the process. This was then further examined by the type of policies organisations followed and how they were managed within this sector. All these factors were considered in terms of the statutory and legislative requirements for the running of NPOs in South Africa.

Despite the NPO sector being one of the largest sectors in the economy of South Africa, few and fragmented studies on NPOs in the country exist. The focus of NPOs is often not on internal financial sustainability and management control. Liquidity is one of the key drivers of an organisation's trading. Once the liquidity level drops, the cash flow of the organisation becomes depleted and the services or goods supplied decrease and the organisation slowly becomes unsustainable and, without its 'lifeblood' (Hung & Hager, 2019), closes. Currently, no research on working capital management performance and liquidity levels in a cross-sectional study of welfare organisations in South Africa has been published.

The study aimed to understand whether the liquidity problem was associated with the way policies are management. Although no single study addresses this aspect, Yao and Deng (2018), find that policies can be enablers or disablers of organisational performance. In the corporate sector, a variety of studies on different industries have been undertaken to understand solvency/liquidity, policy management and profitability on the performance of companies or industries.

2. Theoretical Framework and Literature Review

2.1. Working Capital Framework

Working capital is made up of current assets – inventory, cash and accounts receivable – and current liabilities – accounts payable, short-term liabilities and market securities (Gitman & Zutter, 2012). The difference between the asset class and the liability class determines the liquidity of an organisation. The higher the assets are to the liabilities, the more cash the organisation is generating and is therefore highly liquid as it can cover its expenses and has a high margin of recovery (i.e. it has a ratio outcome of greater than 1) (Srividhya et al., 2020).

The opposite is when the current liabilities are higher than the current assets which means that recovery is low, and the organisation is illiquid, unable to cover its liabilities and needs to find other means – borrowing or acquiring more capital investments – to cover its under-recovery. This situation of illiquidity is displayed by a ratio outcome of less than 1 (Lanckswertdt et al., 2021). The ratio used in the calculation is the current ratio and is calculated as follows:

$$\frac{\text{Total current assets (1a)}}{\text{Total current liabilities (1b)}}$$

Total current assets = inventory + accounts receivable + cash (1a)

Total current liabilities = accounts payable + short-term liabilities (1b)

An illiquidity problem is generally due to the following reasons: the inventory is sold at a lower value than its purchases or the added value on the inventory is over the market price. This result in accounts receivable are not paid or have become long overdue; accounts payable are required much earlier or they are higher than the inflow of revenue. Short-term borrowings are over and above income generation resulting in high operating expenses.

The financial theory of working capital management for NPOs is relatively new compared to the conventional working capital management for for-profit businesses, which was developed by Karl Marx in the 19th century (Opeoluwa, 2021). The NPO version was partly collated by Richard Wacht in 1984 so its academia is only just under four decades old and evolving. Therefore, not many research studies have been undertaken in South Africa or even globally.

In South Africa, the Non-profit Organisation Act was only promulgated in 1997 with the first organisation registering only in September 1998, thus, the sector is new and emerging (DSD, 2022). Therefore, the area of study is limited and every new study in finance adds to the body of knowledge about NPOs.

2.2. Working Capital Literature overview

Zietlow et al. (2018) outline an appropriate liquidity target, which sets out a liquidity target range for NPOs to establish. They also go on to question the ‘variance analysis’ and ‘situation analysis’ which should be done in “conjunction with ratios and other indicators” (Zietlow et al., 2018:369). The frequency of policy assessment is based on job effectiveness and measures in terms of performance and success.

Zietlow et al. (2018) go on to direct that the proficient financial management of NPOs requires the constant review of the organisation to make corrective changes to lead to better performance. Any liquidity issues identified trigger the need for an adjustment of liquidity policies, which will redirect corporate objectives and formulate plans to overcome the threats. Therefore, organisations need to undergo frequent evaluations and reviews to identify these threats. Zietlow et al. (2018) identify six key areas of financial policies: governance, accountability, liquidity management, fundraising, risk management and human resources. A “financial health evaluation” assessment is available for NPOs (Zietlow et al., 2018:692-693).

According to Choto’s (2019) study on the sustainability of NPOs in South Africa, the main purpose of NPOs in South Africa is to address the huge inequity gap that is experienced in the country. The study examined the financial performance drivers, which affect liquidity. The Choto study found deficiencies in South African NPO management strategies, which resulted in a low level of sustainability and required more drive by management. It was also established that NPO managers did not fully understand the financial sustainability of their organisations. They also did not take into consideration the impact of changes within the country’s policies and economic uncertainty as factors in the sustainability of their NPOs. Long-term financial sustainability, which needs to be addressed in earnest, was low on their list of importance.

Ebenezer et al. (2020) conducted a research study in Ghana, which indicated the importance of sound financial management practices to the financial sustainability of their NPOs. This was reemphasised in a cross-country study by Altaf et al. (2019) which showed that internal control measures are key survival mechanisms for NPOs in Africa. The study by Ahmad et al. went on to emphasise that Africa has the world's largest number of beneficiaries of NPOs in the world and that the survival of NPOs is critical for the continent.

In South Africa, a study by Maboya and McKay (2019) found that only 20% of their respondents understood the importance of financial sustainability. This gap is clearly a flaw in the sector, and it is important to understand where it is and how it can be corrected to benefit the sector.

Yao and Deng (2018) examined the implication of management incentives to the accounts receivable policy. They aimed to understand if incentives for management had an impact on accounts receivable and if this would lead to aggressive or passive collections. The speedy collection of accounts receivable fuels working capital, which allows for shareholder value increase or investment and growth within an organisation. The passive collection method achieves none of the growth objectives but merely allows an organisation to maintain its current trajectory. The findings were that incentives affect management decisions on policy decision-making and play a role in deciding the policy that an organisation should take. The study recommended that incentive setting should be approached cautiously as it could impact an organisation's growth or current performance.

Rasyid et al. (2018) cite that prudent managers apply a conservative working capital policy due to risk and their being transactional managers while optimistic managers apply an aggressive policy which leads to higher risk and reward. The relationship that determines which ideology or practice to follow is based on the agency theory, which describes the relationship between the organisation and the manager. Their study goes on to describe the reason for this relationship, which hinges on the manager's self-interest compared to that of the organisation. The alignment of both is considered an important variable in achieving a single economic agenda that allows for the progressive growth and performance of the organisation.

Njiru and Githinji-Muriithi (2018) conducted a study, which addressed the proper financial management policies that had an impact on the improvement in the financial performance of 45 non-governmental organisations in Kenya. The study stated that the purpose of financial management policies was for the development and implementation by an organisation's management whose overall aim was to protect the financial resources of the organisation. They also stated that organisations should regularly review, revise, document and test the financial control of these policies to establish their strength. The study also found that despite their staff complement being well qualified and experienced, regular evaluation and performance reports were not prepared. The overall outcome of the study was that financial planning affected financial performance and changes made improved the overall performance of organisations. This was stressed by the fact that the outcome was based on regular reviews which responded to the urgent challenges of emerging risks and allowed for speedy corrective measures and improvements.

Daff's (2021) study was on the roles of the chief financial officer (CFO) in an NPO. The roles, their functions based on importance, encompassed four significant themes – protector, supporter, innovator and strategist. It was also noted that the role of a CFO, based on experience and activities, differs among organisations. The study highlighted that the CFO role was more inclined to be a protector role than an innovator. The role focused on strategy and concentrating on the organisation's mission. The support role of this function merely assisted with decision-making and working behind the scenes to support the mission of the organisation. Financial performance and being innovative with advancement in policies were not considered significant which is in total contrast to that in for-profit organisations (Wu et al., 2019). Based on Daff's study, an organisation's effectiveness is characterised by the CFO's role and responsibility.

The study by Bassef et al. (2016) on Nigerian banks established that there was a relationship between efficient and effective liquidity management and performance. Performance management has many matrices and the one most suitable for liquidity management is the scorecard methodology. They recommended that enhanced implementation of policy tools should be used to achieve the desired liquidity levels.

2.3. Regulatory and statutory compliance

As NPOs are public organisations in South Africa, they are registered and legislatively regulated under the NPO Act 71 of 1997 (NPO, 2022). Their regulation is supplemented by various other legislation (the Income Tax Act 58 of 1962, the Companies Act 61 of 1973, the Fundraising Act 107 of 1978 and the Trust Property Act 57 of 1988) which complements their registration (NDA, 2022). The DSD is the ultimate custodian of NPOs in South Africa.

As part of their activities and requirements, NPOs need to maintain their non-profit status and are required to submit an annual financial statement (AFS) yearly to the DSD to retain their status and ensure compliance. They are guided by a code of good conduct, as they are public-serving organisations. The NPO Act aligns with Section 30(1) of the Companies Act, which stipulates that the AFS must be prepared within six months after the financial year-end (SACA, 2023).

Further to compliance, organisations need to ensure that the AFS is compliant and according to statutory regulation, which means that, they need to adhere to the International Financial Report Standards (IFRS) for small and medium-sized entities (SMEs). This regulates the declaration of the organisation's 'going concern' status which is the liquidity status of the organisation going forward as declared in the AFS.

The signing of the AFS requires a board meeting, which is defined as the annual general meeting (AGM) and is held yearly. The IFRS for SMEs recommends that, based on the size of the organisation, the frequency of meetings can be internally determined but the mandatory one is the AGM, which is core for signing off the AFS (IFRS, 2019). This is also in line with the Company's Act as a regulatory and, therefore, statutory guideline.

This frequency of meetings is merely a guideline for compliance. An organisation needs to assess and determine its needs. Contrarily, a publicly traded organisation, which is registered on the securities exchange, has a much higher frequency of meetings to discuss its results and performance before these are communicated to the public or external bodies. Thus, publicly traded organisations have the opportunity to guide their businesses more robustly and change the trajectory of the performance of their organisations if it is not within the objectives.

The opportunity here is to allow for policy changes in various areas such as budget adjustments based on new forecasts, changes in hedging policy due to changes in exchange rate movements or tightening of debtor policies due to monetary changes within the economy and holding back on capital changes policy due to adverse economic changes. The higher frequency of meetings allows for proactive management involvement to discuss changes and assess the organisation's liquidity and financial circumstances.

3. Research methodology/approach

3.1. Research approach

The nature of this study was quantitative, so the study adopted a mono-quantitative research method – a survey. The results of the survey were compared against theoretical working capital management policy and liquidity performance measures. Due to the geographic vastness of the data accumulation, the most effective option was the use of a survey questionnaire that the sample population had to complete and return (Leedy & Ormrod, 2016). The data were then analysed with a statistical software program for comparison and correlation.

The deciding factor in the choice of research philosophy – positivism, pragmatism, postmodernism, interpretivism or critical realism – was the research question. This study entailed the collection of data from various welfare organisations in different strata of the country. The data then had to be compared to a set of theoretical models and policies within the finance arena. As this was a study of research data compared to a factual outcome aimed at resolving the research question, positivism was the most appropriate philosophy to choose.

The approach – deduction, induction or abduction – that best suited this study was deduction as the study involved testing current theories. Probability sampling, which entailed stratified random sampling from all nine provinces of South Africa, was used. As the study entailed contacting people and, despite this being done electronically, a submission for ethical clearance was sent to the university's scientific committee for review and approval. The application entailed a questionnaire and a detailed proposal of the survey design and methodology. The study was determined to be low risk and clearance was granted, thus, facilitating the execution of the research study.

Details of the sample population were obtained from the DSD website at the beginning of May 2022; 257 578 registered organisations – the full population of all NPOs within South Africa – were listed. The research question was designed to focus only on the welfare organisations because the contribution this sector makes to over 18 million people in the country is significant and the benefit it provides is life critical.

A detailed analysis of the total population revealed that 95 304 welfare organisations covered all nine provinces of the country. The study targeted organisations, which had audited financial statements, as the focus was to obtain liquidity levels and working capital policy data. A review was done, and it was found that the National Lottery Commission (NLC) provides funding to welfare organisations and their AFS for 2020 revealed a beneficiary list (NLC, 2022). This was

obtained from the NLC website (NLCAFS, 2022). This then formed the basis of the sample and resulted in the target sample for the study.

Due to the geographical location of the sample – the respondents being spread throughout the country, an effective sampling tool – effectively managed and delivered to the sample participants – needed to be used. Based on the relevant factors (cost, geographic location of participants and time in terms of the turnaround of information collection), the best option was the use of a sample survey. The most effective way to deliver this survey was via the Internet. The survey was sent to all chosen participants via electronic mail and their responses were requested within a specified time. This method facilitated the coverage of the large geographical area and ensured that speedy delivery and submission were attained.

3.2. Research execution and analysis

The study considered the reliability and validity of the instrument by conducting a Cronbach's alpha test. This confirmed that the instrument met the questionnaire reliability criterion. The questionnaire format was adopted from earlier studies done on working capital management in the United States, Canada, Australia and Pakistan. The questionnaire instrument is a tested tool for this type of research study; therefore, a full-blown pilot study was not needed to retest the instrument. A limited-scope pilot was done to test language and to determine whether the questionnaire instrument could be administered electronically as the previous studies had been paper-based and had used conventional postal services.

The probability sampling target option, which followed the "decision tree sampling" option of Saunders et al. (2019:316), was used. This led to the process of selecting a stratified random sample from the target population that had been chosen from the nine South African provinces. This gave each province a representation in the chosen sample and provided a stratified representation of the total target sample of welfare organisations within South Africa. Of the total sample, 626 respondents were chosen from the various provinces, covering a proportional allocation of 43%. A 10% response bias was included in the sample selection.

Once the sample selection was determined, the data collection method was refined. The best option was to use an electronically executed sample survey so Google Forms, an online survey application, was used to build the survey questions and administer the application. It was established that the collection of the data would accumulate within the Google Forms application.

When the survey was completed, the data were transferred to SPSS for analysis and comparison. The survey, accompanied by a cover letter which explained the benefit of the survey to the respondents and their optional and anonymous participation, was sent out for a response duration of 30 days. An email was sent out 10 days before the end of the survey to remind participants to complete the survey and thank those who had already participated.

The study used descriptive statistics for the analysis of the general information from the survey questionnaire – years of experience, qualification, position and age of the respondent. The main data were analysed for normality to decide which correlation test to administer. Based on the outcome, Spearman's rho was run for correlation among the variables due to the data violating the normality assumptions. The relation between the variables needed to be understood in terms of significance and association, therefore, the chi-square, phi and Cramer's V tests were run on SPSS. This was to determine which hypotheses would pass.

The objective of this study was to examine the impact of the frequency of policy reviews on the liquidity levels of NPOs in South Africa. This was complemented by also obtaining an understanding of the types of policy used the frequency of reviews and the decision-makers of these policies which all featured in the survey questionnaire. This formed the basis of the analysis and led to the results of the study.

4. Results and discussion

4.1. Research analysis

The research achieved a 63.29% response rate, which is acceptable for analysis according to Saunders et al. (2019:302-305). This was equally distributed over all the strata/provinces, ranging from 58% to 73% of respondents. The respondents included 96.7% of individuals from the finance community which was the desired response population targeted as the nature of the study was within the financial arena. Of this, more than 36.9% were graduates and 59.3% were postgraduates – thus, qualified individuals. This represented a well-educated finance group of respondents. The survey was therefore successful and provided a gateway to test the research question by analysing the accumulated data.

The testing of the main hypothesis was subject to understanding the relationship between policy review frequency and the liquidity level of NPOs in South Africa. The data were tested for normality and, according to the Kolmogorov-Smirnov and Shapiro-Wilk tests, the $p < 0.001$ meant that the data were not normally distributed, indicating that the null hypothesis should be rejected from Mohanlal (2023) (Table 1).

Table 1 Test for data normality

	Test of Normality					
	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Respondent Province	0.170	396	<0.001	0.917	396	<0.001
Liquidity_A2	0.418	396	<0.001	0.603	396	<0.001
a. Lilliefors Significance Correction						

The testing of the hypothesis was conducted with the chi-square, phi and Cramer's V tests to test for an association between the frequency of policy review and the liquidity level. The chi-square result was a $p = < 0.001$ which revealed that there was an association between the variables and that they were dependent on one another – rejection of the null hypothesis (Table 2). The effect size was measured by the phi and Cramer's V tests which were 0.342 and 0.197, respectively, meaning that there was a small effect between the two variables (Table 2).

Table 2 Hypothesis statistical test

Chi-Square Tests				Symmetric Measure			
	Value	df	Asymptotic Significance (2-sided)			Value	Approximate Significance
Pearson Chi-Square	46.285 ³	12	<0.001	Nominal by Nominal	Phi	0.342	<0.001
Likelihood Ratio	28.405	12	0.005		Cramer's V	0.197	<0.001
Linear-by-Linear Association	12.046	1	<0.001				
N of Valid Cases	396			N of Valid Cases		396	
a. 13 cells (65.0% have expected count less than 5. The minimum expected count is ,14.							

To further understand the association between the policy frequency review and the liquidity level among the various frequencies, a cross tabulation was extracted from SPSS (Table 3).

Table 3 Liquidity level based on frequency of policy review of welfare NPO's

Policy review frequency	Liquidity Levels				Total
	<1	=1	>1 but <2	>2	
Monthly	0.0%	0.0%	0.0%	100.0%	100.0%
Quarterly	0.0%	50.0%	50.0%	0.0%	100.0%
Half yearly	25.0%	0.0%	37.5%	37.5%	100.0%
Annually	44.1%	20.9%	29.1%	5.9%	100.0%
Whenever necessary	50.0%	30.8%	11.5%	7.7%	100.0%
Total	43.7%	21.2%	28.0%	7.1%	100.0%

An analysis of Table 3 reveals that 43.7% of all the welfare NPOs sampled have a liquidity level of < 1 which means that they have a liquidity problem based on the ratio interpretation (Lanckswert et al., 2021). Only 35.1% have a strong liquidity level of over 1(categories of >2 and >1 but <2). A monthly review of the working capital policy achieves a liquidity level of > 2 for 100% of the sample population. When the frequency level drops to quarterly reviews the liquidity level sees a split of 50% between '> 1 but < 2' and = 1. When the policy review frequency moves to twice a year, the outcome is split between 37.5% achieving > 2 and '> 1 but < 2'; the remaining 25% of the sample achieves a < 1 liquidity level. When the frequency increases to annually, the results reveal that only 5.9% achieve a liquidity level of > 2, 29.1% '> 1 but < 2', 20.9% = 1 and 44.1% < 1. Finally, the whenever approach achieves the highest of the sample respondents (50%) at a < 1 liquidity level.

When the highest frequency of policy review is compared with the lowest, the result reveals a huge contrast. When the frequency of review is done monthly, 100% of the sample population achieves the best level of liquidity – which is > 2; when organisations only review their policies annually, over 44% have a < 1 liquidity level and over 20% have a = 1 liquidity level. Based on these two categories, over 60% of the organisations which review their policy yearly have very poor liquidity in comparison with organisations with monthly reviews.

An analysis of the two extremes reveals the following: a move from monthly reviews to quarterly reviews reflects that 50% of the sample respondents maintain a liquidity level of > 1 while the balance just makes liquidity breakeven of = 1. When the frequency increases even further to half-yearly reviews, only 25% of the respondents show a liquidity level of < 1 – a break in the trajectory, while a longer frequency of annual reviews has a higher level of poor liquidity. Finally, a “whenever” approach achieves the weakest level of liquidity – based on more than 80% of the respondent's choice. It is evident that as the frequency of reviews increases so does the liquidity performance of welfare NPOs in South Africa.

The survey reviewed two other factors, which impact policy reviews and liquidity levels: the decision-makers of the policy and the types of policy the organisation implements. The response rate for policy types was the formal policy at 82.8%, no policy at 13.4% and informal policy at 3.8%. This indicates that the majority of NPOs adopt a formal policy approach to manage their working capital. This confirms that organisations are operating very structurally and are based on statutory compliance requirements.

Based on the responses of the policymakers of South African welfare NPOs, depicted in Table 4, the board of management is only responsible for 9.8% of the sample respondents that are involved in policy decision-making. This is followed by the chief executive officer (CEO) (0.5%) and the CFO (7.3%). The largest category of policy decision-makers is the finance committee, which is made up of 80.6%. The final two are the president/chairman and treasurer which are 1% and 0.8%, respectively.

Table 4 Policy decision-makers of welfare NPO's

Policy_Setup	Valid Percent	Cumulative Percent
Board of Management	9.8%	9.8%
Chief Executive Officer	0.5%	10.3%
Chief Financial Officer	7.3%	17.6%
Finance Committee	80.6%	98.2%
President/Chairman	1.0%	99.2%
Treasurer	0.8%	100.0%

An analysis of the responses, show that individuals involved in sole decision-making, such as the CEO, CFO, president/chairman and treasurer combined, are under 10% of the total response rate. Over 90% of the responses dictate that policy decision-making is done by a collection of individuals – the board of management (9.8%) and finance committee (80.6%). This relates to statutory compliance as reflected in the statutory requirements forced by the accountancy requirement of IFRS for SMEs and the legislative requirements of the NPO Act.

4.2. Policy review frequency and the impact on liquidity levels

The liquidity level of welfare NPOs in South Africa is impacted by the variables in policy review frequency, policy type and policy decision-makers. First, most of the organisations (82.8%) follow a formal policy management approach to the running of their organisations, which is good from a structural and compliance point of view. This is future-cemented by the fact that policy decision-making is concentrated on a collection of individuals – finance committees (80.6%). From a policy regime perspective, this points to the fact that organisations are structured and collectively controlled.

A look at how often this collection of individuals comes together to review policy reveals that over 90% of them only meet annually to review policies. Organisations that have annual policy reviews perform the worst in terms of liquidity because over 60% of them have a low level of liquidity. This contrasts with organisations that have a higher frequency of reviews which have a 100% rate of liquidity level greater than 2. As the frequency interval increases from annual reviews to monthly reviews, the liquidity levels for welfare NPOs in South Africa increase.

According to IFRS for SMEs, an organisation is required to hold at least one formal meeting of the board of management and its finance committee to approve the AFS of an organisation. At this meeting, the notes of the AFS, including policy changes or accounting policy adjustments, must be confirmed. As most organisations make review changes to their policy annually, this is the most likely meeting that takes place to discuss the outcome of the previous year and possible advancement to the coming year and where policies are reviewed and adjusted if required.

This, therefore, implies that policy reviews are a more statutory task, like the signing of the AFS, which is regulated by accounting regulations and the NPO Act. So, as a result, poor liquidity-performing organisations emanate from organisations performing their statutory function. On the contrary, organisations which meet more regularly – quarterly and monthly – have much higher liquidity levels compared to the annual organisation reviewers. This contrast is very clear in Table 3.

Zietlow et al. (2018) recommend that the financial evaluation of an organisation's policy must occur regularly to ensure that economic, political and monetary factors are aligned with approved initial policies. They also state that all internal factors need to be assessed to ensure that all operation policies are aligned with the organisation's objective. This provides an organisation with the robust alignment of all internal and external factors and, thus, its entire thought process is aligned. Organisations that follow a highly frequent review of their policies are more robust and able to achieve much better liquidity levels. However, the fact that these evaluations need to be done by the entire collection of committee members often means that frequency is compromised.

Zietlow et al. (2018) view is further complemented by Njiru and Githinji-Muriithi's (2018) study which found that financial planning and frequent reviews result in improved overall organisation performance. They cite that with regular reviews, organisations can respond to the urgent challenges that assail their organisations. This could also lead to the determination of any emerging risks to the organisation. After such a review, policymakers can adjust their

policies or procedures to overcome these risks and challenges. It also keeps the organisation abreast of internal and external changes.

4.3. Findings in comparison to other research

The findings of this study indicate that more than 80% of the organisations included in the sample conduct annual reviews of their policies and implement changes accordingly. Among these organisations, a significant majority (90.4%) make these policy changes collectively through finance committees. However, it has been observed that the prolonged duration of the policy change process and the reliance on collective decision-making often result in overlooking common risk mitigation strategies. The consequences of this extended process have a detrimental effect on organisations, as illustrated in Table 3. The table demonstrates that policies with shorter adjustment periods exhibit positive levels of liquidity, whereas policies with longer adjustment periods yield lower levels of liquidity.

Daff's (2021) study identified that the CFO in an NPO often fulfils a protector rather than an innovator role. They are often behind the scenes, functioning in a support role and assisting in decision-making. This is reaffirmed in this study as only 7.3% of CFOs are active decision-makers on working capital policies and liquidity levels. They should be innovative in the sector, sourcing alternative financing options and investment opportunities.

Yao and Deng (2018) state that management incentives are an effective way to stimulate aggressive policy management which increases shareholder value. As NPOs have no profit motive and incentives are dislodged from the profit motive, CFOs are not inclined to aggressive policy management; they rather follow the direction of the CFOs in Daff's (2021) study and function as protectors of the mission.

Choto's (2019) study highlighted the lack of focus on the long-term financial sustainability of NPOs, an aspect confirmed by these research results – the low frequency of financial policy reviews equates to low levels of liquidity and results in poor financial sustainability. This is further complemented by Maboya and McKay's (2019) study which identified the low level of importance of financial sustainability in South African NPOs. Their study elaborated on the importance of active management coupled with the use of the correct working capital approach to achieve a positive liquidity level to ensure long-term sustainability.

The study by Ebenezer et al. (2020) in Ghana – also a cross-country, NPO sector study – identified that financial management practices are key to financial sustainability. The key focus of the study by Rasyid et al. (2018) was on the agency theory of management's relationship with the organisation. The findings of both these studies correlate with the results of this study, which revealed that internal management, comprising the CEOs and CFOs, was only 7.8% of the sample of independent policymakers – a concern considering that they are the key agency holders of the organisation. This is in stark contrast to profit organisations, which have CEOs and CFOs as drivers of policy change to enhance organisational performance (Wu et al., 2019).

4.4. Moving forward

Based on the review of the literature and the study outcomes, the frequency of policy reviews on financial performance is unequivocally coupled with liquidity. The high level of focus on compliance, produces a low-level sustainability focus. Compliance and sustainability should be complementary focus points for an organisation's leadership be it internal or external. Lastly, the key reason for policy reviews is the rapidly changing economic, political and social arenas; therefore, organisations need to keep pace with these changes to ensure long-term sustainability.

5. Conclusion

The research problem highlights that only 20% of NPOs in South Africa focus on financial stability. Based on the survey that was conducted among the welfare NPOs in South Africa, it was confirmed that 60% of these organisations experience liquidity challenges (Table 3). By trying to understand the impact that the frequency of policy reviews had on liquidity, the research was able to confirm that a relationship between these two variables cannot be denied. Based on the analysis, it is evident that as the frequency of policy reviews increases from annual to monthly, the liquidity levels increase too.

Many of the organisations that responded to the survey (82.8%) confirmed that they followed a formal policy, which was managed by committees. These committees met annually for policy reviews because of the statutory compliance requirement of IFRS for SMEs that organisations meet yearly for the approval of the AFS. Based on this, both tasks are combined, resulting in a statutory function. Contrarily, corporates address working capital policy reviews based on economic, political and social changes. They

have a higher frequency of management meetings because listed trading companies must provide their shareholders with a performance report on their organisations quarterly. Risks need to be identified, changes need to be communicated and adjustments to policies must be announced to shareholders, staff, management structures and external stakeholders. This rapid adaption requires active management from the organisation, which seems not to be the case with NPOs.

It is very evident from other studies such as those by Daff (2021), Ebenezer et al. (2020), Njiru and Githinji-Muriithi (2018) and Yao and Deng (2018) that active management, results in increased organisational performance. Therefore, the frequency of policy reviews has an impact on NPO performance. Although Choto's (2019) study identified a low level of financial sustainability in NPOs, the active management of NPOs – evident in monthly discussions – could achieve the higher levels of awareness that Maboya and McKay (2019) found in their study. Based on the evidence that organisations that review and change their policies more frequently can achieve a better level of liquidity, an increase in the frequency of policy reviews is imperative

Compliance with ethical standards

Disclosure of Conflict of interest

No conflict of interest to be disclosed.

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