THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND PERFORMANCE OF NON GOVERNMENTAL ORGANIZATIONS IN KENYA

BY

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DECLARATION

This Research Project is my original work and has not been submitted for a degree in any other university.

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DEDICATION

This research project is dedicated to my mother Queen Nanga, for her continuous support, guidance, provision and love without which I could not have come this far.

ABSTRACT

In the Kenyan NGO sector, over 50 percent of the organizations are small and transitory in nature, often formed to maximize on an opportunity. The last two decades have seen an increase in non-profit organizations and yet the aspect of corporate governance has been largely neglected in studies that test the links between governance attributes and organizational performance. This study therefore examines the relationship between governance and performance in order to guide in decision-making. The results of this research will shape policy among government agencies mandated to register and regulate the performance of NGOs through their jurisdiction in developing appropriate mechanisms to enhance improved performance

The study adopted descriptive case design targeting all NGOs in Kenya that are registered in accordance to the NGO Coordination Act, 1990. The researcher used a stratified sampling method in realising homogenous strata and then picking a sample from each stratum for the final sample size of 30 NGOs out of the sampling frame. The study used a questionnaire to collect primary data. The data was analyzed using both qualitative and quantitative techniques by use of Statistical Package for Social Sciences.

The study found that governance and management have a major role to play as far as organizational performance is concerned. Relevance of programs implemented, appropriateness of the design of programs, achievement of intended results, cost and productivity, responsiveness as well as protection of assets had the highest score of 5 as favoured by 84% of the respondents among performance measurement tools examined. NGOs accountability remains a pressing public concern. In response, donors around the globe have adopted performance measurement to use with their grantees in order to ensure accountability and secure some social benefit for their grants.

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ABBREVIATIONS

BRAC	-Bangladesh Rehabilitation Assistance Committee
CCAF/FCVI	-The Canadian Comprehensive Auditing Foundation
CEO	-Chief Executive Officer
CGR	-Corporate Governance Rating
CORDAID	-The Catholic Organization for Relief and Development
CSO	-Civil Society Organization
DFID	-Department for International Development
DPI	-Department for Public Health
EU	-European Aid
GIM Index	- Gompers, Ishii, and Metric Index
ICNL	- International Centre for Not-for-Profit Law
INGO	-International Non Governmental Organization
IRRC	- Independent Regulatory Review Commission
ISS Data	-Institutional Shareholder Services Data
NGO	-Non Governmental Organization
NPO	-Not for Profit Organization
OLS	-Ordinary Least Squares
PVO	-Private Voluntary Organization
ROA	-Return on Assets
ROCE	-Return on Capital Employed
ROI	-Return on Investment
TQM	-Total Quality Management
UN	-United Nations
USAID	-United States Agency for International Development

CHAPTER ONE

INTRODUCTION

1.1 Background

The corporate governance concept is gradually warming itself to the top of policy agenda in the African continent like in Ghana and South Africa (Miring'u and Muoria 2011).Indeed, it is believed that the Asian crisis and the seemingly poor performance of the corporate sector in Africa have made the concept of corporate governance a catch phrase in the development debate (Berglof and Von Thadden, 1999). Empirical studies have provided the nexus between corporate governance and firm performance. Bebchuk, Cohen and Ferrell (2004) indicate that well-governed firms have higher firm performance. Developing countries are now increasingly embracing this concept.

1.1.1 Corporate Governance

The Government of Hong Kong Special Administration Region defines Corporate Governance in its article - Leading your NGO;as the set of principles and practices adopted by a Board – whether in the private or social welfare sector – that assure its key stakeholders that the organization is being managed effectively and with appropriate probity. It provides the structure through which the objectives of the organization are set, and the means to obtaining those objectives and monitoring performance are determined. Typically, the corporate governance framework should ensure the strategic guidance of the NGO, the effective monitoring of the NGO's management by the Board, and the

Board's accountability to its stakeholders – its clients, the donors (as a source of funds) and the community in terms of impact of their proposed activities.

The board is usually the highest policy making arms of many organisations. In the organisations, the boards of directors are answerable to either the general assemblies, to themselves, trustees or the Annual General Meetings. The board of directors is a group of external people who collaborate to provide technical, managerial, and financial support to an organisation. The board is ultimately responsible for governing the organisation and holds legal responsibility for the organisation and its operations. The board helps develop, support, and defend the organisation's mission (Gharp, 2006).

1.1.2 Performance

Although the term 'performance' is widely used, it tends to be defined only indirectly and according to context.Performance is frequently presented as an umbrella for a host of other ideas – including effectiveness, productivity, quality, transparency and accountability – each of which leads to yet more frameworks and extensive literatures. Some NGOs focus on short-term quantifiable outputs instead of long-term systematic change in order to meet the requirements of donors. NGOs that are more concerned with the quantity than the quality of the services they perform can become more interested in themselves rather than in their expressed objectives (Ganesh, 2003). NGOs, like other organizations, try to justify what they do and how they do it, particularly to internal and external stakeholders (Sharfeddin, 2008).

1.1.3 Corporate Governance and Performance

Empirical studies widely claim that good governance enhances a firm's performance (Brickely and James, 1987).However, other studies have reported negative relationship between corporate governance and performance (Hutchinson, 2002), and others have not found any relationship (Singh and Davidson, 2003).Arguments in favour of the conflicting results are that they come about because of the use of either publicly available data or survey data all which are restricted in scope. Besides measures such as return on assets (ROA), return on equity (ROE), return on capital employed (ROCE) or restrictive use of market based measures (such as market value of equities) could have contributed to the inconsistency (Gani and Jermias, 2006)

There is an ongoing debate on whether better corporate governance leads to better firm performance. Black et. al. (2006) concluded that firms having high governance score have a high market value. In expectation of the improvement in firm's performance, the stock price might also respond instantaneously to the news indicating better corporate governance. Firms having weak governance structures face more agency problems and managers of those firms get more private benefits due to weak governance structures (Core et. al., 1999). There is no unequivocal evidence to suggest that better corporate governance enhances firm performance (Klein, Shapiro and Young, 2005). As a result, investors are still much sceptic about the existence of the link between good governance and performance indicators and "for many practitioners and academics in the field of corporate governance, this remains their search for the Holy Grail – the search for the link between returns and governance" (Bradley, 2004).

Coleman (2007) concluded that the direction and the extent of impact of governance is dependent on the performance measure being examined. Specifically, the findings showed that large and independent boards enhance firm value and that combining the positions of CEO and board chair had negative impact on corporate performance. He also found out that CEOs tenure in office enhances a firm's profitability while board activity intensity affects profitability negatively. The size of audit committees and the frequency of their meetings had positive influence on market based performance measures and that institutional shareholding enhances market valuation of firms. Finally the results pointed out that both country and sector characteristics influence the impact of governance on corporate performance. For enhanced performance of corporate entities, he recommended a clear separation of the positions of CEO and the board chair and also the maintenance of relatively independent audit committees.

1.1.4 NGOs in Kenya

According to a World Bank's working definition, NGOs are "private organizations that pursue activities to relieve suffering, promote the interests of the poor, protect the environment, provide basic social services, or undertake community development" (The World Bank, 2005). Such organizations may come in the forms of charities, foundations, associations, non-profit corporations (NPOs), and private voluntary organizations (PVOs) (Karla, 1999).

There are more than 3000 NGOs in Kenya (NGO Coordination Board, 2002). This however relates to the organisations registered under the NGO Coordination Act, 1990.

There are many other organisations registered in Kenya under other registration regimes. In 1990, the Government of Kenya enacted the NGOs Coordination Act to be a central reference point for registration of all NGOs (both local and international) operating in Kenya. In a bid to manage the performance of the NGOs, the NGOs Council was established under section 23 of the Act. Its role is to advise the Board on the code of conduct of NGOs in Kenya. The Kenyan law states that once an NGO is registered it automatically becomes a member of the NGOs Council (Jillo &Kisinga, 2009).

In terms of the governance of the organisations, all NGOs in Kenya are required to have at least three Directors (who comprise the Board of the Organisation), one of whom must be a Kenyan. The Directors have responsibility for overseeing the management of the NGO. From the Directors, a team of officials are usually elected to whom the Directors give responsibility (NGO Coordination Board, 2002).NGOs in Kenya have not developed a self-regulating mechanism to enhance accountability and better management of resources placed under their care. As a result, improving the effectiveness of corporate governance has been a rallying call in the Non-Governmental Organisations over the last couple of years. This governance function is usually carried out by the board of directors or the Executive Committee depending on how the organisation has been registered.

1.2 Research Problem

It is widely acclaimed that good corporate governance enhances a firm's performance (Brickley et al, 1994). In spite of the generally accepted notion that effective corporate governance enhances firm performance, other studies have reported negative relationship between corporate governance and firm performance (Bathala and Rao, 1995; Hutchinson, 2002) or have not found any relationship (Park and Shin, 2003; Prevost et al. 2002; Singh and Davidson, 2003; Young, 2003). Several explanations have been given to account for these apparent inconsistencies. Some have argued that the problem lies in the use of either publicly available data or survey data as these sources are generally restricted in scope. It has also been pointed out that the nature of performance measures (i.e. restrictive use of accounting based measures such as return on assets (ROA), return on equity (ROE), return on capital employed (ROCE) or restrictive use of market based measures (such as market value of equities) could also contribute to this inconsistency (Gani and Jermias,2006). Furthermore, it has been argued that the “theoretical and empirical literature in corporate governance considers the relationship between corporate performance and ownership or structure of boards of directors mostly using only two of these variables at a time” (Krivogorsky, 2006). For instance, Hermalin and Weisbach (1991) and McAvoy et al. (1983) studied the correlation between board composition and performance, whiles Hermalin and Weisbach (1991), Himmelberg et al. (1999), and Demsetz and Villalonga (2001) studied the relationship between managerial ownership and firm performance. To address some of the aforementioned problems, it is recommended that a look at corporate governance and its correlation with firm performance should take a multivariate approach.

In the Kenyan NGO sector, over 50 percent of the organizations are small and transitory in nature, often formed to maximize on an opportunity (kanyinga, 1993).As a result, these organizations continuously face challenges in meeting their objectives as well remaining relevant in an increasingly turbulent environment (Gakuo, 2003).Jebet (2001) acknowledges the fact that in Kenya, little is known about the different factors that affect governance practises in the country. Studies have been done before by Gakuo (2003) and Cherotich (2003) on corporate governance strategies by NGOs.Cherotich (2003) went ahead to explore the corporate governance challenges faced by international NGOs.Mwangi (2006) did a study on integrated governance and provision of healthcare in Non profit making organizations. All these studies had a keen focus on corporate governance strategies. Oyoga (2010) and Musuya (2010) both did studies on corporate governance and performance and the both found a positive correlation in the two factors. However, there is no previous study which has been done on the relationship between corporate governance and performance in Nongovernmental organizations which are not for profit hence the measures of performance are in terms of impact and service delivery, sustainability, frequency of donor funding, geographical coverage and technical capacity .This research has explored the effect of corporate governance strategies on performance of NGOs in Kenya and has endeavoured to answer the question; is there a relationship between Corporate Governance Strategies and performance in NGOs in Kenya?

1.3 Objectives of the Study

1. To investigate the current governance practices by NGOs in Kenya.
2. To investigate the relationship between governance practises of NGOs in Kenya and their performance.

1.4 Importance of the Study

This study will essentially be beneficial to the NGO regulating authorities like the NGO Coordination Board, the Ministry of Lands, the Registrar of Companies and the Department of Social Welfare since these bodies are mandated to register and regulate the performance of NGOs through under their jurisdiction in developing appropriate mechanisms to enhance improved board performance for membership NGOs.There study will also be beneficial to academicians and researchers who will be either making comparison to other similar studies or when facilitating subsequent studies arising from the recommendations in this research study. The results of this study will also be important to both organisational development practitioners and management consultants in better appreciating the dynamics at play within membership NGOs.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This section focuses on the corporate governance strategies and how they affect performance. The chapter examines agency theory of corporate governance, stewardship theory and resource dependent theory as important concepts that drive the adoption of corporate governance practices in the not for profit sector. An empirical review of the corporate governance practices and performance of NGOs in the world as well as their relationship is examined. Moreover, the chapter has an analysis of the literature on corporate governance in various contexts. It seeks to appreciate the dynamics of corporate governance in the not for profit sector and provides a platform on which to consider the relationship between corporate governance and performance for not for *p*rofits in Kenya.

2.1 Theoretical Review

2.1.1 Stakeholder Theory

The stakeholder theory stipulates that, a corporate entity invariably seeks to provide a balance between the interests of its diverse stakeholders in order to ensure that each interest constituency receives some degree of satisfaction (Abrams, 1951).

The stakeholder theory therefore appears better in explaining the role of corporate governance than the agency theory by highlighting the various constituents of a firm. Thus, creditors, customers, employees, banks, governments, and society are regarded as relevant stakeholders. Related to the above discussion, John and Senbet (1998) provide a comprehensive review of the stakeholders' theory of corporate governance which points out the presence of many parties with competing interests in the operations of the firm. They also emphasize the role of non-market mechanisms such as the size of the board, committee structure as important to firm performance.

Stakeholder theory has become more prominent because many researchers have recognized that the activities of a corporate entity impact on the external environment requiring accountability of the organization to a wider audience than simply its shareholders. For instance, McDonald and Puxty (1979) proposed that companies are no longer the instrument of shareholders alone but exist within society and, therefore, has responsibilities to that society. Indeed, it has been realized that economic value is created by people who voluntarily come together and cooperate to improve everyone's position (Freeman et al., 2004).

Jenson (2001) critique the Stakeholders theory for assuming a single-valued objective (gains that accrue to a firm's constituencies). The argument of Jensen (2001) suggests that the performance of a firm is not and should not be measured only by gains to its stakeholders. Other key issues such as flow of information from senior management to lower ranks, inter-personal relations, working environment, among others are all critical issues that should be considered. An extension of the theory called an enlightened stakeholder theory was proposed. However, problems relating to empirical testing of the extension have limited its relevance (Sanda et al., 2005).

2.1.2 Agency Theory of Corporate Governance

Agency theory is concerned with aligning the interest of owners and managers(Jensen and Meckiling,1976:Fama and Jensen,1983) and is based on the premise that there is an inherent conflict between the interests of a firm’s owners and its management(Fama and Jensen,1983) .The recognition of this conflict is documented as far back as Adam Smith (1776),but its salience was not realized until the expansion of capitalism in the late 1800s and early 1900s led to a widespread separation of the ownership and control functions of the firm.

According to Oyoga,(2010) impact of agency theory on corporate governance research can be observed in the predominance of studies that examine two key questions, namely, how the composition of the board of directors affects firm performance and how the leadership structure of the company (1.e. the duality of the C.E.O/chairman role)affects corporate performance. Findings from the study have been contradictory. Studies of outsider ratios and firm performance, for example, have produced findings ranging from positive correlations, to negative to no significant correlation at all.

As to the extent in which a board is expected to impact on corporate performance, agency theory suggests that a greater proportion of outside/independent directors will be able to monitor any self –interested actions by managers. As a result of the monitoring, there will be will be less opportunity for managers to pursue self –interest at the expense of owners (lower agency costs) and so shareholders will enjoy greater returns(or increased profits).

The agency model is widely accepted in the NGO community as can be seen by the widespread adoption of normative guidelines emphasizing the need for independent directors to monitor the activities of the board.

2.1.3 Stewardship Theory

This theory focuses on the proportion of insiders on the board to investigate links with corporate performance. From this perspective, one expects to see significantly different patterns emarge.Most particularly; it is expected to see that a high proportion of inside directors would lead to greater access of information, superior decision making and therefore higher firm performance. Nicholson and Kiel (2007) examined seven cases out of which only two conformed to the expected patterns i.e. (high insider –proportion and high access to information).The insider dominated board did follow a segment of the pattern, but this did not translate into quality decision making and improved corporate performance, in fact, this organization was the worst performing of the seven cases.

Two of the cases supported the pattern predicted by stewardship theory; it is difficult, given the information uncovered in the case research, to support the claim that high access to information, quality decision making and subsequent strong performance would have occurred had there been a greater number of insiders on the board.

However, while these organizations were high on outside directors, they were moderate to low on independent directors. In both cases several of the outside directors had long and in depth experience with the organizations, approaching the level of understanding expected of inside directors. However, this knowledge base and high level of involvement were not sufficient to provide either access to information or quality of decision making to improve performance in the short run.

2.2 Empirical Studies on Corporate Governance and Performance

Heterogeneity within the NGO sector has made research studies on NGOs difficult. To date, three main methods of enquiry have been used regarding NGOs in developing countries: legal studies; historical studies; and case studies. Legal studies are best represented by the work of the International Centre for Not-for-Profit Law, which acts as repository for laws and regulations regarding not-for-profit organizations in many developing countries ICNL (1995).

The comparative project on the non-profit sector at the Johns Hopkins University has produced valuable knowledge on the NGO sector. Regarding poor countries, much of this work has taken the form of historical accounts of the development of the sector (e.g. Salamon and Anheier 1996, Salamon et al. 1999). Both strands of literature have devoted much work to transition economies and paid relatively little attention to sub-Saharan Africa.The rest of the literature is dominated by small, specific case studies, more often than not restricted to a particular agency working in a particular sector (e.g. Edwards and Hulme 1995, Riddel et al. 1995,Farringhton et al. 1993). For instance, Farringhton et al. (1993) consider 60 case studies of farmer participatory approaches to agricultural innovation to assess the effectiveness of NGOs in promoting technical innovation and strengthening local organizations.

In their study of NGOs in Kenya, Tanzania and Uganda, Semboja and Therkildsen (1995) found that East African NGOs greatly depend on external support from the state and from foreign NGOs and/or donors. They argue that their links to the state are becoming more important for service provision rather than less.

In contrast Cannon (2000), in a review of health programmes funded by Oxfam in eight districts in Uganda, highlights the tension that can exist between NGOs and government, a point also made by Goldsmith (2002) in a study of business associations in 8 African countries.

In Kenya, several studies have been done on the corporate governance strategies employed by most firms and also the relationship of corporate governance and performance of the firms listed in the Nairobi Stock Exchange and also of financial institutions. Otieno (2010) did a research on corporate governance and firm performance of financial institutions listed in the Nairobi stock exchange and his findings established that there is a positive relationship between firm performance and Board composition, shareholding and compensation, shareholder rights, board governance and disclosure issues.

Musuya (2010),in his study on corporate governance practices and performance of coffee farmers ‘cooperative societies in Bungoma county concluded that cooperative societies that had clearly separation of the role of the board chair and the CEO, showed improved performance,however,board composition did not significantly show improved performance. The same conclusions had been derived in earlier research studies by Langat (2006), Mululu (2005) and Mwangi (2003).

The majority of prior studies have examined the association between corporate governance and firm performance using Tobin’s q as a proxy for firm performance (Hermalin and Weibach, 1991; Yermack, 1996; Hovey et. al., 2003; Beiner et. al., 2004; Sarkar and Sarkar, 2008). In their study, Balasubramanian et. al., (2009) have examined whether there is a cross-sectional relationship between governance and performance of Indian firms quantifying performance with market-based measure Tobin’s q. Some studies have used both accounting and market measure to quantify performance.

In their study, Bhagat and Bolton (2008) investigated the impact of corporate governance on operating performance of U.S. firms using ROA and Tobin’s q as performance measures. Bauer et. al., (2004) used Net Profit Margin, ROE and Tobin’s q as performance indicators to analyse whether good corporate governance leads to higher stock returns and enhances firm value in Europe. Beiner et. al., (2004) have used Tobin’s q and ROA for measuring performance of firms quoted at Swiss Stock Exchange. Jackling and Johl (2009) used Tobin's q and ROA as performance indicators for Indian firms.

Judge (2003) measured performance of the firm with financial profitability, growth in size/assets, customer satisfaction, product/service quality, capacity utilization, process improvements, employment stability and employee training. Dalton (1999) has used Jenson, Treynor and Sharpe market-measures for performance. Drobetz (2003) used average historical returns and found positive relation between corporate governance rating (CGR) and firm value and expected returns to be negatively correlated with CGR, when dividend yields and PE ratios were used as proxies for cost of capital. The extant literature on corporate governance considered the relationship between boards of directors' composition, ownership structure and corporate performance. Several studies used IRRC data to create G-Index (Gompers, Ishii, and Metrick, 2003; Bebchuk and Cohen, 2005; Cremers and Nair, 2005). GIM (2003) used IRRC data and created G-Index by summing 24 governance factors, giving each IRRC provision equal weight.

Thereafter, several studies used GIM Index as a measure of firm's governance provisions. Bebchuk and Cohen (2005) and Cremers and Nair (2005) have used IRRC data to show that governance index impedes firm value. Brown and Caylor (2006) created a simple summary governance index using 51 ISS data items.Veliyath (1999) pointed out that the board serves as a bridge between owners and managers; its duty is to protect shareholders' interests.

2.3 Research Gap

In studies examining the relationship between governance and performance, the results are mixed. Some studies have shown no significant relationship between governance and firm performance (Prevost et. al., 2002; Park and Shin, 2003; Singh and Davidson, 2003). The opposing view has also been supported in previous literature reporting negative relationship between the two (Bathala and Rao, 1995; Hutchinson, 2002).Weir (2000) analysed the relationship between governance structures and performance and found that the presence of a remuneration committee has a positive effect on performance but outside director representation is negatively related with performance. Otieno (2010) did a research on corporate governance and firm performance of financial institutions listed in the Nairobi stock exchange and his findings established that there is a positive relationship between firm performance and Board composition, shareholding and compensation, shareholder rights, board governance and disclosure issues. Musuya (2010),in his study on corporate governance practices and performance of coffee farmers ‘cooperative societies in Bungoma county concluded that cooperative societies that had clearly separation of the role of the board chair and the CEO, showed improved performance,however,board composition did not significantly show improved performance.

The findings of the existing literature on this issue are mixed and it is difficult to reach at any certain conclusion. Most studies have also focused on various aspects of board governance like the board structure, the size of the board and the technical capacity of the board. Moreover majority of the previous work has been conducted in the for profit making organizations; this study seeks to provide an intensive study of the corporate governance practices in the not for profit sector, their existence, and how they relate to performance in not for profit organizations in Kenya.

2.4 Summary and Conclusion

This chapter has sought to level understanding with regard to the various concepts and processes considered in the research proposal. It has considered the various arguments by researchers and practitioners with regard to corporate governance and performance in organizations. It has critically examined discussions regarding the effect of corporate governance practises and strategies on performance of organizations and has provided the existing research gap to be addressed. The next chapter will explain the methodology that will be used in collecting and analysing the research data.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter will discuss the research methodology to be used by the researcher to examine corporate governance practices in not for profit organizations in Kenya and how they relate to their performance. This chapter contains information on the research design, the population and sampling design, data collection methods, the research procedures and the methods that were used for data analysis.

3.1 Research Design

This research adopted a descriptive case design. The justification for using survey research design is because it is ideal for relating the various factors that are attributable to a given situation or condition. According to Kenya Institute of Management (2009), case studies involve in depth and detailed description of a single entity, situation or phenomenon (or a very small group). The description is usually prepared as a report, usually containing a detailed description of observations during the entire data collection process. Descriptions can be concrete or abstract. A relatively concrete description might describe the ethnic mix of a community, the changing age profile of a population or the gender mix of a workplace. Alternatively the description might ask more abstract questions such as `is the level of social inequality increasing or declining?’ `How effective are civil society organizations in the implementation of their projects?' or ‘How much poverty is there in this community?'Accurate descriptions of the level of unemployment or poverty have historically played a key role in social policy reforms (Marsh, 1982). By demonstrating the existence of social problems, competent description can challenge accepted assumptions about the way things are and can provoke action on what needs to be done to improve the current status of an organization or even a country

3.2 Population of the Study

Fraenkel and Wallen (2000) describe a population as the group of interest to the researcher. It is the group to whom the researcher would like to generalize the results of the study. This study will target all NGOs in Kenya that are registered in accordance to the NGO Coordination Act, 1990. This is basically due to the varied organisational registration regimes in Kenya as there is no single documentation of the exact number of organisations operating within the Country. Some are registered as NGOs or CBOs while others are either registered as Societies, Companies Limited by Guarantee or as Trusts.

3.3 Sampling

The study will use stratified random sampling to select samples to participate in the study. The target population was stratified into not for profit organizations that have received international donor funding during the year 2011. Chandra (2004) defines stratified sampling as grouping of study elements into homogenous strata and then picking a sample from each stratum for the final sample size. This enabled the researcher to improve the accuracy /efficiency of estimation, focus on important sub-populations, ignore the irrelevant ones and facilitate balancing of difference between strata by sampling equal numbers from strata. In this research, the researcher will generate a sample of local NGOs in Nairobi Kenya from the list of NGOs registered with the NGO Coordination Board and since there are numerous NGOs in Kenya, this study sampled of 30 NGOs that had been registered under the NGO coordination board and have received international donor funding in the year 2011.The sample size and the period of study are considered reasonable because corporate governance was gaining importance and most NGOs had been registered under the NGO coordination board although only a limited number was receiving international donor funding from USAID,DFID,CORDAID,EU and UN.

3.4 Data Collection

The type of data to be collected in this survey will be primary data. The researcher used questionnaires as the main method of collecting the data. The chief advantage of questionnaires is that they can be given to a large number of people at the same time. The study will be based on primary data and structured questionnaires. They also have relatively high rate of response – often close to 100 % (Fraenkel & Wallen, 2000). The questionnaires will contain both open ended and closed ended questions. The tool will be structured alongside the two specific objectives. It will have two sections. Section one will focus on corporate governance strategies, section two will focus on the performance of the NGOs over one year thus the year 2011.

3.4.1 Data Validity and Reliability

According to Mugenda (2003), research instruments need to be valid and reliable in order to produce useful results. Validity of research instruments is achieved when they measure what they are intended for, on other hand, reliability is achieved when the research instrument has internal consistency .This study will use an expert opinion to test content validity of the research instrument used. Linear regression will be used to estimate the unknown effect of changing one variable over another (Stock and Watson, 2003).

3.5 Data Analysis

According to Mugenda (2003), research instruments need to be valid and reliable in order to produce useful results. Validity of research instruments is achieved when they measure what they are intended for, on other hand, reliability is achieved when the research instrument has internal consistency .This study used an expert opinion to test content validity of the research instrument used.

Qualitative data analysis involved explanation of information obtained from the empirical literature. Quantitative analysis involved use of numeric measures to the scores of various responses on effects of corporate governance on performance of non for profit organizations and this will entail generation of descriptive statistics after data collection, and formation of data sets, estimation of population parameters from the statistics, and making of inferences based on the statistical findings. This was done with the help of Statistical Package for Social Sciences (SPSS). The output of the analysis was presented in tables and charts and interpretations made based on the research objectives.

The relationship between the independent variables and the dependent variable was determined through a multiple regression model of the form shown below:

$$\boldsymbol{Y=\alpha+\beta_1(Gov\&\ Mng\ ) +\beta_2\ (Sus) +\beta_3\ (F.Res) +) + \varepsilon}$$

Where *Y*= Is the study's dependent variable which is performance of NGOs. *a* is the constant, β_1 is the coefficient of governance and management, β_2 is the coefficient of sustainability , β_3 is the coefficient of the financial resources, ***and*** ε is the margin of error.

Strength of the relationship was determined by the value of r^2 . The value of r^2 ranges from 0 to 1.Values of 0 show no relationship, while 0.5 show moderate relationship and values above 0.7 show strong relationship.

The overall model fit was determined through anova test that uses the value of F.

The statistical test of significance was performed at the 95% critical level.

The researcher computed an aggregate mean score of each variable using all the items in the questionnaire measuring that variable. The mean score was used to perform the regression analysis.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

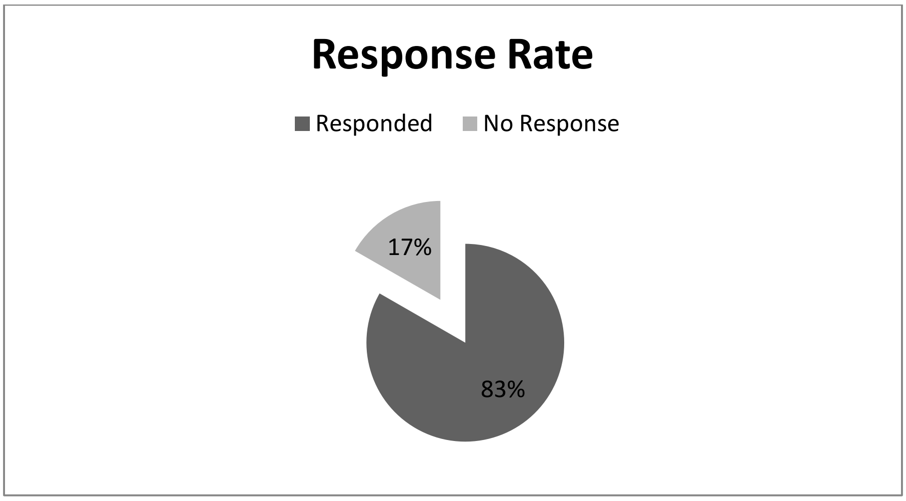
4.1 Introduction

This chapter presents the findings of the study, the relationship between corporate governance and performance of Nongovernmental organizations in Kenya. The chapter has been two sections; response rate, rating on corporate governance practices in Nongovernmental organizations in Kenya, rating on performance of nongovernmental organizations, and a regression analysis on governance practices and performance of non-governmental organizations.

4.2 Response rate

The study sampled 30 NGOs out of which 25 responded to the questionnaire while 5 did not respond. The response rate has been presented on the table below.

Figure 4.1: Response rate



Out of 30 NGOs sampled for the study, 25 of them responded to the questionnaire representing a response rate of 83.3%. This response was adequate enough to establish the research phenomenon. According to Mugenda (2009) a response rate above 50 percent is adequate enough to carry out a study; this was the characteristics of this study.

4.3 Current governance practices by NGOs in Kenya

Various governance practices examined in this study include; governance and management under which there was, organizations mission and vision, governing body and management, sustainability of organizations which focused on organizational sustainability and programmatic and financial sustainability and financial resources which focused on resource mobilization, resource allocation and management. The scores are on a scale of 1 – 5 on the statements of Excellency, where 1 will be the lowest score and 5 the highest score. The findings have been represented and discussed as follows.

4.3.1 Governance and management

Parameter examined under governance and management included organizations mission and vision, governing body, management, planning capability, and legal status. The finding are presented and discussed as follows.

Table 4.1: Governance and management

Scores on governance and Management	Scores	Percentage %
Vision and mission	1	0.0%
	2	4.0%
	3	12.0%
	4	33.0%
	5	51.0%
	Total	**100.0%**

Governing body	1	0.0%
	2	4.0%
	3	15.2%
	4	12.8%
	5	68.0%
	Total	**100.0%**
Management	1	3.2%
	2	3.2%
	3	2.4%
	4	23.2%
	5	68.0%
	Total	**100.0%**
Planning capability	1	0.0%
	2	0.0%
	3	12.0%
	4	23.0%
	5	65.0%
	Total	**100.0%**
Legal status	1	0.0%
	2	0.0%
	3	0.0%
	4	9.3%
	5	90.7%
	Total	**100.0%**

Organizational activities geared towards achievement of vision and mission activities had the highest possible score of 5 represented by 51% of the respondents while 33% Scored 4. Minority accounting for 4% scored 2 comparative to 12% who scored 3. This clearly indicated well articulated vision and mission statements, staff members and key stakeholders understand vision and mission of the organization and organization involves constituents, staff and board members to develop their vision and mission. On a scale of up to 100%, it can be noted that articulation of organizational mission and vision was well practiced among the NGOs examined. This could clearly indicate that organizations well understood their purpose of existence and focused on achieving objectives towards their vision.

The scores on governing body was highly maximally rated by 68% of the respondents indicating democratic election of governing body as well as competencies to deliver organizations mission and vision statements by the governing body. Another proportion of 15.2 % scored averagely while 12.8% gave a score of 2. It therefore signified that members of the governing body understood their purpose & responsibility in the organization, and they consistently comply with codes of conduct to guard against conflict of interest versus daily management mandate. It can be noted that as far as governance practices of governing body is concerned, there is above average rating of the practices. This was an implication of good governance practice geared towards organizational performance. One would therefore conclude that management of NGO organization examined was well aligned to organizational mission, and vision through clearly understood management mandate, vision and mission, competency and internal policy against conflict of interest.

On planning capability as a governance practice under governance and management, the study findings indicated the highest score on periodic realistic strategic planning with overall rating of 5 by 65% of the respondents. Review of strategic plan, availability of contingency plans to deal with loss of donor funding, and regular organizational analysis to determine strengths and weaknesses largely supported by 23% of respondents with a score of 4 with another 12% scoring 3 on the same issues. From these findings it can be concluded that many NGOs are above average as far as their planning capabilities are concerned. This could indicate as signal of good performance among the organizations.

Organizations can be affected among other things by the legal environment within which it exists. Failure to adhere to legal requirements can be a big threat to organizational operations and thus its performance. From the score of 5 given by majority respondents to a level of 90.7% in as far as NGOs legal status was concerned emphasised that most entities examined were appropriately registered , leadership was aware of legislation that regulates its operations and that the organization had complied with all statutory requirements under the stature it was registered under. This could imply that organizational performance was not interfered with by failure to meet specified legal requirements.

4.3.2 Sustainability

Sustainability of organizations was another governance practice related to organizational performance among NGOs examined.

Table 4.2 Sustainability

Scores on Sustainability	Scores	Percentage %
Organizational sustainability	1	0.0 %
	2	4.0 %
	3	8.0%
	4	27.0 %
	5	61.0 %
	Total	**100.0 %**
Pragmatic and financial sustainability	1	0.0 %
	2	4.7 %
	3	6.7 %
	4	21.3 %
	5	67.3 %
	Total	**100.0 %**

Under organizational sustainability, 61% NGOs scored highly (5points) as far as meeting of statutory requirement, being members of a coalition alliance and building and nurturing strategic relations with key stakeholders. Additionally, organizational credibility and adaptability to changing environment was scored 5 by 61% of the respondents. However, marginal 4% scored 2, 8% scored 3 while 27% of the respondents scored 4 on all issues pertaining organisational sustainability. The findings indicate that ensuring organizational sustainability is among the governance practices examined by NGOs.

Under pragmatic and financial sustainability, majority (67.3%) of the respondents indicated that organizations instilled sense of ownership of programmes by stakeholders with a score of 5. Cumulatively, 88.6% gave a score of above 4 on other parameters that includes; organizations mechanism to build the capacity of key stakeholders to undertake a project in the program area; the ability of the organization to demonstrate results/ impacts of its programs; establishment of reliable financial management systems; and diversity of resources.

4.3.3 Financial resources

Table 4.3 Financial resources

Scores on Financial Resources	Scores	Percentage %
Resource mobilization	1	0.0 %
	2	16.0 %
	3	0.0%
	4	56.0 %
	5	28.0 %
	Total	**100.0 %**
Resource allocation and management	1	1.8 %

	2	2.8 %
	3	4.9 %
	4	22.1 %
	5	68.4 %
	Total	**100.0 %**

Under financial resources practices, the study examined resource mobilization as well as resource allocation and management. All parameters under resource mobilization obtained an above average score of 4 points supported by 22.1% of respondents while majority of 68.4% scored 5 on all statement on financial resources. It was highlighted that under resource allocation and management more than one signatory in a bank account was in place, well known payment and authorization level intact, and responsiveness in addressing audit queries as well as comprehensive financial manually with policies and procedures that guide staff was the eminently practiced governance measures among NGOs examined.

4.4 Performance measurement

Performance measurement sought to provide rating on different tools of measurement provided in the study. The tools measured included ; management direction , relevance, appropriateness, achievement of intended results, acceptance , cost and productivity, responsiveness financial results , working environment , protection of assets ,monitoring and reporting . Rating on different performance measurements are indicated on table on table 4.5 below.

Table 4.4 Performance measurement

	Frequency	Percentage %	Mean	
Pragmatic objective clearly stated and understood (Management direction)	1	3	12.0%	
	2	0	0.0%	
	3	1	4.0%	
	4	4	16.0%	
	5	17	68.0%	
	Total	**25**	**100.0%**	**4**
Programs intended to solve right problems (relevance)	1	0	0.0%	
	2	3	12.0%	
	3	1	4.0%	
	4	0	0.0%	
	5	21	84.0%	
	Total	**25**	**100.0%**	**5**
Design and level of effort logical in relation to pragmatic objectives (appropriateness)	1	0	0.0%	
	2	0	0.0%	
	3	4	16.0%	
	4	0	0.0%	
	5	21	84.0%	
	Total	**25**	**100.0%**	**5**
Goals and objectives of program have been achieved (achievement of intended results)	1	0	0.0%	
	2	3	12.0%	
	3	1	4.0%	
	4	4	16.0%	
	5	17	68.0%	
	Total	**25**	**100.0%**	**4**
Program satisfies intended stakeholders (Acceptance)	1	0	0.0%	
	2	0	0.0%	
	3	4	16.0%	
	4	0	0.0%	
	5	21	84.0%	
	Total	**25**	**100.0%**	**5**
Relationship between costs, inputs and outputs (cost and productivity)	1	0	0.0%	
	2	0	0.0%	
	3	1	4.0%	
	4	3	12.0%	
	5	21	84.0%	
	Total	**25**	**100.0%**	**5**
Organization adaptability to change (Responsiveness)	1	0	0.0%	
	2	3	12.0%	
	3	1	4.0%	
	4	0	0.0%	
	5	21	84.0%	
	Total	**25**	**100.0%**	**5**
Organization accounts for revenues and	1	0	0.0%	
	2	0	0.0%	
	3	1	4.0%	

expenditure and for assets and liabilities (Financial results)	4	3	12.0%	
	5	21	84.0%	
	Total	**25**	**100.0%**	**5**
Organization provide appropriate work environment for it's staff (working environment)	1	0	0.0%	
	2	0	0.0%	
	3	4	16.0%	
	4	8	32.0%	
	5	13	52.0%	
	Total	**25**	**100.0%**	**4**
Assets are entrusted to the organization to safeguard (protection of assets)	1	0	0.0%	
	2	1	4.0%	
	3	0	0.0%	
	4	7	28.0%	
	5	17	68.0%	
	Total	**25**	**100.0%**	**5**
Matters pertaining to performance and organizational strength are indentified, reported and monitored	1	0	0.0%	
	2	0	0.0%	
	3	8	32.0%	
	4	0	0.0%	
	5	17	68.0%	
	Total	**25**	**100.0%**	**4**

Relevance of programs implemented, appropriateness of the design of programs, achievement of intended results, cost and productivity, responsiveness as well as protection of assets had the highest score of 5 as favoured by 84% of the respondents among performance measurement tools examined. The other tools examined got above average scores of between 3 and 4 for utmost 32% of the respondents that included management direction, financial results, working environment, monitoring and reporting. Nonprofit accountability remains a pressing public concern. In response, funders around the globe have adopted performance measurement to use with their grantees in order to ensure accountability and secure some social benefit for their investment. Exploring the use of performance management as a decision making tool in nonprofits requires an understanding of the difference between accountability and performance measures.

Accountability measures are frequently related to the use of financial resources and used to assess defined objectives or requirements.

4.5 The relationship between governance practices performance of NGOs

The relationship between governance practices and performance of NGOs was established through a multiple linear regression analysis. The results of the findings are represented in the tables below.

Table 4.5: Summary of regression model

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.971[a]	.942	.934	.269
a. Predictors: (Constant), Governance and management , Sustainability , Financial resources				

A multivariate linear regression analysis shows that the relationship between the dependent variable and all independent variables pooled together is significant with value R, the model collective correlation at 0.971. This indicated a strong relationship between governance structures and performance of NGOs.

Table 4.6 Correlation coefficients

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.713	1.555		4.318	.000
	Governance and management	1.069	.063	1.0	17.077	.000
	Sustainability	-1.147	.323	-.220	-3.555	.002
	Financial resources	-.315	.065	-.290	-4.825	.000
a. Dependent Variable: performance of NGOs						

Table 4.6 indicates the strength of influence as far various governance practices are concerned. The Beta coefficient value for governance and management is 1.0 indicating a perfectly positive relationship with performance of NGOs, sustainability practice has a Beta coefficient value of -0.220 indicating a negative weak relationship while practices on financial resources' beta coefficient values is -0.290 indicating a negative weak relationship. From the regression results, it can be conclude that governance practices have a strong relationship with performance of NGOs, not all practices will elicit positive relationship as indicated by the coefficient values for sustainability practices and financial management practices.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter presents the summary of findings on governance practices and performance of NGOs in Kenya. It has been sectioned into, scores on different governance practices parameters examined in the study and scores on performance measurement tools and their relationship with governance practices amongst NGOs in Kenya.

5.2 Summary

5.2.1 Governance and management practices

Management understand their mandate versus the governing body and Management understanding the vision and mission of the organization had the highest score as far as governance practices are concerned. Organizational activities geared towards achievement of vision and mission activities had the highest possible score of 5 represented by 51% of the respondents while 33% Scored 4. Minority accounting for 4% scored 2 comparative to 12% who scored 3. This clearly indicated well articulated vision and mission statements, staff members and key stakeholders understand vision and mission of the organization and organization involves constituents, staff and board members to develop their vision and mission. This could clearly indicate that organizations well understood their purpose of existence and focused on achieving objectives towards their vision. The scores on governing body was highly maximally rated by 68% of the respondents indicating democratic election of governing body as well as competencies to deliver organizations mission and vision statements by the governing body. Another proportion of 15.2 % scored averagely while 12.8% gave a score of 2. This was an implication of good governance practice geared towards organizational performance.

From these findings it can be concluded that many NGOs are above average as far as their planning capabilities are concerned. This could indicate as signal of good performance among the organizations with highest score on periodic realistic strategic planning rating of 5 by 65% of the respondents. Review of strategic plan, availability of contingency plans to deal with loss of donor funding, and regular organizational analysis to determine strengths and weaknesses largely supported by 23% of respondents with a score of 4 with another 12% scoring 3 on the same issues.

From the score of 5 given by majority respondents to a level of 90.7% in as far as NGOs legal status was concerned emphasised that most entities examined were appropriately registered, and in compliant with all statutory requirements. Organizations can be affected among other things by the legal environment within which it exists. Failure to adhere to legal requirements can be a big threat to organizational operations and thus its performance. From the score obtained in as far as NGOs legal status, the research found that most entities examined were appropriately registered , leadership was aware of legislation that regulates its operations and that the organization had complied with all statutory requirements under the stature it was registered under.

5.2.2 Sustainability practices

Sustainability practices examined in the study included organizational sustainability and pragmatic and financial sustainability. Under organizational sustainability, the most common practice that attracted the highest scores was meeting of statutory requirements, being a member of coalition alliances and networks and nurturing strategic relations with key stakeholders. This was confirmed by 61% NGOs who scored highly (5points) as far as meeting of statutory requirement, being members of a coalition alliance and building and nurturing strategic relations with key stakeholders. Additionally, organizational credibility and adaptability to changing environment was scored 5 by 61% of the respondents. However, marginal 4% scored 2, 8% scored 3 while 27% of the respondents scored 4 on all issues pertaining organizational sustainability. Cumulatively, 88.6% gave a score of above 4 on other parameters that includes; organizations mechanism to build the capacity of key stakeholders to undertake a project in the program area; the ability of the organization to demonstrate results/ impacts of its programs; establishment of reliable financial management systems; and diversity of resources.

5.2.3 Financial resources practices

Under financial resources practices, the study examined resource mobilization as well as resource allocation and management. It was highlighted that under resource allocation and management more than one signatory in a bank account was in place, well known payment and authorization level intact, and responsiveness in addressing audit queries as well as comprehensive financial manually with policies and procedures that guide staff was the eminently practiced governance measures among NGOs examined. All parameters under resource mobilization obtained an above average score of 4 points supported by 22.1% of respondents while majority of 68.4% scored 5 on the above parameters regarding usage of financial resources.

5.3.4 Performance measurement tools

Nonprofit accountability remains a pressing public concern. In response, funders around the globe have adopted performance measurement to use with their grantees in order to ensure accountability and secure some social benefit for their investment. Relevance of programs implemented, appropriateness of the design of programs, achievement of intended results, cost and productivity, responsiveness as well as protection of assets had the highest score of 5 as favored by 84% of the respondents among performance measurement tools examined. The other tools examined got above average scores of between 3 and 4 for utmost 32% of the respondents that included management direction, financial results, working environment, monitoring and reporting.

5.3.5 Relationship between governance practices and financial performance

A multivariate linear regression analysis showed there was strong relationship between governance structures and performance of NGOs, overall correlation was measured at 0.971 indicating that the relationship between the dependent variable and all independent variables pooled together is significant with value R, the model collective correlation at 0.971. This indicated a strong relationship between governance structures and performance of NGOs.

5.4 Conclusion

Exploring the use of performance management as a decision making tool in nonprofits requires an understanding of the difference between accountability and performance measures. Accountability measures are frequently related to the use of financial resources and used to assess defined objectives or requirements.From the study findings, it can be noted that governance practices and organizational performance are strongly correlated factors. However, all governance practices do not elicit the same level of correlation. Governance and management which entails proper articulation of organizational mission and vision, governing body, management planning capability and legal status have a major role to play as far as organizational performance is concerned.

Sustainability is an important practice in enhancing performance among NGOs, stakeholder involvement as well as instilling sense of ownership on programs among community member are among the most prudent sustainability measures that NGOs can take in enhancing their performance. Financial resource practices in most NGOs may not necessarily mean that the organization will perform. This is probably because many NGOs do not consider profitability as a measure of performance and hence, the negative correlation between financial resource practices and performance of NGOs.

5.5 Recommendations

Having examined the governance practices of NGOs in relation to performance, the recommendation would be that; NGOs should highly focus on organizations mission and vision, governing body, management, planning capability and legal status as highly effective governance and management practices that strongly correlated with organizational performance. Sustainability of NGOs should mainly focus on diversification of resource base so as to reduce reliance on donor funds as well as increased stakeholder involvement. This will ensure stakeholders increased their ownership of projects as well as enhance overreliance on one source of funding. Out of the field experience, it is also recommended that NGOs should encourage development and use of logic models, inextricably linked to program evaluation as a concrete method for addressing some of the barriers to using performance measurement for organizational decision making in nonprofits entities.

5.5.1 Recommendation for Further Studies

This study proposes further research on the performance measurement models used by not for profit organizations to analyse their service delivery and impact to the society during implementation of their projects and if organizations with very well articulated governance practices do actually perform better. A future research on nonprofit performance management also ought to include a more detailed analysis of TQM and the balanced scorecard using the same complex network of stakeholders that define performance and success in human service work.

5.5.2 Limitations of the Study

This study encountered some challenges due the sensitive nature of the topic of research, most NGOs were not readily availing the information required in the questionnaire.NGO managers for example, were not comfortable with giving factual details of capacity inadequacy within their organizations. The researcher however catered for this by assuring the respondents of the confidentiality of any information given by the organization.

Inadequacy of data also posed challenges to this research given that there was a specific target group for the research. The researcher sampled only 30 NGOs with external donor funding from several parts of Kenya with a view of eliminating this limitation.

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APPENDICES

APPENDIX 1-Questionnaire

COVER LETTER TO QUESTIONNAIRE

Questionnaire on governance practises not for profit organisations and its effect on performance of governance functions

This questionnaire is part of a research proposal on analysis of the relationship between corporate governance and performance of NGOs. You were selected to be a part of this study and you are kindly requested to fill in the questionnaire.

By completing this questionnaire, you provide information that will lead to:

- Determination of existence of corporate governance practices in your organization.
- An analysis of the rate of impact/service delivery/performance of the projects implemented by your organization to the community.

The questionnaire has individual institutional strength scores in terms of corporate governance strategies and performance measures. The scores will be on a scale of 1 – 5 on the statements of Excellency, where 1 will be the lowest score and 5 the highest score. If the question does not apply in your organization the answer will be N/A. You will be expected to tick on the boxes based on your rating.

Your responses to this questionnaire will be entered directly into a database and treated confidentially.

Your participation in this study will be highly appreciated.

Please click here to indicate your informed consent to participate in this study ☐

PART A-Corporate Governance Practices in NGOs							
Governance and Management	N/A	X	1	2	3	4	5
(i) Vision and mission							
a) Does your organization have clearly articulated vision and mission statements							
b) Do all members of staff and key stakeholders understand the vision and mission of the organization							
c) Are the organizations activities geared towards achievement of the vision and mission?							
d) Does the organization involve their constituents, staff and board members to develop the vision and mission statement?							
(ii) Governing body							
a) Do you have a democratically elected /established governing body?							
b) Do the members of the governing body understand their purpose and responsibility in the organization?							
C) Does the governing body have the relevant competencies to guide the deliverance of the Organization's Vision and mission?							
d) Does the governing body work consistently towards actualization of the organizations vision and mission?							
e) Is the governing body is clear of its mandate vis- a-vis the day to day management's mandate?							
f) Does the governing body comply with a code of conduct which compiles to guard against conflict of interest?							
g) Does the governing body reflect a balance composition in gender and diversity?							
(iii) Management							
a) Does the management understand its mandate vis-a-vis the governing body?							
b) Is the management accountable to the governing body							
c) Does the management understands the vision and mission of the organization							
d) Does the management have the competency to lead the organization to deliver on the organizations Vision and mission?							
e) Does the management abide by the internal policy to guard against conflict of interest?							
(iv) Planning Capability							

a) Does the organization undertake periodic realistic Strategic planning							
b) Does the organization undertake periodic review of the strategic plan?							
c) Does the organizational strategic document capture and is aligned to the overall organizational vision and mission.							
d) Does the organization involve its governing body, staff and other key stakeholders in the strategic planning process?							
e)Are the organization's current programming activities aligned to the strategic plan							
f) Does the organization have contingency plans in place to deal with loss of donor funding.							
g) The Organization conducts regular organizational analysis to determine its strength and challenges.							
(v) Legal status							
a) Is the organization a legal entity appropriately registered or hosted by an appropriately registered entity in Kenya?							
b) Is the organizations leadership aware of the legislation that regulates its operations?							
c) Does the Organization comply with all statutory requirements required under the statute it is registered under.							
Sustainability	N/A	X	1	2	3	4	5
(i) Organizational sustainability							
a) Is the organization credible in society?							
b) Does the organization adapt well to changing development environment?							
c) Does the organization meet all its statutory requirements?							
d) Does the organization build and is a member of coalitions, alliances and networks?							
e)Does the organization build and nurture strategic relations with key stakeholders (community, donors, government, private sector)							
(ii) Programmatic and financial sustainability							
a) Does the organization instil a sense of ownership of its programs by the community, donors and other key stakeholders?							
b) Does the organization have mechanisms to build the capacity of key stakeholders to undertake the program area							
c) Is the organization able to demonstrate results/impacts of its programs?							
d) Does the organization have a reliable financial management system?							

	N/A	X	1	2	3	4	5
e) Does the organization have a strategic plan of moving from project to programs funding?							
f) Does the organization have a diversified resource base?							
Financial Resources	N/A	X	1	2	3	4	5
(i) Resource mobilization							
a) Does the organization have adequate in house capacity to mobilize resources?							
b) Does the organization have a comprehensive resource mobilization strategy that goes beyond fund raising?							
c) Does the organization manage a diversified funding and resource base?							
d) Does the organization conduct regular donor mapping and outreach?							
(ii) Resource allocation and management							
a) Does the organization have adequate resource base (finance, time, volunteers, personnel, transport and equipment)							
b) Does the organization integrate budgeting process in its annual implementation plans?							
c) Does the organization establish realistic annual budgeting and financial targets?							
d) Does the organization have a bank account?							
e) Does the organization have a requirement for more than one signatory for banking transactions?							
f) Does the organization have a well known and payment authorization level and does it implement it?							
g) Does the organization have a clear separation of authority between those approving and those making payments?							
h) Does the organization have a requirement that all payment documents be marked 'paid' after payment has been done?							
i) Does the organization submit its accounts to regular and periodic external audit?							
j) Is the management responsive in terms of addressing any audit queries and recommendations emerging from the external audit(s)?							
k) Does the organization have a financial system that requires accurate record keeping of all documents relating to organizational financial transaction?							
l) Does the organization generate monthly financial reports?							
m) Does organization have a system capable of tracking and reporting on individual donor funding?							

n) Does organization have a comprehensive financial manual with financial policies and procedures that guide staff?							
Performance Measurement Tool	N/A	X	1	2	3	4	5
a) **Management Direction**: Are the programmatic objectives clearly stated and understood.							
(b) **Relevance**: Do the programs implemented by the organization continue to make sense with respect to the problems or conditions to which they are intended to respond.							
(c) **Appropriateness**: Does the design of the programs and the level of effort logical in relation to programmatic objectives.							
(d) **Achievement of Intended Results**: Have the goals and objectives of the program been achieved.							
(e) **Acceptance**: Do the stakeholders for whom the programs are designed judge it to be satisfactory (extent to which significant consequences, either intended or unintended, have occurred).							
(g) **Costs and Productivity**: Is there a relationship between costs, inputs and outputs.							
(h) **Responsiveness**: Does the organisation adapt /or has the capacity to adapt to changes in such factors as markets, competition, available funding and technology.							
(i) **Financial Results**: Does the organization account for revenues and expenditures, and for assets and liabilities.							
(j) **Working Environment**: Does the organisation provide an appropriate work environment for its staff.							
(k) **Protection of Assets**: Are the assets entrusted to the organisation safeguarded.							
(l) **Monitoring and Reporting**: Are key matters pertaining to performance and organisational strength identified, reported and monitored							

APPENDIX 2 –List of Organizations Selected for the Research

Number	Name of Organization	Location
1	Kituo Cha Sheria(KCS)	Nairobi
2	Women Political Alliance(WPA)	Nairobi
3	Northern Nomadic Disabled Organization(NONDO)	Nairobi
4	Action Network for the Disabled(ANDY)	Nairobi
5	Kenya Muslim Youth Alliance(KMYA)	Nairobi
6	Independent medico-Legal Unit(IMLU)	Nairobi
7	Institute of Policy Analysis and Research(IPAR)	Nairobi
8	Poverty Eradication Network(PEN)	Nairobi
9	The Institute for Social Accountability(TISA)	Nairobi
10	Youth Agenda Administration(YAA)	Nairobi
11	Constitution and Reform Education Consortium(CRECO)	Nairobi
12	Development through Media(DTM)	Nairobi
13	Coalition on Vilolence Against Women(COVAW)	Nairobi
14	Federation of Women Lawyers(FIDA)	Nairobi
15	Peace and Development Network Trust(PeaceNet)	Nairobi
16	East Africa Wildlife Society(EAWLS)	Nairobi
17	Centre for Governance and Development (CGD)	Nairobi
18	Coalition for Peace in Africa (COPA)	Nairobi
19	Caucus for Women Leadership(CWL)	Nairobi
20	Rural Women Peace Link(RWPL)	Eldoret
21	Rural Agency for Community Development	Mandera
22	Women for Peace and Development	Mandera
23	Fafi Integrated Development Association (FaIDA)	Garissa
24	WomanKind Kenya	Garissa
25	Nyando Human Rights & Development Organisation (NYANDO)	Kisumu
26	Young Women's Christian Association (YWCA)	Kisumu
27	Catholic Justice and Peace Commission - Kitale	Kitale
28	Kenya Rural Initiative Projects (KERIP)	Kitale
29	Muslims for Human Rights (MUHURI)	Mombasa
30	Coast Interface Council of Clerics (CICC)	Mombasa

APPENDIX 3 –List of Organizations that Responded to the Questionnaire

Number	Name of Organization	Location
1	Kituo Cha Sheria(KCS)	Nairobi
2	Women Political Alliance(WPA)	Nairobi
3	Northern Nomadic Disabled Organization(NONDO)	Nairobi
4	Action Network for the Disabled(ANDY)	Nairobi
5	Kenya Muslim Youth Alliance(KMYA)	Nairobi
6	Institute of Policy Analysis and Research(IPAR)	Nairobi
7	Poverty Eradication Network(PEN)	Nairobi
8	The Institute for Social Accountability(TISA)	Nairobi
9	Youth Agenda Administration(YAA)	Nairobi
10	Constitution and Reform Education Consortium(CRECO)	Nairobi
11	Development through Media(DTM)	Nairobi
12	Coalition on Vilolence Against Women(COVAW)	Nairobi
13	Federation of Women Lawyers(FIDA)	Nairobi
14	Peace and Development Network Trust(PeaceNet)	Nairobi
15	Centre for Governance and Development (CGD)	Nairobi
16	Rural Women Peace Link(RWPL)	Eldoret
17	Rural Agency for Community Development	Mandera
18	Women for Peace and Development	Mandera
19	Fafi Integrated Development Association (FaIDA)	Garissa
20	WomanKind Kenya	Garissa
21	Nyando Human Rights & Development Organisation (NYANDO)	Kisumu
22	Young Women's Christian Association (YWCA)	Kisumu
23	Catholic Justice and Peace Commission - Kitale	Kitale
24	Kenya Rural Initiative Projects (KERIP)	Kitale
25	Coast Interface Council of Clerics (CICC)	Mombasa