# CORPORATE GOVERNANCE PRACTICES AND CHALLENGES: A STUDY OF INTERNATIONAL NGOS IN KENYA

**By**

Ng'eno Linner

S S S M S S S

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# DECLARATION

This project is my original work and has not been submitted for a degree in any other University

Linner Ngeno Signature_

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This Research project has been submitted in partial fulfillment of the degree of Master of Business in Administration, School of Business, University of Nairobi.

Supervised By:

Dr.Martin Ogutu

Senior Lecturer

Department of Business Administration

University of Nairobi

Signature

Date 29th/10/2009

# DEDICATION

I dedicate this work to my Loving Children: *Clarence* for your ever encouragement and kind heart, *Tracy* for your aggressiveness and Boldness that inspired me to soar high and *Brian* for your always inquisitive mind that never tires to engage Mom.

Special dedication also goes to my late parents, *Joseph & Eunice* for taking me to school.

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I also acknowledge my siblings' persistence that I undertake and finish this study and move on to acquire more degrees in the future.

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**To all of you, I say Thank you very much.**

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## Accronyms and Abbreviations

| | |
|---|---|
| NGO | Non Governmental Organization |
| INGO | International NGO |
| CEO | Chief Executive Officer |
| CSO | Civil Society Organization |
| FBO | faith Based Organization |
| CBO | Community Based Organization |
| IDR | Institute of Development and Research |
| KNCN | Kenya National Council of NGOs |
| N/A | Not Applicable |
| CAFs | Centre for African Family Studies |
| PSICG | Private Sector Initiative for Corporate Governance |
| SPSS | Statistical Package for Social Sciences |
| B.O.D | Board of Directors |
| Board | Governing body e.g. the Governing council, Board of Directors, Board of Trustees. |
| Key stakeholder | Community or main stakeholder |
| Other stakeholder | The donor and or the government, external stakeholders. |

## ABSTRACT

Corporate governance has gained a lot of interest in the world today than years ago. Organizational issue hinge around governance in situations of success or failure.
Successful organizations are seen to be well governed whereas organizations at the brink of collapse or those that have failed are seen to be poorly governed.

The focus has over the years been on commercial, public and private bodies where governance has been questioned and tested. Very few people look at corporate governance in not - for - profit organizations and the function of its board. It is with this in mind that my interest in establishing the current governance practices and challenges in international NGOs was conceived.

The study targeted 50 respondents but response was received from 35 out of which, 30 were considered to meet the standards set in terms of completion and timeframe. Data was collected through a questionnaire and analyzed using statistical methods and tabulated graphically and using tables. The findings were summarized and found that international NGOs have functional boards in place that practice good corporate governance to a large extent. The boards have put in place policies and guidelines to guide operations and they exercise financial control over the organizations' resources. The board and the management both have defined roles and responsibilities and the board chair is not the CEO. Diversity exists in the boards through gender representation and diverse skills in the subcommittees.

The relationships among the 3 key players in the corporate structure exist but communication and consultation with the key stakeholders need to be improved in order to achieve a good balance in the structure. Donor demands were found to cause some challenges in the practice of good corporate governance as well as the appointment of the directors by the retiring directors.

# CHAPTER ONE: INTRODUCTION

## 1.1. Background

Corporate governance is a topic of great interest to the public because of its importance in the economic health of corporations and society in general. Cadbury (1992) defines corporate governance as "the system by which companies are directed and controlled". It also refers to the way in which corporate boards and officers handle the affairs of the corporation. It is about the relationship between management, the board of Directors and the owners or shareholders. It stipulates responsibility and accountability for the organization as a whole in the exercise of its operations.

Governance therefore is about how corporate governors manage their corporation or organizations, the relationship that exists between the governed and their governors or leadership and systems of leading towards stated objectives. Hampel (1998) observes that "good governance ensures that the constituents (stakeholders) with relevant interest in the company's business are fully taken into account". The stakeholders who include donors (NGO's), shareholders, community, employees, government, management and the Board of directors all have an interest in the success of the organization.

### 1.1.1 Corporate Governance Practices and Challenges

Corporate governance is the exercise of power over corporate entities (Tricker, 2000). Monks (2001) sees it as a relationship among the various participants in determining the direction and the performance of the companies in a way that is consistent with public good. According to Whittington, Johnson and scholes (2007) the issue of corporate governance has arisen due to the practical need to separate ownership and management control and the increasing tendency to make organization more visibly, accountable not only to owners, but also to other stakeholders, groups, and the community at large.

The effectiveness and efficiency of service delivery serves as a measure of the corporate governance practices of any organization. The legal responsibility for the overall management

**and** the control of the organization rests with the board. Good governance is the responsibility of **the board** (Bain and Band 1996). Globalization has increased the interest in governance issues **worldwide** with donors and investors wanting closer contacts with the boards (Herzlinger, 1994).

Society demands increased accountability on the organization's dealings thus a need for a powerful and proactive Board of Directors who can provide oversight with systems of measurement and control. Corporate governance in an organization is about fair, efficient and transparent administration of organization to meet well defined objectives so as to satisfy stakeholders and comply with legal and regulatory requirements. There has to be therefore appropriate systems and structures of operation and control to achieve this goal.

Corporate governance is important in facilitating the deployment of organizations' resources in an efficient manner in order to optimize the long-term performance of the organization. Large corporate failures and incidents of major frauds involving the so-called 'big shots' have brought about increased pressure for accountability by Directors. These have created an atmosphere of doubt and mistrust with the donors, the government, the communities and the public requiring more transparency in the way of doing business. The Board of Directors is the key structure of governance entrusted with the resources of the organization by the owners and other stakeholders. This calls for more prudent ways of doing this in order to be more accountable.

Effective governance helps to strengthen democracy and human rights, promote economic prosperity & cohesion, reduce social poverty and leads to improved service delivery to the people. Efficient allocation of resources, equal employment opportunity, improved social facilities, environmental conservation and timely reporting can be achieved through effective corporate governance. Good corporate governance ensures that the highest standards of company responsibility, citizenship and business ethics are entrenched and the spirit of participatory development is enhanced.

Corporate governance seeks to find more appropriate ways of reducing the conflict of interest among stakeholders and corporate power is exercised in the best interest of the society. It is through effective corporate governance that strategic objectives and plans are established and the proper management and structure put in place to achieve those objectives. It also makes sure that the structure functions to maintain the company's integrity, reputation and accountability to its relevant constituents.

Corporate governance practices are the code of practice governing the operations of the Board of Directors. These are the code of best conduct in line with the CCG and they include integrity, objectivity, accountability, openness, honesty, selflessness and leadership. These practices ensure that the sustainability of the organization is secure. Wangombe (2003) identified leadership, integrity and good judgment in directing an organization to achieve prosperity and act in the best interest of stakeholders through accountability, transparency and responsibility. The exercise of the same is seen in the way the Board of Directors are appointed, the composition of the organization's structure, corporate compliance and performance, strategy values, balance of power and the assessment of the Boards' performance (Bain and Band, 1996).

Corporate governance challenges are roadblocks encountered by an organization's board of directors in its endeavors to effectively lead an organization and deliver on its promise. Bain and Band (1996) cites the Directors with exclusive commercial background wishing the organization to be put on a commercial footing and employees objecting to what they see as the director attempt to turn the organization into a commercial enterprise. Changes in donor demands, which shifts the control from Board of Directors to technical staff or management.

The exercise of Corporate Governance guidelines poses a challenge due to ambiguity on the role of B.O.D. and the management. The question of whether the B.O.D only offer advice or directs the organization into the future has led to de-motivation by the directors because to them whatever they decide is hardly effected. The appointment of the Board of Directors has also been a challenge in exercising good corporate governance. Loyalty may take the place of fair judgment depending on whether the management, donor, government or other stakeholders appoint the members of the Board. Wainaina (2002) stresses the fact that the Board should actively participate in the governance process.

### 1.1.2 International NGOs in Kenya

According to Non-Governmental Coordination Act (1990) an NGO is "A private Voluntary grouping of individuals or associations not operated for profits or for other commercial purposes but which have organized themselves nationally and internationally for the benefit of the public at large and the promotion of social welfare, development, charity or research in the areas inclusive of, but not restricted to health relief, agriculture, education, industry, supply of amenities and services."

NGO goes by various names; relief NGO's, development NGO's, Intermediary NGO's, human rights, democracy NGO's, NGO's support organs, traditional and classical NGO's, civil society and others (IDR, 2000). NGO's main function is to eradicate poverty through sustainable development. According to Institute of Development Research (2000), an NGO is Non-governmental and non-profit, voluntary and their mission is to promote some public purpose and its internal decision-making is by their chosen leaders without the direct participation of its beneficiaries.

In the last couple of years, Kenya has seen a mushrooming of NGOs to reach an estimated 2962 in the year 2005. This high number of NGO's is because of donor preference to channel their support through efficient and effective organization. According to Kanyinga (1993), the government has been intentional in strengthening the self-help initiative by channeling basic services through them.

The increasing number of NGO's calls for effective governance which is crucial for the NGO's survival in the face of increasing competition for donor funds. It is against this background of quality governance that an NGO's reputation is defined and its long-term viability determined. The public has been questioning the role of the NGO's in addressing social, political and the economic problems that the public and private sectors have failed to address. Some of these NGOs have not come out clearly on their purposes and whom they are accountable to. On a few occasions, the public and the government have complained of briefcase NGOs and ineffective NGOs. In some instances, the Kenya government has threatened to deregister non- compliant NGOs.

**International** NGOs work in more than one country and control large budgets as compared to local NGOs. The locus of decision-making is in the International NGOs' home country. They **have access** to more resources than the local NGOs. Most NGOs are accountable only to **themselves** (Gatere, 1998) however International NGOs are accountable to the donors, **community** and recently to the National Council of NGOs in Kenya.

Matters of Corporate Governance are also an issue in NGOs due to the increase in donor **requirements** on accountability and transparency. Despite this, the exercise of good governance **faces** critical challenges where the appointment of the Board of Directors is not clear and roles of **the** Board are not clearly defined. The community as the beneficiary in an NGO is clearly a major stakeholder, however the donor usually makes decisions touching on this very important stakeholder. Even the management sometimes has little say over the use of funds. This puts the Board of Directors at a crossroads as they are reduced to being a passive lot of Directors. The Boards' passivity and unwillingness to challenge accepted policies and programs and lead the process instead has been a real challenge.

### 1.2 Statement of the Problem

Studies show that most NGOs were formed after the 1980 in response to deteriorating quality of services offered by the government, declining economy and escalating conflicts in the region (Gakuo, 2003). The NGOs operate in various parts of Kenya especially the semi- arid, high disease prevalence areas and poorly endowed areas. In the HIV/Aids sector, over 60% interventions are provided by NGOs. According to the NGO council of Kenya, there were approximately 1200 NGOs registered by the board in 1999. Out of these only about 450 were considered active with a total resource of Ksh.31 billion compared to a national budget of about Ksh.250 billion in 1999.

Drucker (1999) notes that even though NGOs are dedicated to doing good, the fact that they are non-commercial entities means most of them lack the bottom line and so there is need for organization, leadership, accountability, performance and results. A study by Gatere (1998) indicates that NGOs are accountable to themselves only as there are no effective mechanisms to follow up on resource utilization. The shareholder's interest of maximizing wealth and stock adding value does not exist in an NGO thus checks on excessive compensation may be lacking.

The absence of competition for market share and the lack of measure of business success, profit for commercial entities, may also lead to compromise on efficiency. The society has over the past few years been concerned on the management of NGOs and use of community as 'rubber stamp' to mobilize finances and other resources that end up benefiting the management alone. Some NGOs have been deregistered for non- compliance while others appears and disappears without notice.

Studies done by Wainaina (2002), Wangombe (2003), Mburu (2004), Mwangi (2002), Mwangi (2006) Mucuvi (2002), Jebet (2001), Gakuo (2003), Manyuru (2005), Musyoki (2006) on governance have been conducted from different contexts varying from MFI's (Wainaina and Mburu), Cooperative societies (Wangombe), Insurance (Mwangi), motor vehicles industry (Mucuvi), to the Kenya Roads board (Gathikia). Most of these focused on the public or private sector where profit making is a fundamental aspect of the organization. Whereas Mwangi (2006) did his study on integrated governance and provision of healthcare in Non Profit making organization, he focused on a local healthcare NGO. Gakuo did her study more than four years ago with a focus on NGOs in Nairobi. This study will focus on International NGOs and will endeavor to answer the questions:

i. What are the current governance practices in international NGOs in Kenya?
ii. What are the corporate governance challenges facing them?

## 1.3 The Research Objectives

i. To determine corporate governance practices among international NGO's in Kenya

ji. To establish the challenges of corporate governance in international NGO's in Kenya

## 1.4 The importance of the study

The findings of this study may help solve some of the problems facing NGOs like non- effective Board of Directors, how to determine an effective member of the board, capacity gaps of the board and how to bridge the gaps. The board development needs can easily be identified to facilitate appropriate measures to empower them. Conflicts of interest in procurement can also be handled well if the board clearly understands their roles and the role of the management. Thus this study will enable the directors to declare and resolve such interests.

It will also benefit the Board of Directors of NGOs in evaluating the way their organizations are governed and in identifying areas where corrective action may be necessary. The scholars will use the findings of this study for reference purposes in future related studies. Provide a body of knowledge to the Scholars for reference and stimulate further research into the area of corporate governance. To donors who will be able to understand and demand solid principles of good corporate governance as key to maintenance of their trust. Players in the Industry will also benefit from the research by using best practices that will be highlighted in the study.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Introduction

This chapter looks at the literature available on Corporate Governance and NGOs. It highlights the meanings of Corporate Governance and its relevance in NGOs.

## 2.2 The concept of Corporate Governance

Corporate Governance is the system by which organizations are directed and controlled. It is the manner in which the power of a corporation is exercised in the stewardship of the corporations' total portfolio of assets and resources with the objective of maintaining and increasing shareholders' value with the satisfaction of other stakeholders in the context of corporate mission (PSCGT, 2002). It is further concerned with structures and processes for decision-making, accountability, control and behavior at the top of the organization.

Good Governance is participatory, consensus-oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive and follows the rule of law. It assures that corruption is minimized and the views of the minorities are taken into account in decision-making (CCG, 2003). Thus there is need for a visionary Board of Directors with the capacity to accomplish the long-term objectives of the corporation.

The society's concern about how companies are run has been as a result of the realization of the effect of company decisions on the operating environment to which the society belongs. Thus the need to have their rights taken into consideration. The interdependence of the society and the companies calls for accountability on the part of the company to avoid certain negative consequences. It is conventionally believed that good governance lead to company's long-term existence and profitability. Corporate Governance is important in the fight against unacceptable corporate behavior often leading to the demise of many business enterprises (Newman and Hegarty, 1989).

## 2 3 Principles of good Corporate Governance

Corporate Governance seeks to find the appropriate mechanisms for governing the relationships of constituent groups with the organization so as to generate long-term value. It reduces conflict of interest among stakeholders and makes sure the right people make the decisions. It helps to align responsibility with authority in order to achieve optimum conditions for organizations' growth and success.

The above can only be achieved through the exercise of the right principles of corporate governance. Cadbury (1992) identified openness, integrity and accountability as being fundamental and relevant to both private and public sectors. Other principles include selflessness, objectivity, honesty and leadership. The right structures, the right people, the right culture, the right issues, the right information, the right processes, the right remuneration and the right follow-through are equally vital for a good and effective board (Van den Berge and Levran, 2004). This will ensure proper implementation, appropriate monitoring and evaluation for optimum results.

## 2.4 The pillars of good Corporate Governance

Corporate Governance is founded on five basic attitudes, ethics, practices and value to the society (PSCGT, 2002). Accountability being the central pillar, which requires leaders to be ready to account to the society for the resources, entrusted to them (Colley et al, 2003). This all-inclusive approach recognizes and protects the rights of all members and stakeholders. The second pillar is effectiveness and efficiency requiring of the leaders to manage the resources in the right way, optimally to achieve optimum results. This encompasses responsibility in order to achieve the organization's long-term goals, which basically rests with the Board of Directors to lead the management in realizing the vision of the organization. Diligence, Faithfulness and honesty are important in exercising the stewardship of the resources entrusted upon the Board of Directors. The need to manage the resources as if they were their own goes along way in enabling the organization to realize their goal. The seriousness with which the Board undertakes its mandate can enhance the sustainable prosperity of the corporation.

Timely and accurate disclosure of information to the stakeholders forms one of the yardsticks of **good** governance in the present day business environment. This is achievable through **transparency** and integrity on the part of the Board of Directors. The responsibility of preparing **the reports** rests with the management who in turn present the information to the Board of **Directors.** They must be conscious of their responsibility and represent the organization **responsibly** (Pearce and Robinson, 2002).

Leadership is the fifth pillar requiring responsible leaders who are capable and competent to steer the organization to greater heights. They should provide an enabling environment within which the human resources can exercise their talent creatively in contributing innovative solutions to shared problems (PSCGT, 2002). This requires aggressive talent search and nurture for sustainability of the organization.

Under the fundamental theory of security valuation, every security has an implicit value that is equal to the present value of cash flows expected from the security discounted at an appropriate rate. Good corporate governance should reflect good company performance. The shareholders should receive higher returns and therefore the company should have higher stock price. Gompers et al. (2003) found a positive correlation between performance measures and governance levels. This relationship was also found in China in a study conducted by Chong et al. (2004). Governance can improve access for emerging market companies to global portfolio equity. Evidence indicates that well-governed companies receive higher market valuations. Improving corporate governance will also increase all other capital flows to companies in developing countries: from domestic and global capital, equity and debt and from public securities markets and private companies' sources, OECD (2004).

Good corporate governance would ensure that the company is able to attract, employ and retain good employees and remunerate them at competitive rates. This would provide the company with the necessary human and entrepreneurial skills to spur its growth. Companies with good corporate governance incur less compliance charges, like the cost of complying with regulatory requirements, less audit fees and generally less agency costs. Weaknesses in the governance systems can also be easily detected and remedial measure taken.

**Companies** that demonstrate good corporate governance have easier **access** to world's capital **markets** and boosts investor confidence (Pricewaterhouse, 1997). Improved governance structures help ensures quality decisions making, encourage effective succession planning for senior management and enhance the long-term prosperity of companies independent of the type of company and its sources of finance. The multilateral and donor agencies insist on good corporate governance so as to avoid reputation risk, which is, avoiding being associated with companies with poor corporate governance. Reputation risk is particularly serious where shareholders and equity investors stand to lose from governance abuses, such as banks and insurance companies (OECD, 2001).

According to Aronson (2002), improving on corporate governance contributes to the development of the public and private capital markets. Poor governance contributes to fraud and the spread of corruption that lead to dramatic corporate failures. Better governance contribute to the likelihood that the enterprise will satisfy the legitimate claims of all stakeholders and fulfill its environmental and social responsibility

**2.5 The Importance of Corporate Governance**

Corporate Governance aims at increased profitability and efficiency of business environment and benefits to stakeholders. The enhanced legitimacy, responsibility and responsiveness of business enterprises within the economy and improved relationships with their various stakeholders and their environment enhance their market standing, image and reputation (PSCGT, 2002). The stakeholders include the shareholders, managers, employees, customers, suppliers, host communities and providers of finance.

Good Corporate governance ensures the highest standards of corporate responsibility, citizenship and business ethics in an effort to strengthen mutual social responsibility. This enhances the spirit of participatory development, create partnerships for progress and increases citizen engagement in establishing a secure and stable environment for business growth. This translates to improved wellbeing of the society, which promotes wealth creation thus solving most of the social problems of the world today. The importance of corporate governance lies in the power that is vested in the senior officers who run the organization's affairs. Whereas this power ought to be exercised responsibly, it is sometimes not used in the best interest of the stakeholders. Corporate governance nurtures all progressive traits and discourages irregularities in corporations. The prevailing hard economic times have exposed weaknesses in corporations and business risk challenges as a result of environmental turbulence. As a result of all these, no board can afford to overlook corporate frauds; mismanagement and unjustified executive management pay (Cadbury, 2002).

An efficient Board of Directors enables a corporation to compete effectively in the global environment and attract investors in the global front. The efficient use of resources and accountability strengthens the stewardship of these resources; improve management and service delivery winning the hearts of willing investors. Continued investor confidence lead to the realization of the strategic goals, economic growth and social development in the long run.

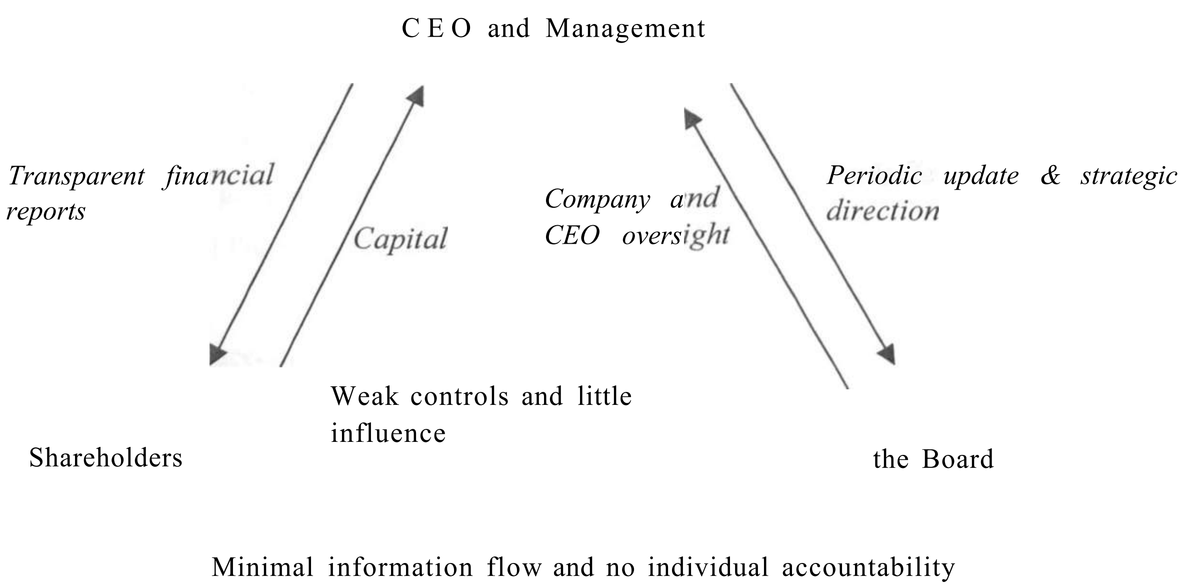
The key thing to keep in mind is that corporate governance compliance shows real confidence in the future and in the high growth prospects of a business. Corporate governance compliance makes organization more attractive because it is visibly managed and directed (Knell, 2006). The recent developments provide ample evidence that inadequate corporate governance standards in certain organizations could contribute to their failure. The inadequate governance standards in the corporate sector, raises the risk profile of companies and exposes the organization and especially lending institutions to greater potential default. The adherence to formal (or mandated) corporate governance practices are particularly crucial for banks and financial institutions as weak or inadequate corporate governance standards invariably result in ineffective risk management and ultimately to financial instability. In the case of banks and financial institutions, the developments in one of them may trigger systematic consequences. The essence of formal corporate governance in financial institutions, are therefore, the responsibilities of the board and its independent committees for providing adequate checks and balances, transparency and disclosures, robust risk management systems, risk containment procedures, early warning systems and prompt corrective actions to avoid default (Singh, 2005).

According to agency theory, good corporate governance should lead to higher stock prices or better long-term performance, because managers are better supervised and agency costs are decreased. Poor corporate governance on the other hand is fertile soil for corruption and corruptive symbiosis between business and political circles (Manyuru, 2005).

## 2.6 The Corporate Governance Structure

There is no universally accepted structure of Corporate Governance. According to Montgomery and Kaufman (2003), the principle actors in governance include Shareholders, management and the Board of Directors. Effective corporate governance requires a clear understanding of the respective roles of the board and of senior management and their relationships with others in the corporate structure. The relationship of which is depicted in the diagram below.

**Fig.l. The corporate Triangle**




**Source:** Montgomery C.A, Kaufman R. "The Boards' Missing Link", Harvard Business Review, ^arch, (2003), pp 23

**The** focus is on the weak relationship between the Board and shareholders, which is critical as it **undermines** the efficiency in governance of the organization. The lack of information flow negates the principle of transparency and accountability. The Directors' failure to provide useful **feedback** and information to shareholders leaves a lot of questions unanswered.

The Board is presumed to have the ability to change the behavior of the corporation, thus the need for carefully constituted Board. The shift to more outside directors and the pressure for special interest representation on Boards reflects in part the public concern. Business corporations and NGOs can disregard this challenge to past board practices at their peril (Newman and Hegarty, 1989).

**2.6.1 The shareholders**

These are the owners of the corporations by virtue of their capital invested in the businesses. They do not manage the day-to-day affairs of the corporations but appoint directors, who collectively as a board represent them and oversee the management on their behalf. They control the long-term direction of the corporation and meet once in a year to appoint directors and auditors. They get reports on the performance of the company and this enables them evaluate the performance of Directors.

International accounting standards provide guidelines on the reporting standards and requirements. An audit committee, usually appointed by the shareholders, check on the accounting and reporting process and reports on the results.

**2 6.2 The Board**

Hie composition of the Board of Directors varies from Corporation to corporation with a number between eleven and seventeen members. Steiner and Steiner (2003) indicate that several factors need to be considered while constituting the Board structure. These include the board size, criteria for selection, composition, gender and equality and the method of recruitment. The complexly of the corporation and the need for effective decision-making ought to be the guiding principles. Majority agree that 15 members is the upper limit for Boards' effectiveness. The Board is the bridge between the shareholders and the executives in charge of the affairs of the enterprise and they are responsible for the standing of their company in the community (Cadbury, 2002). The Board is vested with the responsibility of appointing the CEO, determining management remuneration and succession plans, providing advice and counsel to top management, review the adequacy of systems for compliance, and approval of financial objectives, strategies and corporations plans.

The task of a non-profit Board according to Herman (2005) includes selection and evaluation of the CEO, definition of mission, development of organization plan, budget approval and resource mobilization. The Board's responsibility of providing advice to the top management conflicts their role of budget approval and resource mobilization. This brings about serious conflicts on the Boards' role and the role of management. Accordingly, corporations have changed from being legal devices meant to enable individuals to transact business to complex bodies with a few people having real power of control over them, Berle and Means (1932).

### 2.6.3 The management

The CEO leads the senior management whose primary role is efficiency in performance. The CEO is appointed by the Board and reports to the board of directors. Effective top managers are people who see the business as a whole, and can balance the present needs of the business against the future needs, who can make sound timely decision (Johnson, Scholes and Whittington, 2007).

The Corporate Governance framework should ensure strategic guidance of the company, effective monitoring of management by the Board and the Board's accountability to the company and to all shareholders (Johnson, Scholes and Whittington, 2007). It is the Boards responsibility 10 monitor the managerial performance in order to ensure efficiency and effectiveness of the business. The CEO delegates responsibility for the performance to the senior executive officers trough a performance contract who also replicate the same to subordinates. This would ensure individual responsibility for management decisions is established and that individuals are untable for their actions in the organization (IFAC, 2001).

## 2 7 The Boards Best Practices

**Table Is Board Best Practices**

| | |
|---|---|
| Composition of the Board | Balance of executive and Non-executive directors |
| Appointment of the Board | Transparent procedures for nomination and appointment of new directors to the Board. |
| Directors remuneration | To avoid conflict of interest, an independent remuneration committee should determine remuneration of each executive director |
| Disclosure of information | Disclosure of any business that may create a potential conflict of interest |
| Supply of information to Directors | Access to accurate, relevant and timely information in order to make informed, intelligent, objective and independent judgments |
| Directors training and development | Formal training on the role, duties, responsibilities, obligations, practices and procedures on first appointment |
| Accounts, audit and Disclosure | Directors shall cause to be kept proper and accurate books of accounts |

**Source:** Private Sector Initiative for Corporate Governance (PSICG, 1999). *Principles for Corporate Governance in Kenya.*

Other best practices identified by Mwangi (2002) and Wang'ombe (2003) include the need for strategy values in which case the Board determines the purpose and values of the company to ensure that the organization continues in existence in the long term. The Board sees to it that the procedures and values to protect the organization's assets are well established.

Corporate performance, viability, compliance and financial sustainability should be ensured to enable the organization achieve its objectives. This requires constant monitoring and evaluation, timely implementation and accurate reporting. A proper management structure that is functioning well to maintain integrity, reputation and responsibility, recognition and utilization of professional skills and competences, encourage professional development and growth and achievement of the objectives.

Appropriate technology enables an organization to compete globally and run its affairs more smoothly and optimally by making use of ICT professionals. It is important that the Board is regularly appraised to assess their performance and effectiveness. This can be done through self-evaluation or peer evaluation and appropriate measures taken to improve the Board's performance and effectiveness.

Boards must work closely with management in carrying out the role of setting policy and providing strategic direction, this ensures congruence between the institution's strategic thinking and its operations. Board of director's fiduciary obligations ensures that the financial solvency of the institution is maintained. This responsibility requires oversight of resources available to the institution, their use to achieve the institution's mission, and their proper management over time. The board has responsibility of assessing its own performance, on regular basis. It is required to renew its membership with infusion of new directors, and to evaluate its own decision-making processes.

Diligence in performing these roles and responsibilities will not in itself ensure effective governance. Factors such as the commitment of the directors to the institutional mission, the composition of the board in terms of the skills of directors, the quality of the chairperson, the effective board committee structure, clearly defined board policies and procedures, and a climate that allows critical self-evaluation are also essential components of effective governance.

## 2.8 Corporate Governance and NGOs

The role of the Board in an NGO, where there are no stockholders, is to protect the donor against the possibility of expropriation of the benefits of donation by internal management. The society being beneficiary in an NGO requires a board that protects this interest so that the lrTianagement delivers on the donor wishes and promises. The public has increasingly been made **aware** of their rights in the way Corporations are run, thanks to increasing civil rights awareness groups and charitable institutions who publicly speak out on issues of corporate management. ]sjGOs have not been spared too. Societies and companies mutual interdependence compels the corporations to be more accountable in terms of their way of doing business. Corporate **Governance** is an important tool in the fight against corporations' unacceptable behavior, which has led to many companies' death.

Taylor et al (1995) notes that very few Non Profit organizations have functional Boards. The fact that the members of the Board often have little personal interest means they may not be fully concerned with the task of Governance. At times the Board members may not have sufficient understanding of the work of the institution and avoid dealing with issues requiring specialized knowledge. Non-profit CEOs often complain that the Board 'meddles' with the affairs whereas the Directors complain of a management that 'usurps' the Boards' function. Thus there is need to clearly define the role of the Board and that of the management.

Poor Corporate Governance as a result of excessive regulations and controls, frequent political interference, multiplicity of principals, poor management and outright mismanagement, community dependency syndrome on donations has lead to poor performance in organizations. Garten (2002) observes that companies and governments need to demand more public examination of the NGOs.

The issue of raising revenue through fundraising in NGOs complicates the organizational governance, product choices and accounting systems in NGOs (Mwangi, 2006). The Human resource management of these labour intensive organizations that employ both professionals and volunteers is a real challenge to the Board. Issues of motivation, especially for volunteers and staff control and their allegiance to their profession and not necessarily the organization, require a lot of tact in handling them.

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Research Design

This study was conducted using cross-sectional survey to look into practices and challenges of Corporate Governance in international NGOs in Kenya. The design was found to be suitable due to the large number of members involved and the fact that not all of them could be reached. It was therefore necessary to make inferences from the sample data of the whole population. Mwangi (2002), Wang'ombe (2003), Gakuo (2003) and Musyoki (2006) used this research design successfully to conduct their studies.

## 3.2 Research Population

The population of interest in this study was drawn from all international NGOs operating in Kenya under the umbrella of the National Council of NGOs. At the end of 2007 according to the National Council of NGOs there were 550 international NGOs registered in Kenya.

## 3.3 Sample Design

The study proposed to investigate 50 of the international NGOs operating in Kenya. The sample drawn from the population was stratified for purposes of the study. The first strata consisted of NGOs which were established in the 1980s, the second strata was for those that were established in the 1990s and the last being those which were registered in the millenium (2000s). The choice of the number of years as a stratified method was because of the NGO's experience with governance over the years.

**Table 2. Sample stratification table.**

| Category (yr of Reg). | Population | Sample |
|---|---|---|
| 1980s | 156 | 18 |
| 1990s | 293 | 22 |
| 2000s | 101 | 10 |
| | **550** | **50** |

### 3.4 Data Collection

The research used primary data collected through structured questionnaire, which was divided into three sections. Section A consisted of the organization profile and section B, the imposition of the Board, the structure of the Board and the functions of the Board and other related matters. Section C, consisted of corporate governance challenges in International NGOs. The questionnaires were administered through e-mail, post mail and or the 'drop and pick' method. The target group was the CEO and Board Members of international NGOs. These are people who are vested with the responsibility of promoting good Corporate Governance and upon which the organization's performance rests.

### 3.5 Data Analysis

The researcher made use of statistical tools to analyze data from respondents. These include the percentages, frequencies, the mode and the mean scores. These enabled the researcher to determine the most prevalent corporate governance practices in international NGOs and the challenges facing the practice of good governance. The computation of the mean score determined the shared practices and functions of the Board. The frequency was computed to determine the number of times of occurrence of certain traits like Board meetings, gender and Board trainings and development. The degree of influence was tabulated in order to determine the relationship between the practices of Corporate Governance and the performance in NGOs.

# CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

## 41 introduction

The findings and analysis of this study are based on the two research objectives: to determine the corporate governance practices in International NGOs and to determine the challenges facing the practice of good corporate governance. The data obtained was coded, analyzed and presented as statistically determined and is summarized in tables. The presentation corresponds to the key variables of the study. This chapter is organized based on these key variables, which are: the organization characteristics in section 4.2, the corporate governance practices in section 4.3 and corporate governance challenges section 4.4.

## 4.2 The Organization Characteristics

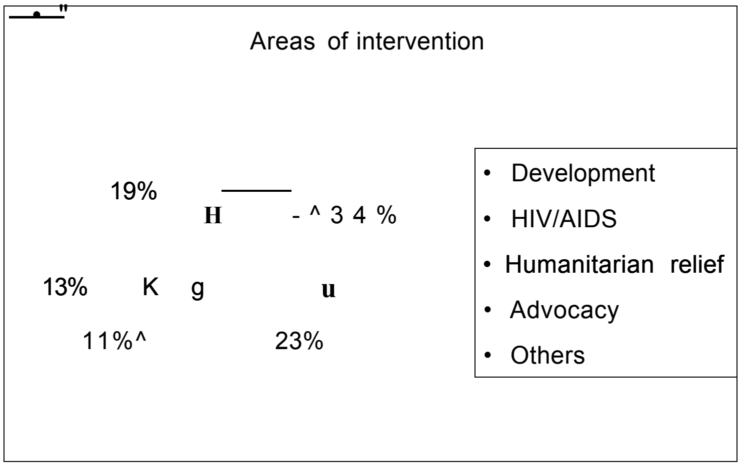
### 4.2.1 Response rate

The study targeted a sample of 50 International NGOs. Out of these totals, only 35 responded representing a response rate of 70%. Of these, 30 questionnaires representing 60% were considered eligible as to the completeness and authenticity of the response. The remaining 5, which were not completed to the level of acceptance, were mainly due to the fact that the respondents considered the matter to be sensitive and illegal to disclose.

### 4.2.2 Characteristics of the sample

These include such traits as the existence of a governing body in the organization, area of intervention the NGO engage in, the length of operation of the NGO, and the number of employees in the organization. The findings showed that all the International NGOs except only one case have an existing governing body that goes by different names. Some of the names include: the Board of Directors, the governing council, the Board of Trustees, Advisory Board. For purposes of this study, the Board of Directors or simply the Board will represent the governing body or authority.

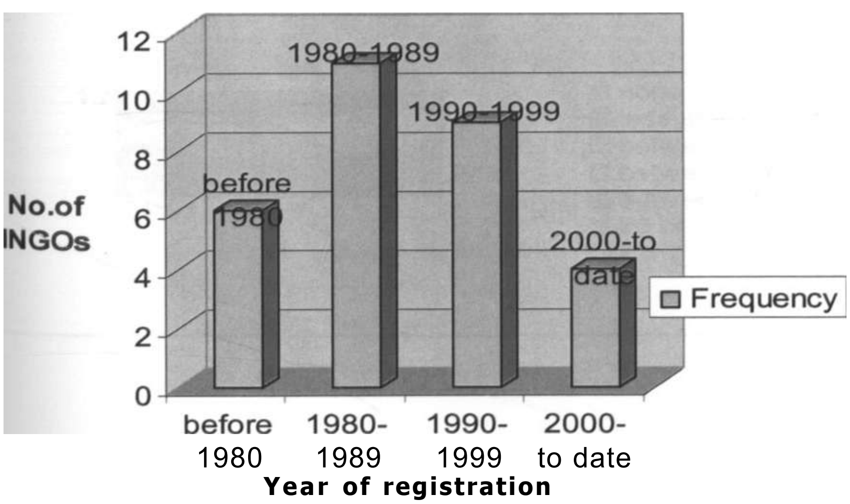
**Graph 1: Area of Intervention**




Source: Field Data 2009

The category with the highest number of responses was development, 33.96% followed by HIV/Aids intervention with 22.64%. The category that represented 18.87% was a combination of others followed closely was water & sanitation, peace &justice, Education, capacity building, policy, research and integrated interventions.

**Graph 2: Years of Operation**




Source: Field Data 2009

graph above shows that a few NGOs were formed before 1980 to mainly help the 8°vernment strengthen the growing economy because there were no widespread conflicts in the re§ion. The majority of the International NGOs were registered to operate in Kenya in the 1980s

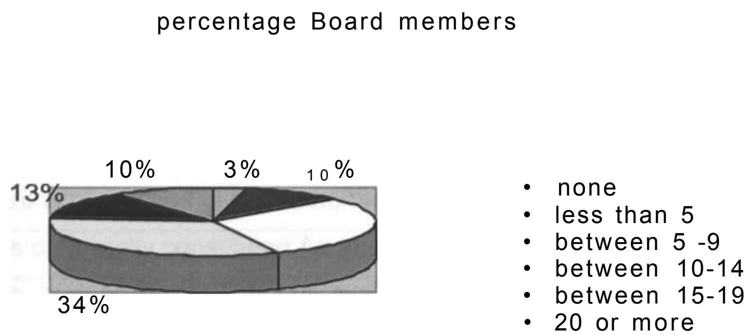
^Q to the rising conflicts and humanitarian assistance required at the time. This is followed closely with the number registered in the 1990s, which was also high.

The highest numbers of International NGOs studied have been in operation for more than 30 years, long before they opened their base in Kenya. The range of operation is 6 years to 88 years and the registration in Kenya ranges from 6 years to 46 years.

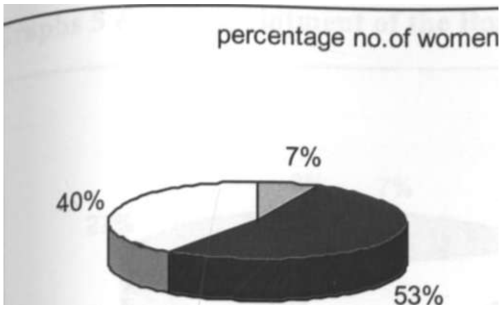
### 4.3 The Governance Practices

The governing body has been given different names but for purposes of this study, we preferred to use the name the Board. The tables and figures below summarize findings on the governing body as well as the roles and responsibilities of the body. These include the existence of the diversity in the Board and the skill representation as well as an assessment of the governance practices. In this section, data is presented graphically and using mean tables where the higher the mean score, the higher the use of the Governance practice.

**Graph 3: No. Of Board Members**



**Graph 4: No. of Women in the Board**




- none
- less than 5
- between 5 -9

**Source:** Field Data 2009

The study as seen in Graph 3 &4 found that 97% of the organizations have got functional Boards with the majority having between 4 and 16 members. Only 3% of the organizations had over 20 numbers of members in the Board with one organization not having a functional Board. 93% of the Boards have women representation ranging between 1 and 9 women.

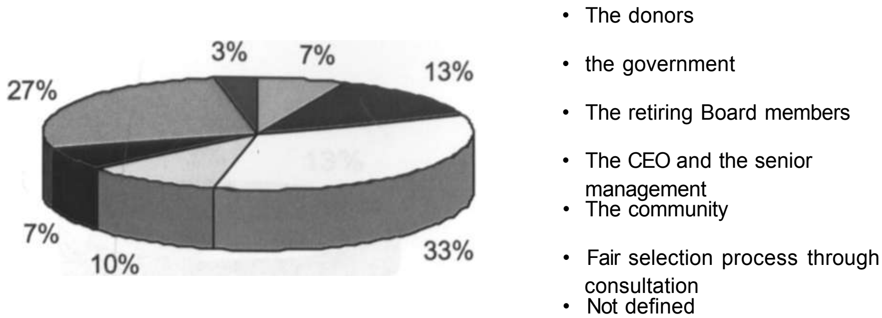
**Table 3: Skill represented in the Board**

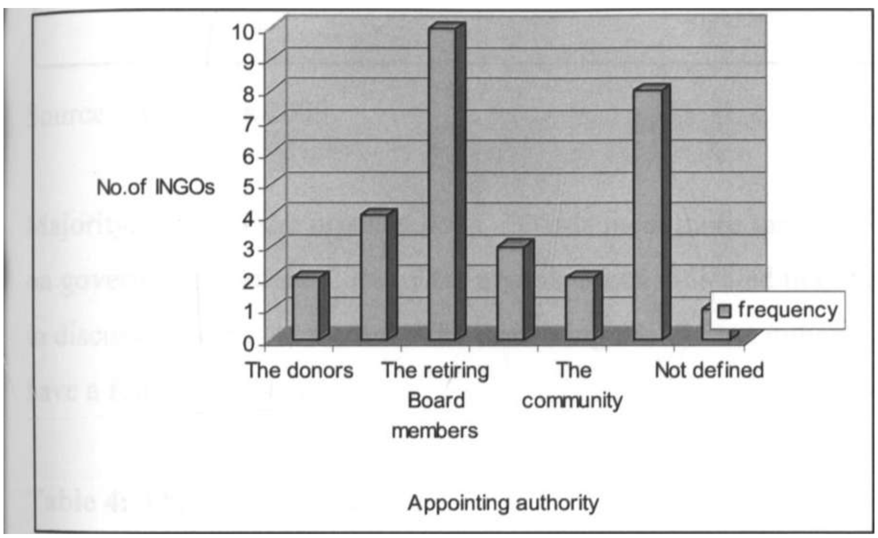
| Parameter | Frequency out of 30 | Percentage |
|---|---|---|
| Present skills and requirements considered during selection of the Board | 28 | 93.33 |
| The Board is composed of members representing diverse groups | 27 | 90.00 |
| Presence of formally constituted Audit committee | 28 | 93.33 |
| Presence of formally constituted management support and guidance committee | 26 | 86.67 |
| Presence of Board appointment and remuneration committee | 28 | 93.33 |

Source: Field Data 2009.

The skills' diversity in Table 3 is evident in the Board selection as out of a total response rate of 28 organizations consider present skills and requirements during the selection of the Board. ^ represents 93% of the International NGOs. The presence of specialized skills in the Afferent sub-committees was also adduced in the findings giving an average rate of 90%. All ^ese skills were in line with the kind of intervention that the organization provided.

**Graphs 5 & 6: Appointment of the Board**

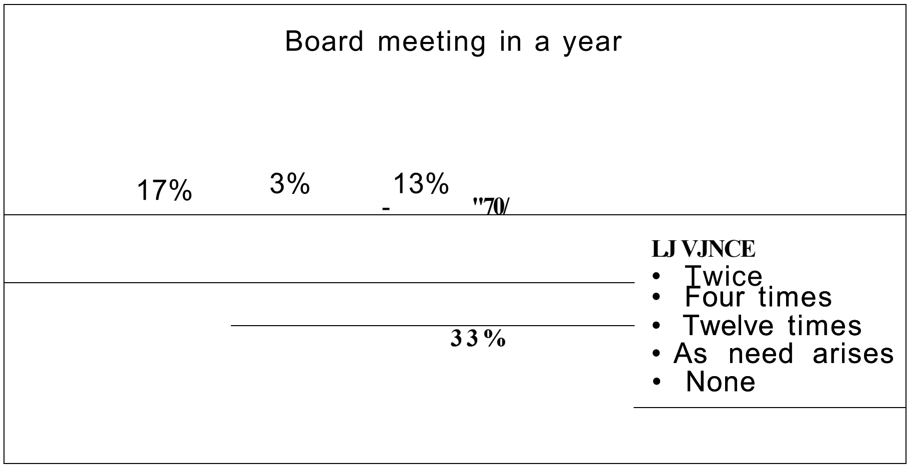



Source: Field Data 2009

The findings showed that 33.33% of the organizations have the retiring Board members selecting the new Board members. Only 26.67% select the Board members through a fair and consultative process. The community and the donors have very little say in the selection of the Board members. Since one organization did not have a functional Board, the appointing organ could not be defined.

**Graph 7: Frequency of Board Meetings in a year.**




Source: Field Data 2009

Majority, 77%, of the organizations' Boards meet more than four times in the year to deliberate on governance matters. 20% of the organizations indicated that they meet once or twice in a year to discuss governance matters. The remaining 3% did not indicate any meeting since they did not have a functional Board.

**Table 4: The Roles of the Board**

| Role | Mean | Standard deviation |
|---|---|---|
| Formulation of Long term strategy | 4.50 | 0.03 |
| Recruitment and appointment of senior staff jnd CEO | 4.17 | 0.25 |
| J^olicy development and implementation | 4.83 | 0.02 |
| Day to day manaqement of the organization | 0.50 | 0.30 |
| -Provision and overseeing of resources | 3.67 | 0.26 |
| .^groval of proposals from management | 2.33 | 0.35 |
| .Oversee management of the organization | 4.50 | 0.23 |
| Consults technocrats on Professional jnatters_ | 4.50 | 0.25 |
| [Other | 2.67 | 0.36 |

Source: Field Data 2009.

^rom the Table 4 above, the study found that, in a scale of one to five where 1 represents a little e*tent and 5, to a very large extent, the international NGOs have the Boards' critical roles as lhose of formulation of long - term strategy (4.5) and formulation of policy and implementation

(4.83). The other key role is that of overseeing the management and appointment of the key staff and the CEO (4.5). The Board engages itself in the day- to- day management of the organizations to a very small extent, 0.5 but consults technocrats on professional matters to a great extent, 4.5. This is mainly in extraordinary situations that call for the intervention of the Board. The approval of proposals is largely left to the management except the proposals touching on the management itself and those that have huge impact on the organization.

The other roles as found from the study to be performed by the Board include; Evaluation of the CEO's performance, advocacy matters, appointment of new directors, fundraising, governing issues, electing the Chair and committee members, Succession planning.

**Table 5: The Assessment of the Governance Structures and Practices**

| Assessment parameter | Mean | Standard deviation |
|---|---|---|
| Existence of policies, guidelines and operating plans | 4.50 | 0.43 |
| Board's influence over the direction and control of organization | 4.50 | 0.25 |
| Diverse skills represented in the Board | 4.45 | 0.20 |
| Board commitment measured by attendance of meetings | 4.25 | 0.13 |
| Written documentation of board meetings | 4.35 | 0.40 |
| The Board Chair is not the CEO | 4.30 | 0.32 |
| Evaluation of the performance of the chair | 3.40 | 0.36 |
| Evaluation of the Board performance | 3.25 | 0.41 |
| Board undertakes formal peer review regularly | 3.30 | 0.52 |
| Training and induction of Board members | 2.85 | 0.69 |
| Succession planning for both Board and the CEO | 4.35 | 0.25 |

Source: Field Data 2009.

The rating in Table 5 is based on a scale of one to five where 1 represents to a very little extent and 5 to a very large extent. The study showed that the boards fulfilled the mandate that the organization entrusted them to a very large extent.4.50. It also takes care of the diversity issues large extent, 4.45. The evaluation of the board performance and training of the members are undertaken to a moderate extent.

### 4.3.1 The Governance triangle

This summarizes the relationship between the key players in corporate governance. It is evident in the communication between the Board, the management and the stakeholders both community and the other stakeholders.

**Table 6: The communication between the board and management**

| Assessment of communication | Mean | Standard Deviation |
|---|---|---|
| Sharing of strategic goals and direction | 4.75 | 0.02 |
| Communicate to management their roles and responsibilities | 4.65 | 0.03 |
| Shares organization needs and issues | 4.40 | 0.05 |
| Day to day running of organization | 0.50 | 0.01 |
| Policy issues shared on personnel, finance and operations | 4.80 | 0.04 |
| Board receives timely information from senior management | 4.35 | 0.02 |
| Board's share information requirements with management | 4.25 | 0.04 |
| Board updated by management on new developments | 3.80 | 0.03 |
| **Average** | **3.94** | |

Source: Field Data 2009

The rating in Table 6 is based on a scale of one to five where 1 represents to a very little extent and 5 to a very large extent. The study showed that most respondents felt that overally, the board related to a large extent, 3.94, with the management. They shared information well on a timely basis. The Board got regular updates from the management on issues affecting the organization regularly.

**Table 7: The communication between the board and key stakeholders**

| Assessment of communication | Mean | Standard Deviation |
|---|---|---|
| Sharing of strategic goals and direction | 1.80 | 0.04 |
| Communicate to community on ongoing issues | 2.15 | 0.03 |
| Shares community needs and issues | 3.20 | 0.15 |
| Community has a say on appointment of directors | 1.75 | 0.02 |
| Boards duty to the community | 1.90 | 0.03 |

Source: Field Data 2009

Table 7 shows that on a scale of one to five where 1 represents to a very little extent and 5 to a very large extent, the sharing of information between the board and the community is at best to a little extent, 2.16. The respondents felt that information sharing between them and the board is mainly at the assessment of community needs and issues, 3.2, for fundraising purposes. It was also felt that during implementation some engagements with the board occur occasionally on ongoing issues for evaluation and redesigning. This study reveals a weak relationship between the board and the community who are the key stakeholders as compared to the relationship between the board and the management.

**Table 8: The relationship between the Board and other stakeholders**

| Relationship assessment | Mean | Standard Deviation |
|---|---|---|
| The board's accountability to the donors | 4.70 | 0.25 |
| The board relates well with the government | 4.15 | 0.13 |
| Donor influence on the organization operations | 4.60 | 0.01 |
| Consults technocrats on professional matters | 4.50 | 0.21 |
| The board represents the organization during government meetings and other forums | 3.75 | 0.02 |
| Overall extent of relationship | **4.34** | |

Source: Field Data 2009

The findings in the Table 8 above show that on a scale of one to five where 1 represents to a very little extent and 5 to a very large extent, most of the respondents felt that their organization had a good relationship, 4.34, with the external stakeholders other than the community.

**Table 9: Assessment of relations amongst the Board, management and stakeholders**

| Assessment of relationship | Number | Percentage |
|---|---|---|
| Influence of other stakeholders on Board decisions | 27 | 89 |
| Influence of management and the CEO on board decisions | 16 | 53 |
| Separation of roles between management and the Board | 28 | 93 |
| Board involvement in the recruitment of the CEO | 29 | 95 |
| Communication between the Board and the stakeholders | 23 | 75 |
| Communication between the Board and the management | 24 | 79 |
| Board protection of stakeholder interests | 23 | 76 |
| Board's management of conflicts of interest | 26 | 86 |
| Extent audit issues are addressed by the Board | 25 | 84 |

Source: Field Data 2009

Majority of the respondents, 95%, felt that the Boards were involved with the recruitment of the organization's CEO. The findings also indicated that the chair of the board is separate from the CEO and that the board has its roles and responsibilities set out and different from that of the management. A relationship exists to large percentage between the board and the management and overall the communication between the 3 key players is moderate.

The board is seen a good protector of stakeholder interests, 76%, and also endeavor to resolve conflicts amicably, 86%. Both the Board and the management handle audit issues with seriousness, 84%, as seen in the presence of functional audit committees in the Board.

**Table 10: Good Governance practices existing in International NGOs**

| Governance practices | Mean score | Standard deviation |
|---|---|---|
| Board steers Strategic planning and direction | 4.50 | 0.02 |
| Teamwork and consultation | 3.80 | 0.13 |
| Sharing of information | 3.19 | 0.10 |
| Independent Board | 4.00 | 0.03 |
| Integrity | 3.50 | 0.05 |
| Objectivity | 3.17 | 0.01 |
| Leadership | 4.16 | 0.25 |
| Transparency and accountability | 3.80 | 0.02 |
| Participatory decision making | 3.33 | 0.05 |
| Commitment | 4.33 | 0.03 |
| Good communication | 3.50 | 0.14 |
| Board diversity in skills and gender | 4.16 | 0.10 |
| Conflict resolution and declaration of interest | 3.00 | 0.02 |

Source: Field Data 2009

On overall, based on a scale of one to five where 1 represents to a very little extent and 5 to a very large extent, the average rating is 3.75 showing good governance practices in international NGOs. The areas that show a gap in governance relates to stakeholder relations and consultations: sharing of information with the community, engaging the community in the appointment of the board of directors and basing strategy planning on the needs and issues of the key stakeholders.

### 4.4 Challenges of corporate governance

The findings showed some of the challenges facing NGOs in the exercise of good corporate governance. Some of these challenges are inferred from the practices of governance.

**Table 11: Corporate governance challenges in international NGOs**

| 'governance challenges | Frequency out of 30 | Percentage |
|---|---|---|
| ""Retiring board appoints new Board | 21 | 70.00 |
| "ponor demands shifts control to technical staff rather than the Board | 24 | 80.00 |
| ~Weak relations with key stakeholders | 22 | 73.33 |
| Ambiguity of governance guidelines | 23 | 76.67 |
| Irregular evaluation of the performance of the Board | 20 | 66.67 |
| Little accountability to the community | 24 | 80.00 |
| Tittle involvement of key stakeholders in decision making | 20 | 66.67 |
| Government influence on decision making by the Board | 24 | 80.00 |
| Monitoring and evaluation of the CEO performance | 14 | 46.67 |
| Succession planning for senior management | 13 | 43.33 |
| Conflict resolution and declaration of interest | 18 | 60.00 |

Source: Field Data 2009

The challenges as shown from the study in Table 11 affect 68% of the international NGOs and vary from the appointment of the board to the involvement of the community in decision making that touches on their needs/issues. The biggest challenge at 80%is donor demands that continually shift. Government influence and little accountability to the community also affect the exercise of good corporate governance.

Monitoring and evaluation of the CEO's performance has also been a challenge as well as succession planning for senior management due to staff turnover in international NGOs.

# CHAPTER FIVE: SUMMARY, DISCUSSIONS AND CONCLUSIONS

## 5.1 Introduction

This chapter summarizes, discusses and makes conclusions on the study. Summary and discussion of the findings is made on the basis of the research Objectives. The first section of 5.2 dwells on the practices of Corporate Governance and its conclusion. The second section of 5.2 looks at the challenges of Corporate Governance and its conclusion. The sections that follow are on the study limitations, recommendations for further research and implications for policy and practice.

## 5.2 Summary, Discussions and Conclusions.

The objective of this study was to investigate the practices and challenges of corporate governance in international NGOs. A structured questionnaire was sent out to 50 sampled international NGOs based on the years of operation. Literature reviewed explored the meanings of corporate governance, the definition of NGOs and the relevance of corporate governance to international NGOs. It looked at the role of International NGOs in fostering corporate governance, the corporate structure, the key players in corporate governance and the accepted practices of corporate governance.

Research methodology was based on a survey of international NGOs. This method has been widely used for its efficacy in studying large populations where inferences need to be made on sampled data. The sample was randomly selected based on the years of existence as this determines the experience on corporate governance. Data was analyzed using statistical methods where frequencies, the mean and percentages were used to arrive at some inferences. Data was presented in tabular as well as graphical means to bring out the findings.

The study found that, with the exception of one, the organizations had a governing body (under different names) in place that is different from the management and whose roles and responsibilities are also distinct from those of the management. It was also found that the Chair the Board is not the CEO, a fact that is crucial for the independence of the Board (Rosenstein ^ Wyatt, 1990). The importance of the independence of the Boards is in the separation of the chair from the CEO and this was proposed by Adrian Cadbury's report of 1992 (Tricker, 2000). The practice of good corporate governance is determined by the existence of a Board.

There is a strong relationship between the board and the management and the external stakeholders and a weaker relationship between the board and the key stakeholders. This is because of the need for high-level donor accountability and compliance with government regulations. This is in line with their areas of interventions and the key donors that provide funding to the organizations. The organizations felt that they wouldn't want to jeopardize their relationship with the donors lest they loose funding which has become competitive, Lydia (2006). This finding is in line with the study of Montgomery and Kaufman, 2003, which found out that the relation between the board and the management is usually well defined but that of the board and the stakeholders is weak at best. This depicts an unbalanced structure that needs to be improved at the weaker links. Bain and Band (1996) suggests that the beneficiaries (stakeholders) be made the true proprietors, as this is likely to lead to distinct obligations to them.

The research reinforced earlier findings that most INGOs were registered in the 1980s and the 1990s mainly because there were increased conflicts in the region and many humanitarian crises that called for immediate interventions. These included fighting, feminine related crises and the HI/AIDS pandemic at the time. During the two decades that witnessed higher number of registered International NGOs, the quality of government services had deteriorated to a high level and the private sector was not helping much to provide the much needed services to the community (IDR, 2000). The turn of the millennium has not seen many International NGOs being registered because of the realization by the local CSOs of the need to intervene in Provision of services similar to the International NGOs. This has been strengthened by the fact that the INGOs are partnering with the local CSOs like the CBOs, FBOs to offer these services.

'he research found that 34% of the International NGOs addressed development matters while 23% largely concerned themselves on HIV/Aids issues.43% intervened on areas ranging from Advocacy, humanitarian relief, water and sanitation, women issues, child rights issues etc that governments have performed poorly. The NGOs have tried to step in the gap and provide these needs that the communities want addressed and of which the government has been slow, corrupt or not transparent in the use of donor resources. Herzlinger (1994 highlights the fact that the public is looking to the NGO to address social issues that the government has failed to. The World Bank further strengthens the importance of NGOs in promoting responsible governments, creating linkages between the different tiers of society, giving local interests a say and exerting an influence through a very wide range of ideas and values on the framing of state policies (World Bank, 1993).

In most of the international NGOs, the selection of the Board was by appointment by the retiring board members but a consultative process was also exercised in some NGOs. The findings show that the meetings' deliberations were well minuted and safely kept in most organization. The respondents also indicated that in most of the International NGOs, the chair of the Board is not the CEO. The evaluation of the board performance and training of the members are undertaken to a moderate extent. These two areas were felt that there is need to improve in order to foster Board's performance and strong governance.

Diversity in the board of the organizations is seen in both gender representation, appointment of the directors on the basis of existing skills and requirements and the presence of different skills and different sub committees in the board. The structure of the committees is an important ingredient for the board independence that affects its effectiveness. As a monitoring committee, the audit committee has been considered as one of the most important board committees (Klein, 2002) and has an increasingly important role in Corporate Governance. This agrees with Bain & Band (1996) suggestion that the selection of the Board of Directors should be based on a capacity to understand and act in accordance with peculiar stewardship requirements of the sector.

he roles of the board were well defined and in line with good governance practice. However e/'dence of good exercise of the roles was not adequate in terms of the appointment of the Sectors, evaluation of the CEO and the board as well as induction of new board members. This is an area that requires improvement and deliberate action. This monitoring is important because

**directors** represent shareholders in assessing and evaluating managers' performance. Fama and **Jensen** (1983, p. 314) state that:

"The board of directors is the common apex of the decision control systems in the organization when the ownerships and control are separate and therefore they have a power to hire, fire and **compensate** the decisions managers and to ratify management decisions and monitor operating activities".

The relationships with the other stakeholders mainly the donors and the governments were found to be strong. Strong donor requirements on transparency and accountability as well as the government regulations seem key in fostering theses relations. The nature of intervention also contributes to the strong ties with partners and donors. IDR, 2000 found that NGOs strive to account to the donor by every means and leave out the communities and the CBOs. The NGO looks at funding sustainability and future survival as key and is determined by accountability to the donors as opposed to the communities' sustainability in the absence of the NGO. So external relations is strengthened by the need for future resource mobilization and survival of the NGO rather than sustainability of the communities. This has led to the communities being vulnerable and more dependent on the International NGOs as the later focuses less on community sustainability.

Research findings indicate that 80% of the international NGOs covered by this study have been in existence for more than 10 years and corporate governance exists to a large extent. Governance body going by different names exists and it consists of external directors who are separate from the management and the CEO is not the chair of the board. The roles of the board and that of the management are separate and distinct and each group understands their roles well. Policies, guidelines and operating plans exist in most of the organizations to guide the operations °f the board as well as the management. The board has defined terms and the members understand their mandates well. The chair embraces independence of the board and represents management well in the board. The boards are diverse in terms of gender and skills ^presentation and sub committees are in line with the organizations' areas of interventions.

The findings show that the practice of good corporate governance is limited by the challenges that exist. These include the donor demands, which continue to change, the selection of the board by the retiring board members, ambiguity in corporate governance guidelines and sometimes government influence on the international NGOs with very little consultation with the communities. The ever-shifting donor requirements and demands 'ropes' the board of the control and hands it to the management, technical experts. In essence it is the donor who has the say, albeit indirectly. Lydia (2006) indicates that NGOs are facing stiff competition for dwindling donor funding. The exercise of good corporate governance is therefore stifled by this fact.

International NGOs do not involve communities in decision making at all levels and thus participatory governance is not seen to be effective at the community level. The appointment of new board members by the retiring board members also affects the independence of the board and fair processes of selection. This could lead to loyalty allegiance to the former members and lack of transparency that may affect fair decision-making and recruitment of the staff and the CEO.

The relationship between the board, the management and the external stakeholders is found to be strong whereas that with the key stakeholders, community, is weak. The external stakeholders got more attention perceived as loyalty for continued funding and government compliance. The community is left behind in information sharing yet this is the key stakeholder in terms of reason for continued existence of the international NGOs. Sometimes government influence also poses a challenge as well as the ability to declare interests and solve conflicts amicably, both in the board and the senior management.

Despite these challenges, the international NGOs post some of the best governance practices and uphold good stakeholders' relations. The governance practices were found to be satisfactory with little interference on the exercise of governance. The board is a central part of governance and the appointment of the board of directors is crucial to uphold good governance practices and thus this should be done through an extensive process of fair consultation with all the stakeholders.

### 5.3 Study Limitation

The researcher encountered several limitations during the study especially during data gathering. The non-response from 15 international NGOs was one of them though this had been partly taken care of at the determination of the sample. The actual sample needed was 32 but chose 50 to take care of none responses. Some respondents did not want to disclose some aspects, which they considered sensitive and resorted to use rather generalized or non-specific responses.

Timeline was a challenge as some of the respondents took rather long to feedback and could not keep to the agreed timeframe. Effective feedback requires enough time and a good rapport with the respondents, which can be built over time. The target being busy CEOs also required tact and follow up to get they fill the questionnaires.

### 5.4 Recommendation for further research

This highlights some of the areas that could require further research in the future.
A study of how NGOs with strong governance practices overcome governance challenges could be done to share best practices.

In the face of dwindling donor funding, a study of the impact of shifting donor demands on the practice of good corporate governance could be done. This may be done using a survey of a specific group of NGOs say those in one area of intervention or in one Geographical area. The findings will be vital in informing policies on NGO registration and operation.

A study of the skills and board diversity and how these influence the practice of governance in NGOS can be undertaken for a section of NGOs in one area of intervention or for a specific NGO using case study. This is useful in challenging present practices and improving them for the organizations' good.

A similar study on corporate governance practices and challenges could also be done from the key stakeholders' lens. Using a survey of the beneficiaries, this study could enable an understanding of what the stakeholders go through to get the benefits meant for them and will improve on the performance of the Board and the management.

## 5 5 Implication for Policy and Practice

This study has some implications on the Policy and practice in that, the policy makers ought to expire better ways of involving the community in decision making in INGOs and also putting measures in place to check on the excesses of the management and the laxity of the Board. The study shows that INGOs practice good Governance to a large extent and the lessons can be replicated in the private and government institutions in order to improve on service delivery to the people.

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## APPENDICES

**Appendix One: List of International NGOs**

1. Action Aid International
2. Action for Children In conflict UK
3. Adventist Development and Relief Agency-Kenya
4. African Medical and Research Foundation
5. Association for Education and Development
6. CARE Kenya
7. Catholic Fund for Oversees Development
8. Catholic Relief Services
9. Centre for Africa family Studies (CAFS)
10. Centre for Law and Research International
11. Children Mercy Fund
12. Christian Children Fund (Child fund)
13. Compassion International
14. Concern Worldwide
15. Danish Association for International Cooperation
16. East African Wildlife Society
17. Family Health International
18. Farm Africa (International)
19. German Agro Action
20. GOAL International
21. Handicap International
22. Heifer Project International
23. Help Age Kenya
24. Hope Africa
25. Internationa Commisision of Jurists
26. International Rescue Committee

27. Land O Lakes International
28. Life and Peace Institute
29. Medecins Sant Frontieres
30. Medical Aid International
31. Mercy Corps International
32. Merlin (Medical Emergency Relief International)
33. Norwegian People's Aid-Kenya
34. Oxfam GB
35. Pact Kenya
36. Pathfinder International
37. Plan Kenya
38. Population Services International
39. Practical Action INTERNATIONAL
40. Save the Children
41. Sight savers International
42. SOS Kinderdorf International
43. The Ford Foundation
44. TROCAIRE
45. Veterinarians Without Borders-VSF Germany
46. Vision Of Good Hope International
47. Winroc International Institute for Agriculture Development
48. World Concern
49. World Relief International
50. World Vision International

**Appendix Two: Letter of introduction**

Linner Ng'eno

P.O Box 40680-00100 GPO

Nairobi

Dear Respondent,

**<u>Ref: MBA RESERCH PROJECT</u>**

I am a postgraduate student at the University of Nairobi pursuing a Master of Business in Administration (MBA) degree. In partial fulfillment of the requirements, I am required to undertake a research project in Strategic Management on governance practices among International NGOs.

i am kindly requesting you to participate in this study by filling in the attached questionnaire to the best of your knowledge. The information provided will be treated with the utmost confidentiality and will be used solely for academic purposes.

Your kind assistance will be highly appreciated.

| | |
|---|---|
| Linner Ng'eno | Dr. M. Ogutu |
| ^BA student | Project Supervisor |

**Appendix Three: Survey Questionnaire**

**"SURVEY QUESTIONNAIRE OF GOVERNANCE PRACTICES INGO"**

This questionnaire seeks to establish the current governance practice in International NGOs in Kenya today. The information on this questionnaire will be treated confidentially, and will not be used for any other purpose other than academic. The researcher will be at hand to clearly assist during the data collection process.

**INSTRUCTIONS**

This questionnaire has 3 sections A, B and C. kindly answer questions in each section. If a question has a response not in the list of choices, feel free to add below. If a question is not applicable kindly mark 'N/A' and if you simply do not have the knowledge, mark 'N/K'.

PLEASE WRITE AS LEGIBLEY AS POSSIBBLE, THANK YOU

## Section A: Organization Profile

]. Name of your Organization_

2. The Year your Organization was established_

3. The year the organization was registered in Kenya

4. Current number of employees (tick as appropriate)

   Less than 500 [ ]

   Between 501 -1000 [ ]

   More than 1000 [ ]

5. Your organization's area of intervention e.g. development, Advocacy, HIV/ Aids.

6. The name of your organization's Governing body e.g. Board of Directors, Board of Tru stees.

7. The number of members serving in the Board of Directors_

8. The number of women serving in the Board_

9. a)The number of times the Board meets in a year (tick as appropriate)

   Once a year [ ]

   Twice a year [ ]

   Once in a quarter [ ]

   Once a month [ ]

   As need arises [ ]

   b) Where does the board sit?

   - In Kenya [ ]
   - Other (specify) [ ]
   - Teleconference meetings [ ]

## SECTION B: CORPORATE GOVERNANCE PRACTICES AMONG INTERNATIONAL NGO'S IN KENYA

9. To answer this question, use the scale provided where **1=** Not at all, **2** = To a little extent, **3** = To a moderate extent, **4** = To a great extent, **5** =To a very great extent.

| **To what extent can you say the following apply to the board** | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| The Board formulates long term strategy of the organization | | | | | |
| The Board is not involved in day to day running of the organization's affairs | | | | | |
| The board provides the necessary resources for the achievement of the organization's strategic goals | | | | | |
| The board defines and communicate to management their powers, roles and responsibilities | | | | | |
| The board knows the organization's beliefs, values, mission and vision | | | | | |
| The board clearly understands their functions and roles | | | | | |
| The board approves proposals from the management after thorough scrutiny, debate and analysis | | | | | |
| The board consults technocrats on professional matters | | | | | |
| The board has got an operating plan that defines its functions, activities and its objectives | | | | | |
| 'he board selects and reviews the performance of the CEO and determines his/ her remuneration | | | | | |
| 'raining and Induction of Board members is undertaken regularly | | | | | |

10. To answer this question, use the scale provided where **1=** Not at all, **2** = To a little extent, **3 =** To a moderate extent, **4** = To a great extent, **5** =To a very great extent.

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| **The boards' first duty of accountability is to;** | | | | | |
| The organization | | | | | |
| The donors | | | | | |
| The community | | | | | |
| Other stakeholders (specify) | | | | | |
| The Board shares the organization strategic goals and direction with; | | | | | |
| The management and staff | | | | | |
| The donors | | | | | |
| The community | | | | | |
| i The management shares with the Board policy issues on finance, personnel and operations. | | | | | |
| I The board relates well with the government of the | | | | | |
| 1 Key members of the management attend Board meetings to provide updates and briefs to the members of the board on organization matters and new developments | | | | | |
| The government has a strong influence on the Boards' decisions | | | | | |
| The board shares community needs with the senior management | | | | | |
| Hie board involve the community in needs assessment, project i redesign and evaluations | | | | | |
| 'he members share with the community on-going issues and new ^velopments within the organization. | | | | | |

11. Use the scale provided to answer this question: where **1=** Not at all, 2 = to a little extent, 3 = To a moderate extent, **4** = To a great extent, **5** =To a very great extent.

| To what extent can you attribute corporate governance practices in your organization to the given factors | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Organization culture | | | | | |
| Organization's strategic direction and long-term planning | | | | | |
| The organizations' teamwork and consultation | | | | | |
| The Board members' selection | | | | | |
| The donor interest | | | | | |
| The governments' influence on the Board | | | | | |
| The independence of the Board | | | | | |
| Other stakeholders' interest | | | | | |
| The existing board structure | | | | | |
| The existing board leadership | | | | | |
| The boards' integrity | | | | | |
| The Boards' commitment | | | | | |
| Good communication with all stakeholders | | | | | |
| Accountability and transparency | | | | | |
| Participatory decision-making | | | | | |
| The efficiency and effectiveness of service delivery | | | | | |

**12.** State whether the following applies to the board by ticking **YES or NO** as relates to your organization

Yes No

Minutes of all meetings, proceedings and board resolutions are securely kept

are available to all members of the board

TSTMembers receive advance written agenda and notices of meetings

pksence from the board meetings is by exception not as a rule

| | | |
|---|---|---|
| The Board undertakes its activities in a free and fair atmosphere | | |
| The board is involved in the selection of the directors | | |
| The selection considers present skills and requirements in the board of directors to ensure diverse interest groups' representation | | |
| The board gets enough time to deliberate on issues | | |
| Every new board member is inducted well after selection. | | |
| A new board member is given clear information on the role of management and that of the board and the relationship between the two | | |
| Board performance is evaluated at least once in a year | | |
| A succession plan is in place for the board's chairperson, board members, the CEO and the senior management. | | |
| Where the conduct of any director becomes questionable, he or she is asked to leave the Board. | | |
| Interest and conflicts between board members are declared and resolved amicably | | |

13. This is a question on the structure of the board. Please tick **Yes or No** as appropriate for your organization.

| | Yes | No |
|---|---|---|
| The Board consists of the executive and non executive members on a fairly balanced proportion | | |
| The chairperson is not the CEO and their roles are clearly defined and separate | | |
| The board has formally constituted and recorded committees with clearly defined terms of reference, composition and reporting mandates | | |
| 'he committees have been established and appointed based on<br>i- The need to increase the board's effectiveness utilizing the specialized skills of the board<br>ii. The need to provide support and guidance to the management<br>^jii^The need for effective and independent audit and finance reports | | |

The different sub committees are on board and have clearly defined terms of references.

i. Executive committee
ii. Audit committee
iii. Board appointment and remuneration committee

14. Information flow and communication within the board and the management

Tick either **YES or No** as applicable in your organization

| | Yes | No |
|---|---|---|
| Every board member is given the organization's legal documents; mission and vision, strategy documents on first appointment | | |
| Every board member receives a copy of the board manual at the time of his or her appointment | | |
| The Boards' decisions are guided by the community needs as assessed and shared with stakeholders | | |
| The Board communicates to the stakeholders on decisions affecting them | | |
| Every board member has access to organization's policy documents on personnel, finance as reviewed from time to time | | |
| The board receives sufficient and timely information from senior management in an agreed upon format | | |
| The board's information requirements are communicated to the management °n a regular basis | | |
| The Boards' decisions are largely influenced by; a) donors | | |
| b) CEO and the management | | |
| c) The government | | |

15. Use the scale provided to answer this question: where **1=** Not at all, **2** = to a little extent, **3 =** To a moderate extent, **4** = To a great extent, **5** =To a very great extent

| **To evaluate the effectiveness of the chairperson of the board.** | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Promotes effective participation of all board members in board meetings | | | | | |
| Effectively represents the management to the board | | | | | |
| Is effective in maintaining transparency and accountability | | | | | |
| Ensures succession plans are in place for both the senior management and the directors | | | | | |
| Monitors and evaluates in consultation with other board members, the CEO's performance and that of the senior management | | | | | |
| Members absence from board meetings is by exception not as a rule | | | | | |
| Board members and key management evaluate the performance of the chair at least once a year | | | | | |
| Represents the organization during government meetings and other forums | | | | | |

**SECTION C: TO ESTABLISH THE CHALLENGES OF CORPORATE GOVERNANCE IN INTERNATIONAL NGO'S IN KENYA**

16. The following seeks to establish the Corporate Governance Practices and Challenges. Tick the most appropriate response.

a) How effective is service delivery in your organization?

Not effective []

Relatively effective []

Very effective []

b) in terms of efficiency in service delivery, this organization is

Very inefficient []

Relatively inefficient []

Efficient []

Very efficient []

c) Using the provided scale where 1= [very poor], 2= [poor], 3= [fair], 4= [good], 5= [good], how does the Board of directors rate in terms of the following corporate governance practices?

Integrity

[1] [2] [3] [4] [5]

Objectivity

[1] [2] [3] [4] [5]

Leadership

[1] [2] [3] [4] [5]

d) Is there a conflict of interests between Directors and the employees?

- Yes [ ] No [ ] Not aware []

e) Who has the final say in the appointment of the Board of Directors

- The donor(s) [ ]
- The government [ ]

- The retiring Board members [ ]
- The CEO and other senior management [ ]
- The community [ ]
- Fair selection process through consultation

f) Do donor demands for NGO control shifting to technical staff/management, rather than the Board of directors pose a governance challenge?

- No it does not [ ]
- Sometimes it does [ ]
- Always a challenge []

g) Do you consider the corporate governance guidelines to be ambiguous? How ambiguous are they?

- No, they are clear [ ]
- Relatively ambiguous [ ]
- Yes, very ambiguous [ ]

h) Is there a link between corporate governance and delivery of service in international NGOs?

Yes [] No []

**THANK YOU VERY MUCH FOR YOUR COOPERATION AND ASSISTANCE.**