

# Evaluating the financial management practices in the sustainability of Pentecostal-Charismatic churches

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## ABSTRACT

**Title:** Evaluating the financial management practices in the sustainability of Pentecostal-Charismatic churches

**Key words:** Sustainability, financial management, church, faith-based organisations, Pentecostal-charismatic churches

Faith-based organisations have played a key role in South Africa in supporting education, health facilities, shelter homes and other amenities, and their sustainability is therefore significant. Pentecostal-charismatic churches, classified as faith-based organisations, are thus active participants in the socio-economic development of South Africa. Recently in South Africa however, the financial activities of Pentecostal-charismatic churches have been under investigation by the Commission for the Promotion and Protection of Cultural, Religious and Linguistic Communities. The commission aimed to investigate the commercialisation and abuse of people's religious beliefs (Shange, 2016).

The main aim of this study is to explore and evaluate the financial management practices of Pentecostal-charismatic churches and how such practices affect their sustainability. An interview schedule was developed from extant literature and completed during face-to-face semi-structured interviews with three Pentecostal-charismatic churches in the Mangaung district of Bloemfontein. The questions were focused on the financial management practices of the churches. It was found that there is a lack of clear governance structures and that financial record keeping was done by volunteers instead of by competent members of the congregations. Furthermore, it was found that the churches often have budget deficits, resulting in the pastor having to fund the deficit from his personal finances. In order to encourage sustainability within these three Pentecostal-charismatic churches, a number of recommendations were made, including that a proper governance structure be implemented, as well as policies and procedures to standardise financial practices.

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**LIST OF ABBREVIATIONS**

|                       |   |
|-----------------------|---|
| NPOs                  | Non-profit Organisations  |
| IDoSA                 | Institute of Directors of South Africa  |
| SARS                  | South African Revenue Service   |
| CIMA                  | Chartered Institute of Management Accountants   |
| PBO                   | Public Benefit Organisation   |
| PBA                   | Public benefit activity   |
| CRL Rights Commission | Commission for the Promotion and Protection of the rights of Cultural, Religious and Linguistic Communities |
| AFS                   | Annual financial statements   |

# CHAPTER 1

## 1 INTRODUCTION

### 1.1 BACKGROUND

Faith Based Organisations (FBOs) have been of pivotal socio-economic and political significance to African people both in the colonial and post-colonial era. FBOs are defined as “a group of individuals united on the basis of religious or spiritual beliefs” (Encyclopedia of Public Health, 2002). Bielefeld and Cleveland (2013:447) identified three characteristics pertinent to FBOs:

- (i) Organisational control,
- (ii) Expression of religion, and
- (iii) Programme implementation.

*Organisational control* is identified by the processes through which decisions are made, the sources through which funds are obtained and how power is exercised in the organisation. *Expression of religion* is highlighted by the religiosity of members, the preservation of the self-identity of the organisation and the definition of outcome measures within the organisation. *Programme implementation* is established by the choice of services to be provided and the integration of religion as a mandatory or voluntary part of the services to be delivered (Bielefeld & Cleveland, 2013:447). Pentecostal-charismatic churches adhere to all three characteristics discussed above and can therefore be classified as part of FBOs.

Robbins (2004:117) uses the term “P/c churches” to describe Pentecostal-charismatism. He identifies the roots of Pentecostal-charismatic churches within the Protestant Evangelical Christian tradition, such as Methodists and Baptists, which grew out of the eighteenth-century revival movement which is popularised by the slogan: “the Great Awakening”. Evangelical Christianity, which includes denominations such as Methodists and Baptists, is marked by its emphasis on conversion and often designated by the term “born again”. It underscores the importance of evangelistic exertions to convert others and holds the Bible in high regard as a text of the highest religious authority (Robbins, 2004:120). Leading schools and universities on the African continent were founded by Christian missionaries and many politicians, academics and other prominent members of our society were beneficiaries thereof. Khumalo (2009:247-248) affirms that early educated indigenous Africans who were active in calling for the reformation of society were products of churches and describes them as mission educated elites. He further confirms the role of churches in South Africa as mediators between the

apartheid government and the liberation organisations in facilitating negotiations that culminated in a democratic South Africa through the 1994 elections (Khumalo, 2009:247-248).

The narrative is no different in the present. Today, many FBOs continue to provide education, clean drinking water, health facilities, HIV/AIDS prevention programmes, shelter homes and other amenities for different people on different parts of the African continent and in particular South Africa (Holdcraft, 2014). The sustainability of FBOs is therefore crucial as active participants in the socio-economic development of the continent, and particularly of South Africa.

## **1.2 THE ROLE OF FAITH-BASED ORGANISATIONS**

A variety of individuals daily attend diverse houses of worship. This phenomenon is heightened on weekends when a majority of the population attends shrines, mosques, synagogues or churches. This phenomenon is not just social or religious in nature. It has significant economic implications which have led to certain people branding religion as almost a modern business (Pienaar & De Waal, 2013). This assertion is based upon the observation that many religious institutions are of significantly higher net worth than many major corporations of our time. The popular *Economist* magazine affirms this, noting that in the year 2012, the collective expenditures of the Catholic Church, in the United States of America (USA) only, was \$170 billion. In contrast, General Motors (GM), Apple and Daimler generated lesser revenues in that same financial year from all their worldwide operations combined (Yglesias, 2013).

Most Pentecostal-charismatic churches around the world, and particularly in South Africa, have moved from their traditional role of providing intangible spiritual solutions within the confines of their buildings to becoming active economic participants (Schlemmer, 2008:29). This is done in a business-like manner with many churches now having public relations, marketing, advertising and sales departments. Economic products such as books, music, videos, church regalia and several other paraphernalia and accoutrements are sold to membership and beyond. Pentecostal-charismatic churches have become custodians and proprietors of record companies, media houses, commercial buildings, airline transport and other major economic ventures. All these revenue streams are over and above the tithes and offerings which are most often free donations (Ukah, 2003:150-161). Special events of Pentecostal-charismatic churches such as annual conferences have aptly been compared to the annual Super Bowl in the US as regards attendance and the funds raised during such events (Morlin-Yron, 2016). Given these diverse financial activities, it is to be expected that

the management of such finances has become more complex, requiring special competencies and practices in order to enhance its better financial management.

The formation of countless Pentecostal-charismatic churches is an ongoing phenomenon in every part of South Africa. The goal of the next section is to review research conducted on the topic of financial management practices of Pentecostal-charismatic churches, theories to address the problem, previous research done on the problem with its consistencies and disagreements, and the research flaws and gaps that may be susceptible to remedies (Babbie, 2011:94; Salkind, 2012:46).

### **1.3 THE PROBLEM OF FINANCIAL MANAGEMENT IN FAITH-BASED ORGANISATIONS**

Churches need money to operate. Many churches continue to collapse because of lack of finances and/or their mismanagement. Globally, attempts to find and use necessary financial resources for the advancement of their spiritual mission have brought churches and their leaders under the microscope of both society and governments. In the US, an investigation was launched by Charles Grassley, a ranking Republican Senator from Iowa, into the finances of six prominent television evangelists, also referred to as televangelists, who were allegedly improperly using their tax-exempt status as churches to shield lavish lifestyles (Stickler, 2007). In 2014, the pastor of the largest Pentecostal church in the world, Yonggi Chao, was given a three-year prison sentence suspended for five years and ordered to pay \$4.67 million and his son, Cho Hee-jun, was given a three year sentence and taken into custody by a South Korean court for embezzling \$12 million in church funds (Mi-hyang, 2014; Moon, 2014). Recently, in South Africa, the financial activities of emerging Pentecostal-charismatic churches have become the focal point of the Commission for the Promotion and Protection of Cultural, Religious and Linguistic Communities (CRL Rights Commission, 2016) as it held investigations on the commercialisation and abuse of people's religious beliefs. The Chairperson of the commission explained that one of the mandates of the commission was to investigate the financial activities of emerging churches to determine how they make their money, who collects the money, what is done with the money, and the governing principles that safeguard the money (Shange, 2015).

The interest of civil society, as well government, in the activities of churches, and particularly Pentecostal-charismatic churches, attests to the concerns surrounding the management of church finances. This is because the conduct surrounding financial management in churches has a far reaching effect on the broader society and not only on the said churches and their congregants.

## 1.4 CONCEPTUAL THEORIES

Of relevance to this study are two key theoretical concepts, namely financial management and financial sustainability of FBOs. Financial management is explained by Masters and Tyler (2018:3) as the planning, as well as the monitoring and control of funds, within an organisation, and not just the sourcing and recording of financial information in order for the organisation to achieve its aim. Brigham and Houston (2013:5) designate the term “corporate finance” to denote financial management. They describe it as a discipline which aims at making decisions, amongst others relating to asset financing and acquisition and managing an entity for the purposes of value maximisation. This description of financial management, they maintain, is relevant to both for-profit and not-for-profit organisations. From all the above, it may be gathered that financial management helps with the sourcing of financial resources and their proper allocation and utilisation. This is done through advice and control procedures that ultimately help to enhance the value of entities, be they profit oriented organisations or non-profit oriented organisations (NPOs). It can thus be concluded that financial management is a process which involves the identification of possible sources of funds, obtaining the funds and implementing strategies for the advice and use of the funds, all for the maximisation of an organisation's net present value; as well as the monitoring of the allocation and implementation of scarce resources so as to achieve the stated objectives of the organisation.

Profit making organisations, and NPOs such as churches, are all affected by changes in key economic variables such as interest rates, exchange rates, inflation and deflation. It is therefore imperative for churches in particular to have effective systems for the management of their finances, since resources under their control are limited and are also affected by the changes in economic variables. Funds available to NPOs and churches in particular have to be managed through effective financial practices in order to achieve goal congruence.

Regarding the conception of financial sustainability of FBOs, Cryton *et al.* (in Mawudor, 2016:50) conducted a study on the sustainability of Catholic Relief Services (CRS), an FBO formed in 1943 by the Catholic Bishops of the US. The aim of CRS was to provide relief services to European survivors of the Second World War, but currently it acts as a humanitarian organisation which, during wars and other natural disasters, assists poor and vulnerable people to earn a living and access to healthcare. CRS (2016) stated that sustainability refers to the ability to ‘cut the umbilical cord’ that binds donor funded organisations to its donors. They further stated that this severance could include the organisation’s ability to generate its own funds, its ability to realise synergies by merging into consortiums for project management and ensuring that the organisation’s governance systems meet required professional standards. Similarly, Canon (in Mawudor, 2016:49)

asserted that the different relational characteristics of sustainability in FBOs can be categorised into four contexts:

- (i) Benefit,
- (ii) Organisational,
- (iii) Financial, and
- (iv) Community.

*Benefit sustainability* refers to a continuation of the benefits that result from an activity with or without the programmes or the organisation that initiated the benefit in the first place. *Organisational/institutional sustainability* places importance on building sustainable organisations to achieve sustainable developmental benefits. Organisational/institutional sustainability, therefore, is about internal structures, systems, policies and programmes, as well as the knowledge and human resource management of the organisation. In brief, it is the internal engine of the organisation. Without organisational sustainability, most Church Related Organisations would be ineffective and would eventually collapse regardless of the amount of funding received. *Financial sustainability* is when the organisation is competent to meet most of its administrative and operational expenses. *Community sustainability* is the building of communities in which FBOs operate that do not only receive donor support, but directly or indirectly play a role in determining the destiny of the organisation.

Additionally, Bonardi, Berg and Mitchell (2004:6) maintain that sustainability in NPOs is to:

- (i) Improve institutional capacity to continue its activities among the target populations over an extended period of time,
- (ii) Minimise financial vulnerability, and
- (iii) Develop diversified sources of institutional and financial support.

In other words, sustainability involves an FBO's capacity to outline a significant undertaking, chart a policy to implement such an undertaking through effective management practices and advance diversified sources of income that guarantee evenness of quality activities and services to their dedicated populaces.

Jean-François (2014:17) defines sustainability as an organisation's capability to fulfil its vision and mission, meet its goals and render the requisite services to its stakeholders in the long-term. He further identified the following as pertinent to organisational sustainability: i) the organisation itself, ii) the services it provides, and iii) its finances.

From all the definitions above, it can be concluded that organisations derive their purpose for existence through the provision of particular goods/services to a target population and proper management of their finances becomes a vehicle through which this purpose is fulfilled. Effective financial management can then be said to be the vehicle which drives organisations towards their goal of fulfilling their purposes into the long-term future. Thus, sustainability allows organisations to surmount the dangers of short-termism.

## **1.5 FOCUS OF THE STUDY**

Putting both these concepts of financial management and financial sustainability of FBOs together, this study aims to evaluate how Pentecostal-charismatic churches obtain funds, how they obtain advice on the use of these funds, which involves analysing the internal flow of funds, and how such activities make Pentecostal-charismatic churches capable of operating into the distant future. The financial sustainability concept describes how FBOs improve institutional capacity to continue their activities, minimise their financial vulnerability and develop diversified sources of institutional and financial support.

Concerning FBOs and their financial sustainability, Jean-François (2014) explored from a global perspective the information and conceptual frameworks needed to ensure that organisations are financially sustainable. His study highlighted the fierceness of competition faced by NPOs for funding, especially during times of financial crisis. He affirms that, in order for NPOs to effectively further their goals and make a long-term impact on the target population they serve, these organisations must remain financially viable and sustainable. Burgess-Wilkerson (2011) explored the impact of communications management strategies in the sustainability of community-based organisations (CBOs) and FBOs. The study addressed the need of those who sought to understand and address financial sustainability through effective communication management strategies.

From an African perspective, Mawudor (2016), in a study conducted in Kenya, empirically examined the financial sustainability of FBOs. In South Africa, a number of studies have been carried out on the activities of FBOs in different socio-economic spheres to ascertain how they are governed, how they receive funding and how these funds are managed (Hendricks, 2012; Good-Child, 2016; Masters & Copley, 2018). However, only limited studies have examined the financial management practices of Pentecostal-charismatic churches and how such practices make them sustainable. This study aims to fill this knowledge gap.



## **1.6 PROBLEM STATEMENT**

This research study is aimed at identifying and exploring the systems within Pentecostal-charismatic churches which are aimed at proper management of their finances, as well as sustainability of these systems. The question therefore arises as to what practices such organisations engage in to meet the need for more effective financial management, and how such practices enhance or impair the goal of sustainability of such organisations. This research study aims to address these questions by following a qualitative approach. Hence, the study enquires into the financial management practices of Pentecostal-charismatic churches so as to describe and explore the impact of such practices in making these churches endure in the long-term.

## **1.7 RESEARCH QUESTIONS**

To determine the implications which financial practices have on the overall sustainability of Pentecostal-charismatic churches, research questions have to be developed. Cilliers *et al.* (2014:15) affirm the role of research questions in determining the feasibility of any research study. The following research questions have been developed for this research study:

- What are the sustainability needs of FBOs, in particular Pentecostal-charismatic churches?
- How do Pentecostal-charismatic churches manage their finances?
- Is financial management consequential for the sustainability of NPOs?
- What are the systems and structures in Pentecostal-charismatic churches to ensure proper financial management practices?
- What is the role of proper financial management practices for the achievement of the sustainability needs of Pentecostal-charismatic churches in South Africa?

## **1.8 OBJECTIVES**

### **1.8.1 Main Objective**

The main objective of this study is to explore and evaluate the financial management practices of Pentecostal-charismatic churches and how such practices affect their sustainability.

### **1.8.2 Secondary Objectives**

In order to support the main objective, the secondary objectives can be set as:

1. To present an applicable research design which will appropriately answer the stated research objectives (chapter 2).
2. To explore existing literature on financial practices in NPOs and the conceptualisation of sustainability within the context of NPOs (chapter 3).
3. To explore and evaluate the sustainability of the financial management practices of three Pentecostal-charismatic churches as case studies in South Africa (chapter 4).
4. To make recommendations that will improve the sustainability practices of Pentecostal-charismatic churches in South Africa (chapter 5).

## **1.9 RESEARCH DESIGN**

A research design comprises the approach or conceptual framework of the research (Parahoo, 2014:142). Kumar (2011:396) states that “a research design is a procedural plan that is adopted by the researcher to answer questions validly, objectively, accurately and economically”. The study will follow a qualitative methodology which will be explained in the succeeding chapter. The research design will be exploratory owing to the fact that the financial practices of most Pentecostal-charismatic churches in South Africa are uncertain, as proven by the CRL Rights Commission (CRL Rights Commission, 2016).

Due to the difficulty encountered in obtaining adequate numbers of respondents in some Pentecostal-charismatic churches to conduct interviews on the themes of financial management and financial sustainability, it was determined that the use of multiple case studies would be appropriate for the collection of empirical data.

An empirical study was conducted to gather data which was analysed to identify the financial management practices of Pentecostal-charismatic churches. To ensure the reliability of the conclusion reached at the end of the research, the study was conducted using the ethical guidelines specified by the North-West University. The research was approved by the North-West University’s Ethics in Commerce Research Committee, the ethics number being NWU-00490-17-A4.

### **1.9.1 Literature review**

Recent literature on the topic is reviewed by referring to academic articles, research reports and text books. This was done to gain an in-depth understanding of the phenomenon under investigation.

### 1.9.2 Empirical study

A qualitative research approach is generally exploratory in nature and seeks to explain the 'whys' and the 'hows' of certain phenomena within a particular context because it highlights words rather than numbers (Cilliers *et al.*, 2014:30). The qualitative methodology was the design followed in this study, as the aim of the research was to highlight how financial practices impact sustainability within the context of Pentecostal-charismatic churches. The study was carried out from the perspective of people who are involved in the management of finances in the natural setting of churches by studying this phenomenon in all its complexities (Leedy & Omrod, 2010:135), in a South African context.

Primary data was collected by conducting multiple case studies. Case study research permits the understanding of complex phenomena through a robust, all rounded and in-depth process of enquiry (Zainial, 2007:1) and therefore helps explain both the process and outcome of a phenomenon. Yin (2014:50) identifies types of case study research to be: 1) Single case study, 2) Single case study with embedded units, 3) Multiple case study, and 4) Multiple case study with embedded units.

Multiple case studies were used as the approach to gather empirical data because the study intended to explore the financial practices of Pentecostal-charismatic churches and evaluate them against the standards of sustainability. The study gathered qualitative data by using a multiple case study approach. A multiple case study approach also allows for in-depth probing of numerous cases for the understanding of a particular, and usually complex, phenomenon, in that it is considered to be robust and holistic and therefore more compelling (Zainial, 2007:1; Yin, 2014:50; Yin, 2012:7-9). An in-depth explanation of the multiple case study approach will be given in the next chapter.

In conducting the case studies, semi-structured interviews were conducted with the relevant participants for the gathering of the required data to fulfil the objectives of this study. The sample of the study consisted of three Pentecostal-charismatic churches within the Mangaung metropolis of the Free State province. With regard to each participating church, a contact letter was sent to explain the purpose of the study and furthermore to establish an understanding of the interview process. Written permission to conduct the study with the participating churches was obtained in each case.

## 1.10 PARADIGMATIC ASSUMPTIONS AND PERSPECTIVES

### 1.10.1 Ontological, Epistemological and Methodological assumptions

Research can be conducted from different paradigms. Bryman (2012:630) explains a paradigm as “a cluster of beliefs and dictates which for scientists in a particular discipline influence what should be studied, how research should be done, and how results should be interpreted.” Paradigms are world views or research traditions which, when adopted in the studies of a phenomena relevant to a field, determine what questions are worthy of investigation and the processes required for the answers of these questions to be acceptable (Cilliers *et al.*, 2014:19).

Cilliers *et al.* (2014:20) articulate three dominant paradigms for research, namely positivist, interpretivist and critical realist; though positivism and interpretivism are most commonly used. Positivism, often used in the natural sciences, is a technical approach to research and aims to find the relationship between causes and effects, while interpretivism, on the other hand, commonly used in social science, is practical and aims to provide an in-depth understanding of a phenomenon. This research study follows the interpretivist paradigm primarily because management accounting is a social science. Secondly, the participants of this research who provided information through their responses and the researcher, as an individual, had an influence on the research, which consequently impacted on the outcome of the study (Cilliers *et al.*, 2014:27).

The positivist and interpretivist approaches relate to the two dominant positions from which research is conducted, namely epistemology and ontology. Epistemology is derived from the Greek *epistēmē*, which means the study of knowledge. Ontology, derived from the Greek *ontos*, means the study of being (Cilliers *et al.*, 2014:24). Neuman (2014:93) asserts that all forms of scientific research are born out of ontology or epistemology, regardless of the researcher’s awareness and or acknowledgement of these two philosophical assumptions. Epistemology focuses on the formation of knowledge and the most valid ways to grasp truth, since it seeks to assist in answering the question: “how we know what we know” (Neuman, 2014:95). Ontology pertains to reality and its fundamental nature: it deals with the nature of being, or what exists; and poses the question of what is reality and what are the fundamental categories of reality? (Neuman, 2014:94).

This study was conducted from the ontological position of interpretivism. According to interpretivism, a definition of reality in the social world cannot be separated from peoples’ perceptions, beliefs, experiences and culture (Cilliers *et al.*, 2014:29). Cilliers *et al.* (2014:29)

add that reality in the social world continues to change as people's experience continues to evolve. The data gathered was within the setting of the church in Pentecostal-charismatic circles, therefore the personal experiences and prevailing assumptions held in these circles were brought to bear upon the study.

## **1.11 STUDY OUTLINE**

### **Chapter 1: Introduction**

The opening chapter provides an introduction to the study by presenting the statement of the problem that caused the researcher to undertake this research project. The main and secondary objectives of the study are underlined followed by the methodology used to conduct the research to ensure that conclusions reached are valid and reliable.

### **Chapter 2: Research methodology**

The second chapter discusses the research design and methodology followed to address the research problem and objectives of the study in more detail.

### **Chapter 3: Financial practices within non-profit organisations**

The third chapter aims at reviewing research conducted globally and locally on the theme of financial management practices and limiting these to NPOs, and how such practices translate into sustainability for their organisations.

### **Chapter 4: Financial management practices in Pentecostal-charismatic churches**

The fourth chapter presents the results of the semi-structured interviews conducted with three case studies, namely Church A, Church B and Church C. The qualitative data on how the financial practices of these three churches influence their long-term sustainability is presented.

### **Chapter 5: Findings, recommendations and conclusions**

The study is concluded by discussion of the findings obtained from exploring the financial practices of Pentecostal-charismatic churches and includes recommendations on improving such practices.

The next chapter will present the research methodology of the study.

## **CHAPTER 2**

### **2 RESEARCH METHODOLOGY**

#### **2.1 INTRODUCTION**

This chapter is dedicated to the research process used to conduct the enquiry in order to reach valid and reliable conclusions. The philosophical underpinnings of scientific research in general are discussed, as well as the ethical issues of conducting research as specified in the guidelines of the North-West University. The chapter also fulfils the first requirement of the secondary objectives as set out in chapter 1 (refer to page 7), which is to present an applicable research design which will appropriately answer the stated research objectives.

#### **2.2 WHAT IS RESEARCH?**

The word research is formed from the prefix “re” which means “again” and the stem word “search” which means “to look for something”. Cilliers *et al.* (2014:20) combine prefix and word, considering research as a repetitive effort to seek answers to a question which makes us understand our world better. Kothari and Garv (2014:1) refer to the term “research” as an academic activity which deals with the search for knowledge and the addition to the already existing body of knowledge by: 1) objectively and systematically investigating an identified problem, 2) formulating a hypothesis concerning the problem, 3) gathering and analysing information concerning the problem, and 4) reaching conclusions that validly solve the problem or allow for certain generalisations and theories to be formed concerning the problem. Sekaran and Bougie (2013:2) simply explain research as a procedure of finding answers to a particular quandary through a detailed study of its unique situational factors by analysing the collection and analysis of the said factors for the purposes of finding solutions. Terre Blanche, Durrheim and Painter (2012:34) assert that research is made up of five stages:

1. Defining a research question,
2. Designing the research,
3. Collection of data,
4. Analysing of data, and
5. Scripting a research report.

From the definitions of the above authors, there are overarching concepts which are worth enunciating. Firstly, all research begins with a problem that needs to be understood by gathering information about the problem. Secondly, the information about the problem has to

be gathered and analysed in a valid way. Thirdly, the valid information gathered and analysed must conclude with the problem at stake being solved or understood better. Finally, all three steps cannot be random, but must be conducted in such a systematic and organised way that the conclusions reached will be valid.

### **2.3 RESEARCH PARADIGMS**

Babbie (2011:32) describes a paradigm as a way of looking at things; though a paradigm cannot give an explanation about anything, yet it builds a logical framework or reference point for the development of theories. Bryman (2012:630) defines the term paradigm as a set of beliefs which dictates to scientists within a particular field of study things to be researched, the way research should be conducted and how results should be interpreted. Cilliers *et al.* (2014:19) use the term research traditions to represent paradigm. Creswell (2014:35) uses world view and philosophical orientation in place of paradigm. He adds that the paradigmatic assumptions in research are mostly hidden, yet they still have to be identified since they underpin any research study.

The beliefs, construct, paradigm or world view defined above, influence the way in which researchers approach a problem they seek to solve, as different paradigms present their own standards of acceptable theories and methods for solving a research problem (Farquhar, 2012:16). Each paradigm holds opposing ontological and epistemological foundations (De Villiers & Fouché, 2015:126).

Ontology is a branch of philosophy which deals with existence and reality; it seeks to answer the question as to whether or not something exists and the kind of things that can be said to exist (Weeks, 2014:14). Bickman and Rog (2009:224) explain ontology as the nature of the world. Cilliers *et al.* (2014:23) maintain that ontology pursues answers to questions that border on reality, existence, truth and whether or not there can be something such as objective truth.

Ancient Greek philosophers in their attempt to answer diverse questions had to pause and scrutinize answers by asking the ultimate question: *how do we know that?* This birthed a philosophical paradigm known as epistemology (Weeks, 2014:12). Cilliers *et al.* (2014: 23) clarify the term epistemology as the study of knowledge and the different ways by which knowledge is acquired. Weeks (2014:12) further adds that some philosophers believe that knowledge is a product of our experiences which we interpret through our senses – this position to epistemology is known as empiricism. Another school of thought in epistemology, known as rationalism, asserts that knowledge is primarily a product of reasoning.

Considering what all the above authors posit, it can be concluded that ontology deals with the nature or the *what*, with regard to reality or knowledge, while epistemology pertains to *how*, with regard to the acquisition of knowledge or our understanding of reality.

According to De Villiers and Fouché (2015:127), the outcome of epistemological decisions guides the researcher to the research paradigm, from which a study will be conducted. An epistemological position can assume either positivism or interpretivism as one of the two main research paradigms (De Villiers & Fouché, 2015:127). Positivism, derived from the word “positive”, assumes that by obtaining knowledge, people can affect their world and make it better by interpreting diverse phenomena through objective and verifiable information devoid of their own beliefs, which are often personal and unverifiable. The positivistic orientation is normally used in the natural sciences (Cilliers *et al.*, 2014:24). Positivists believe that knowledge should be real and measurable and unaffected by our personal beliefs (Farquhar, 2012:17).

Interpretivism sprang out of the inadequacies of positivism. As philosophers attempted to interpret phenomena in the social sciences, there was the realisation that humans could not be studied like objects in a laboratory or in a controlled environment, since humans continue to change all the time by influences exerted on them and their environment (Cilliers *et al.*, 2014:27). Farquhar (2012:17) adds that the world of social science is different from the world of natural science, since in interpreting phenomena a researcher is not detached from his or her persona when making observations, as is the case in positivism. Rather, the researcher is an active agent in the construction of knowledge and in the interpretation of a phenomenon. Thus, interpretivists acknowledge the subjective nature that can be associated with the construction of knowledge (Farquhar, 2012:19). O’Leary (2004) concludes that the positivist distances his persona from the research being conducted to avoid bias, but the interpretivist uses neutrality to minimize bias to reach valid conclusions. Table 2-1 below provides a summary of positivism and interpretivism.



**Table 2-1: Summary of the two dominant research paradigms**

|                     | <b>Positivism</b>  | <b>Interpretivism</b>  |
|---------------------|--|--|
| Reason for research | To ascertain causal relationship so as to predict events which allow for control.      | To give a meaningful explanation, description and understanding of social norm and experience.                           |
| Ontology            | Reality is exterior and impartial and the principles that direct it can be discovered. | Reality is a product of human interaction and is ever changing and subjective.   |
| Epistemology        | Knowledge is only valid when produced and measured using empirical means.              | Something can be termed as knowledge based on the perception of people studying it and cannot be devoid of common sense. |

Source: Cilliers *et al.* (2014:35)

This study is carried out from the paradigm of interpretivism. The interviewer cannot be devoid of his persona, nor can the people who will be interviewed, in order to provide information. Both the interviewer and the interviewee respectively also bring their experiences to bear on the information provided and interpreted. In addition, the study is carried out in the social setting of churches and not in a controlled environment such as a laboratory. The results of the study are not quantifiable or measurable, but they are rather based on the interpretation of the researcher.

## **2.4 RESEARCH METHODOLOGY AND METHOD**

Novice researchers struggle with the difference between research methodology and research methods. Kothari (2004:8) defines research methodology as an approach to solving a research problem. Chilisa and Kawulich (2012a:1) simply describe research methodology as a summary of how a research study will proceed. Kothari and Garav (2014:7-8) refer to research methodology as a scientific way of studying how research should be conducted and how researchers use scientific approaches to systematically address research problems. In defining research methods, Walliman (2017:1) likens research methods to the different implements used at the different stages of landscaping, describing the research process as the diverse equipment which is used to assist in the success of a research study. Rajasekar, Philominathan and Chinnathambi (2006:5) state that research method provides a solution to the problem on hand, but research methodology seeks answers to the questions of: 1) why the research is being undertaken, 2) how the research problem was formed, 3) the kind of data that was collected concerning the problem, and 4) the procedure used to collect the data,

as well as the techniques used to analyse the data gathered. They conclude that research method focuses on finding and applying ways to solve a research problem, while research methodology is about choosing scientific tools and materials that are relevant to the problem on hand.

The research methodology is informed by the research paradigm as well, and therefore research methodology is the converging point of paradigms, theory and methods (Chilisa & Kawulich, 2012b:2-3). It can be concluded that there has to be a flow in the research process that starts from the paradigm to the methodology and finally to the methods.

Bryman *et al.* (2014:30-31) use the term research approaches and research methodology interchangeably and state the two research approaches as being quantitative and qualitative research. Creswell (2014:83-86) states that both qualitative and quantitative research methodologies make use of theory, and defines theory as interconnected patterns or variables which are moulded into propositions or hypotheses to specify the relationship among variables. A variable or construct includes sex, age, race attitudes or economic status, while a theory can be a figure, debate, dialogue or logic which helps to explain some phenomena (Creswell, 2014:83-86). In quantitative methodology, researchers embark on a study with the objective of proving or disproving a theory, argument or logic placed at the beginning of the research – this is known as *deductive* thinking. In qualitative methodology, a theory emerges as the outcome of the study – this is known as *inductive* thinking or reasoning.

It can be established from the points above that quantitative methodology has theory as the starting point, while qualitative research has theory as the end point. Linking all the points above, it can be concluded that quantitative research methodology uses research methods or techniques that allow for the collection of quantifiable or numeric data, assumes a positivist paradigm, regards the relationship concerning theory and research as deductive, adopts an external objective view to knowledge and is often used in the natural sciences. In contrast, qualitative research methodology uses research methods that collect data which can be analysed through the social world of individuals rather than numeric quantification, assumes a paradigm of interpretivism, regards the relationship between theory and research as inductive, sees knowledge as constantly shifting and is often used in the social sciences (Bell *et al.*, 2014:30-31; Walliman, 2014:5).

This research will assume the paradigm of interpretivism, as the researcher sought to understand the Pentecostal-charismatic social phenomenon and its financial management practices which spring from human interaction. The case of Pentecostal-charismatic churches and their financial management practices that assist in their sustainable future is not a case

that is “out there” (Rule & John, 2011:19); rather the researcher played an active role in formulating the phenomenon as a case. Further, the financial management practices differed from one church to another and continue to change even within an individual church. Again, “sustainability” is a subjective concept that needs reasoning through interpretivism. The research methodology followed the qualitative approach since it is in line with the paradigm of interpretivism. The data gathered was in the social setting of three churches and therefore the research method used was the multiple case study approach. This allowed for inductive reasoning to be followed because there was no existing theory on the financial management practices and its impact on Pentecostal charismatic churches which had already been formulated and which needed proving or disproving. The research method of case study is explained in the next section.

## **2.5 DEFINING CASE STUDY RESEARCH**

Rule and John (2011:4) define a case as a particular illustration of a happening in a broader category or scheme of events and occurrences. Hence, describing something as a ‘case’ does not necessarily make it exist in isolation; rather it may be an individual instance within a much broader order of incidences. The word study which originates from the Latin *studere* is both an action word and a noun which entail the rigorous application of the mind in a detailed investigative process to a phenomenon for the acquisition of thorough knowledge and understanding (Rule & John, 2011:4).

One of the well-known authorities on case study research, Yin (2014:15-24), laments the inadequate definition given to case study as a research methodology. He asserts that some writers merely define it in the context of the disciplines or topics it has been applied to. Zanical (2007:1) describes case study as a method that assists researchers to probe real-life occurrences in their natural context by examining data of related events or conditions at a closer proximity. Furthermore, other authors limit case study research to the exploratory stage of some other methods of conducting research, in which data is gathered by doing fieldwork, and fail to consider it as a formal method of research (Zanical, 2007:1).

Yin (2014:15-24) presents a twofold definition to case study as being:

1. A method of first-hand, in-depth and practical enquiry into a phenomenon within its natural setting when the limits to which the phenomenon can exist within the context of a natural setting has not evidently been proven, and

2. An enquiry process that has the advantage of established theoretical propositions for the analysis and collection of data from multiple sources, though the data still has to be triangulated and cope with the technically unique position of multiple important variables.

The above two-part definition of Yin (2014:15-24) can be concluded as being the nature and scope of case study research. In its nature, case study research can therefore be said to be all encompassing. With regards to scope, it will have sufficient depth to allow for the examination and understanding of complex phenomena.

Having defined a case study as a method of conducting research, Rule and John (2011:5) expound a case study as being a method of conducting research which has four key components:

1. It is a **unit** of analysis: the actual case or phenomenon which is investigated,
2. It is a **process** of enquiry,
3. It is a **product** of an investigation, and
4. It is a **genre** of a particular type of text.

The word “unit” in a case study is used in reference to the identified phenomenon under study. The case may be anything from a person, organisation, nation, situation or event. The “process” is the pathway followed in conducting the enquiry. This involves observations, gaining access to documents and places surrounding the case, engaging with people who have knowledge of information to understand the case and analysing data to write up the case. The “product” of a case study is the audio, video or printed document produced after the case. The “genre” refers to features such as language, structure, purpose and audience of a work piece, such as a manuscript (Rule & John, 2011:5).

Placing the above into the context of this research work, the unit of analysis was the three Pentecostal-charismatic churches studied. The process took the form of a case study approach by visiting the churches and interviewing people with the relevant information, and making observations in the churches and studying documents that were made available to the researcher.

## **2.6 MULTIPLE CASE STUDIES VERSUS SINGLE CASE STUDY**

Rule and John (2011:21) provide reasons for the option of multiple case studies over a single case study. They argue that studying multiple cases gives a better representation to the case under study. This in turn allows for a better comparison of cases in terms of size and complexity without changing the techniques of gathering or analysing data, since case study

methodology is amenable to studies which fall within a common theoretical framework. With a single case study, they suggest that the single case chosen must be a classical example of its kind in order to qualify as a holistic representation of the phenomenon under study with the potential of being studied in a detailed fashion. They add that the researcher must have ease of access to the case, usually as a participant with both experience and insider knowledge of the case.

Irrespective of single or multiple case study, Rule and John (2011:21) present the flaws in both. Multiple case studies have the inherent temptation of discarding differences and focusing primarily on the similarities, by ignoring the peculiarity of each case and its peculiar setting in order to allow for generalisation on a macro level. Additionally, the rigour used for data gathering might not be the same across all cases; in so doing, rich data may not be gathered in the same way. Therefore, multiple case studies could not be used to generate findings that accurately typify all cases within the population under study.

Taking cognisance of the flaws mentioned above, the multiple case study approach was used in this study to allow for a broader spectrum to be covered and better comparison of findings.

## **2.7 RESEARCH DESIGN**

Terre Blanche, Durrheim and Painter (2012:34-35) describe research design as a bridge that strategically bridges the gap between the initial stages of research, where the research questions are developed, and the successful execution of the research, where the research questions are answered through a procedure of data collection and analysis that is cogent with the ultimate goal of the research and the resources available to conduct the research. Research must be planned, and observations made, to reach logical conclusions; unlike the observation of a journalist on a football match or an eye witness account of a political gathering. Research must be planned and executed through a process of systematic observation to allow the researcher to draw clear and comprehensible conclusions from his observations to fulfil the objectives of the research (Terre Blanche *et al.*, 2014:34).

Kothari and Garv (2014:29-30) describe research design as a blueprint according to which the research is conducted by indicating the importance of research design as follows:

1. It provides guidance to the types and sources of information relevant to the research problem,
2. It helps to specify the best approach for gathering and analysing of data, and
3. It assists in defining the impact of the two major constraints of *time* and *cost* on the research.

Kothari and Garv (2014:29-30) highlight four types of research design as follows:

**Sampling design:** It concerns the techniques for determining the preferred cases or items to be observed in a study.

**Statistical design:** It deals with the number of items or cases to be observed and the method for carrying out data gathering and analysis.

**Observational design:** It deals with the setting under which observations are made.

**Operational design:** It deals with the process of harmonizing the trio of sampling, observational and statistical designs into a congruous process for the successful output of the research process.

Observational design falls within the ambit of sampling design, since there cannot be observation without a sample. Statistical and observational designs will be further discussed in the next section.

## **2.8 SAMPLING DESIGN AND DATA COLLECTION**

The overall cases or items being studied in a research inquiry are known as a population or universe or census of inquiry (Kumar, 2011).

The sampling design (refer to definition provided above) of this study focused on Pentecostal-charismatic churches in the Mangaung district of the Free State. Concerning statistical design, three Pentecostal-charismatic churches in the Bloemfontein metropolis of the Free State were chosen for observation and gathering of data. The research topic is currently a sensitive one and therefore churches were reluctant to take part. Although a number of churches were approached to take part in the study, only these three churches gave consent. The observational design was a multiple case study approach for the selected Pentecostal-charismatic churches in their natural environment through observations, semi-structured interviews and documentary analysis. The operational design was in the form of qualitative analysis using a multiple case study approach.

In conducting the multiple case studies, an interview schedule was developed from the literature review conducted in the next chapter. Semi-structured interviews were then conducted with the relevant participants for the gathering of data.

## 2.9 DATA COLLECTION INSTRUMENT: SEMI-STRUCTURED INTERVIEWS

Farquhar (2012:65-66) maintains that the overall credibility and quality of a research study is based predominantly upon the data gathered and analysed, since the findings of research study is predicated upon the data. He therefore cautions that only sources that can be defended intelligibly should be used, especially in a multiple case study where there can be a plethora of data sources. Mouton (2001:98-99) explains the data gathering stage of research as the “doing” stage or going into the field. This is an indication of researchers at this stage having to leave the desk or library from where they are writing and enter the field, or a setting where empirical evidence can be obtained.

Rule and John (2011:63) concur with the above by stating that in case study research, data are found in:

1. Practices and actions,
2. People,
3. Documents, films and photographs, or
4. Artefacts such as clothes, tools, etcetera.

This research study found data in people within the natural setting of Pentecostal-charismatic churches, as well as their practices and actions. The instruments for data collection from the data sources of people and their practices and action, within the natural setting of churches, were semi-structured interviews and direct observation (Mouton, 2011:98-99). The semi-structured interview questions are attached as an annexure (refer to Annexure A). Marby (2009:218) encourages the use of semi-structured interviews in combination with direct observation as data collection instruments in case study research, arguing that the combination of both techniques allows for probative follow-up questions and the discovering of issues which were initially unexpected by the interviewer. The combination of observation and semi-structured interview questions allows interpretivist case study researchers to rigorously penetrate the unknown by maintaining levels of curiosity which aid the generation of questions pertinent to understanding a case better and deeper (Marby, 2009:218).

All the three churches were visited at least twice and the practices and actions were observed in assisting to develop the semi-structured interview questions. The semi-structured interview questions made the interview process flexible enough and made room to probe the complexities as well as the uniqueness associated with each of the cases.

Rule and John (2011:63) state that the quality of case study research must fulfil the following: it must be reliable, valid and generalizable. Silverman (2011:366) states that research cannot

be said to be credible if it is not reliable and valid. In an attempt to address this, the research used multiple data sources by choosing multiple case study methods and interviewing various people from Pentecostal-charismatic churches who were directly involved with the financial management of the churches studied. This allowed for the confluence of multiple data for valid analysis to be carried out. The approach to analysing data gathered is discussed below.

## **2.10 DATA ANALYSIS**

Kotari and Garg (2014:126) highlight that data analysis is the search for the relationship patterns that exist within the data gathered. Rapley (2011:276) provides four ways of analysing qualitative data, namely, 1) Thematic analysis, 2) Grounded theory, 3) Frame work analysis, and 4) Interpretative phenomenological analysis. Rapley (2011:276) elucidates thematic analysis as not being restricted to any particular discipline. Bryman *et al.* (2014:350-351) define thematic analysis as being flexible and able to be used to reach both deductive and inductive conclusions. On this basis, thematic analysis was used to analyse and interpret the data gathered.

The semi-structured interview questions were prepared according to themes and each theme was assigned an alphabetical code (refer to Appendix A). The qualitative data gathered from the interviews were analysed and interpreted according to the themes in order to reach conclusions on the financial management practices prevalent in the three Pentecostal-charismatic churches. The impact of the identified financial management practices in the sustainable future of Pentecostal-charismatic churches was analysed from the ontological paradigm of interpretivism so as to fulfil the main objective of the study.

## **2.11 ETHICAL CONSIDERATIONS**

The research was conducted according to the strict ethical guidelines provided by the North-West University (NWU). The researcher, as a student member of the Chartered Institute of Management Accountants (CIMA), had the further obligation to abide by the professional ethical conduct as set out by CIMA.

Rule and John (2011:112) state three standard ethical principles which were followed by the researcher:

First is the principle of autonomy. This principle allowed participating individuals and the churches as bodies to voluntarily participate in the research and to reserve the right to withdraw from the research at any point in time that they deemed fit. Secondly, the principle of non-maleficence was followed, which meant neither the research nor the researcher was



allowed to cause any harm to persons or property involved in the research. Regarding non-maleficence, the researcher adhered to the ethical guidelines provided by the NWU, the study having been assigned an ethics number as referred to in chapter 1 (paragraph 1.9, page 8). The final principle followed was the principle of beneficence. This principle suggests that the research work should be for the public good. The researcher followed this principle by stating in the contact letter provided to the participating churches that, after the completion of the research study, a management report would be made available to them to assist in strengthening their financial practices.

Following these three principles implied that the privacy, confidentiality and anonymity of all participants were assured. Therefore, the names of the churches were not disclosed; they were rather referred to as Church A, Church B and Church C.

## **2.12 SUMMARY**

The chapter highlights the philosophical underpinning of the research of interpretivism which was determined by the epistemological and ontological positions of the researcher. The research followed the qualitative research methodology while the research method used was the multiple case study method. Case study approach was explained and the disadvantages as well as advantages of both multiple and single case studies were highlighted. The reason for following the multiple case study approach was provided and how it would assist in providing valid and reliable conclusions, through inductive reasoning, which would help to sustain the future of NPOs and Pentecostal-charismatic churches.

The next chapter will review the literature on financial management practices within NPOs.

## **CHAPTER 3**

### **3 FINANCIAL MANAGEMENT PRACTICES IN NON-PROFIT ORGANISATIONS**

#### **3.1 INTRODUCTION**

This chapter reviews existing literature on financial management practices of NPOs, and churches in particular, and the concept of financial sustainability which are accord with the secondary objective of the study as set out in chapter 1 (refer to page 7). To properly understand the basis of the aforementioned study, it is important to review extant literature on the financial management practices of NPOs, and churches in particular, and the concept of financial sustainability in order to evaluate what other researchers have found on the topic, what theories address the focal problem of this study, the previous research conducted on the problem, the consistencies and disagreements that exist within this body of knowledge, as well as the research flaws and gaps that may be susceptible to remedies (Babbie, 2011:94; Salkind, 2012:46). Hence, this literature review is divided into several broad sections, namely: the conceptualisations of NPOs, particularly religious NPOs and sustainability and a focus on the theory of financial management practices, in particular how such practices relate to NPOs globally, continentally and locally. The current financial management practices of NPOs generally, and religious NPOs in particular, is then examined, with particular attention being paid to the ongoing financial management practices of Pentecostal-charismatic churches in South Africa, which is the unit of analysis of this study.

A close evaluation of the different dimensions evident in the literature provides focus to the field study when conducting the multiple case studies. Furthermore, in fulfilment of the requirement of the study, the reviewed literature assists evaluative prediction and explanation from data regarding the financial management practices of the participating churches and how these impact on their sustainable future.

#### **3.2 CONCEPTUALISATION OF NON-PROFIT ORGANISATIONS**

Evaluating the practices of financial management and its consequences for the financial sustainability of NPOs first requires an understanding of how NPOs and sustainability are conceptualised. Hence this review of literature commences with the conceptualisations of NPOs and, more particularly, Pentecostal-charismatic churches.

### 3.2.1 Defining the non-profit sector: History and purpose

The non-profit sector is not easy to delineate, according to Libby and Deitrick (2017:1), due to the complexities of its nature. They describe it as being multifaceted and add that the sector is “continually evolving”. Kim and Hwang (2002:2) affirm the above view by citing the constrictions associated with attempts to define the boundaries of the non-profit sector – caused mainly by the historical lack of clear-cut boundaries between state and civil society. Anheier (2005:4) defines the non-profit sector as a hybrid organisation exhibiting both the intricacies that exist within institutions of government or public sector and the profit-making sector. The term *third sector* has continually been used in describing organisations within the non-profit sector (Anheier, 2005; Manville & Greatbanks, 2013; Kraveva, 2013:107), this term being first used by Etzioni in 1973. Other synonymous terms for NPOs are non-governmental organisations (NGOs), not-for-profit organisations, neo-corporatism, third party government and private interest government (Anheier & Seibel, 1990:7-9), voluntary sector, independent sector, social economy (Kravela, 2013:108-109) and many more. For the purposes of this study, the term non-profit organisations (NPOs) will be used.

Until the present, attempts to define the non-profit sector have been loose and baggy, blurred and fluid (Anheier, 2005:4) and imprecise (Kraveva, 2013:107), as many NPOs often exhibit characteristics attributable to both profit-making sectors and public sectors. The difficulty associated with defining the non-profit sector is attributable to the rich variety of entities which make up the sector. These range from museums, orchestras, schools, universities, adult education organisations, research institutions, policy think tanks, diverse health organisations, human services, credit and savings cooperatives, environmental and natural resources protection, local development and housing, humanitarian relief associations, international development organisations, human rights organisations, farming associations, foundations, service organisations, fraternities and sororities, special interest associations and advocacy groups to self-help groups (Anheier, 2005:8-9). Hall (2016:3) includes veteran’s associations, cemeteries, political parties and religious organisations in the list. Additionally, the United Nations (UN) adopts the International Classification of Non-profit Organizations (ICNPO) which lists twelve different groups of NPOs, with religious groups falling into the tenth group of the ICNPO classification (Anheier, 2005). On the basis of all the arguments above, churches in general, and therefore Pentecostal-charismatic churches in particular, as part of religious organisations, fall under the broader umbrella of NPOs and will be recognised as such in this study.

In clarifying the boundaries of the non-profit sector, the Internal Revenue Service (IRS) of the US cited by Libby and Deitrick (2017:2) defines it as “an organisation that is precluded, by law

or its governance structures, from distributing earnings to any individual who exercises control over the organisation (directors, members etc)". Salamon, Anheier, List, Toepler and Sokolowski (1999), in distinguishing organisations within the non-profit sector, use five attributes:

1. *Institutionalised/organised*: This refers to the existence of institutional structures to support their activities and enhance the achievement of their goals.
2. *Private and not part of government*: Even though they may receive government funding, they are still institutionally independent from government.
3. *Self-governing*: They should have control over their own activities.
4. *Voluntary or non-compulsory*: Support is dependent on the good will created.
5. *Non-profit distributing*: Owners and directors are not paid any profits generated, if there be any, but rather these are ploughed back into the organisation.

Similar to other organisations, NPOs have a reason for being denoted as a missionary element. Anheier and Toepler (2010) suggest that NPOs exist for two primary purposes:

1. To provide support to people in need, and
2. To be agents of social transformation through public campaigns and public advocacy.

Libby and Deitrick (2017) posit that the mission of an NPO is the central social purpose of the organisation and therefore all directions must be set around it and all activities should emanate from it. Bryce (2000) suggests that the five elements that the mission of an NPO should have, or be, are:

1. *Social contract*: There has to be clarity of values, beliefs and aspirations between the organisation and its members.
2. *Permanence*: There has to be a long-term vision which prevents the mission from frequent changes.
3. *Clarity*: The purpose of the organisation must be properly communicated and understood.
4. *Approval*: The mission has to resonate approval from all of its stakeholders.
5. *Demonstrable*: There has to be a yardstick to examine, measure and monitor achievements.

The above have been the goal of many religious organisations dating back as early and for as long as the existence of the Roman Catholic Church (Hall, 2016:3).

Toepler and Anheier (2004:255) ascribe the four special roles below to NPOs:

1. **Vanguard role:** They initiate change by finding innovative ways of implementing change in the quest to deliver services to their constituents, and their successful innovations are followed by government agencies and other providers of similar services.
2. **Value-guardian role:** They serve as agents in preserving and promoting values, ideas and views – be they religious, philosophical cultural or social – that are often not pursued by government because governments are often controlled by the will of society nor by businesses which are only basically profit seeking. This helps them contribute and preserve pluralism and diversity across the broader sphere of society.
3. **Advocacy role:** Since democracy is about the interest of the masses, they become the voice of the under-represented and discriminated clusters of society. They play a watchdog role by being critics of government to bring improvements in policy and this may help to bring about social change.
4. **Service provider role:** Programs and services provided by government are usually on a large scale, homogeneous and undifferentiated. NPOs play a complementary role by providing such services in a modified way which make them qualitatively better suited to the recipients. They also provide particular services to particular sectors of society which may be neglected by government usually because of political expediency reasons, and by business because they give them no commercial benefit.

Table 3-1 below shows the distinction between business firms, government organisations and NPOs.

**Table 3-1: Comparison of business firms, government, member-serving NPOs and public-serving NPOs**

|                              | <b>Business firms</b> | <b>Government organisations</b> | <b>Member-serving NPOs</b>  | <b>Public-serving NPOs</b>        |
|------------------------------|-----------------------|---------------------------------|-----------------------------|-----------------------------------|
| <b>Objective function</b>    | Profit maximisation   | Social welfare maximisation     | Member benefit maximisation | Client group benefit maximisation |
| <b>Outputs</b>               | Private goods         | Public/collective goods         | Club goods                  | Collective and private goods      |
| <b>Distribution criteria</b> | Exchange              | Equity                          | Solidarity                  | Solidarity                        |

|                                   |                                     |  |                                 |  |
|-----------------------------------|-------------------------------------|--|---------------------------------|--|
| <b>External orientation</b>       | External indiscriminate (customers) | External indiscriminate (Public, citizens)   | Internal discriminate (members) | External discriminate (target client groups) |
| <b>Goals</b>                      | Specific, clear                     | Complex, ambiguous                           | Complex, diffuse                | Complex, clear                               |
| <b>Structure</b>                  | Formal                              | Formal                                       | Informal                        | Formal                                       |
| <b>Accountability and control</b> | Owners/shareholders                 | Voters through elected officials             | Members                         | Board  |
| <b>Decision-making</b>            | Hierarchical                        | Indirect: democratic<br>Direct: hierarchical | Democratic                      | Hierarchical                                 |
| <b>Participants</b>               | Quasi voluntary (economic needs)    | Automatic coercive                           | Voluntary                       | Voluntary/ Quasi-voluntary                   |
| <b>Motivation</b>                 | Material                            | Purposive                                    | Solidaristic                    | Purposive/ Solidaristic                      |
| <b>Resourcing</b>                 | Commercial                          | Coercive (Taxation)                          | Donative                        | Donative/ Commercial                         |
| <b>Size</b>                       | Large                               | Large  | Small                           | Medium                                       |

Source: Toepler and Anheier (2004)

In South Africa, NPOs fall under the mandate of the Department of Social Development Act, 1997 (Act No 71 of 1997), hereinafter referred to as the NPO Act (Department of Social Development, 2001). Under this act, an NPO is conceived as “a trust, company or other association of persons established for a public purpose and of which its income and property are not distributable to its members or office bearers except as reasonable compensation for services rendered” (NPO Act 71 of 1997). On the basis of this conception, the Department has with the challenging responsibility of assisting NPOs to be transparent, accountable and to maintain adequate standards of governance.

As may be deduced from the literature above, NPOs are conceptualised as entities which are formal or informal organisations, that are self-governing, private, non-compulsory and are restricted significantly or completely from distributing any surplus they earn to investors, members, or others – except for the course of their primary mission – and include entities such as the twelve groups classified by the UN under the ICNPO, such as religious entities.

### **3.2.2 Conceptualisation of religious NPOs: A focus on Pentecostal-charismatic churches**

Having situated religious groups within the definition of NPOs, it is further necessary to expand on what constitutes religious groups and in particular what is understood by Pentecostal-charismatic churches as one group of entities amongst religious NPOs. Conceptual clarity is necessary because the words church, religious group and FBO are often used interchangeably, whereas contextually there may be differences in meaning as they relate to financial management practices (Fritz, 2017). For instance, in the US, the Corporation for National and Community Services indicates that FBOs include:

1. A religious congregation (church, mosque, or temple), an organisation, program, or project sponsored/hosted by a religious congregation which may be incorporated or not;
2. An NPO, founded by a religious congregation or religiously motivated organisers and board members, that clearly states in its name, incorporation or mission statement that it is a religiously motivated institution; and
3. A collaboration of organisations that explicitly includes organisations from the previous categories.

Additionally, in relationship to financial management practices, the IRS in the US classifies churches as tax exempt 501(c) (3) charities. In order to qualify as such, an entity needs to satisfy the following criteria (Fritz, 2017):

- A diverse legal existence;
- A known belief and custom of worship;
- A certain and diverse religious administration;
- A prescribed canon;
- A known religious history;
- Members that are not linked with other religious groups;
- Ordained ministers with specified theological background;
- Literary works of their own;
- Recognised centres of worship;
- Regular congregations;
- Regular religious services;
- Sunday schools for religious education of infants; and
- Schools for the training of ministers.

In South Africa, churches are tax exempt when they are granted the status of Public Benefit Organisations (PBO), a status that is renewed every 5 years. Recently, the South African Revenue Services (SARS) signalled an intention to tax charismatic churches involved in the selling of various forms of merchandise, such as CDs, DVDs, books, anointed water, oil, handkerchiefs and other clothing (SARS, 2018). Section 30 of the NPO Act which qualifies South African entities as PBOs, indicates that to be a PBO, the organisation's sole object must be to carry out public benefit activities (meaning the activities laid down in Part 1 S.5 of the Ninth Schedule of SARS's PBO tax exempt schedule) and those activities must be carried out in a non-profit manner and with an altruistic or philanthropic intent. The underlying intent of the provision is that it would be unfair for tax exempt PBOs to compete with businesses which pay tax on their profits. Section 30 therefore places a very low ceiling on the trading income that a tax-exempt PBO can earn without forfeiting its tax-exempt status, namely 15% of its gross receipts or R25 000 per annum, whichever is the greater.

In the light of the focus of this study and based on the concepts highlighted above, it can be deduced that religious entities are those organisations whose activities encompass acts of worship, witness, teaching and community service based on a belief in a deity through the promotion and/or practice of a belief, and/or the promotion of, or engaging in, philosophical activities, and includes entities such as the community of Pentecostal-charismatic churches. The definition of community of Pentecostal-charismatic churches will be delineated in the next section.

### **3.2.3 Community of Pentecostal-charismatic churches**

Churches, and Pentecostal-charismatic churches in particular, appear to have demonstrated consistent growth, as evidenced by the continuous numerical progression of dedicated volunteers to their cause now compared to history (Schlemer, 2008:5). Jean-François (2015:57) defines a community as a group that shares common interest by which they are bound together and thereby can fight a common cause for the achievement of particular goals. Relatedly, Hofman (2004:149) describes a community as a population that has a common distinct location, belief and interest and that these characteristics clearly identify it from those that do not share the same. Pertinent to both definitions are: *interest, belief and geographical location*.

Although Pentecostal-charismatic churches may not have a common geographical location in that they are spread out in different parts of the world, their foundational beliefs and interests continue to remain the same. Lederle (1989:164) asserts that Pentecostal-charismatic churches are defined by the following key beliefs:



The person of Jesus as a Saviour, the person of the Holy Spirit, divine healing, the imminent return of Jesus to earth, and speaking in tongues.

The interests of Pentecostal-charismatic churches are determined by their vision. Vorster (2012) pronounces the need for a church vision to be inspirational, memorable and succinct, with the intent of defining all that the community desires to do and achieve. He further states that the primary interest of the church should be to “reach out to the lost” and that all activities of training and development of the church community should be to empower them to fulfil this mandate effectively.

From the literature it can be considered that Pentecostal-charismatic churches are religious NPOs because they are entities which are formal or informal organisations, are self-governing, private, non-compulsory and are restricted significantly or completely from distributing any surplus they earn to investors, members, or others and include entities such as the twelve groups classified by the UN under the ICNPO as religious entities. Additionally, they have features and characterisations of churches and entities which according to the American IRS criteria qualify for Chapter 301 (c) (3) type tax exemptions, as well as similar features which under the SARS PBO tax-exempt Schedules are highlighted in the Ninth Schedule Part 1 S.5 and include the conduct of religious activities (a) (b) and (c) of the aforementioned section.

Pentecostal-charismatic churches come in diverse congregational sizes, from a handful under trees, to thousands in major auditoriums. In recent times, the considerable growth of Pentecostal-charismatic churches has brought about a phenomenon known as *mega-churches*. Tickle (2012:63) states that the *mega-church* concept is a mathematical descriptor of protestant congregations that have above two thousand regular attendances for services, with Sunday being of particular importance as the main day of worship. The *mega-church* phenomenon is a burgeoning trend all over the world in Pentecostal charismatic circles (Tickle, 2012:65) and Africa, and South Africa in particular, has also experienced this growth. Mega-churches such as the Rhema Bible church in Pretoria, Grace Bible in Soweto and Calvary Revival Centre in the Mangaung District of the Free State are a number of examples in South Africa. The community of Pentecostal-charismatic churches places particular emphasis on inclusivity of worship and cultural diversity as cornerstones (Tickle, 2012).

The next section will address the concept of sustainability.

### **3.3 DEFINING THE CONCEPT OF SUSTAINABILITY**

Bell, Masaoka and Zimmerman (2010:13) cite the UN in their definition of sustainability as “doing what is required to meet the needs of the present without compromising the ability of

future generations to meet their own needs”. Jean-François (2014:17) defines sustainability as “the ability of a business, an organisation, or a project to fulfil its vision and mission, meet its goals, and serve its stakeholders over time.” He assesses sustainability from the perspective of the organisation itself which he terms organizational sustainability, the services it provides which he terms service sustainability, and finances which he labels as financial sustainability (Jean-François, 2014:19).

The Global Reporting Initiative (GRI), a leading international organisation in the field of sustainability, was founded as a result of the need to address failure of governance structures of major organisations around the world to respond to the changing global environment. The GRI categorises sustainability into three dimensions, namely: economic, environmental and social (BPP Learning Media, 2014:89).

The economic dimension considers the impact which factors such as market presence and procurement practices have on stakeholders, and not just the financial standing of the organisation. The environmental dimension of sustainability assesses the impact which activities such as emissions, transport, effluent and waste have on the natural environment such as air, water, land and the ecosystem. The social dimension of sustainability is concerned with the effects of entities on the social system. The social dimension is highlighted under four distinct sub-categories of labour practices and decent work, human rights, society, and product responsibility (BPP Learning Media, 2014:90-91).

Bell, Masaoka and Zimmerman (2010:13) conceptualise sustainability from the two perspectives of financial sustainability and programmatic sustainability. They expound financial sustainability as “the ability to generate resources to meet the needs of the present without compromising the future” and explain programmatic sustainability as “the ability to develop, mature and cycle out programs to be responsive to constituencies over time”.

The above definitions of sustainability place emphasis on an entity with goals and objectives to be achieved, as well as the financial endowment to drive the said objectives and goals of the organisation, be it for profit or not for profit. It may seem that when organisations have objectives, goals and missions and the needed financial resources to drive the set goals and objectives so as to accomplish the stated mission on an ongoing basis, then they meet the definition of sustainability and therefore they can be described as sustainable. Bell *et al.* (2010:13) declare that a position which may be sustainable today can easily become untenable tomorrow. Organisational leaders cannot sit back and relax, but must continue to carefully and diligently attend to the unique fusion of activities that births impact, as well as the revenue streams that formulate the financial health of the organisation in order to make it

sustainable in the present and future (Bell *et al.*, 2010:19, 23). Since the matrix for measuring sustainability is always changing, it can be concluded that sustainability is “an orientation and not a destination” (Bell *et al.*, 2010:13).

### **3.3.1 Financial sustainability**

Mutinda (2016:81) asserts the importance of financial sustainability in NPOs, stating that the availability of a broader variation of funding options to NPOs has a positive bearing on their financial sustainability. Omeri (2016:705) maintains that the concept of financial sustainability cannot be applied without variations between profit making organisations and NPOs, since their overarching purpose of existence is fundamentally different. The same sentiment is echoed by Sontag-Padilla *et al.* (2012:2), arguing that financial capacity must be clarified before financial sustainability can be conceptualized. They define financial capacity as the pool of resources that allows an entity to seize prospects and respond to threats in the external environment and still maintain the fundamental purpose of the organisation’s existence. They argue that the more an entity is able to maintain its financial capacity, the more sustainable it is and vice-versa. Mango (2017), an NPO formed to assist other NPOs to function better, simplifies the financial sustainability of NPOs as the ability for an organisation to continue with its core work without collapse even if its external funding is withdrawn. They state that financial sustainability has five pillars and they are:

1. Developing and maintaining strong stakeholder relationships, including beneficiaries, staff and donors,
2. Obtaining a range of types of funding including unrestricted funds,
3. Building financial reserves,
4. Assessing and managing risk, and
5. Strategically managing and financing overhead costs.

Jean-François (2014:20-21) provides three factors affecting financial sustainability:

1. The inherent factors: These are factors that directly determine whether or not the organisation is financially sustainable. They include, but are not limited to, the following: financial management, budget, financial statement analysis, financial sustainability plan, social enterprise, fund raising, grants seeking, investment and risk management.
2. The collateral factors: These are not directly related to an organisation’s financial sustainability, but aid in its planning, implementation and monitoring. Secondly, they help to create an environment that allows entities to be viable in the long run by maintaining a course to financial sustainability. The following are some of the collateral factors of

financial sustainability: governance, leadership, strategic planning, technology, organisational transformation, programme evaluation, community relations, needs assessment and service delivery.

3. The environmental factors: Environmental factors are three factors which affect funding, operations and support of NPOs and determine their survival, namely: social, economic and political (SEP) factors.

Ali (2011:2) asserts that financial sustainability is the bedrock of organisational effectiveness and further argues that going into the twenty first century, only organisations with sound financial structures will be able to meander and manoeuvre their way out of the multiple complexities within the challenging global environment. Sontag-Padilla, Staplefoote and Morgant (2012) add that establishing measures for financial sustainability should be a dynamic and continuous process.

Financial sustainability is not an end in itself, but a means to an end (Ali & Bailur, 2007:2). The name Non-Profit seems at face value to carry the impression that profits are an anathema in the circles of NPOs. Bell *et al.* (2010:28) contend that profits are not prohibited in the spheres of NPOs, but that the word “profit” is misleading and that “surplus” brings more clarity. Surplus is simply the excess of revenue or funds over expenditure. For surpluses to be realised, there have to be activities and strategies implemented to secure inflow of funds and Bell *et al.* (2010:19-20) contend that this is nothing short of a business model, even if such strategies are implemented in NPOs.

Leon (2001:15) asserts that the four pillars of financial sustainability are: 1) financial and strategic planning, 2) income diversification, 3) sound administration and finance, and 4) own income generation.

### **3.4 THE NEED FOR EFFECTIVE FINANCIAL MANAGEMENT IN NPOS**

Paramasivan and Subramanian (2008) use the terms business finance and corporation finance as having the same meaning as financial management. In their definition, they emphasise that an integral part of the management function is that it is practiced by financial managers and concerns the effective use of funds. Howard and Upton (cited by Paramasivan & Subramanian (2008)) define financial management as the making of financial decisions by applying managerial principles to the overall benefit of the organisation. Weston and Brigham (cited by Paramasavian & Subramanian (2008)) concur, stating that financial management is an area of financial decision-making which brings about goal congruence for the entire organisation through the financial decision of individuals within the organisation. CIMA and

AICPA (2017:30) closely interchange financial management with financial strategy and defines it as the identification of likely approaches capable of maximising an organisation's net worth, the distribution of uncommon wealth among the contending prospects and the application, as well as oversight, of the selected approach to realize the specified ideals.

The concept of financial management derived from the definitions above clearly presents multiple perspectives on the subject and thus includes multiple points of departure regarding the kind of entities to which we apply the concept. In trying to find a common ground to accommodate NPOs, business entities and government institutions, Ali (2011:9) defines financial management as "all efforts and measures designed to manage fraud".

Van Horne (1983:10) argues that financial management involves striving for an optimal combination of the three inter-related decisions of dividend, financing and investment; with the intent of value creation for the firm and wealth maximisation for shareholders.

Ebrahim (2010:101-121) laments the slumber of NPO leadership around the world in matters of financial practices until they are suddenly rudely awakened by, for example, a financial scandal, or pressure is exerted by regulators and citizenry in their demand for accountability. Bradach, Tierney and Stone (2010:222) have observed the rising levels of expectation placed on NPOs by their boards, staff and funders, expectations which have made leaders of NPOs rigorously confront the activities they undertake and introspect on delivering their mandate by probing: How do we build organisations that deliver results, how will results be achieved, what is the cost of achieving results and how can it be funded, which results are we accountable for?

In exploring the challenges that face NPOs on the African continent, Kang'ethe and Manonano (2014) bemoan the corruption and embezzlement which plays out in the form of ghost workers and misuse of organisations' resources, such as vehicles, for personal gain. In a study conducted in 2005 by The Department of Social Development (2005) to assess the impact of NPOs, it was discovered that there was poor practical compliance to Codes of Good Practice and that this concern was expressed by donors, government officials and the officials of the NPOs as well.

The Department of Social Development (2008) expresses financial management in NPOs as simply the management and recording of the flow of money from income and expenses. The department adds that proper financial systems are an indispensable component of any well managed organisation, be they profit making entities or NPOs, and therefore NPOs in particular should have in place structures and mechanisms that secure the assets of the organisation and ensure that assets are well managed, attract donors and repel people from attempting to defraud the organisation.

Irrespective of the points of departure on the subject and delineation of the concept of financial management, practices or strategy, there is a level of unanimity that does allow for conclusions to be drawn. Firstly, financial management is a management function; secondly, the concept borders on the approach of combining funding resources; and finally, it has to bring added value to any organisation.

### **3.5 FUNDRAISING IN PENTECOSTAL-CHARISMATIC CHURCHES**

Like any other organisation, Pentecostal-charismatic churches need resources, both financial and non-financial, in order to meet their underlining objectives for existence. The spread of Pentecostal-charismatic churches has not been without monetary influence, as a great number of missionaries had to be sent all over the world (Theron, 2011:1-2). The early stages of Pentecostal-charismatism were characterised by stark financial challenges, as a majority of the congregants were poverty stricken people of low economic standing and were described as “ragtag groups of parishioners” (Theron, 2011:1-2). Their places of worship well described their financial status – they were old and abandoned buildings with no or broken down doors and windows, in contrast with the magnificent structures of the then traditional churches. Church growth in all its ramifications is not a product of accident (White, 2016:251), thus, the role of financial resources in the growth of Pentecostal-charismatic churches cannot be minimised.

According to Theron (2011:6), there is now a shift from describing Pentecostal-charismatics as being akin to the lower strata of society, to describing them as acquiring monetary resources, becoming social entrepreneurs and exhibiting leadership in business, finance and education, with a significant number of such leaders as evidently millionaires in dollar terms. It is now no surprise, and is indeed a common global phenomenon, to behold Pentecostal-charismatic leaders and their followers as having professional qualifications as lawyers, medical doctors and university professors. The “prosperity gospel” has in modern times become one of the hallmarks of Pentecostal-charismatic churches.

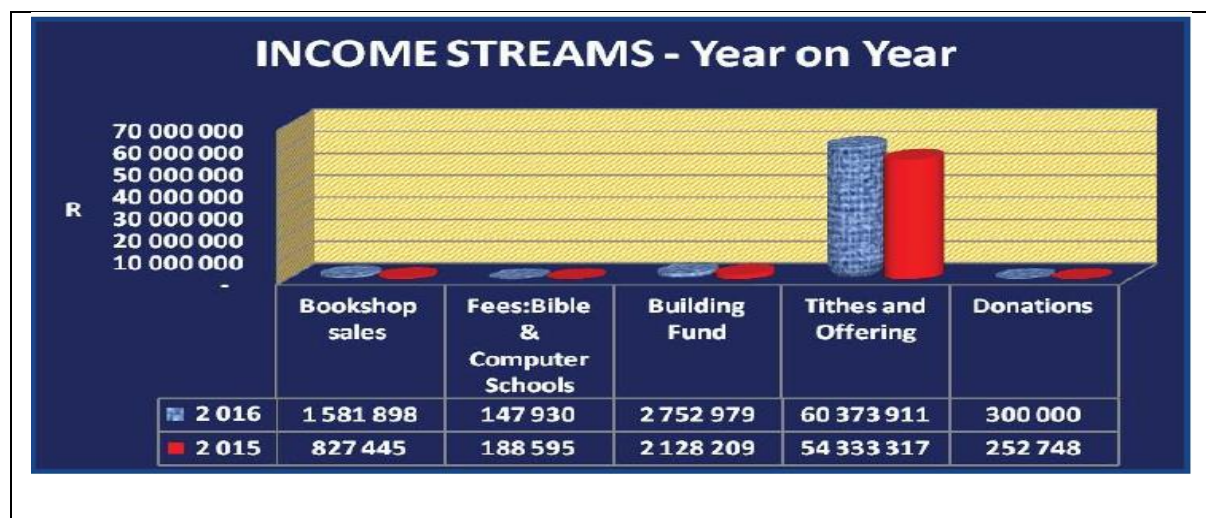
As stated in chapter 1 (refer to paragraph 1.2, page 2), Pentecostal-charismatic churches play a major role in the alleviation of poverty, unemployment, diseases and inequality. In Ghana, the International Central Gospel Church (ICGC), led by Pastor Mensah Otabil, was a pioneer in the building of private universities as part of its social intervention to birth transformation in the educational sector. The same church has also established Central Aid, an agency of ICGC, with the vision “To become the leading church-based charity in Africa dedicated to the development of the spiritual potential, intellectual capacity, social sensitivity and the moral uprightness of the marginalized and vulnerable in society”. Central Aid, since its inception in 1990, has supported more than three thousand students of diverse ethnic, religious and social

backgrounds in the attainment of quality education on diverse levels of the academic ladder in all the ten regions of Ghana (ICGC, 2018).

Rhema Bible Church, one of the largest Pentecostal-charismatic churches in South Africa, embarks on philanthropic activities and other corporate social responsibility through its registered PBO known as Rhema Hands of Compassion (Rhema HOC) (Hands of Compassion SA, 2018). By registering their philanthropic arm as a PBO, a legal entity which is separate from the Rhema Bible church, the funders of Rhema HOC, who are predominantly members of Rhema Bible Church, are issued with a Section 18 (A) tax receipt in accordance with the tax laws of RSA. This allows the donors to get substantial rebate on their donations and thereby positions them to be able to better support the visionary and missionary objectives of the church on a sustainable basis.

Figure 3-1 depicts the income generation stream of Grace Bible Church (GBC) in Soweto, based on their audited financial statements of 2016. In the 2016 calendar year, tithes and offerings accounted for 92.7% of the R60,373,911 total income that accrued to the church, while in 2015, tithes and offerings accounted for 94.1% of the total income of R57,750,314 (Grace Bible Church, 2016:45). From this analysis, an indication is provided of the concentration and over reliance on tithes and offerings as income. This creates a concentrated risk, as income is generated predominantly from one source.

**Figure 3-1: Income streams of Grace Bible Church**



Source: Grace Bible Church (2016)

Law (2012) has highlighted the need for multiple revenue streams by churches – the need not to rely on a single source of income nor be dependent on church members only, but to rather be creative about their funding sources. He itemises 22 sources of funding that churches can explore as follows:

1. Tithes and offerings,
2. Special offerings,
3. Designated gifts,
4. Fees for service,
5. Capital campaigns,
6. Foundations of the organisation,
7. In-kind resources and services from individuals and businesses,
8. Sale of products,
9. Foundation grants,
10. Investment income,
11. Rental income,
12. Event registration,
13. Cost recovery,
14. Business partnerships,
15. Offerings after special events,
16. Scholarships and sponsorship,
17. Ownership of facilities,
18. Memorials and memorial funds,
19. Capital investment list,
20. High capacity donors,
21. Gratitude gifts, and
22. Alumni gifts.

There is a need for Pentecostal-charismatic churches to be financially sustainable. On the other hand, the message that the congregant and church should prosper financially, is also communicated. Tudor Bismark of Zimbabwe contends that every person, especially black Africans, must take a shot at entrepreneurship to create the multiple streams of income to get out of the doldrums of poverty (Kingdom living, 2018). However, there are also preachers, such as Ubert Angel, who maintain that the factor of the divine can, through prayers, cause money to appear on their phones and in the bank accounts, wallets and purses of pastors, churches and congregants in general (Ubert, 2013). In Ghana, a pastor by the name of Angel Obinim, has resorted to giving lotto numbers to congregants in order to alleviate their financial difficulties so that they may contribute to the financial sustainability of the church (Bishop Obinim ministries, 2017). Members of the International Central Gospel Church (ICGC), during their annual conference in Ghana, were asked to make payments into the bank account of the church for diverse miracles as follows:



**Table 3-2: Money for miracles in International Central Gospel Church**

| <b>Offerings type</b>         | <b>Amount to be paid</b> |
|-------------------------------|--------------------------|
| Millionaire status            | \$5 000                  |
| Seed of a thousand times more | \$1 000                  |
| Seed of completion            | \$520                    |
| 24 hour miracle               | \$240                    |
| 100% life improvement         | \$100                    |
| Seed of perfection            | \$70                     |

Source: Ghanaweb (2017)

Recently in Polokwane, a pastor resorted to lotto staking and became a millionaire overnight after winning fifteen million rand (R15,000,000) which he intended to use to assist the sustenance of his church and congregants (Gous, 2018). Such unconventional strategies used by church leaders highlight that the issue of sustainability, and financial sustainability in particular, should also involve governance, since leaders of Pentecostal-charismatic churches appear willing to employ any means to achieve financial sustainability in their congregations.

### **3.6 GOVERNANCE IN PENTECOSTAL-CHARISMATIC CHURCHES**

Governance as a concept has attracted diverse descriptions because of its impact on both for profit and non-profit organisations. Several definitions of governance are thus available in extant literature. Kaufmann, Kraay and Mastruzzi (2010), in an attempt to develop a worldwide governance indicator framework, broadly defined governance as the traditions and institutions by which authority is exercised. They include, by implication: The processes by which leadership is selected, monitored and replaced, capacity to effectively formulate and implement sound policy, and respect for the institutions that govern social and economic interactions.

Governance, therefore, provides a framework for efficient, transparent and accountable decision-making in every enterprise, regardless of size or ownership, and hence introduces benefits – such as ways of reconciling divergent interests, planning for strategy and succession, accessing capital, and branding or cultivating corporate image – and ensures compliance with statutes and standards. Underlying the roots of corporate governance and providing its moral guide is ethics. Whether at individual or organisational level, and regardless of location or sector, how organisational decisions are made matters from ethical and practical perspectives. “Good” governance introduces a standard, a bar or expectation regarding the notion of governance by imposing preventive and punitive conditions linked to expected standards. Grindle (2008:259-282), after examining notions and the diverse attributions used

to describe good governance, maintains that many such attributions were too prescriptive and raised unrealistic expectations and, therefore, suggested the use of “good enough” governance. This is a set of basic governance standards which are realistic and ensure that organisational goals can be met and sustained. These concepts of governance, good governance and good enough governance, as well as their impact on managing enterprises, have gained close attention among academics and management because of certain developments in for-profit and not-for-profit management, as will be explained further.

Since the global credit crunch, the business sector worldwide has continuously witnessed allegations and evidence of gross misconduct with regard to governance and, particularly, financial practices. Such trends have been witnessed even in organisations that are considered to be watchdogs protecting the public interest. One such example is the two year ban to the PwC audit unit of India by the Regulator of Securities in the early part of this year. The ban resulted from PwC’s disregard of glaring anomalies which allowed Satyam Computer Services to create fraud of \$1.7bn (Munde, 2018).

Gross misconduct in governance is not limited to government or the private sector, but also occurs in NPOs and, particularly, in churches. Churches are now globally, and locally, the source of allegations of corruption. Keller and Owens (2012:2) affirm a rising trend in significant financial fraud in churches, observing that this causes disruptions to church operations, creates distrust amongst congregants and leaders and often leads to church splits.

Keller and Owens (2012:6-7) conducted an interdenominational study of over 12,500 churches in the states of Kansas and Missouri in the US on financial fraud. Participants included Baptists, Methodists, Catholics, Presbyterians and Pentecostal-charismatics, and all reported high levels of fraud in their respective churches. The study revealed that 59% of the churches that had experienced fraud in diverse forms used only one to two personnel to conduct accounting and finance duties. This reflects poor internal controls and segregation of duties as factors which facilitate financial impropriety.

Keller and Owens (2012:10) catalogue financial fraud in churches into three groups, namely, *corruption*, *asset misappropriations* and *fraudulent financial reporting*.

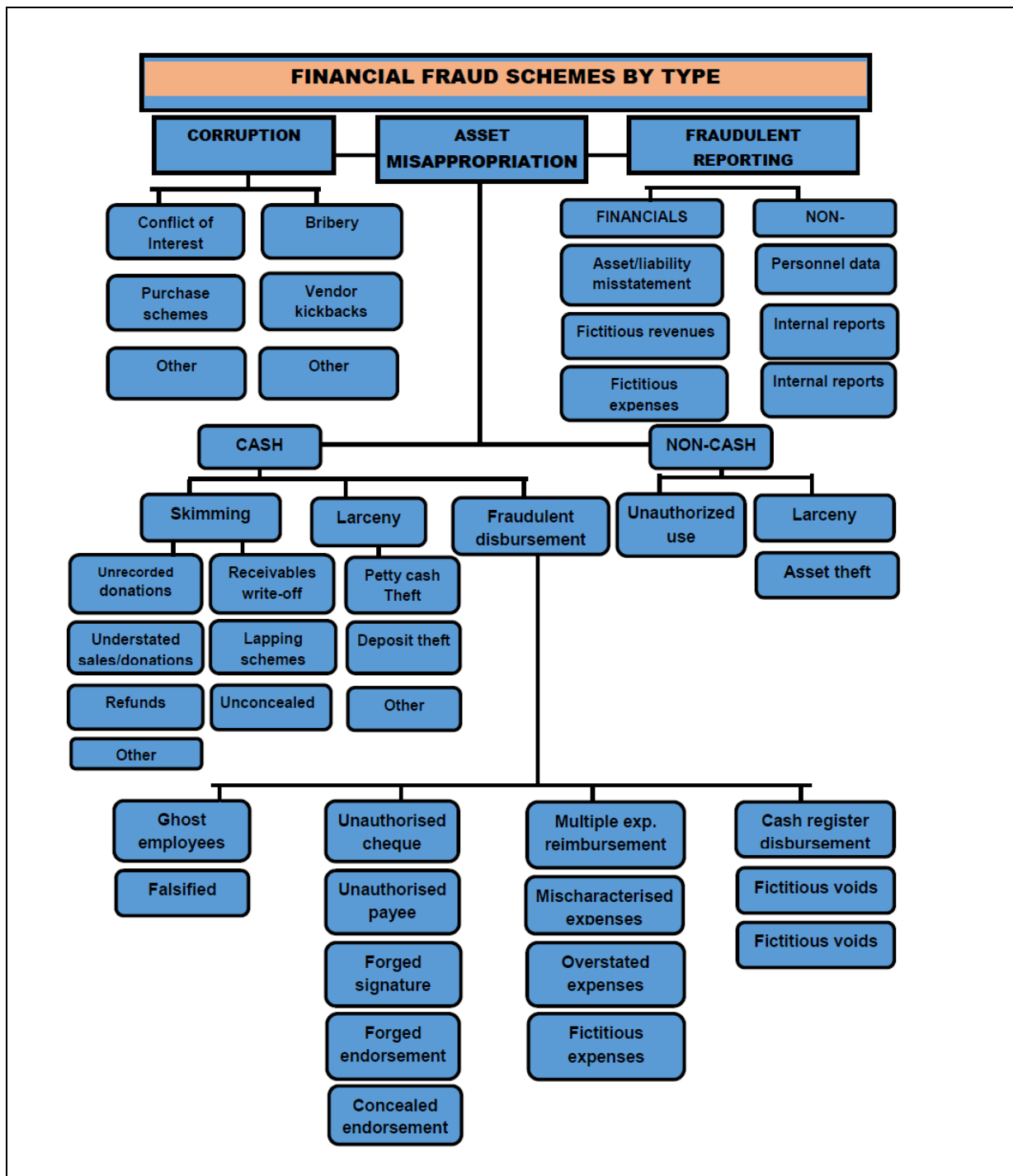
*Corruption*: This is a situation in which undue influence is exerted to the benefit of one party, although such undue influence is in contravention of the duty or rights of another. A clear scenario is manifested when the church contracts to buy goods or services from a related party such as an employee or board member at a price greater than normal market rate.

*Asset misappropriation:* This is the unsanctioned use of non-cash assets, but it does not exclude theft of cash and other cash equivalent resources. This is the most prevalent form of financial fraud in churches.

*Fraudulent financial reporting:* This is a form of fraud in which deliberate untruthful declarations are made in relation to financial statements and compliance with specific requirements regarding sources of funding. A typical example is designated contributions or restricted funds which are used for purposes other than the original intent, but are falsely reported as having been used for the designated intent.

Figure 3-2 below graphically illustrates the three types of financial fraud and their sub-categories in churches.

Figure 3-2: Financial fraud schemes in NPOs



Source: Keller and Ownes (2012)

Such cases, and many more, are also prevalent in the South African context. News reports on unbecoming stories of leaders and pastors of Pentecostal-charismatic occur often. One such report involved the spraying of congregants with Doom insecticide by pastor Lethebo Rabalago of Mountzion General Assembly, a Pentecostal-charismatic church situated in the province of Limpopo. The pastor was found guilty by a court for spraying congregants with this

harmful insecticide (Ramothiswala, 2018). Another example in the community of Pentecostal-charismatic churches in South Africa was the feeding of live snakes, rats and hair to congregants by a pastor in Shoshanguve, a township in the Gauteng province. Such practices of blatant abuse of human rights and dignity have attracted the attention of the law and the public and have raised questions regarding the governing principles of Pentecostal-charismatic churches in South African (Shange, 2015). Recent among unbecoming stories in Pentecostal-charismatic circles is that of sixty-three charges of sexual abuse and rape against the controversial pastor Timothy Omotoso of Jesus Dominion International Church (Nadar, 2018).

The word *charismatic* suggests the kind of influence Pentecostal-charismatic leaders have on their congregants. Charismatic pastors are often called by names such as papa, father and bishop (CRL Rights Commission, 2017:18). Such titles and accolades affirm the extent of power wielded by these pastors. Most of these leaders are responsible for the day-to-day decision making in their churches just as CEOs are in the corporate world, but most of them also seem to be heads of their church boards or councils. This creates a problem of accountability, as most of them seem to have absolute power, and corruption in the end seems inevitable (Johnson, 2015:5).

The many reported, as well as a further plethora of unreported, stories of sexual, financial and emotional abuse in religious circles evokes memories of the Pentecostal charismatic leader Jim Jones. Through his charismatic leadership and emotive messages of an egalitarian society, he was able to persuade thousands of people from different cultural and racial backgrounds to relocate from California to Guyana, where he created a city known as Jonestown. On 8 November 1978, he caused the death of more than nine hundred people by instructing them to drink a portion of cyanide (Latson, 2014). Such historical accounts have recently caused the CRL Rights commission to subpoena religious practitioners for hearings – the table below shows the religions that were called:

**Table 3-3: Religious institutions subpoenaed by CRL Rights Commission**

| <b>RELIGIOUS INSTITUTION</b> | <b>NUMBER SUBPOENAED</b> |
|------------------------------|--------------------------|
| Charismatic churches         | 20                       |
| Pentecostal churches         | 27                       |
| Main line churches           | 11                       |
| Judaisim                     | 2                        |
| Rastafarai                   | 2                        |

|  |           |
|--|-----------|
| African religion                             | 1         |
| African traditional healing and spirituality | 7         |
| Hindu mahasaba                               | 1         |
| Islam  | 1         |
| Bahai  | 1         |
| Nicsa  | 1         |
| Forsa  | 1         |
| <b>Grand total</b>                           | <b>85</b> |

Source: CRL Rights Commission (2017)

Of the 85 religious beliefs summoned, over 68% of them were Christian churches and, of the Christian churches, 85% summoned were Pentecostal-charismatic churches, which accounted for over 55% of the total. This verifies that the primary focus of the CRL Rights Commission was essentially Pentecostal-charismatic churches, probably due to the many negative reports surrounding their activities. In the findings of The CRL Rights Commission (2017:31-32) regarding governance, it was revealed that:

1. Many Pentecostal-charismatic had no documented codes of governance.
2. There were no oversight structures in most of these Pentecostal-charismatic churches.
3. Pentecostal-charismatic churches were mostly dominated by one male figure.
4. The committees of the churches, particularly the ones that handled finances, were constituted of related parties of the dominant male figure.
5. There was no succession plan of leadership which often birthed conflicts amongst potential successors in the absence of the existing or founding leader.

In order to address the problem of balance of power in the corporate world in the South African context, the King report on corporate governance was developed, mainly for entities in the corporate sector (Hendricks & Wyngaard, 2009). Other notable corporate governance codes are the Sarbanes-Oxley Act for the US and the Cadbury Report for the United Kingdom. Goodchild (2016:111-113) notes the debate in scholarly circles about the use of corporate governance codes in the spheres of NPOs. Antagonists assert that these codes are neither desirable nor feasible for NPOs, while protagonists submit that governance cannot be limited to only a particular sector and that all sectors have to be properly controlled. As earlier indicated, the purpose of governance is to provide a framework for efficient, transparent and accountable decision-making in every enterprise regardless of size or ownership, all of which introduces benefits for sustainability.

In response to legitimate arguments regarding corporate governance principles, King IV, which was preceded by King III, was amended to specifically accommodate all sectors, particularly NPOs. In its bid to achieve inclusivity for all sectors, King IV replaced the term “Board” with “Governing body”, in recognition of the fact that not all organisations have boards (Grant Thornton, 2017). The roles of governing boards as indicated in King IV are clearly defined as follows (Grant Thornton, 2017):

- The steering of the organisation and the crafting of strategy, as well as charting the course for approaching and implementing specific issues of governance;
- Approving policy and ensuring that planning gives effect to the approved strategy and direction;
- Oversight role of organisational performance as well as strategy execution by executives; and
- Guaranteeing accountability for organisational performance, through transparent and ethical reporting and disclosure.

In addition, the arguable intricacy of King III, which involved 75 principles stemming from its associated 9 chapters, was simplified in King IV by reducing the principles to 17 with only 5 associated chapters. The first 16 principles are applicable to NPOs, while the 17<sup>th</sup> principle is applicable only to listed entities (Grant Thornton, 2017). The 5 chapters of King IV are as follows (IDoSA, 2016:43-73):

*Leadership, ethics and corporate citizenship:*

1. Governance that promotes effective ethical leadership,
2. Establishment of an ethical culture, and
3. Responsible corporate citizenship.

*Strategy, performance and reporting:*

4. Value creation, and
5. Reporting.

*Governing structures and delegation:*

6. Roles and responsibilities of the governing board,
7. Nature of the governing board,
8. Committees of the governing board,
9. Performance evaluation, and



10. Appointment and delegation to management.

*Governance functional areas:*

11. Risk management,
12. Technology and information,
13. Compliance with applicable laws,
14. Remuneration, and
15. Assurance services and functions.

*Stakeholder relations:*

16. Balance of needs, interest and expectations of stakeholders, and
17. Responsible investments.

The King IV Code of corporate governance is outcome based, meaning that, if the principles of the code are effectively implemented, they may produce four results for organisations, namely: 1) An ethical culture, 2) good performance, 3) effective control, and 4) legitimacy.

To create an environment of good governance and proper parameters to guide the financial management practices of NPOs in the RSA, the NPOs act (71 of 1997) regulates that all registered NPOs, six months after the end of their financial year, must prepare final accounts consisting of income and expenditure. The aim is to determine the revenue and spending for the financial period and a statement of financial position to indicate the monetary values of assets, liabilities and equity at the end of every financial period. The NPOs act (1997) further states that two months after the preparation of the accounts, the accounting officer of the NPO must submit the accounts to the organisation – which is actually made up of its members – for members to ascertain:

1. If the statements reflect a true and fair view of transactions that occurred in the period,
2. The basis of presentation of the financial statements, and
3. If the NPO is complying with its legal obligations.

All the above financial statements, including the notes to the statements prepared by an accounting officer of an NPO, must also be sent to the director of NPOs nine months after the end of the financial year (NPOs act 71 of 1997). The Department of Social Development (2008) reiterates that good governance structures in NPOs help to build good reputations by putting in place governance that: 1) protects the reputation of NPOs, 2) protects the interest of the beneficiaries, and 3) instils a sense of confidence in current donors and potential donors.

### **3.7 SUMMARY**

This chapter addressed the second secondary objective, as set out in chapter 1 (refer to page 7), of reviewing existing literature on financial management practices and sustainability in relation to NPOs. The concept of NPOs was described by highlighting the history and purpose of NPOs. The idea of Pentecostal-charismatic churches being classified as NPOs was also delved into and the community of Pentecostal-charismatic churches was described.

The following section defines the concept of sustainability and financial sustainability and highlights the need for effective financial management practices in NPOs. The literature illustrated some of the controversial methods used by Pentecostal-charismatic churches in raising funds globally, and particularly in South Africa. The public outcry against religious practices which made Pentecostal charismatic churches in South Africa the primary object of the investigations by the CRL Rights Commission was also discussed.

Governance and governance practices which underpin the management of an organisation were also explored in order to establish the role played by good governance regarding sustainability, in particular the role played by proper financial practices.

The next chapter will present the empirical study.

## **CHAPTER 4**

### **4 EMPIRICAL STUDY**

#### **4.1 INTRODUCTION**

This chapter presents the fieldwork of empirically gathering evidence on the financial management practices of Pentecostal-charismatic churches. The objective of the chapter is to fulfil the third secondary objective of the study as set out in Chapter 1 (refer to page 7), in support of the main objective of the study which is to explore the financial management practices of Pentecostal-charismatic churches. This objective will be concluded in the next chapter in which the financial practices explored will be evaluated to determine how these practices impact on the sustainability of NPOs.

As presented in chapter 2 (refer to paragraph 2.7, page 19), qualitative data were collected by conducting semi-structured interviews following a multiple case study approach. Three churches in the Mangaung district of Bloemfontein were chosen by reason of their availability and willingness to participate in the study. For the purposes of confidentiality, the churches are referred to as Church A, Church B and Church C respectively.

#### **4.2 INTERVIEW SCHEDULE USED DURING SEMI-STRUCTURED INTERVIEWS**

In the semi-structured interviews, a newly-developed interview schedule (refer to Annexure A, page 91) was used during the interviews to completed the face-to-face interviews (refer to chapter 2, paragraph 2.9, page 21). The interview schedule was developed from the literature review conducted in chapter 3 and consists of 13 sections, namely: 1) demographic information of interviewee, 2) overview of the church, 3) the church governing body, 4) appointment and dismissal processes, 5) financial practices, 6) working capital management, 7) performance assessment, 8) remuneration structure, 9) reporting and financial statements, 10) audit requirements, 11) risk management process, 12) financial sustainability, and 13) communication to stakeholders.

The results of the qualitative data collected at each church will now be presented.

#### **4.3 INTRODUCTION AND OVERVIEW OF CHURCH A (Theme B)**

Church A is a multinational church with establishments in over 90 countries across Africa, North and South America, Australia, Europe and Asia. In South Africa, Church A was first established in the Eastern Cape Province in the year 1990 and subsequently registered as an

NPO. The church has since grown and established branches in the provinces of Limpopo, KwaZulu Natal, the Western Cape, Mpumalanga and the Free State.

The first branch of Church A in Bloemfontein was established in the year 2008 and operates as an NPO under the licence of their National office in Gauteng. The church has the following as its core beliefs, which are in harmony with the postulation of Lederle (1989:164):

- The Bible,
- The one true God,
- The Saviour Jesus Christ,
- Repentance, regeneration, justification and sanctification,
- The depraved nature of humans,
- Divine healing,
- Tithes and offerings,
- Baptism, gifts and fruits of the Holy Spirit,
- Sacraments of baptism and the Lord's supper, and
- The eminent return of Jesus Christ and life after death.

The individual units of the church that come together to form the collective is known as an "assembly", also known in other Pentecostal-charismatic circles as a branch. The term assembly will be used in the context of Church A. There are many assemblies of this multinational church in Bloemfontein, but only one assembly of Church A was used in the study because of the limitations of time and financial resources – this assembly will be referred to as Church A. To become a member of Church A, a person must believe in Jesus and be baptised by immersion. There are currently 208 members in Church A, but Sunday attendance averages 180 congregants. The head pastor of Church A has a degree in theology and mathematics and is currently undertaking a master's degree in mathematics. He is a full-time employee of the church and neither he nor his wife pursue any other economic activity – this is the norm for all pastors employed by Church A around the world.

#### **4.3.1 The church governing board (Theme C)**

There is a formal governing structure in Church A, known as the executive committee, which is composed as follows:

**Table 4-1: Governing body of Church A**

| <b>Position in the church</b> | <b>Position on the governing body</b> |
|-------------------------------|---------------------------------------|
| The pastor                    | Chairperson                           |
| Presiding elder               | Deputy chairperson                    |
| Church member                 | Secretary                             |
| Elder                         | Financial secretary                   |
| Elder                         | Member                                |
| Elder                         | Member                                |
| Deacon                        | Member                                |

The pastor has no opinion on the number of people that should constitute a governing body because the head office of the church has determined this. Of the seven members of the executive committee, only the pastor is a paid member and his salary comes from the head office, not from the bank account of Church A.

A member on the executive committee serves a term of five years and a maximum of two terms can be served on the committee. The head of the executive committee is the pastor. Training is provided annually to both old and new members of the committee, primarily on the doctrine of the church. However, no training is provided on management and administration of the church. Meetings are called at the will of the pastor since there are no scheduled dates for meetings and the agenda is communicated to the secretary and sent out to the members of the committee.

The purpose of the executive committee is therefore:

1. Planning of the church calendar,
2. Planning of expenditure, and
3. Oversight of other smaller assemblies of Church A in Bloemfontein.

There is no treasurer in Church A, or someone who has the sole responsibility of physically handling money. This duty is performed by a group of people known as the finance team and the financial secretary is part of this team. There is a financial secretary whose highest qualification is an A-level in accounting. The role of the financial secretary in theory is to disburse funds, prepare monthly receipts and payments for Church A and the head office of Church A. The receipts and expenditure account, in the opinion of the governing board, is deemed to be the annual financial statements.

There is a secretary on the board (refer to Table 4-1 above) whose basic responsibility is to inform members about upcoming meetings and the agenda of those meetings, and also to take minutes during executive meetings. The highest qualification of the secretary is an honours degree in Biochemistry. Her first term as financial secretary comes to an end this year. The church has a constitution and the congregants are educated on the enactments of the constitution when they join the church. The senior pastor is responsible for educating and enforcing the enactments of the constitution. Upon a congregant's failure to abide by the enactments of the constitution, the member may be served with a written warning, followed by suspension and finally excommunication, if a member continues to be obstinate.

#### **4.3.2 Appointment and dismissal process (Theme D)**

The main criterion to be a member of the board is to be a baptised member of the church. This is followed by other peripheral criteria such as the number of years spent as member of the church and the commitment level of a person to the church. Membership to the executive committee is strictly by election. When there is a vacancy on the executive committee, a candidate who is a baptised member of the church is nominated by a member or members of the executive committee. Another member of the executive committee then has to second the nomination. Finally, votes are cast by members of the executive committee. When there is a single nomination for a position, the candidate must have a majority of the executive committee members' votes, but when there are multiple nominations, the nominee with most votes is elected to the position on the executive committee. Having been elected to the executive committee, the new member goes through a process of initiation by being presented to the congregation at a Sunday service and prayed for after which the pastor alone educates him or her about his responsibilities as a board member.

The dismissal of a board member follows a similar process to the dismissal of a church member. The board member is first served with verbal warnings followed by written warnings for whatever the offence may be. If the status quo remains, suspension will follow and finally dismissal as a board member, which can also lead to excommunication from the church. This process is not applicable to the head of the executive committee in the person of the pastor, since his appointment, transfer and dismissal is dealt with by the head office of Church A and therefore beyond the jurisdiction of the executive committee.

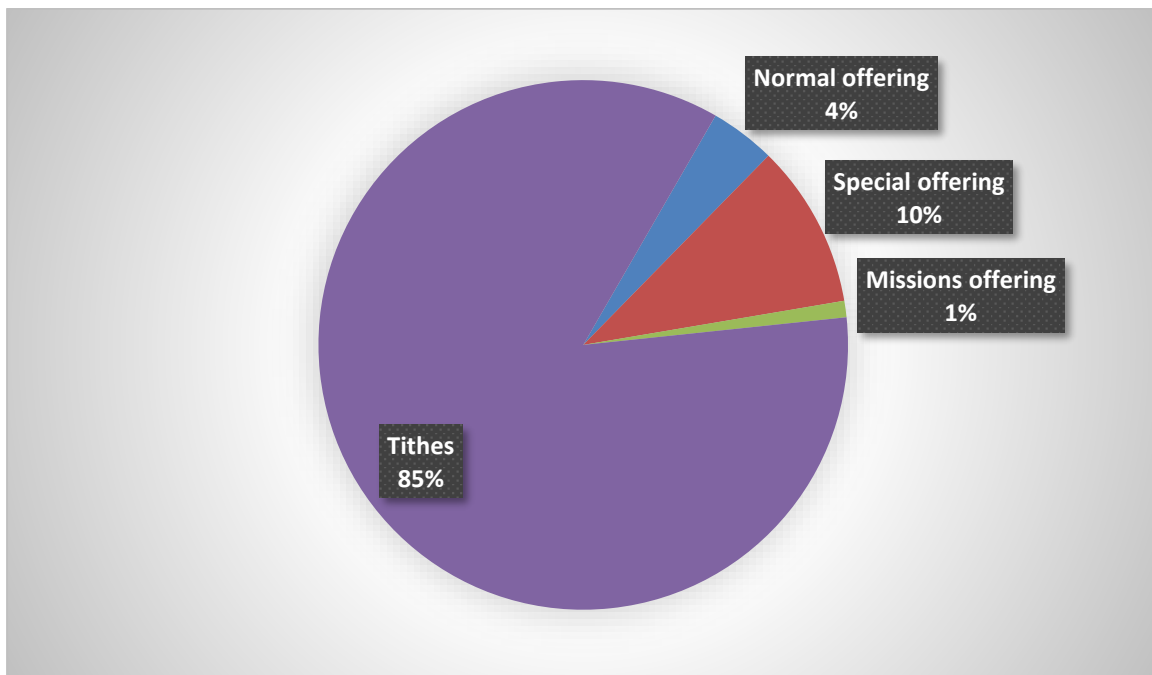
### 4.3.3 Financial practices (Theme E)

The sources of funds available to Church A and their percentage distribution is exhibited in Figure 4-1. The practices of Church A pertaining to raising of funds and safeguarding of funds are discussed below.

#### *Raising and receiving of funds*

There are monthly financial targets set for the pastor in charge of Church A which must be met. These monthly targets are set by the head office in Johannesburg and culminate in annual targets. The targets are met through tithes and offerings. There are different types of offerings, described as *normal/main* offerings, *special* offerings and *missions'* offerings. The majority of congregants in the church are migrant private business owners and therefore the first and last weeks of the calendar month see very poor attendance. This is reflected in lower amounts of tithes and offerings received, since most of the congregants attend to their private businesses during the first and last weeks of the month. This negative trend in church attendance, which adversely affects tithes in particular, has been very difficult to reverse. This is because offerings and tithe contributions to the church are by means of physical cash. There are no speed point machines, phone applications or any other electronic means of making contributions available during church services; nor are congregants encouraged to link their personal accounts to the bank accounts of the church to allow them to make their tithes and offerings contributions even when they are not in church.

**Figure 4-1: Funding sources in Church A**



Apart from tithes, the funding sources of Church A comprise: special offerings, normal offerings and missions' offerings. Church A enjoys a considerable amount of support through voluntary participation of congregants. This, however, is difficult to quantify in monetary terms. Table 4-2 below shows the average number of congregants who work for the wellbeing of the church through their voluntary donation of time and skills on an average Sunday.

**Table 4-2: Implicit funding sources in Church A**

| Average number per Sunday service | Voluntary activity performed |
|-----------------------------------|------------------------------|
| 1                                 | Keyboardist                  |
| 1                                 | Drummer                      |
| 1                                 | Lead singer                  |
| 4                                 | Backup singers               |
| 6                                 | Ushers                       |
| 2                                 | Children's' service teachers |
| 1                                 | Guitar player                |

Although these voluntary services may not bring explicit financial contribution to the church, they are arguably over and above the tithes and offerings of congregants.

*Safeguarding of funds*

Funds are safeguarded in Church A by a finance team of 7 people as set out below:

**Table 4-3: Finance team of Church A**

| Designation in the team | Educational qualifications      | Responsibilities                        |
|-------------------------|---------------------------------|---|
| Financial secretary     | Grade 12                        | Drawing financial statements            |
| Money depositor         | Degree in Public Administration | Depositing of cash                      |
| Money depositor         | Secondary school                | Depositing of cash                      |
| First record keeper     | Honours degree in Economics     | Recording of cash receipts and payments |
| Second record keeper    | Grade 12                        | Recording of cash receipts and payments |



|                      |                               |                  |
|----------------------|-------------------------------|------------------|
| First money counter  | Diploma in Tourism Management | Counting of cash |
| Second money counter | Unknown                       | Counting of cash |

Their duties and responsibilities are as follows:

1. Counting of cash,
2. Depositing of cash,
3. Disbursement of funds, and
4. Recording and keeping of financial records.

Each of these duties and responsibilities will now be discussed.

#### *Counting of cash*

After the tithes and offerings are received, the cash is taken to a private room and all members of the finance team, with the exception of the finance secretary, are allocated different collections from normal offerings, special offerings and tithes for them to count. After counting, at least two other people will have to cross check to verify the accuracy of the money counted. The members of the team categorise the physical cash according to denominations of R50, R100 or R200 notes after which the record keepers make a manual entry of the money collected and counted in a notebook. All the members of the finance team record their signatures on the same page where the record keepers made an entry as evidence of the amount received and counted. There is supposed to be a change of the people who count money every three months, but currently 4 out of the 7 members have been doing the same work for the last two years and have not been changed.

#### *Depositing of cash*

After the six people have counted the cash, it is handed over to two other people within the same team who are responsible for depositing the cash. They have a maximum of 3 days to deposit the cash. Before the cash is deposited, it is stored in their private custody until it is finally deposited. The deposit slips are given to the financial secretary and kept in a file which has no labelling either by date or by type of source document.

#### *Disbursement of funds*

Funds are utilised according to guidelines issued by the national head office of Church A in Johannesburg. According to the national guidelines, the missions' offerings is to be deposited directly into the bank account of the national office, and so are the tithes. Before the tithes are

deposited, Church A is allowed to deduct the monthly rent expense to reduce the financial challenges they may face. The normal offerings are for operational expenses such as lighting and heating, water, cleaning, transportation, repairs and maintenance. Special offerings are to meet capital expenditure such as purchasing of furniture, musical instruments, sound equipment and other non-current assets. Bigger capital expenditures, such as land and buildings, are sure to receive financial support from the head office, but so far Church A has not embarked on any such project. They are still renting premises located in the central business district of Mangaung.

Disbursements are done using either: 1) cash, 2) cheques, or 3) electronic payments. When the church is considering purchasing an item, the pastor or the person he will appoint, usually the financial secretary, searches for the best price for a specific product or service they seek to buy. It is not a requirement to be supported by a quotation – word of mouth is also acceptable as evidence, because of trust in the context of church. After the best price has been agreed upon, a decision is made by the pastor, together with the executive committee of Church A (refer to Table 4-1) for the payment to be authorised. The main factor influencing one source of supplier over another is the price of the product or service. Electronic payments are made by the financial secretary from his personal computer or cell phone, and cash payments are also made by him. Cheque payments are signed by the financial secretary, the pastor and one other member of the executive committee. The cheque is cashed by either the financial secretary or the pastor and is then used as a cash payment as most businesses are unwilling to take cheques.

#### *Recording and keeping financial records*

There has never been any recorded incidence of asset misappropriation, corruption and misrepresentation of records, as the participants of the interview answered “never” to all cases and categories of fraud.

#### **4.3.4 Working capital management (Theme F)**

The church keeps no accounts payable or receivables. All items bought or services received are settled immediately. There are no budgets in place to guide the church on its expected revenues and expenses. However, the church has a fair idea of recurring expenditure such as rental expense, water, heating and electricity. Budget shortfalls do often occur as programmes run by the church tend first to be scheduled and only then funded by contributions requested from church members. Budget shortfalls are thus funded by asking for further donations from church members – the church has no emergency funds or overdraft facility. There is no review

of revenues received and expenses incurred to determine whether wasteful expenditure happens.

#### **4.3.5 Performance assessment (Theme G)**

There are no mechanisms to assess the performance of board members or the pastor of the church. This is mainly because none of the board members are paid by Church A and they volunteer to become board members without any compensation. They are allowed to serve their term irrespective of their performance, unless they are in breach of the constitution of the church. The pastor is the only paid member on the board and his salary is paid by the head office and not directly from the bank account of Church A.

#### **4.3.6 Remuneration structure (Theme H)**

There are no remuneration structures in Church A, since all congregants volunteer their time and service without compensation (refer to Table 4-2).

#### **4.3.7 Financial record, financial statements and reporting (Theme I)**

All financial information is recorded manually, there are no bookkeeping or accounting systems used. There is only one book used for recording of financial information of receipts of cash and payments of cash. The book is not divided into two halves for income and expenditure, but rather transactions are entered chronologically as they occur. In the same book, the team that counts and records cash record their signatures. The book is not kept with any particular person, since it moves between the financial secretary and the different members of the team that count money. At the end of the month the financial secretary has a template provided by the head office, which he uses to reconcile the electronic transactions on the bank statement and the cash transactions recorded in the book, a similitude of a bank reconciliation statement.

The only final accounts that are prepared in Church A are a summary of receipts and payments and the bank reconciliation statement. The receipts and payments are captured as individual accounts, while the bank reconciliation statements are prepared by the financial secretary and made available to the executive committee and the national office on a monthly basis through the pastor. There is no comparison done to benchmark financial statements against those of sister churches.

#### **4.3.8 Audit requirements (Theme J)**

Annually, before the executive committee of Church A reports on the financial state of the affairs to the church, an audit team is sent from the head office to undertake a form of internal audit process. The qualifications of the team are unknown to Church A because they are sent from the head office. The main purpose of the internal audit process is to verify if actual income and expenditure truly reflect the statements prepared by the financial secretary and reported monthly to the head office through the pastor of Church A. An external audit has never been conducted.

#### **4.3.9 Risk management process (Theme K)**

There is no formal system to identify risk in Church A. It appeared that a focus on risk indicates a lack of faith in the providential ability of the divine. The only risk of concern is a decrease in contributions of members in the form of tithes and offerings.

#### **4.3.10 Financial sustainability (Theme L)**

The sources of income and their composition regarding the total funds available is exhibited in Figure 4-1. All the funding sources were from the members of Church A.

#### **4.3.11 Communication to stakeholders (Theme M)**

The internal financial affairs of the church are made available to church members as the executive committee deems fit throughout the year. However, annual church gatherings and reporting on financial matters to the entire congregation are compulsory, as per the instruction of Church A's head office. The church members are regarded as the most important members of the church and, therefore, all members are informed of the financial status quo at least once a year during the annual general meeting of the church. Whether reporting to the director of NPOs at the end of a financial year was done could not be confirmed (refer to the requirement as stipulated in chapter 3, page 29). If there was a report submitted to the director of NPOs, it had to be done through the head office.

### **4.4 INTRODUCTION AND BACKGROUND TO CHURCH B (Theme B)**

Church B has been in existence for twelve years in the central business district of Bloemfontein and is registered as an NPO under the NPO act. The church has a membership size of three hundred congregants with regular Sunday attendance being the same. Church B is the headquarters for all other branches in the country. There are three other branches in the Free

State province. There are also three branches in the Eastern Cape Province with an average congregation size of fifty members. The head pastor of Church B is both the leader and founder of all the branches around the country. The mission statement of Church B is “Transforming people, building nations and changing the world through the word” and the vision is ‘Empowering God’s people and advancing the kingdom of God’.

#### **4.4.1 The church governing board (Theme C)**

The formal structure for governance in this church is known as the council of elders. It is constituted of ten members and it is believed to be an adequate number with the following as their designations:

1. Senior pastor
2. Chairman
3. Treasurer (Head of finance department)
4. Chief financial officer
5. Head of compliance
6. Women’s representative
7. Youth representative
8. Contributing member
9. Secretary
10. Ministry director

The main reasons for the existence of the council of elders are enumerated as:

1. Oversight duties,
2. Pastoral, and
3. Management.

None of the members of the council of elders are on the payroll of the church, which makes all of them volunteers. There is no term of office for serving on the council of elders in Church B. The council of elders meets quarterly and agendas are communicated to the members of the council of elders before meetings are conducted. The agenda, as set by the senior pastor, is communicated to the members of the council of elders by the secretary. The chairman of the council of elders chairs these quarterly meetings of this highest decision-making body in Church B, and not the senior pastor, even though the senior pastor is the highest official on the organogram of the church. All major decisions are not taken by the council of elders, but

by the senior pastor and his wife, due to a policy in the church known as the “one voice policy”. This policy makes the council of elders and its meeting of very little significance.

There is a treasurer who is assigned the title of head of finance and there is also a Chief Financial Officer (CFO) who is the wife of the senior pastor. The treasurer is a teacher by profession and the CFO has a degree in agriculture, neither having any finance nor accounting background. The powers and responsibilities of the CFO and the treasurer are very difficult to distinguish. There is no one with the title of financial secretary on the council of elders. There is a general secretary on the council of elders and his qualifications are not known. The general secretary is responsible for communicating the agenda of meetings ahead of time to the council of elders and the taking of minutes. The scheduled time for council meetings is once a quarter, apart from emergency meetings.

The church has a constitution, although most of the church members have no idea about the enactments of the church constitution because it is hardly mentioned or referred to. Apart from the Christian principles which are generic to all churches, enactments peculiar to Church B can hardly be breached, because congregants are never educated about the constitution. To become a member of this church, a person simply has to fill in a standardised membership form and go through a membership class which takes three weeks to complete.

#### **4.4.2 Appointment and dismissal process (Theme D)**

All members of the council of elders and any other position in the church are filled by appointment at the sole discretion of the senior pastor, as is the dismissal of council of elder members or any other role players in the church.

#### **4.4.3 Financial practices (Theme E)**

The sources of funds in Church B and its distribution in percentage terms are shown in Figure 4-2. The church keeps a reserve of 10% of all income it receives as “rainy day” funds. The financial practices with regards to the raising and receiving of funds and the safeguarding of funds are discussed below.

##### *Raising and receiving of funds*

Church B has four bank accounts, namely:

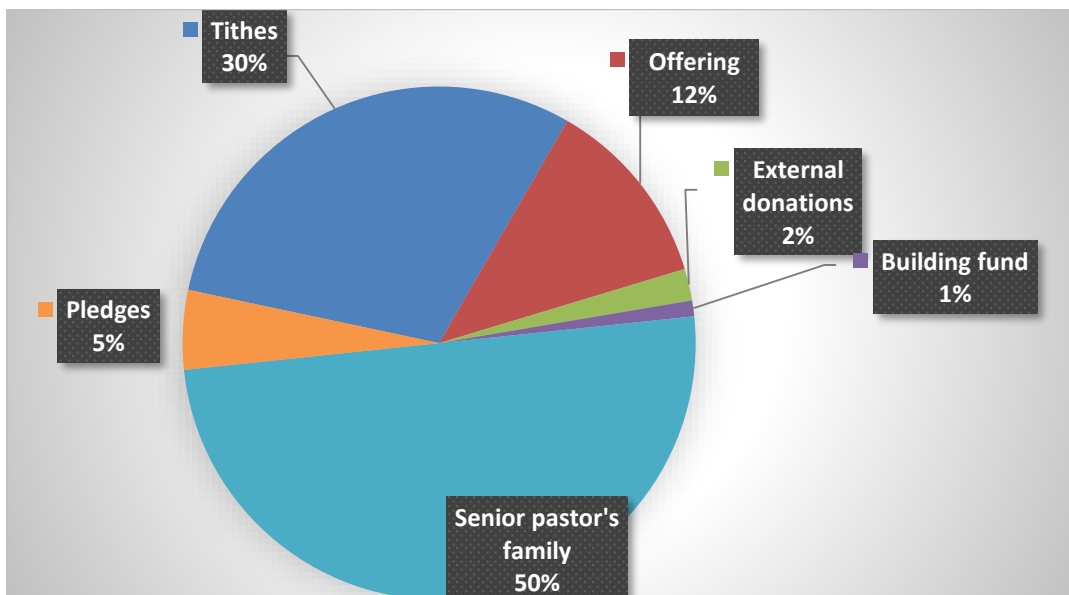
1. Outreach account,
2. Bursary fund account,
3. Building account, and

4. Main account.

These accounts are used to manage cash inflows from the following sources:

1. Offerings,
2. Pledges,
3. Tithes,
4. External donations,
5. Senior pastor,
6. Bookshop, and
7. Building fund.

**Figure 4-2: Funding sources in Church B**



These funding sources in Church B (refer to Figure 4-2) represent the monetary contributions from congregants. However, many congregants volunteer their time to serve the Church and its members. In Church B, an average Sunday service will consist of “non-monetary” contributions by the volunteers – these are reflected in **Error! Reference source not found.** below:

**Table 4-4: Non-monetary contributions of running a Sunday service in Church B**

| <b>Number</b> | <b>Volunteers</b> |
|---------------|-------------------|
| 2             | Keyboardist       |
| 1             | Percussionist     |
| 2             | Guitarist         |
| 2             | Lead vocalist     |
| 15            | Backup singers    |
| 10            | Ushers            |
| 3             | Media crew        |
| 6             | Pastors           |

### ***Tithes and offerings***

Tithes and offerings, constituting 30% of funds in Church B (refer to Figure 4-2), is given a high priority during church services, particularly on a Sunday. This associated importance placed on tithes and offerings is not only because of the high percentage of revenue they bring, but also because they represent the most consistent cash flows. Offerings are donated in every service held by the church, but tithes are received usually on Sundays. Before tithes and offerings are received from congregants, a pastor will often mount the dais and stir the congregants up to give to the coffers of Church B by reiterating all the associated transcendental benefits associated with giving to the church. Envelopes designed specifically for tithes are distributed to congregants who have their tithes as physical cash on them. A basket is passed around to receive both the offerings and the tithes. The tithers are called to the front of the church and they are prayed for by the senior pastor.

### ***Pledges***

Pledges, which represent 5% (refer to Figure 4-2) of total funding in Church B, are made usually for the purposes of a women's conference, an annual conference and covering of budget short falls. For conferences, an announcement is made in advance about: 1) the date when the senior pastor will ask people to make pledges, 2) the purpose of the pledges, and 3) the expected amount to be raised from pledges. On the said date, congregants rise up and mention the amount of money they are willing to contribute to the total expected budget. People from the finance team of the church circulate with pen and paper and write down the name, phone numbers and the amount an individual is pledging. The total amounts pledged



are added together to ascertain the amount still outstanding, so that congregants may continue to pledge until their verbal commitments reach the targeted amount.

Congregants who have committed themselves in the form of pledges are given a deadline to redeem their pledges. Members of the finance team follow up by means of WhatsApp messenger, phone calls and short message services (sms) to remind them to redeem their pledges. Although congregants are quick to verbally commit to give a particular amount, over 40% of pledges are not redeemed. This creates severe deficits which are often funded by the senior pastor cutting down, for example, on the proposed number of speakers at a conference and/or cutting down on honorariums of speakers.

### *Safeguarding of funds*

Safeguarding of funds in Church B consists primarily in conducting the following activities:

1. Counting of cash,
2. Depositing of all cash, and
3. Disbursement of funds.

All the above activities are done through a finance team in Church B which is constituted of five members all appointed by the senior pastor. Their designations, educational qualifications, as well as roles are as follows:

**Table 4-5: Finance team of Church B**

| <b>Designation</b>      | <b>Educational qualifications</b> | <b>Responsibilities</b>    |
|-------------------------|-----------------------------------|----------------------------|
| Treasurer               | Diploma in education              | Team leader                |
| Chief financial officer | Diploma In agriculture            | Disbursement of funds      |
| Compliance officer      | Unknown                           | Enforcing finance policies |
| Member                  | LLB                               | Not defined                |
| Member                  | Unknown                           | Recording transactions     |

### *Counting of cash*

All cash receipts, usually in the form of tithes and offerings are taken to a private room to be counted by three people from the finance team. The first person counts the cash, while the other two also count in order to confirm that the amount is accurate. The total cash amount is then recorded in a file designated for cash receipts and signed by the three parties who counted the cash.

### *Depositing of cash*

It is the practice of Church B to bank all cash received immediately after counting at the nearest Automated Teller Machine (ATM). This is done by one person from the finance team accompanied by another person, usually a male figure from the security team for the purposes of safety. The deposit slip is given to the CFO and kept in a file earmarked for cash deposits.

### *Disbursement of funds*

Church B does not keep physical cash for any expenses, not even petty cash. For all expenses below a R1000, Church B uses a bank card to withdraw cash if a card is not accepted, or uses the bank card itself to make the payment. For all expenses above R1000, such as payment of rent, salaries and honorariums, EFT payments are done through cell phone banking on the personal cell phone of the CFO. Procurement of equipment, furniture and other assets or supplies requires obtaining a requisition form from the CFO and three quotations. The best quotation, usually based on price, is decided upon by the treasurer and the CFO. The CFO, after this agreement, transfers the required amount to the supplier using an EFT payment via cell phone banking. No cheques are used for payments in Church B.

#### **4.4.4 Working capital management (Theme F)**

The church keeps no accounts receivables or accounts payables, as all purchases are settled immediately. As is the case with Church A, there are no budgets compiled to facilitate proper planning. Conference dates are not planned at the beginning of the year and accompanying expenses such as the number of pastors to be invited and the honorarium amounts to be paid to guest preachers are not set. Funds are requested from congregants between a week and a month before conferences and other programmes. The absence of cash flow and operational budgets causes cash shortfalls, resulting in failure to meet recurring expenditure such as rent and the salary of the only employee of the church, a pastor with the job title of office manager. Shortfalls of cash to meet expenses are funded by requesting donations from church members who pledge, but as mentioned before only 60% redeem their pledges. The senior pastor and his wife fund deficits from their private resources when congregants are unable to meet the expenses in full or do not redeem their pledges. The shortage of cash is a constant occurrence in Church B.

#### **4.4.5 Performance assessment and remuneration structure (Theme G and H)**

There is no performance assessment for members of the council of elders since they serve as volunteers. Church B has a full-time employee in the form of a pastor with the job title of

office manager. There is no mechanism for assessing the office manager of the church since he does not have a job description. The remuneration of the office manager is at the discretion of the senior pastor.

#### **4.4.6 Financial records, financial statements and reporting (Theme I)**

The church has a file in which it keeps all source documents, such as receipts, invoices and quotations. The file is not organised so as to be able to easily find source documents by dates or categories. There is one book in which all income and expenses are recorded. The book is kept at the office of the church and sometimes in the house of the individual who does the record keeping. No particular attention is paid to bank statements to cross check them against the cash book in order to prepare monthly bank reconciliation statements. Online banking information is used to ascertain how much revenue has come into the account from people who made pledges and also whether there are enough funds to meet expenses.

#### **4.4.7 Audit requirements (Theme J)**

There is no internal or external audit processes in Church B. There have been attempts by the senior pastor to appoint an external auditor, but this did not come to fruition because the auditor generally has to focus on larger clients. There was no reason given as to why there is no internal audit process or attempts made to appoint a smaller audit firm to audit the church.

#### **4.4.8 Risk management process (Theme K)**

There is no risk management process at Church B or any mechanism for the assessment of risks. The only risk which seemed to be of concern was anything that could threaten the decrease in the contribution of tithes and offerings from church members.

#### **4.4.9 Financial sustainability - (Theme L)**

The percentage income generation sources as well as their distribution in Church B is represented in Figure 4-2. It is believed that the church can survive even in the absence of contributions from the senior pastor, which make up 50% of the income generated by Church B.

#### **4.4.10 Communication to stakeholders (Theme M)**

The legislative requirement of the NPO act (71 of 1997) on communicating to stakeholders is not known to the council of elders of Church B. The only annual financial statement prepared

by the CFO and one other team member is cash receipts and payments with no additional notes or disclosures. There is no statement of financial position prepared as required by the NPO act (71 of 1997). This receipts and payments account is given to the senior pastor and he in turn shares it only with the council of elders. Although the members of the church are deemed as very important stakeholders who contribute to the sustainability of Church B, they are never informed about the financial affairs of the church.

#### **4.5 INTRODUCTION AND BACKGROUND TO CHURCH C (Theme B)**

Church C was formed in August 2016 and is registered as an NPO. The leader and founder is a pastor who has been in the pastoral field for nearly 16 years. Both he and his wife are civil servants, i.e. they work for the government on a full-time basis. Pastoring the church is therefore a part time activity which they undertake mostly during weekends. The church has one other branch located in Thabanchu, a town about 60 kilometres from Bloemfontein. As it is a relatively young church, the membership of the church is around 20 congregants and the average Sunday attendance is around 30 congregants with children included.

Church services are held in a conference facility of a lodge some two kilometres outside the central business district of Bloemfontein. The vision of the church is "healing the nation, reconciling the world with God through Jesus Christ" and the mission is "to save the lost, heal the sick, set captives free, disciple and equip believers to enhance the Kingdom of God through the uncompromised word".

To become a member of Church C, a person simply fills in a membership form and submits it to one of the ushers in the church who hands it over to the pastor. There is no membership class presented to new members and new members are therefore not introduced to the constitution of the church at the onset. This is mainly because the pastor and his wife are the main pillars of the church and are employed full-time. On weekends, services are held for a maximum of three hours from half past nine in the morning until half past twelve. Consequently, there is a lack of available time for initiation or membership classes in Church C. Members, both old and new, are taken through the constitution of the church once a year.

##### **4.5.1 The church governing board (Theme C)**

For the past two years since its establishment, no formal governance structure has been formed in Church C. Decisions are made primarily by the pastor and his wife. An ad hoc committee has newly been formed to assist with decision making; it comprises of members who have volunteered, as the size of the congregation is still small. There is no formal name

for this ad hoc governing structure. Table 4-6 below describes the current ad hoc governing body in Church C.

**Table 4-6: Ad-hoc governing structure of Church C**

| <b>Responsibility in the church</b> | <b>Educational qualification</b> | <b>Responsibility on the governing body</b> |
|-------------------------------------|----------------------------------|---|
| Pastor (Leader and founder)         | Degree in management accounting  | Chairperson                                 |
| Pastor (Pastor's wife)              | Honours in education             | Finance                                     |
| Usher                               | Grade 12                         | Member                                      |
| Usher                               | Grade 12                         | Member                                      |
| Admin officer                       | Post graduate degree             | Secretary                                   |

#### **4.5.2 Appointment and dismissal process (Theme D)**

As mentioned before, all the people on the ad hoc committee are volunteers of the church and are given no monetary reward for their services. This lack of financial compensation combined with the small number of congregants at Church C makes dismissal of an ad hoc committee member or congregant very difficult. Minutes of meetings are taken by the administration officer of the church who is also responsible for communicating the agenda to members of the ad hoc governing structure in advance. The agenda for meetings is set by the senior pastor and meetings are also chaired by him. Meetings of the ad hoc governing body are held every quarter.

#### **4.5.3 Financial practices (Theme E)**

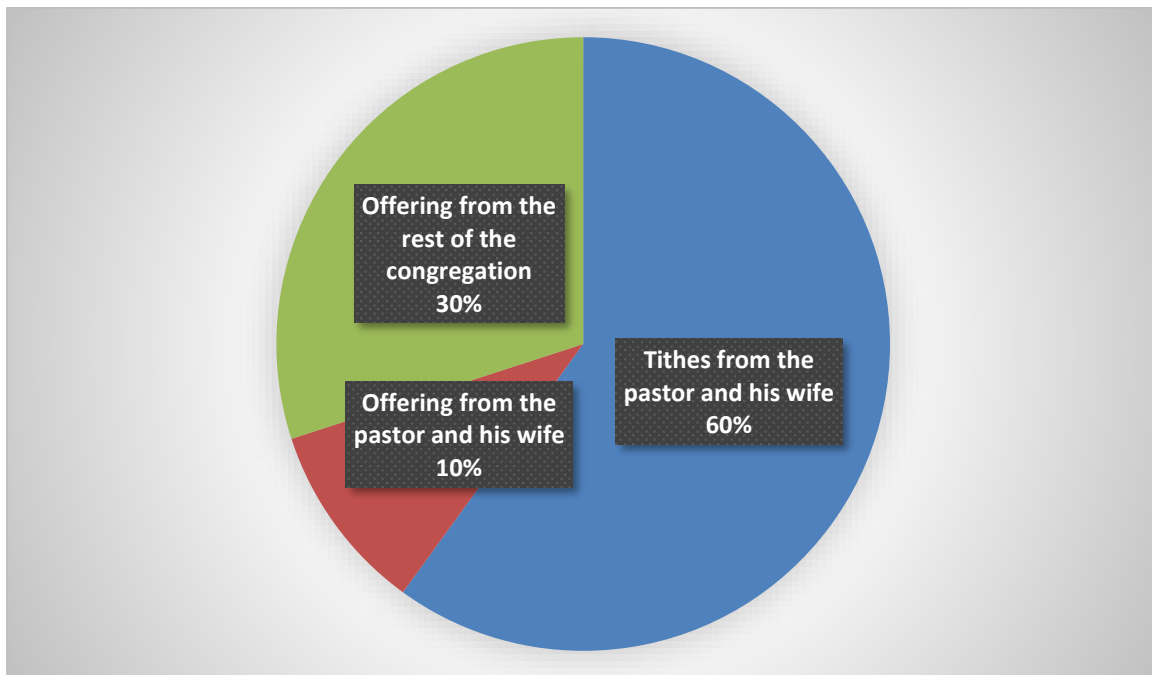
The sources of funds available to Church C and their percentage distribution is represented in Figure 4-3. Because of the small income of the church, no amount is set aside from funds received as “rainy day” funds. The practices of Church C pertaining to raising of funds and safeguarding of funds are discussed below.

##### *Raising and receiving of funds*

Church C operates one bank account. Sources of funds are primarily tithes and offerings. Only the senior pastor and his wife pay tithes in the church. This is due to the fact that the church is still very young and the message of giving to the church through tithes has not yet resonated among the few congregants. There are times congregants make commitments to give to the

church voluntarily for a particular cause, but most of the time such commitments, termed as pledges, are not redeemed and can therefore not be classified as sources of funds. There is no other source of income available to the church other than tithes and offerings. Tithes constitute 60% of the income of the church and the offerings 40%. When there are financial shortfalls, it becomes the responsibility of the senior pastor and his wife to fund these. With all tithes coming from the senior pastor, as well as funding of financial shortfalls, it can be concluded that the senior pastor and his wife contribute 100% of the tithes and 25% of the total offerings. The rest of the congregants contribute 75% of the total offerings. There are no special offerings raised because members already do not contribute to tithes, so it would be futile to raise special offerings. Apart from the tithes of the pastor and his wife who transfer their funds directly into the bank account of the church, all funds received by the church are in cash.

**Figure 4-3: Funding sources in Church C**



#### *Safeguarding of funds*

In addition to the ad hoc committee in Church C, there is an ad hoc team in Church C responsible for all the financial affairs of the church as stipulated in the table below:

**Table 4-7: Ad hoc financial team of Church C**

| <b>Role in the church</b> | <b>Educational qualification</b> | <b>Responsibility in the team</b> |
|---------------------------|----------------------------------|-----------------------------------|
| Usher                     | Grade 12                         | Counting of cash                  |
| Usher                     | Grade 12                         | Counting of cash                  |
| Administrator             | Post graduate diploma            | Recording of transactions         |
| Pastor                    | Honours in Education             | Preparing summary of transactions |

None of the members in the finance team of Church C has any finance, accounting or book keeping background. They are part of the team due to the trust the senior pastor has in them and their commitment to the church. The team is responsible for the following:

1. Counting of cash,
2. Depositing of cash, and
3. Disbursement of funds.

#### *Counting and depositing of cash*

Money received from offerings after a church service is counted by two people who are members of the ushering team and the amount received is recorded on a form designed for recording cash receipts by the same people who are responsible for the counting of the cash. The money is deposited at their earliest convenience by one of the two people who is responsible for the counting and recording of the cash. When the offerings received is less than R100, it is not deposited, but given to the pastor and carried forward to the next service to allow the cash on hand to be more than R100 before it is banked. It was found that there is no segregation of duties, as the same people who count the cash record the cash counted and deposit the cash. Apparently there has never been a case of stolen or lost funds, either electronic or physical cash or the misrepresentation of financial records.

#### *Disbursement of funds*

There is no standard policy about disbursement of funds in Church C. Funds are disbursed either using physical cash or by means of electronic payments. Cheques are never used to make payments. Regarding physical cash, money from the offerings on a Sunday is used to make payments for items of small amounts, such as helping people with transport and buying batteries for microphones. Larger payments, such as rental expense or buying of musical instruments, are made electronically using the cell phone or personal computer of the person

in the finance team responsible for disbursements. This is because there is no office computer or cell phone provided by the church for online transactions. Procurements are done at the discretion of the senior pastor and his wife. There is no consultation as there is no substantive governing structure.

#### **4.5.4 Working capital management (Theme F)**

There are no accounts receivables or accounts payables in Church C and there are no budgets prepared to support planning. Because of the congregation's size, they believe these are not essential.

#### **4.5.5 Performance assessment and remuneration structures (Theme G and H)**

There are no mechanisms to evaluate the performance of the church as a whole or the role of individuals in their voluntary capacities, since the church has no employees to remunerate.

#### **4.5.6 Financial records, financial statements and reporting to stake holders (Theme I)**

There is one file in Church C for keeping all source documents. The file is not labelled to allow source documents to be easily retrieved. There is only one note book for the recording of all transactions. There is no electronic form of recording transactions in Church C. Transactions are recorded on a cash basis only and not on the accruals concept of accounting. Records do not follow the normal accounting cycle of recording first in journals, posting to ledgers, closing off the accounts, extracting a trial balance and preparing final accounts. At the end of every month, the balance of cash on hand and cash at bank become very important since that is the time for monthly expenses to be paid. The only accounts prepared are simple receipts and payments accounts at the end of every calendar year. The receipts and payments accounts are prepared by one member of the finance team who has an honours qualification in education. There has never been a need to benchmark financial practices or accounts against those of any other church.

#### **4.5.7 Audit requirements (Theme J)**

There are no internal or external audits performed in Church C. Audited financial statements are of no consequence since the amounts involved in inflows and outflows are very small amounts relating to the senior pastor and his wife. The costs of undertaking an audit, be it internal or external, would be too higher for the benefits associated.



#### **4.5.8 Risk management process (Theme K)**

There is no concern currently about risks and ways to identify, measure or mitigate them. As is the case with both Churches A and B, the only risk that matters is the decrease in tithes and offerings from members. The funding sources and their percentage distributions are shown in Figure 4-3 above.

#### **4.5.9 Financial sustainability (Theme L)**

Although the congregants contribute very little, it is believed that the church is sustainable.

#### **4.5.10 Communication to stakeholders (Theme M)**

The most important stakeholders in Church C are the church members and therefore an annual general meeting, termed a “business meeting”, is held for all the members of the church at the end of the year. 80% of the total church population attend this meeting. At the business meeting, members are verbally informed about the financial status of the church and the receipts and payments account is read to them. None of the members are given a copy of the statement. No report is sent to the director of NPOs as mandated by the NPO Act (71 of 1997).

### **4.6 SUMMARY**

The aim of this chapter was to address the third secondary objective as set out in chapter 1 (refer to page 7), namely that of exploring and evaluating the sustainability of the financial management practices of three Pentecostal-charismatic churches in South Africa. This chapter therefore reports on the empirical study which took the form of multiple case studies. The various themes of the interview schedule (refer to Appendix A), as developed from the literature review conducted in chapter 3, were elaborated, based on the empirical data collected during the interview and observation process in the three churches.

The next chapter will present the findings, recommendations and conclusions to the study.

## **CHAPTER 5**

### **5 FINDINGS, RECOMMENDATIONS AND CONCLUSIONS**

#### **5.1 INTRODUCTION**

This aim of this chapter is to address the fourth and final secondary objective, namely to make recommendations to assist the sustainability of NPOs, particularly Pentecostal-charismatic churches, and to draw the research study to a conclusion.

The discussion of findings first addresses the main objective of the study which is to explore and evaluate the financial management practices of Pentecostal-charismatic churches and how such practices affect their sustainability.

The findings also seek to answer the research questions developed at the onset of the study (refer to page 7) which are as follows:

- What are the sustainability needs of faith-based organisations, in particular Pentecostal-charismatic churches?
- How do Pentecostal-charismatic churches manage their finances?
- Is financial management consequential for the sustainability of NPOs?
- What are the systems and structures in Pentecostal-charismatic churches to ensure proper financial management practices?
- What is the role of proper financial management practices in the achievement of the sustainability needs of Pentecostal-Charismatic churches in South Africa?

Corresponding recommendations to the findings are developed. Although the findings are specific to the three cases, the recommendations are not only specific to the cases investigated, but they have been developed to allow for more general appropriate inferences by NPOs, churches, and Pentecostal-charismatics churches in particular. The recommendations are also applicable in a wider continental and even global context, since the literature review identified similarities of challenges in Pentecostal-charismatic churches continentally.

Finally, the research study concludes with the limitations of the study and areas identified for further research.

## 5.2 FINDINGS

The study is rooted in interpretivism as it assumes that answers to the research questions may be derived from the data inherent in case studies in which the units of analysis practiced and perceived financial management for sustainability in the context of their respective churches. Following a multiple case study approach and data gathering techniques already described, it has emerged from the evaluated and explored case study data that religious NPOs operate in the broader external environment of which they are an integral part and their sustainability is affected by factors they cannot control. There are risks that threaten the sustainability of religious NPOs and particularly Pentecostal charismatic churches which necessitate focused attention. The factors that emerged from the case studies that particularly affect the sustainability of religious NPOs are: 1) governance structure, 2) reporting to stakeholders, 3) financial record keeping and reporting, and 4) financial sustainability.

Each one of these factors will now be discussed.

### 5.2.1 Governance

Governance according to Jean-François (2014:17) directly affects organisational sustainability. As described earlier in Chapter 3 (refer to page 39) governance provides a framework for efficient, transparent and accountable decision-making in every enterprise, regardless of size or ownership, and hence introduces benefits for sustainability. Governance in Pentecostal-charismatic churches is not given the proper attention it deserves, especially in situations where the founder of the church is also the leader of the church. This is evident in the case of Church B where all the members of the governing body are appointed by the senior pastor. He does not chair the meetings of the highest decision-making body, although he sets the agenda for meetings which are chaired by a different person with the title of chairman of the council of elders. The independence of the chairman is already undermined as he is appointed by the senior pastor and is further undermined as he chairs meetings which have their agenda set by the senior pastor. Comparing this finding from the case to extant literature exemplifies the assertion of Kaufmann *et al.* (2010) that governance describes the *traditions and institutions by which authority is exercised*. The implication of this finding also illustrates why the processes by which leadership is selected, monitored and replaced is an important governance variable.

Pastoral duties were said to be one of the main responsibilities of the council of elders in Church B, yet only two members of the council of elders actually have the title of pastor and serve in the role of pastoring the congregation. There is, however, already an existing pastoral

team which is tasked with the direct responsibility of conducting pastoral activities. Notwithstanding, the council of elders has *pastoring* as one its three core functions. This is a clear overlap of duties and responsibilities which can create conflict and ineffectiveness.

Management is also mentioned as one of the responsibilities of the governing board in Church B, yet there is only one person who is on the payroll of the church for daily managerial and administrative duties and he is not a member of the council of elders. The governing board is also responsible for management and thus must perform the managerial functions of planning, organising, commanding, controlling and coordination. A quarterly meeting is inadequate to perform these functions and so enable an NPO to continue sustainably.

In the cases where the founders were also the leaders of the churches, they practically serve dual roles of CEOs and board chairpersons simultaneously which badly impacts on effective governance. Deficiency of governing structures brought about the following:

1. A lack of consistent strategic direction and policy objectives which assists in the proper steering of the churches towards their desired destination. Although all three churches have a vision and mission printed on pull up banners which are erected at every Sunday service, there was not a single strategic document in place to assist in meeting the vision and the mission of these churches.
2. No empirical way of identifying, assessing, monitoring and measuring risks faced by the churches; nor is there a measurement made on the social capital available to aid their long-term sustainability. Basic statistics, such as attendance of services by congregants and the number of services held, which all impact the finances of the churches and their ultimate sustainability could not be given with precision.
3. The many stake holders that have to be managed such as government, media, the local community and congregants had not been well mapped to determine the levels of interest and power possessed by all these different stakeholders.
4. The constitutions of the churches, which emphasize the core beliefs and practices of the church never took priority when new members were joining the churches. An easy membership process detached members from loyalty and identity with the churches and consequently also allowed easy exit of members to other churches.

These findings again suggest why the notion of respect for the institutions which governs interactions (social and economic) is an important governance variable impacting on the effectiveness and sustainability of churches. As previously discussed in the literature review, governance matters because how organizational decisions are made matters from both ethical and practical perspectives. This is also an important finding concurring with Brigham and

Houston (2013:5) that financial management as a discipline aims to make decisions, amongst others, relating to assets financing and acquisition and managing an entity for the purposes of value maximisation. Even for the NPOs, such value maximization can be said to be for the material and spiritual benefit of the Church members and the Church as an entity, as well as for the other services they render to the Mangaung society.

### **5.2.2 Reporting to stakeholders**

Two out of the three cases examined, Churches B and C, had no knowledge of the NPOs Act (71 of 1997) which stipulates their legal obligation to present year-end financial statements and all other necessary financial reports to: 1) the members of the NPO, 2) the director of NPOs, and 3) members of the public who are allowed access to these records as per the discretion of the director of NPOs. This lack of compliance with legislation is evidenced in the impasse that arose between the CRL Rights commission and most Pentecostal churches, as the CRL Rights commission attempted to establish the financial management practices of most religious organisations.

Most NPOs are of the opinion that financial information is private and cannot be divulged to all the members of the organisation. This is due to unfamiliarity with NPO legislation. It shows that there are wide variances in the expectations of public regulators and the practices and expectations of NPOs regarding reporting requirements. This finding can assist to inform policy remedies such as the development of a simple appropriately compliant template for reporting to stakeholders. An example of a simple stakeholder reporting template could easily be tested and developed.

### **5.2.3 Financial recordkeeping and reporting**

Most of the people forming part of the church's finance teams have little to no knowledge of basic accounting and book keeping principles. This makes it difficult for financial information to be captured accurately and to prepare financial statements. More time was spent on physical cash management than the monitoring of electronic banking transactions. This was evident through the lack of bank reconciliation statements prepared by the financial teams.

There is no consistent manual or electronic method of recording financial information. Financial accounts were not kept and in cases where transactions were recorded, all transactions were crammed into one book with the recording process not consistent with bookkeeping principles. This manner of recording transactions makes it difficult for finance and accounting professionals to prepare final accounts that reflect a true and accurate view of

all financial transactions within the organisation. The books in which they record financial transactions were not in safekeeping, as they were mostly stored in people's houses. There were no guarantees of records not being altered or the books getting lost altogether.

Annual financial statements only comprise simple receipts and payments which were often prepared by people in the finance team of the churches who had no understanding about what financial accounts entailed. No statements of cash flows, income statement or financial position were prepared. This makes it difficult for professional judgments to be used in providing sound advice which can aid their sustainable future. Although these entities survive by using their current financial management practices, there are weaknesses in these practices that can be aided by extant financial management remedies. These remedies will be presented under the heading of recommendations (refer to paragraph 5.3, page 76).

#### **5.2.4 Financial sustainability**

The three churches investigated receive no external financial support from other institutions such as government. The churches find means for their own survival. There was clear understanding about how the availability of consistent cash flows impacted their sustainable future, especially from the leaders and founders of the churches. The leaders and founders of the churches often have to develop ways to finance budget short falls and they often utilise personal funds, which means that fundraising is part of their main responsibilities. For this reason, most pastors of Pentecostal-charismatic churches place substantial emphasis on the so called "prosperity gospel" – the mission to get their congregants to understand the need to become financially successful themselves because the financial condition of congregants directly affects the financial condition of the churches and hence their sustainable future.

Lack of external financial support from government brings about sole dependency on congregants for financial sustainability. All the cases studied had an over reliance on the tithes and offerings of the congregants for the church's financial up keep. This over reliance has not sparked a need to understand the variables of a macro economy, such as interest rates changes and inflation, on the financial wellbeing of congregants and consequently its ripple effects on the church as an organisation. Other sources of funding such as the sales of books, forming of cooperatives and the creation of businesses for the church have not been adequately explored as a form of revenue generation by the church.

The focus of the safeguarding of funds is on the counting and depositing of funds. It was, however, discovered that some of the churches had experiences of money having gone missing before and after counting, as well as asset misappropriation. The main method of

giving tithes and offerings is using cash and this has a way of attracting criminals. Fraud can occur in the form of illegitimate debit orders, and deductions of negligible amounts. This can only be discovered by preparing a monthly bank reconciliation statement, yet monthly bank reconciliation statements were not prepared by any of the churches investigated.

The important findings that emerged from these cases on sustainability imply that their financial management practices adversely impact their sustainability. Sustainability was described in chapter 3 (refer to page 31) as developing the ability and agility to maintain and sustain the goals and activities of the NPO entities over the long-term, including through a mix of revenue and expense management (Williams, 2014:9) and, furthermore, to develop the capacity to minimise financial vulnerability and diversified sources of institutional and financial support (Bonardi, Berg & Mitchell, 2004:6).

### **5.3 RECOMMENDATIONS**

In the light of all the findings above, the following recommendations are made to aid the sustainable future of religious non-profit organisations and Pentecostal-charismatic churches in particular:

- Religious NPOs should have functional, properly constituted governing bodies which adhere to good corporate governance principles.
- Religious NPOs should diversify their funding sources beyond tithes and offerings and should take proactive steps to encourage the participation of the church as an entity and church members' to positively influence and benefit from economic activity.
- Religious NPOs should have comprehensive written policies and procedures to guide and standardise practices in safeguarding funds, including encouraging more cashless transactions.
- NPOs, particularly Pentecostal-charismatic churches, should include a competent team of financial people and accounting officers with competent professional know how on preparing reports and statements to convey financial records to stakeholders.
- It is recommended that a simple reporting framework be developed that can assist religious NPOs with limited personnel to compile a monthly financial report to stakeholders.

#### **5.3.1 Governance**

It is important for religious NPOs to have functional governing bodies. Maxwell (2007:128) highlights that good leadership is not only about rallying to achieve a purpose, but more importantly, good leadership provides systems and structures that allow other leaders to be

raised and to flourish. The lack of governance structures in charismatic churches was one of the primary concerns of the CRL Rights commission in their investigation of the practices of religious institutions (CRL Rights Commission, 2016). A number of reputational risks can be avoided by governing boards formulating policies to regulate the activities of the organisation. NPOs, and particularly churches, thrive on their public perception as accountable, honest, transparent and ethical. This perception should in no way be eroded in the eyes of the general public. Chapter nine institutions such as the CRL Rights commission have called for the regulation of religion after their investigation into the commercialisation and abuse of the beliefs of the South African public. This recommendation has been rejected by parliament as infringing on the constitutional rights of religious bodies. However, functional church governing bodies must not only be composed of people who have loyalty to the cause of the church, but competence must also be considered. It is recommended that legal professionals such as advocates or attorneys and finance professionals should be part of the composition of governing boards in Pentecostal-charismatic churches. In situations where such professionals are not available to the church, they can be sought after from other sister churches with similar doctrinal backgrounds to sit in governing body meetings from time to time.

### **5.3.2 Fundraising**

Churches cannot operate without funding. Currently, most churches have a greater percentage of their funding coming from the congregants in the form of their tithes and offerings and the free services they offer to the church. The financial status of the church members becomes a direct reflection of the financial status of the church. It is recommended that congregants are educated about setting up businesses, funding for businesses and how to successfully run a business. During volatile economic conditions, the churches, as entities, can start-up businesses and not solely rely on the contribution of members. Churches owning businesses will help avoid concentration of cash flow risks only on tithes and offerings from members and also empower congregants economically through job creation.

### **5.3.3 Safeguarding of funds**

With regards to the counting and depositing of funds, there have to be comprehensive written policies and procedures to guide and standardize practices. Having a standard document on the management of cash in the bank and cash on hand, as well as disbursement and all that pertains to the managing of finances, will create a good culture that can be easily followed by new people who join the finance team. To be able to safeguard funds in churches, electronic contributions should be encouraged, rather than cash donations. This will assist in preventing



cash going missing before or after counting inside the church. Speed point machines and electronic fund transfers are better and safer ways of making contributions to the church.

Bank reconciliation statements must be prepared on a monthly basis to allow early detection of online fraud. With online transactions there have to be at least two different authorisers to allow a payment to be made, each with their different user names and passwords. The first person with access to the online banking only initiates the transaction of the payee. The second person reviews the validity of and accuracy of the initiated transaction before approving the payment. Conducting electronic transactions from a personal computer or cellphone should be discouraged since user names and passwords are often stored in the memory of computers, thus potentially allowing access to unauthorised persons.

Counting of cash should be done by at least two people and, if possible, a third person should confirm and record the transactions in a cash journal. Cash should be deposited as soon as possible. In cases where money cannot be deposited with a bank immediately, the cash must be secured in a lockable safe – and the safe locked at all times, with controlled access to a limited number of people – before it is deposited at the bank within a stipulated period. Apart from the use of petty cash, payments done in cash should be discouraged, since they make the tracking of transactions difficult and also increase the risk of lost cash or purse-snatching.

#### **5.3.4 Reporting to stakeholders**

In order to encourage reporting to stakeholders, it is recommended that people with financial skills be given the responsibility of membership of the finance team of churches – it is not sufficient that commitment and loyalty of individuals to the church be the main criteria. Without the requisite skill and expertise, finance teams cannot create any meaningful impact in assisting the financial future of churches. NPOs, particularly Pentecostal charismatic churches, must have a competent team of financial people and an accounting officer who has the knowledge to prepare reports and financial statements. This will assist in eliminating wasteful expenditure, in compliance with legislature and in building public trust. In situations where the requisite skills are not available in the church, it is advisable to source such expertise from outside the church by engaging the services of external consultants. In situations where there is a financial cost to engage external consultants, it is advisable for churches to come together to benefit from lower cost through economies of scale.

As mentioned in the background to this study, there is public scepticism about the abuse of financial resources by senior pastors of Pentecostal-charismatic churches. There is therefore

a need for proper financial management practices founded on sound governance principles to encourage sustainability.

#### **5.4 LIMITATIONS OF THE STUDY**

The primary constraint to this study was that churches were not willing to be part of the study because of the research topic. Many letters were sent to invite churches who initially were willing, but later did not even respond. The findings of the study cannot be generalized to all Pentecostal-charismatic churches or NPOs, but the recommendations could be implemented by NPOs to encourage sustainability.

#### **5.5 RECOMMENDATIONS FOR FURTHER RESEARCH**

The study opens up further opportunities to enquire into the financial practices of NPOs, other than churches. Furthermore, a longitudinal study could be conducted where the recommendations made in this study could be implemented and tested as to whether sustainability were enhanced.

#### **5.6 SUMMARY**

The main aim of this study was to explore and evaluate the financial management practices of Pentecostal-charismatic churches and how such practices affect their sustainability. The study concludes that the concept of financial sustainability is not a destination to be reached, but an orientation which keeps on evolving. Financial management practices do influence the financial sustainability of Pentecostal-charismatic churches. The three churches forming part of this study, paid little to no attention to strengthening their financial management practices. The financial management practices are underpinned by the codes and structures of governance permeating through the organisational fabrics of NPOs. The implementation of proper financial management practices must therefore be treated as a priority. It can therefore be concluded that the better the governance codes and structures in NPOs, the better the management practices that will exist to support their long-term sustainability.

Since many of these Pentecostal-charismatic churches have shown tremendous growth, the intervention of government-established institutions, such as SARS, the CRL Rights commission, and the Department of Social Development, must seek ways to ensure that they assist NPOs, and in essence Pentecostal-charismatic churches, in training and development so as to allow them to meet the legislative and ethical obligations surrounding their financial management practices. Pentecostal-charismatic churches must not eliminate the obligation of proper planning and professionalism in the management of their finances, for this is an

obligation they owe to themselves, their congregants, government and the broader society. It can therefore be concluded that this study reached its set research objectives.

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## ANNEXURE A: INTERVIEW QUESTIONS

### A. DEMOGRAPHIC INFORMATION OF INTERVIEWEE

|   |  |
|---|--|
| Name and surname                            |  |
| Position                                    |  |
| Number of years' experience in the position |  |
| Qualification                               |  |
| Age   |  |

### B. OVERVIEW OF THE CHURCH

How old is the church?

|           |            |             |             |                |     |
|-----------|------------|-------------|-------------|----------------|-----|
| 1-5 years | 5-10 years | 10-15 years | 15-20 years | Other<br>_____ | B.1 |
|-----------|------------|-------------|-------------|----------------|-----|

As what business form is the church registered?

|                               |                                   |                       |                |     |
|-------------------------------|-----------------------------------|-----------------------|----------------|-----|
| NPO (Non-profit organisation) | PBO (Public benefit organisation) | Not registered at all | Other<br>_____ | B.2 |
|-------------------------------|-----------------------------------|-----------------------|----------------|-----|

What is the size of the membership of the church (measured in number of congregants)?

|       |         |         |         |          |       |     |
|-------|---------|---------|---------|----------|-------|-----|
| 0-200 | 200-400 | 400-600 | 600-800 | 800-1000 | >1000 | B.3 |
|-------|---------|---------|---------|----------|-------|-----|

How does one become a congregant of the church? Please explain.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

B.4

What is, in your opinion, the regular Sunday attendance (measured in number of congregants)?

|       |         |         |         |          |       |     |
|-------|---------|---------|---------|----------|-------|-----|
| 0-200 | 200-400 | 400-600 | 600-800 | 800-1000 | >1000 | B.5 |
|-------|---------|---------|---------|----------|-------|-----|

Does the church have other branches around the country?

|     |    |     |
|-----|----|-----|
| Yes | No | B.6 |
|-----|----|-----|

If yes, please provide details as follows.

| Name of province | Number of branches | Average number of congregants |     |
|------------------|--------------------|-------------------------------|-----|
| Eastern Cape     |                    |                               | B.7 |
| Free State       |                    |                               | B.7 |
| Gauteng          |                    |                               | B.7 |
| KwaZulu-Natal    |                    |                               | B.7 |
| Limpopo          |                    |                               | B.7 |

|               |  |  |     |
|---------------|--|--|-----|
| Mpumalanga    |  |  | B.7 |
| Northern Cape |  |  | B.7 |
| North-West    |  |  | B.7 |
| Western Cape  |  |  | B.7 |

**C. THE CHURCH GOVERNING BOARD**

1 Does your church have a formal governance structure, such as a governing board or church council?

|     |    |     |
|-----|----|-----|
| Yes | No | C.1 |
|-----|----|-----|

If yes, please answer the following questions in this section:

Please indicate the specific terminology used in your congregation to refer to this governance structure.

C.2

How many people currently serve as members on the governing structure?

|   |   |   |   |                    |     |
|---|---|---|---|--------------------|-----|
| 2 | 3 | 4 | 5 | Other number _____ | C.3 |
|---|---|---|---|--------------------|-----|

How many congregants on the church board are paid employees (either full-time or part time) of the church?

|      |   |   |   |   |                                 |     |
|------|---|---|---|---|---------------------------------|-----|
| None | 1 | 2 | 3 | 4 | >5, please specify number _____ | C.4 |
|------|---|---|---|---|---------------------------------|-----|

How many people do you think is ideal to constitute a well-functioning governance structure?

|   |   |   |   |   |                    |     |
|---|---|---|---|---|--------------------|-----|
| 2 | 3 | 4 | 5 | 6 | Other number _____ | C.5 |
|---|---|---|---|---|--------------------|-----|

Is there a term of office for serving on the church board?

|     |    |     |
|-----|----|-----|
| Yes | No | C.6 |
|-----|----|-----|

If yes, how many years make a term?

|        |         |         |         |             |     |
|--------|---------|---------|---------|-------------|-----|
| 1 year | 2 years | 3 years | 4 years | Other _____ | C.7 |
|--------|---------|---------|---------|-------------|-----|

How many terms can a person serve on the church board?

|        |         |         |         |             |     |
|--------|---------|---------|---------|-------------|-----|
| 1 term | 2 terms | 3 terms | 4 terms | Other _____ | C.8 |
|--------|---------|---------|---------|-------------|-----|

Who serves as the chairperson of the church board?

|               |             |                  |                    |             |     |
|---------------|-------------|------------------|--------------------|-------------|-----|
| Senior pastor | Chief elder | Church secretary | Independent person | Other _____ | C.9 |
|---------------|-------------|------------------|--------------------|-------------|-----|

Do you have a treasurer (An official responsible for the physical handling of cash and cash equivalents)?

|     |    |      |
|-----|----|------|
| Yes | No | C.10 |
|-----|----|------|

If yes, what are the qualifications or experience of the treasurer?

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

C.11

What are the three most important functions of the treasurer?

\_\_\_\_\_ C.12

\_\_\_\_\_ C.12

\_\_\_\_\_ C.12

Do you have a financial secretary (An official responsible for keeping and/or monitoring the paper trail of all financial transactions)?

|     |    |      |
|-----|----|------|
| Yes | No | C.13 |
|-----|----|------|

What are the qualifications and/or experience of the financial secretary?

\_\_\_\_\_

\_\_\_\_\_ C.14

What are the three primary roles of the financial secretary?

\_\_\_\_\_ C.15

\_\_\_\_\_ C.15

\_\_\_\_\_ C.15

What are the differences between the duties of the financial secretary and the treasurer?

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

C.16

Do you have a general secretary serving on the governing board (an official primarily responsible for the effectiveness of meetings and minutes)?

|     |    |      |
|-----|----|------|
| Yes | No | C.17 |
|-----|----|------|

Briefly describe the qualifications and experience of the general secretary.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

C.18

What are the three most important functions of the general secretary?

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

C.19



Does the church have a constitution?

|     |    |      |
|-----|----|------|
| Yes | No | C.20 |
|-----|----|------|

If yes, is there someone responsible for ensuring that the congregation adheres to the enactments of the church constitution, and what position does the person hold within the governance structure of the church?

|               |             |                   |              |             |      |
|---------------|-------------|-------------------|--------------|-------------|------|
| Senior pastor | Chief Elder | General secretary | Church board | Other _____ | C.21 |
|---------------|-------------|-------------------|--------------|-------------|------|

Are congregants educated on the church constitution?

|     |    |      |
|-----|----|------|
| Yes | No | C.22 |
|-----|----|------|

If yes, how?

\_\_\_\_\_

\_\_\_\_\_

C.23

Are there consequences for non-compliance with the enactments of the church constitution for congregants?

|     |    |      |
|-----|----|------|
| Yes | No | C.24 |
|-----|----|------|

If so, what are these consequences?

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

C.25

How often does the governing board/church council have meetings?

|              |                |             |             |      |
|--------------|----------------|-------------|-------------|------|
| Once a month | Once a quarter | Once a year | Other _____ | C.26 |
|--------------|----------------|-------------|-------------|------|

If other, please specify.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

C.27

Is the agenda of the meeting communicated to the board members beforehand?

|     |    |      |
|-----|----|------|
| Yes | No | C.28 |
|-----|----|------|

If yes, who is responsible for the preparation of the agenda of the meeting?

|               |             |                   |             |      |
|---------------|-------------|-------------------|-------------|------|
| Senior pastor | Chief elder | General secretary | Other _____ | C.29 |
|---------------|-------------|-------------------|-------------|------|

Name the three most important functions of the governing board/church council in your congregation.

\_\_\_\_\_ C.30

\_\_\_\_\_ C.30

C.30

Name the three primary roles of the chairperson of the governing board.

C.31

C.31

C.31

Are you of the opinion that the current church board of the congregation is functional?

|     |    |      |
|-----|----|------|
| Yes | No | C.32 |
|-----|----|------|

Please motivate.

C.33

**D. APPOINTMENT AND DISMISSAL PROCESSES**

1 Briefly explain the appointment process of a new member on the governing board/church council. The discussion should include selection criteria and how a potential member is identified.

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D.1

Are there minimum required qualification(s) or experience or profile for a new board member?

|     |    |     |
|-----|----|-----|
| Yes | No | D.2 |
|-----|----|-----|

If yes, please explain

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D.3

Is there an induction process and/or training provided to new board members?

|     |    |     |
|-----|----|-----|
| Yes | No | D.4 |
|-----|----|-----|

If yes, please explain

---



---

D.5

Do you have policies and procedures at congregation level that are documented (i.e. how decisions are made, levels of authority)?

|     |    |     |
|-----|----|-----|
| Yes | No | D.6 |
|-----|----|-----|

If yes, are these policies and procedures communicated to newly-appointed governing board/church council members?

|     |    |     |
|-----|----|-----|
| Yes | No | D.7 |
|-----|----|-----|

Is there a process for the dismissal of a board member?

|     |    |     |
|-----|----|-----|
| Yes | No | D.8 |
|-----|----|-----|

Briefly describe the process in the event of the dismissal of a board member.

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D.9

Who is responsible for appointing a new pastor/minister?

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D.10

Briefly describe the process in the event of the dismissal of a pastor/minister.

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D.11

**E. FINANCIAL PRACTICES** (Fund sourcing, usage, safe guarding and budgeting)

**Funding**

1 What are the sources of funds for your church? Please list them below.

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E.1

Does the church have its own bank account?

|     |    |     |
|-----|----|-----|
| Yes | No | E.2 |
|-----|----|-----|

If yes, how many accounts do the church have?

---

E.3

How many people are signatories to the church's bank account?

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E.4

Does the church have emergency or rainy day funds?

|     |    |     |
|-----|----|-----|
| Yes | No | E.5 |
|-----|----|-----|

If yes, please elaborate how this account is operated.

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E.6

If no, please elaborate why there are no emergency fund?

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E.7

Do you collect special or emergency offerings?

|     |    |     |
|-----|----|-----|
| Yes | No | E.8 |
|-----|----|-----|

What are these offerings taken for?

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---

E.9

How often are emergency offerings taken?

|              |                |             |       |      |
|--------------|----------------|-------------|-------|------|
| Once a month | Once a quarter | Once a year | Other | E.10 |
|--------------|----------------|-------------|-------|------|

Is an announcement about the special or emergency offerings made beforehand?

|     |    |      |
|-----|----|------|
| Yes | No | E.11 |
|-----|----|------|

How are tithes, offerings and other funds collected by the church?

|      |              |        |            |             |      |
|------|--------------|--------|------------|-------------|------|
| Cash | Bank deposit | Cheque | Phone apps | Speed point | E.12 |
|------|--------------|--------|------------|-------------|------|

Which of these methods are mostly encouraged?

|      |              |        |      |             |      |
|------|--------------|--------|------|-------------|------|
| Cash | Bank deposit | Cheque | Apps | Speed point | E.13 |
|------|--------------|--------|------|-------------|------|

What kinds of apps are used by congregants for payment, please list them.

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E.14

Who are those responsible for counting the offerings?

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E.15

How many people are responsible for counting the offerings?

|   |   |   |   |   |       |      |
|---|---|---|---|---|-------|------|
| 1 | 2 | 3 | 4 | 5 | Other | E.16 |
|   |   |   |   |   | _____ |      |

Is the person/persons responsible for counting the offerings the same as the one(s) who record?

|     |    |      |
|-----|----|------|
| Yes | No | E.17 |
|-----|----|------|

Where and how are offerings kept before being deposited? Please elaborate.

---

E.18

What is the most common method of conducting payments?

|      |     |        |            |       |      |
|------|-----|--------|------------|-------|------|
| Cash | EFT | Cheque | Phone apps | Other | E.19 |
|      |     |        |            | _____ |      |

If other, please specify.

E.20

**Fraud**

Please indicate which of these incidences occur in your church and the frequency of occurrences.

| Asset misappropriation   | Occurrences |          |       |       |      |
|--|-------------|----------|-------|-------|------|
|  | Never       | Sporadic | Often | Other |      |
| Cash stolen/missing before recording   |             |          |       |       | E.21 |
| Cash stolen after recorded   |             |          |       |       | E.22 |
| Misuse of credit or debit card   |             |          |       |       | E.23 |
| Inflated or fictitious claims (e.g. meals, car rental etc.)                              |             |          |       |       | E.24 |
| Cash being paid into a personal account  |             |          |       |       | E.25 |
| Congregants and employees failing to repay personal loans given to them by the church    |             |          |       |       | E.26 |
| <b>Misrepresentation of records</b>  |             |          |       |       |      |
| Church members taking assets of the church for personal use (Cars, paper, computers etc) |             |          |       |       | E.27 |
| Unrecorded donations   |             |          |       |       | E.28 |
| Falsified wages payment to employee not on the payroll                                   |             |          |       |       | E.29 |
| <b>Corruption</b>  |             |          |       |       |      |

|  |  |  |  |  |      |
|--|--|--|--|--|------|
| Bribery to obtain a job or contract in the church                                      |  |  |  |  | E.30 |
| Relatives or friends of influential people being hired without the requisite expertise |  |  |  |  | E.31 |

**F. WORKING CAPITAL MANAGEMENT**

1 Does the church have accounts receivable/debtors?

|     |    |     |
|-----|----|-----|
| Yes | No | F.1 |
|-----|----|-----|

Are debtors' days calculated?

|     |    |     |
|-----|----|-----|
| Yes | No | F.2 |
|-----|----|-----|

If so, what are the average receivable/debtor days?

|           |            |            |       |     |
|-----------|------------|------------|-------|-----|
| 0-30 days | 30-60 days | 60-90 days | Other | F.3 |
|-----------|------------|------------|-------|-----|

Does the church have accounts payables /creditors?

|     |    |     |
|-----|----|-----|
| Yes | No | F.4 |
|-----|----|-----|

Are accounts payable days calculated? If so, what are the average payable/creditor days?

|           |            |            |       |     |
|-----------|------------|------------|-------|-----|
| 0-30 days | 30-60 days | 60-90 days | Other | F.5 |
|-----------|------------|------------|-------|-----|

**Budget**

Does the church prepare a budget?

|     |    |     |
|-----|----|-----|
| Yes | No | F.6 |
|-----|----|-----|

Who is responsible for the preparation of the budget?

\_\_\_\_\_ F.7

Who approves the budget?

|               |              |                   |             |       |     |
|---------------|--------------|-------------------|-------------|-------|-----|
| Senior pastor | Church board | General secretary | Chief elder | Other | F.8 |
|---------------|--------------|-------------------|-------------|-------|-----|

Do you ever have budget short falls?

|     |    |     |
|-----|----|-----|
| Yes | No | F.9 |
|-----|----|-----|

If yes, how often?

|              |                |             |       |      |
|--------------|----------------|-------------|-------|------|
| Once a month | Once a quarter | Once a year | Other | F.10 |
|--------------|----------------|-------------|-------|------|

Please indicate the reason/s for a budget shortfall.

|                                  |           |                      |       |      |
|----------------------------------|-----------|----------------------|-------|------|
| Lack of giving by church members | Inflation | Emergency programmes | Other | F.11 |
|----------------------------------|-----------|----------------------|-------|------|

If other, please explain

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F.12

How is the budget shortfall funded?

|  |                          |                             |       |      |
|--|--------------------------|-----------------------------|-------|------|
| Ask for further donations from members | Get an overdraft or loan | Make use of emergency funds | Other | F.13 |
|--|--------------------------|-----------------------------|-------|------|

If other, please explain

---



---

F.14

Do you compare the budget with income and expenses actually incurred?

|     |    |      |
|-----|----|------|
| Yes | No | F.15 |
|-----|----|------|

Briefly explain the steps or actions for remedy if actual expenditure exceeds budgeted expenditure.

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F.16

## G. PERFORMANCE ASSESSMENT

### Pastor/Minister

1 Is there a performance assessment of the pastor(s)/minister(s)?

|     |    |     |
|-----|----|-----|
| Yes | No | G.1 |
|-----|----|-----|

If yes, please answer the following three questions:

How often is the performance assessment performed?

|              |                |             |       |     |
|--------------|----------------|-------------|-------|-----|
| Once a month | Once a quarter | Once a year | Other | G.2 |
|--------------|----------------|-------------|-------|-----|

Briefly explain how the performance assessment is carried out. Discussion should include whether there are pre-set requirements for performance.

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G.3

Does the performance assessment have an impact on the remuneration of the pastor(s)/minister(s)?

|     |    |     |
|-----|----|-----|
| Yes | No | G.4 |
|-----|----|-----|

If so, please explain

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---

G.5

**Board members (that are not employees of the church)**

Is there a performance assessment of board members?

|     |    |     |
|-----|----|-----|
| Yes | No | G.6 |
|-----|----|-----|

If yes, please answer the following two questions:

How often is the performance assessment performed?

|              |                |             |       |     |
|--------------|----------------|-------------|-------|-----|
| Once a month | Once a quarter | Once a year | Other | G.7 |
|--------------|----------------|-------------|-------|-----|

Briefly explain how the performance assessment is performed. The discussion should include whether there are pre-set requirements for performance.

---



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G.8

**H. REMUNERATION STRUCTURE**

1 Are the pastors remunerated?

|     |    |     |
|-----|----|-----|
| Yes | No | H.1 |
|-----|----|-----|

If yes, who determines the remuneration of the pastor?

|              |               |             |       |     |
|--------------|---------------|-------------|-------|-----|
| Church board | Senior pastor | Chief elder | Other | H.2 |
|--------------|---------------|-------------|-------|-----|

If other, please specify \_\_\_\_\_

H.3

What is the basis used for determining the remuneration of the pastor/minister?



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H.4

Do the members (other than full-time employees) of the governing board/church council receive remuneration/honorarium?

|     |    |     |
|-----|----|-----|
| Yes | No | H.5 |
|-----|----|-----|

If yes, briefly explain how the remuneration/honorarium is determined?

---



---

H.5

**I. REPORTING AND FINANCIAL STATEMENTS**

1 Does your church prepare annual financial statements (AFS)?

|     |    |     |
|-----|----|-----|
| Yes | No | I.1 |
|-----|----|-----|

If no, do you prepare management accounts/other financial information? Please explain.

---



---

I.2

Who prepares the annual financial statement (AFS)?

|                   |                    |                              |       |     |
|-------------------|--------------------|------------------------------|-------|-----|
| General secretary | Accountant (SAIPA) | Chartered Accountant (SAICA) | Other | I.3 |
|-------------------|--------------------|------------------------------|-------|-----|

Who is responsible for approving the AFS?

|               |              |                   |             |       |     |
|---------------|--------------|-------------------|-------------|-------|-----|
| Senior pastor | Church board | General secretary | Chief elder | Other | I.4 |
|---------------|--------------|-------------------|-------------|-------|-----|

On what basis are the AFS prepared?

|            |                |       |     |
|------------|----------------|-------|-----|
| Cash basis | IFRS for SME's | Other | I.5 |
|------------|----------------|-------|-----|

To whom is the annual financial statement (AFS) communicated and distributed?

|                  |                                |                    |                                    |       |     |
|------------------|--------------------------------|--------------------|------------------------------------|-------|-----|
| Pastor/ Minister | Governing board/Church council | General secretary. | Available to members of the church | Other | I.6 |
|------------------|--------------------------------|--------------------|------------------------------------|-------|-----|

If other, please specify.

---



---

I.7

Do you compare your financial results with other congregations to benchmark financial performance?

|     |    |     |
|-----|----|-----|
| Yes | No | I.8 |
|-----|----|-----|

Non-financial disclosure: Do you report on any other matters, except financial results in the financial statements?

|     |    |     |
|-----|----|-----|
| Yes | No | I.9 |
|-----|----|-----|

If yes, please provide brief examples of the disclosure of non-financial information.

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I.10

**J. AUDIT REQUIREMENTS**

**External audit requirements**

1 Are the AFS externally audited?

|     |    |     |
|-----|----|-----|
| Yes | No | J.1 |
|-----|----|-----|

If yes, please answer the following two questions:

Is the appointment of an external auditor voluntary or mandatory in terms of your Church Order/Constitution?

|           |           |     |
|-----------|-----------|-----|
| Voluntary | Mandatory | J.2 |
|-----------|-----------|-----|

Who appoints the external auditor?

|               |              |                   |             |       |     |
|---------------|--------------|-------------------|-------------|-------|-----|
| Senior pastor | Church board | General secretary | Chief elder | Other | J.3 |
|---------------|--------------|-------------------|-------------|-------|-----|

If other, please specify.

---



---

J.4

**Applicable to all types of services on the financial statements:**

Is the accountant performing the procedures of the financial statements independent? (Free from the control of authorities inside or outside the church?)

|     |    |     |
|-----|----|-----|
| Yes | No | J.5 |
|-----|----|-----|

In your opinion, what are the two most important factors that play a role in the appointment of the auditor/accountant?

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---

J.6

In your opinion, does the auditing/other form of assurance regarding the financial statements add value to the church?

|     |    |     |
|-----|----|-----|
| Yes | No | J.7 |
|-----|----|-----|

Please motivate your answer briefly.

---



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J.8

**Internal audit requirements**

Do you make use of internal auditors?

|     |    |     |
|-----|----|-----|
| Yes | No | J.9 |
|-----|----|-----|

If yes, please answer the following question:

Briefly describe the responsibilities/functions of the internal auditor(s); for example, are they performing any procedures on internal controls, i.e. process around handling, counting and banking of cash?

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J.10

**Internal controls**

Briefly explain all the internal controls around cash and cash equivalents.

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J.11

What role is responsible for reviewing the internal control procedures around cash and cash equivalents?

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J.12

**K. RISK MANAGEMENT PROCESS**

1 Do you have a formal system to identify risks?

|     |    |     |
|-----|----|-----|
| Yes | No | K.1 |
|-----|----|-----|

If yes, please answer the following question:

Briefly explain the process for identifying the risks at your congregation.

---



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K.2

Rank FIVE (5) risks in your opinion as the most significant risks of your congregation from 5 (highest risk) to 1 (lowest risk):

|  |     |
|--|-----|
| Decrease in members' contributions (tithes and offerings)      | K.3 |
| Limited involvement of members                                 | K.3 |
| Cost exceeding income  | K.3 |
| Decrease in the number of members                              | K.3 |
| Safeguarding of cash   | K.3 |
| "Competition" with other church denominations                  | K.3 |
| Youth leaving the congregation                                 | K.3 |
| Non-compliance with Church order/Constitution                  | K.3 |
| Stability of electricity supply during church services         | K.3 |
| Lack of effective communication to members of the congregation | K.3 |
| Technology   | K.3 |
| Changes in regulatory environment                              | K.3 |
| Other, please specify  | K.3 |

Briefly describe how you manage the risks identified above.

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K.4

**L. FINANCIAL SUSTAINABILITY**

1 In your opinion, what percentage (%) does each of the following income represent as a % of total income monthly?

|        |      |           |     |                   |      |       |      |     |
|--------|------|-----------|-----|-------------------|------|-------|------|-----|
| Tithes | ___% | Offerings | ___ | Investment income | ___% | Other | ___% | L.1 |
|--------|------|-----------|-----|-------------------|------|-------|------|-----|

L.2

As a result of the decline in the economic climate, do you have **concerns** with regards to a decline in tithes and offerings? Please explain.

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L.2

Do you think that your church is financially sustainable?

| Level                    | Yes | No |     |
|--------------------------|-----|----|-----|
| Congregational level     |     |    | L.3 |
| District/ regional level |     |    | L.3 |
| Provincial level         |     |    | L.3 |
| National level           |     |    | L.  |

**M. COMMUNICATION TO STAKEHOLDERS**

1 Who do you regard as the most important stakeholders of the church?

|               |              |                |       |     |
|---------------|--------------|----------------|-------|-----|
| Senior pastor | Church board | Church members | Other | M.1 |
|---------------|--------------|----------------|-------|-----|

Other, please specify.

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M.2

Is an annual church meeting held for congregants?

|     |    |     |
|-----|----|-----|
| Yes | No | M.3 |
|-----|----|-----|

If yes, is the church meeting well attended? What is the percentage of members attending this meeting?

|      |        |        |      |     |
|------|--------|--------|------|-----|
| <10% | 10-30% | 40-60% | >60% | M.4 |
|------|--------|--------|------|-----|

Are there any other meetings held for church members besides the church meeting mentioned above?

|     |    |     |
|-----|----|-----|
| Yes | No | M.5 |
|-----|----|-----|

If yes, please explain.

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M.6

If yes, how often are these meetings held?

|        |         |           |       |          |     |
|--------|---------|-----------|-------|----------|-----|
| Weekly | Monthly | Quarterly | Other | Annually | M.7 |
|--------|---------|-----------|-------|----------|-----|

**Thank you for participating in this study. Your participation is greatly appreciated.**

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**Chris Jewell**

*Editing of Research Dissertations*

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## **EDITING CERTIFICATE**

This serves to confirm that the academic work in the form of a mini-dissertation written by:

**E T APPIADU**

Topic:

**Evaluating the financial management practices in the sustainability of  
Pentecostal-Charismatic churches**

Was proofread and grammatically edited by me during:

November 2018



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**To Whom It May Concern:**

9 March 2018

**REQUEST: RESEARCH IN FULFILLMENT OF  
MAGISTER COMMERCII by ET Appiadu (student number: 26858592)**

You are invited to partake in an academic research study in fulfillment of the requirements of a Master's degree in Management Accountancy. The topic of the research study is "Evaluating the financial management practices in the sustainability of Pentecostal-Charismatic churches: Multiple case studies". As part of the study, you are requested to participate in an interview in order to obtain the required information.

The following should be noted:

- No names of churches will be disclosed and each participant will remain anonymous..
- The results will be used for academic purposes.
- The results of the research will be made available to each church's management team upon request.
- Please contact Mr. Emmanuel Appiadu ([mreatus@yahoo.com](mailto:mreatus@yahoo.com) / 0793596281) if you have any questions.

I hope you will consider this request favourably.

Yours sincerely

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Emmanuel Appiadu

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Study leader: Prof. Sanlie Middelberg