CORPORATE GOVERNANCE AND FINANCIAL MANAGEMENT PRACTICES IN PUBLIC BENEFIT ORGANISATIONS IN KISUMU COUNTY, KENYA

BY
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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

NOVEMBER, 2016

DECLARATION

I, the undersigned, declare that this is my original work and has not been presented to any institution or university other than the University of Nairobi for examination

Signed: ____________________________ Date: ______________________

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D61/68777/2013

This project has been submitted for examination with my approval as the University supervisor.

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ACKNOWLEDGEMENT

I would like to express my heartfelt gratitude to all individuals who contributed to this study. My supervisor, Dr. Omoro deserves special thanks for his guidance, prompt responses to queries, encouragement, advice, understanding and patience throughout the challenging period of proposal development to the final report.

I sincerely thank all lecturers that gave their full commitment throughout my study. Special thanks to University of Nairobi librarians, for providing the best facilities and conducive environment throughout my studies. My gratitude goes out to all my classmates especially those who worked together with me for great success in every assignment given.

DEDICATION

This research project report is dedicated to my Son James, Daughter Olivia and my Husband Patrick, to the Almighty God for putting resources in terms of finances, Good health and time in my hands to be able to undertake this project and accomplish this milestone in my Life. I am forever grateful!

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ABREVIATIONS/ACRONYMS

CEO	Chief Executive officer
NGOs	Non-Governmental Organizations
PBOs	Public Benefit Organizations

ABSTRACT

Public Benefit Organization boards constantly face the challenge of providing oversight to an entity while being accountable to a network of stakeholders that is not easily defined. A weak board structure is likely to create a lea way for managers to engage in unethical practices. Sound financial management practices are critical to the successful performance of PBO's. The objective of this study was to establish the relationship between corporate governance practices and financial management practices in public benefit organizations (PBO's) in Kisumu County, Kenya. Various theories have been employed in explaining these governance conventions, these theories include the agency theory, stakeholder theory and stewardship theory. This study adopted descriptive research design. The study was conducted in Kisumu County of the Lake Victoria Region with an area of about 2,085.9 Km^2. As at 2016, there are 1168 PBO's operating in Kisumu County (Kenya NGO Board, 2016). The researcher employed simple random sampling in selection of subjects for the study. A sample of 298 PBO's operating for the last three years was selected using Yamane'(1967) formulae. The study adopted purposive sampling which was done in order to select respondents who were directly engaged with corporate governance practices in PBO's. Data collection was from primary and secondary sources. Microsoft Excel as well as Statistical Package for Social Scientists version 20 (SPSS) were used as tools in data analysis, and presented in tables. Correlations coefficient was used to determine the relationships between independent and dependent variables. The study depicted that PBOs had adequate representation from all departments during the budgeting process, they focused more on members with financial management background followed by regular management meetings and departmental budget representation but they put less emphasis on monthly financial reports. Based on the study findings, the study concludes that corporate governance practices influences financial management practices in public benefit organizations. The study recommends that boards be held accountable to enhance the performance of the public benefit organizations. This is to be done by the Directors and Board Chairs in the case of organizations that do not have CEO duality, there should also be a legislation that governs the behavior and responsibilities of the board members which can help in moderating how board members conduct themselves with regard to adopting financial management practices. Further research can be done in the same area but data be collected for a longer period of more than three years which may be a five or a ten-year period.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The Intention of Public benefit organizations in Kenya was to boost the government's efforts in meeting the public social needs. One of the ways to measure the extent to which they meet their objectives has been assessing their sustainability which to an extremely large extent depends on the quality of the organizations governance (Peter, Peter &Thomas 2016) Corporate Governance mechanisms therefore provides a framework to monitor the activities of management and improve corporate responsibility. Lack of or a weak corporate Governance structure is likely to provide agents with a leeway to engage in deceitful behaviors to serve their interests (Jesus & Emma, 2013).

Various researchers have studied financial management practices based on different objectives therefore placing different prominence on dissimilar angles of financial management practices. (Meredith, 1986) highlights organization of financial data as a foundation for financial management that incorporates financial management records and reports. A reliable information system is of great importance to agents and principles in any establishment as it ensures that decisions are made based on reliable, timely and accurate financial information. (Cohen, 1989) analyzed financial management tools of analysis like the ratio analysis, break even analysis and working capital management, (English, 1990) considered objectives of financial management including profit maximization, growth and liquidity. While (McMahon 1995) analyzed areas in financial management that were concerned with the balance sheet aspect of the business.

The foundation of many debates on corporate governance have for a long time been the agency theory, the theory is grounded on the concept of dissociation of ownership and management (Haslinda and Benedict, 2009). The emergence of the stake-holder’s theory served to address the omission found in the agency theory that considered shareholders as the only group of interest in a corporate entity (George & Karibo, 2014). The theory holds that organizations have a responsibility to consider the interest of all stakeholders. Resource dependency theory places highlights on the burden of the directors in bringing on board assets in form of professional expertise and time needed by the firm (Haslinda & Benedict, 2009). Stewardship theory seems to contradict the agency theory because it is founded on the idea that that perceives the agent as not being selfish but a steward that acts in the interest of the organization. The theory holds the position that stewards are likely to ignore self-interests for the sake of the organization and make decisions to pursue the best interest of the organization (Ogege, 2014).

Increased numbers of frauds discovered in the PBO’s in Kenya in the recent past are possible indicators of ethical failures in the industry raising doubt as to the reliability of the financial information provided to stake holders in the PBO sector. (Kavulya, 2011) argues that Corporate governance does matters in evaluating financial performance of organizations. The not for profit objective in PBO’s brings about a challenge in itself of the lack of consideration of efficiency in majority of PBO’s.

1.1.1 Corporate Governance

Corporate Governance has been described as the process designed to monitor agents and improve corporate responsibility (Ndungu, 2005). This study has adopted the definition of (Mayer, 1999) which states that it is the sum of coordinated procedures applied in the governance and supervision of the agents of an entity.

The debate on board size was probably started by (Lipton & Lorch 1992) . (Jensen 1993) reasoned that organizational changes brought about by the dynamic business environment led to a bias in smaller board sizes due to the need for cost minimization (Hermalin & Weisbach 2003) highlighted the prospect that smaller boards can be more effective compared to larger ones. A large board can potentially increase agency problems as some directors may be passive, deliberations in large board can be less effective due to the lack of practicability in engaging all participants and therefore taking into account all the contributions of members in a meeting (Lipton & Lorch,1992). Very small boards are likely to be at a disadvantage of lacking the variety of expertise most readily found in larger boards.

The board of directors is traditionally composed of independent and executive directors. There exist considerable arguments on the up side and down side of independent directors. Executive directors are equally expected to be responsible governance agents by protecting the organization's interests while maintaining good relations with the board (Williamson,1985).

A number of contrasting results have been established in studies regarding CEO duality and its effect on organization governance, stewardship theory promotes the aspect of unity of the roles of the CEO and Board chair to minimize agency costs (Koriang, 2014). According to (Dalton, 1998) an organization with good corporate governance mechanisms like a balanced ratio of executive to non-executive directors and segregated roles is likely to achieve better success in monitoring of management. (Peter *et.al* 2016) established that the performance of health PBO's in Nairobi is better in cases where the Board chair and the CEO roles are performed by the same person.

1.1.2 Financial Management Practices

According to (Moore & Reichert 1989), these are acts that are performed by the agents entrusted with managing organizations affairs in the areas of asset management and control. (Lewis, 1996) recommends financial reporting, Budgeting and controls as the most essential practices for any PBO. (McMahon *et al.*1993) explains financial management from the context of mobilization and use of funds, he describes Financial management as a process that deals with fund raising to be able to meet the obligations of the organization, the distribution of these funds between multiple uses and ensuring that they are utilized in an effective and efficient way to achieve the set organizations objective. The quality of financial management practices employed by PBO's is important in ensuring that the organization remains sustainable. (Kerine, 2015) recommended having competent and experienced personnel to ensure sound management practices in PBO's.

The success of PBO’s in today’s ever changing environment heavily relies on good budgetary practices, the primary objectives of budgetary checks are coordination, planning and control and it is therefore often difficult to discuss one without making reference to the others (Okwaro, 2014). (Mufti & Lyne, 1997) found that participatory budgeting greatly improves team spirit by enhancing acceptance and motivation therefore making the participants feel responsible for the attainment of organizational goals.

Budgeting simply translates to planning which can be strategic, medium or short term. It entails selecting objectives and coming up with actions to achieve them. Through planning, the organization is able to make an assessment of where it is supposed to be in terms of objectives and goals and this is derived from the information system in place (Lewis, 1996). Variance analysis is comparing actual with planned results and noting the variations. This helps the management to keep expenditure within the planned limits. Deficient budgetary controls result in unclear objectives and poor performance (Okwaro, 2014)

Public benefit Organizations do not own the resources that they raise but they are given the mandate to use the resources to achieve certain objectives. They are therefore expected to be accountable by keeping records of all their financial undertakings through an effective financial reporting system. Financial statements and audit reports are a means for relaying the financial position of the PBO’s to stakeholders at whatever level and demonstrating their level of accountability. Sound book keeping practices enable PBO’s to generate financial statements that portray the actual picture of the financial health of the PBO’s therefore proving accountability of the resources received by the PBO or participating institutions. The reports also make it possible for management to effectively manage variations in budgeted income and expenditure therefore leading to proactive management skills. Disclosure of such reports to stakeholders leads to cultivation of trust in the communities where they operate and with potential partners and donors.

The concept of having more than one person complete a task is instrumental in curbing fraud in both PBO's and corporate organizations. PBO's are more likely to fall victims of fraud because of the nature of the board members who are charged with monitoring the activities of the managers being volunteers. They are therefore not on site full time and so not able to watch over the day to day activities of the organization (Ron & Bridgette, 2011). (Peter *et. al* 2016) in their study of corporate Governance structures and performance of health sector Public benefit organizations in Nairobi recommended that PBO's should merge the roles of CEO's and Board chair persons to improve their performance. Their recommendation was founded on the stewardship theory that sees the CEO as a steward who protects the interests of the organization as he would his own interests.

1.1.3 Corporate Governance and Financial Management Practices

Corporate Governance and financial performance has received considerable attention in international research in recent years (Jackling & Johl, 2009). However, these studies have yielded conflicting results. Studies find that outsized boards are less effective and difficult for the CEO to manage (Lipton & Lorsch,1992). (Yermack,1996) found a negative relationship between large board size and profitability. (Eisenberg et al, 1998) and (Mark & Kusnadi, 2005) noted that small boards are positively related to high firm performance. (Hermalin & Weisbach, 1991) and (Bhagat & Black 2002) found no significant relationship between board composition and performance. (Yemack, 1996) established that the fraction of outside directors does not significantly affect firm performance.

When the association between corporate governance and financial management practices in PBOs is analyzed, other factors that might explain possible impacts on the relationship such as the size of the organization and level of risk will be held as control variables.

1.1.4 Public Benefit Organizations in Kenya

PBO's in Kenya started as self-help groups in 1960's due to the increased pressure on the government to meet social needs of the ever increasing population (Kerine, 2015) from about 13,486,241 people in 1975 to 47,251,449 currently (Worldometers, 2016). The growth of PBO's since then has been steady necessitating the formation of a regulatory body to oversee and regulate their activities in the country. The PBO's are currently registered by the NGO coordination board and regulated by Public benefit organizations Act, 2013.This was in response to increased funding both Local and international that was channeled into the PBO's without legal mechanisms for regulation and monitoring by the government and stakeholders. PBO's in Kenya have recently faced questions of accountability, Governance, Transparency and performance demonstrated by increased cases of corruption and un accountability which can be attributed to not having credible corporate structures (Peter *et .al* ,2016)

Kisumu County is in the Lake Victoria Region with an area of about 2,085.9 Km^2. The County has had an increase in the number of PBO's operating in the county due to its recording of high prevalence of HIV AIDS infections (Okwaro, 2014). With time these PBO's have diversified into addressing other social areas like health, water and nutrition that are ultimately related with the HIV and AIDS menace. The NGO coordination Board has recorded 1168 PBO's operating in Kisumu County as at May 2016. This study focused on local PBO's that are registered with the NGO board in the county.

1.2 Research Problem

Boards are very critical component of corporate governance mechanisms. In order for a board to fulfill its responsibilities, it has to be constituted and structured in a way that will enable it to effectively and efficiently perform its duties. Board design is operationalized around components like size of the boards, diversity of directors, number of committees and frequency of meetings (Koriang, 2014). PBO's are therefore complex because they are heavy in intention of meeting a population's needs yet vulnerable due to uncertainty of funding or revenue.

Increased cases of corruption and lack of accountability in PBO's in Kenya in the recent past have pointed to possible failure in corporate governance in these institutions (Peter et al ,2016), They further point out that the composition of Boards and board committees to a large extent influence the lack of transparency being witnessed in PBO's today. Sound financial management practices are critical to the successful performance of PBO's. (Okwaro, 2014) concluded that there is a connection between budgetary controls and performance of PBO's in Kisumu county.

Insufficient emphasis on budgeting and accountability, inappropriate emphasis on future cash flows and a need to broaden the definition of users and user groups in PBO's are some of the issues that have arisen in consideration of financial reporting by PBO's (BPP Learning Media, 2016)

Studies that have been conducted on PBO's include: (Okwaro, 2014) who sought to establish the correlation between budgetary controls and performance of Non-governmental organizations, (Okinda, 2011) who studied the accountability of donor funding by NGO's in Kisumu county, (Nzalu ,2006) who conducted a survey of financial management practices among development PBO's in Kenya and (Wafukho, 2010) who conducted a survey of financial management practices adopted by PBO's in Kenya. The reviewed studies have focused on various financial accountability mechanisms adopted by PBO's, To the researcher's knowledge, none of the studies investigated the link between corporate governance practices and financial management practice in PBOs in Kenya. This creates a significant gap in knowledge that should be bridged since PBO's has become an important player in meeting the social needs of the Kenyan population.

This study sought to find out the relationship between corporate governance and financial management practices in PBO's in Kisumu County. The research question was therefore "Does Corporate Governance practices influence Financial Management practices in PBO's?

1.3. Objectives of the Study

The main objective of this study was to establish whether a correlation exists between corporate governance practices and financial management practices in public benefit organizations (PBO's) in Kisumu County, Kenya.

1.4. Value of the Study

The study would form the basis for future researchers and academicians who may be conducting research on corporate governance issues in PBO's. The study offers the suggestions to the PBOs as to internal controls and the management practices that the sector could implement to reduce the likelihood of shareholders pulling out and to strengthen the effectiveness of such services for the survival of the sector.

The results of this study could inform the policies of the Government regarding PBOs. Terms of trade and credit would also be affected by this information. This study intends to lobby for stakeholders to be involved in the events that lead to the creation, modification of various PBOs policy practices and thus enable them to be more applicable and relevant to the organizations.

This study therefore fills the gap in the literature by examining the nexus between corporate governance practices and financial management practices of PBO's. Furthermore, it added to the general body of literature on corporate governance and financial management practices of PBOs in Kenya.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The chapter describes the theoretical and empirical literature review on Corporate Governance practices and financial management in Public Benefit organizations. It starts by reviewing the theories that underpin the study. The subsequent analysis of empirical literature on Corporate Governance practices and financial management leads to a summary highlighting the study gaps that inform the current study.

2.2 Theoretical Review

Several theories have been instrumental in explaining governance practices including the agency, stakeholder and stewardship theories which have further been identified as most important by (Sanda, Mikailu & Garba, 2005). These theories are further explained below.

2.2.1 Stake-holders Theory

This theory forms the basis of this study. Stakeholder theory was integrated in the management specialty in 1970 and slowly expanded by Freeman in 1984 amalgamating corporate responsibility to a wider scope of stakeholders. (Wheeler *et al*,2002) stated that the theory was derived from a mixture of the sociological and organizational disciplines. Stakeholder theory can be defined as any persons who have the potential to be or are affected by the company's achievements of its objectives (Haslinda & Benedict, 2009).

Theorists supporting stakeholder holder theory argue that agents in organizations have a web of relationships to maintain that includes employees, Business community and vendors compared to agency theory where the agents act as the stakeholders, (Sundaram & Jnkpen,2004) argue that stakeholder theory endeavors to focus on the category of stakeholder worthy of the organizations focus. While, according to (Donaldson & Preston 1995) the principle purpose of all stakeholders in a business is to secure benefits. (Clarkson 1995) stated that the firm is a system, where there are stakeholders and the intention of the organization is to generate capital for its owners. He further states that stakeholder theory is mainly a wide study that includes morality, organizational science, philosophy, political theory, economics and law.

2.2.2 Agency Theory

Agency theory is said to have originated from economic theory and was defined by Alchian and Demsetz (1972) and then expanded by Jensen and Meckling (1976). Agency theory describes as the relationship between the principals and agents of an organization. Shareholders entrust the responsibility of running the affairs of the organizations to the agents with the expectation that the agents will act in the shareholders' interests. (Clarke, 2004). Daily *et. al* (2003) state that this theory considers two important participants in a corporation being the shareholders and managers.

The agency theory states that better corporate governance results in improved performance in organizations because agency costs have been known to decrease with better supervision of managers (Albanese, Dacin and Harris, 1997). However, as (Gompers, Ishii, and Metrick 2003) suggest, the agency clarification serves to provide the proof of an affirmative relationship between corporate governance and firm performance. The relationship spells out the connection between corporate financiers and those who have been delegated to manage the affairs of the firm. Jensen and

Meckling (1976) define the agency relationship in terms of an agreement between one or more people for one party to act on behalf of the other including delegation of decision making authority.

This study views the Agency theory as one that supports the role of the board of directors in monitoring the agents through review and the implementation of codes and policies. audits, communication and reporting while using compensatory incentives to motivate the agents to perform as expected, this theory prescribes that employees should be held accountable for their actions in the context of performing their tasks and responsibilities.

2.2.3 Resource Dependency Theory

Resource dependency theory centers on the task of the agents who are the directors in contributing to the organization the much needed resources of time and technical expertise (Hillman,Canella & Paetzold, 2000). The stakeholder theory concentrates on association with many groups for individual benefits. The provision of resources improves organizational functioning, firm's performance and its endurance (Daily *et al*, 2003). Directors provide resources such as information, skills, networks with suppliers, buyers, public policy makers, professional groups as well as legitimacy (Hillman, Canella & Paetzold, 2000).

2.2.4 Stewardship Theory

This theory originates from psychology and sociology. A steward is described by (Davis, Schoorman & Donaldson, 1997) as someone who acts in the best interest of an entity by protecting and increasing the shareholder's wealth through improved firm's performance thereby maximizing the steward's utility functions. In this perspective, stewards are organization employees who have been delegated to act on behalf of owners who safeguard their interests and generate wealth for them. Contrasted to the agency theory, stewardship theory does not focus on the outlook of individualism (Donaldson & Davis, 1991), but on senior management's responsibility of being stewards and therefore combining their objectives with those of the organization.

The stewardship outlook proposes that when organizational success is achieved, Stewards achieve personal satisfaction. Stewardship theory recognizes the significance of structures that equips stewards with what it takes to perform satisfactorily and optimize the resources availed to them thereby creating a relationship that is built on confidence (Donaldson & Davis, 1991) It places emphasis on the independence of the management in making decisions that are in the best interest of the organization and ultimately increasing the shareholder's wealth. This then translates to reduced agency costs (Davis, Schorman & Donaldson, 1997).

2.3 Determinants of Financial Management Practices

The performance of any organization is heavily dependent on the financial management practices is adopts (Ahmed & Jamshed, 2012). It is for this reason that stakeholders will naturally be interested in the practices adopted in organizations and will go further to make decisions with regard to the practices that should be adopted by organizations because Sound financial management practices give a positive signal to investors.

Investors today have taken a keen interest in corporate social disclosure as it is believed to maximize shareholder's wealth. Corporate Social disclosure informs the public about the activities of the organization that affects them. The requirements of such disclosures affect the disclosure and reporting practices of such organizations and their financial practices. (Ahmed & Jamshed, 2012).

Specific uncertainties that have come about as a result of the ever dynamic business environment that we operate in have also affected the selection of financial practices in organizations. Organizations have therefore adopted practices with the aim of minimizing risks of fraud, non-compliance, reputational and operational risks among others. (Ahmed & Jamshed, 2012).

2.4 Empirical Review

A study done by Gachithi (2010) researched on the challenges of budget implementation in public institutions. The study adopted a descriptive study and employed both secondary and primary data collection tools. The conclusion was that there is inefficiency in the budget preparation strategies employed and that the budget process faces numerous challenges. She further recommended the adoption of effective procedures in allocation of funds and operational implementation policies.

Gacheru, (2012) sought to examine how the budgeting process affects budgeting variance in PBO's in Kenya. The study applied convenient sampling in selection of 20 PBO's. She used questionnaires to collect primary data and applied descriptive data analysis using SPSS software. Her conclusion was that the entire process of budget preparation, control and implementation played a colossal function in the level of budget variance experienced in the organizations.

Kiilu, M. R & Ngugi, K (2014) sought to determine how effective the public financial management amendments were on the administration of public funds in Kenya. The study focused on budgeting, intensified income collection, amendments of procurement laws, and IFMIS reform in the management of public funds in Kenya National Treasury. The study adopted descriptive research design. The study found that procurement reforms was the leading factor that had an impact on effective public management followed by budgeting reforms and lastly tax revenue administration.

Okwaro, (2014) sought to establish the correlation between controls in budgeting and performance of non-governmental organizations in Kisumu County. Multiple regression was used to examine the effect. Quantitative and qualitative research methodologies were both used in data collection. He successfully obtained data from 277 PBOs. The study found that there is a substantial connection between performance of Public benefit organizations and the budgetary control mechanisms put in place by the organizations.

Okinda, (2011) examined the accountability of donor funding by Non-Governmental organizations in Kisumu County. He adopted a descriptive survey design and established that donor funding was dependent on demonstrated accountability mechanisms in place by organizations. Oversight by communities affected by the activities of the PBO's as stakeholders was not adequate probably because of ignorance and lack of or inadequate mechanisms to do so.

Onsongo (2012) conducted a study to ascertain the strategies adopted by PBO's to achieve financial sustainability. His focus was to establish how strategic financial management and coalitions, strategic programming, internal resource mobilization, and organization structure contributes towards financial sustainability in PBO's. From this study, strategic financial management was ranked highly closely followed by proper governance systems, strategic alliances, internal financial sources, organizational structure, development funding and paradigm shift in programming.

Nzalu, (2006) conducted a survey of financial management practices among development PBO's in Kenya. Content analysis was used to analyze data. His findings were that financial management practices adopted by the PBO's only partially conformed to the laid down procedures according to internationally accepted financial reporting standards.

Wafukho, (2010) conducted a survey of financial management practices adopted by PBO's in Kenya. She adopted a descriptive research of all the PBO's in Kenya and selected 10% of the population through stratified sampling. Her findings were that only about 9% of PBO's generated their own income. Another finding was that the financial management practices adopted the the PBO's were influenced to a large degree by the donor's requirements and sociological needs at a time. Profit maximization was not an objective in majority of the organizations and so the management practices adopted were not in any way influenced by the need to make profits. She identified Budgeting, Accountability, financial governance, Risk and capital management as the financial management practices practiced by PBO's

Kingoro & Bujra (2009), did a study on the contribution of non-state actors to development in Kenya, where they analyzed governance in PBO's addressing the HIV epidemic. His findings were that members are not empowered to voice concerns or make valuable contributions and there is very little morale for volunteerism, there is no accountability of board members and founders are not reproachable as they resist variety and inclusiveness of the governing body. There was found to be a lack of isolation of function between board and management therefore successfully clouding the governance line and leading to conflict as information was withheld from stakeholders.

Kock *et.al*, (2011) studied corporate governance based on stakeholder-agency paradigm in which the managers are be seen as the agents of several groups of stakeholders. The findings of this research indicated that organizations financial and overall performance was affected by the corporate governance methods applied by increasing the agent's sensitivity towards the stakeholder's environmental inclination. More specifically, the empirical evidence showed that organizations were more exposed to the market for corporate control also had a similarly significant representation of pro-stakeholder's directors in their boards and a higher level of financial performance.

2.5 Summary of Literature Review

The studies highlighted in the literature review highlight various accountability mechanisms adopted by PBO's. Budgetary controls and its relationship with performance of PBO's, accountability mechanisms of PBO's and survey of financial management practices are issues that have been addressed in these studies. Some studies concluded that most PBO's only partially conformed to internationally accepted reporting standards. It was evident from the studies that financial management practices had an impact on performance of PBO's which is uniquely measured in comparison to profit making organizations due to their not for profit nature. Corporate Governance mechanisms have been discussed independently in additional studies with various contradicting findings and recommendations. The corporate governance practices applicable to PBO's appear to be subjective and dependent on individual circumstances. There was no study that attempted to link corporate governance practices with financial management practices. The objective of this study was to establish if a relationship exists between corporate governance practices and financial management practices of PBO's in Kenya.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The chapter describes the research design that was applied, target population, sample and the sampling approach that was used, data collection instruments and procedures, validity and reliability and data analysis methods that were employed in the study.

3.2 Research Design

Descriptive research design was applied in this study. A descriptive study determines reports actual events in their current state. This study design was selected primarily because the research is concerned with the present circumstances already in existence and there was no manipulation of variables. This study sought to apply the findings to a larger population. The main focus of this study was quantitative.

3.3 Study Population

The study was conducted in Kisumu County of the Lake Victoria Region with an area of about 2,085.9 Km^2. As at 2013, there were 1168 PBO's operating in Kisumu County (Kenya NGO Board, 2016). The researcher employed simple random sampling in selection of subjects for the study.

3.4 Sample Size and Sampling Procedures

A sample of 298 NGO's operating for the last three years was selected using Yamane'(1967) formulae. In the study, N = 1168 and e = 5 % at 95% confidence level. The sample size was 298 PBO's translating to 327 PBO's after adding a provision for non-responses of 10%.

The study adopted purposive sampling which was done in order to select respondents who were directly engaged with corporate governance practices in PBO's. (Sekaran 2006) concurs that purposive sampling is restricted to particular people with access to the needed data because they are the only ones who have it, or they conform to some requirement set by the researcher. (Sekaran, 2006) The study contends that those who are most readily available might not have accurate information thus making it advantageous to target specific groups or individuals, a process referred to as purposive sampling. The study purposively targeted the PBO Managers since they had information on governance and financial management practices of the organization.

3.5 Data Collection

Data collection was from primary and secondary sources. Research assistants were deployed to selected PBO's for data collection from pre-qualified respondents through questionnaires. The structured questionnaire was the main instrument of the study administered to the Directors of the PBO's. This method was applied by the researched because of its advantage in being able to gather a lot of information from respondents within a limited timeframe (Gupta, 1999). The results of the questionnaire can also be easily quantified by use of software packages. The questionnaires were issued through the drop and pick method giving some time to the Respondents for consultation so that questions could be answered honestly as recommended by (Floyd et.al, 2003). Secondary data was collected through a review of financial and program records of the organizations like budgets, financial reports and operational policies. This supplemented data received from primary sources.

3.6. Validity and Reliability

A study questionnaire was developed by the researcher based on study objectives. The questionnaire was tested on 5 respondent organizations to fine tune it and ensure it collected relevant data to answer specific questions to solve the research problem. The researcher established content validity through peer review by a research expert in this case project supervisor to ensure that the content was relevant to the study undertaken.

The reliability of a measuring tool is determined by its ability to provide constant results when used frequently and often. (Kothari, 2004). Internal consistency technique was used in this study to ensure reliability, (Mugenda & Mugenda , 2003) recommended the correlation of a score previously obtained from other items in the measuring tool. Cronbach's coefficient alpha (KR20) was then calculated to ascertain the correlation of the items amongst themselves. (Uma, 2006) observes that the closer the reliability coefficient gets to 1.0, the better, and further that in general, reliabilities less than 0.60 are considered to be poor, those in the range of 0.70 acceptable, and those over 0.80 good. This study determined a validity of 0.82 with the use of SPSS which was considered to be suitable for the study.

3.7 Data Analysis

Data analysis is the procedure of methodically organizing information for interpretation (Bogdan & Biklen, 1992). It involves organizing then breaking the data into categories and units and ultimately observing for trends and patterns and using such to draw conclusions. Quantitative data was collected, coded then assembled for purposes of statistical scrutiny. Collected data was analyzed for purposes of establishment of trends and relationships of the variables in the research study. The research objectives formed the basis of coding of the raw data for analysis.

Microsoft Excel as well as Statistical Package for Social Scientists version 20 (SPSS) were used as tools in data analysis, and presented in tables. Correlations coefficient was used to establish the relationships between independent and dependent variables. The p- value will be set at level 0.05. Cross–tabulation was used to show the interrelationship between the independent variables and the dependent variable. The number of respondents who responded to a particular option were recorded in one column and percentage calculated and recorded in another column. The strength of percentages indicated the preferred response. Results from quantitative data were presented by use of frequency distribution in form of frequencies and percentage tables while empirical studies were used to support the study findings.

CHAPTER FOUR: DATA ANALYSIS PRESENTATION AND INTERPRETATION

4.1. Introduction

This chapter presents the findings, their interpretations and discussions. The findings of the study are presented on the basis of the research objective, which was to; establish the relationship between corporate governance practices and financial management practices in public benefit organizations (PBO's) in Kisumu County, Kenya.

The data were analyzed using both descriptive and inferential statistics. The descriptive statistics was used to describe and summarize the data inform of frequency distribution tables. The inferential statistics was used to make inferences and draw conclusions. The statistical package for social sciences (SSPS) version 20.0 analyzed the data.

4.2 Response Rate

This response return rate of 91% was achieved because the researcher made call backs and administered the instruments to each respondent in person to ensure that each and every respondent took part in the study.

Table 4. 1: Rate of Responses Analysis

Responses	No of Respondents	Percentage of Respondents
Total Questionnaires distributed	327	100
Total Questionnaires obtained answered	298	91
Total Questionnaires obtained not fully answered	29	9

Source: Field Data (2016)

The percentage was considered sufficient to proceed with the study as according to (Necamaya, 1996) a questionnaires return rate of 75% and more is sufficient to draw reliable conclusions.

4.3 Background Information on PBOs

The study sought to establish the existence of corporate governance mechanisms amongst the public benefits organizations with a focus on the respondents' gender, distribution of respondents by level of education, organization existence, position in the organization and rate of response on the duration worked in the organization.

4.3.1 Respondents' Gender

Considering the response by gender, majority of the respondents were male (60%) with female respondents making only (40%) as shown in figure 4.1.

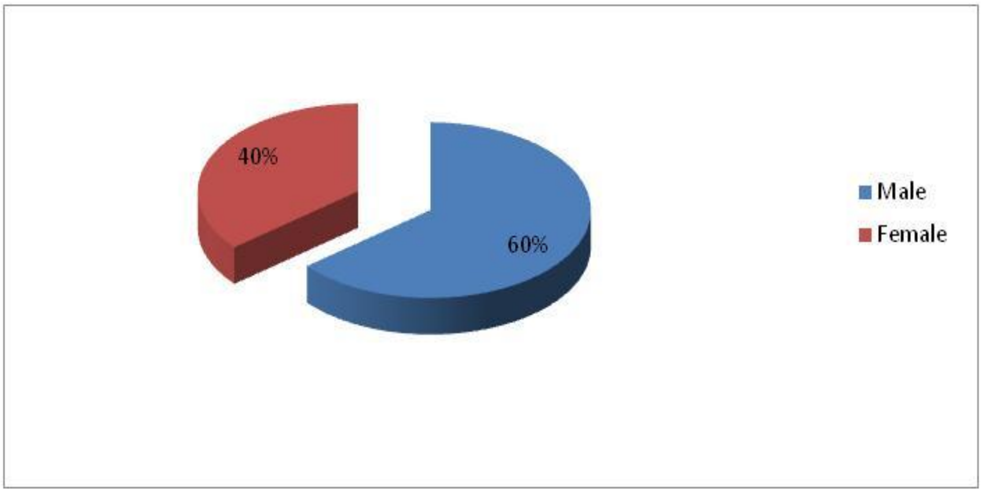

Figure 4.1: Gender of Respondents

Source: Field Data (2016)

Therefore, the gender distribution in this study was unevenly distributed with males 60% and females 40%. There was approximately 3:2 gender split for males to females. This indicated that Men were selected to head most organizations than women, the study sought to reaffirm this by investigating the respondents' level of education.

4.3.2 Distribution of Respondents by Level of Education

The researcher sought to find out the respondent's level of education because this would help to establish the respondent's ability to provide adequate information as needed by the researcher and his or her ability to effectively interact with data collection tools. The level of education of respondents is presented in Table. (4.2)

Table 4. 2: Analysis of Directors Level of Education

Education Level	Total Number of respondents	Male	Female	Percentage
Master's degree	86	56	30	29
Undergraduate Degree	212	124	88	71
Diploma	-	-	-	-
Certificate	-	-	-	-
Total	**298**	**180**	**118**	**100**

Source: Field Data (2016)

The findings in table 4.2 shows the respondents' education background and depicted that there was a considerable gap between the male and female respondents. Majority of the respondents 71% had degrees of which 124 were male and 88 were female while 29% had a master's degree of which 56 were male while 30 were female. The study conforms to the study of Dickson (2011) who established that respondents who had gone through elementary school could read, write and comprehend questions in the questionnaire. The responses from the respondents could therefore be relied upon in drawing the conclusion of the study.

Table 4. 3: Organization Existence

Years of experience	Respondents	Percentage
0-1 years	23	8
1-3 years	123	41
More than 3 years	152	51
Total	**298**	**100**

Source: Field Data (2016)

The results summarized in the Table 4.3 indicate that 51% of the organizations had been in existence for more than 3 years, 8% of the organizations had been in existence for less than 1 year. The results also showed that 41% of the organizations had been in existence between 1 to 3 years.

Table 4. 4:Position in the Organization

Response	Respondents	Percentage
Director	201	67
Board Chair/Director	97	33

Source: Field Data (2016)

The findings in table 4.4 shows the respondents position in the organization, majority of the respondents 67% were directors in their respective organizations while 33% were board directors. This finding indicated that the researcher engaged more directors as compared to Board Chairs.

Table 4. 5: Rate of response on the Duration Worked in the Organization

Response	Respondents	Percentage
Less than 3 years	123	41
3 years and more	175	59

Source: Field Data (2016)

It can be observed from Table 4.5 that most of the directors have worked for their respective organizations for more than 3 years as indicated by 59% of the respondents, while 41% of the respondents indicate having worked for less than 3 years.

4.4 Corporate Governance Practices

The study sought to establish the existence of corporate governance mechanisms amongst the public benefits organizations with a focus on the existence of board of directors, board size and CEO duality.

Table 4. 6 Number of years' members served in the Board of Directors

Years of experience	Respondents	Percentage
1-5	160	54
6-10	86	29
10 and above	52	17
Total	**298**	**100**

Source: Field Data (2016)

Table 4.6 shows that 54% of the respondents indicated that they participated in the board affairs for between 1-5 years, 29% indicated having participated in the board activities for 6-10 years while 17% of the respondents indicated that they participated in the boards affairs for 10 and above years. The study finding indicates that majority of the respondents had served as board directors for close to 5 years.

The above finding can be supported by the stakeholder theory which stipulates that the organization is a structure where the expectation of stakeholders is wealth generation

Table 4. 7 Ratio of Members with Financial Management Background to Members without such Background in the Board

Years of experience	Respondents	Percentage
Members with financial background are more	137	46
Members with financial management background are less	65	22
There is an equal ration of members with and without financial management background.	96	32
Total	**298**	**100**

Source: Field Data (2016)

From the Table 4.7 summary of results showed that 46% of the respondents indicated that the ratio of members with financial background were more, 32% of the respondents indicated that there was an equal ration of members with and without financial management background while 22% of the respondents stated that Members with financial management background were less. The study finding indicates that the ratio of members with financial background were more in most organizations.

The above finding resonates with the resource dependency theory which focuses on directors responsibility in availing needed resources to an organization in terms of time and professional expertise (Hillman,Canella & Paetzold 2000). According to (Hillman, Canella & Paetzold 2000) directors provide resources such as networks, skills and access to professional groups among others.

Table 4. 8 Ratio of Executive to Non-Executive Members

Years of experience	Respondents	Percentage
1:1	110	37
Less than 1:1	145	49
More than 1:1	43	14
Total	**298**	**100**

Source: Field Data (2016)

Table 4.8 shows that 49% of the respondents indicated that the ratio of executive to non-executive members was less than 1:1, 37% of the respondents felt that the ratio of executive to non-executive members was 1:1 while 14% of the respondents stated that the ratio of executive to non-executive members was more than 1:1. The study findings reveal that the ration of executive to non-executive was not balanced.

Table 4. 9 CEO and Board Chair Position held by the Same Person

Response	Respondents	Percentage
Yes	138	46
No	160	54

Source: Field Data (2016)

It can be observed from Table 4.9 that most of the respondents 54% stated that the CEO and Board chair position were not held by the same person, 46% of the respondents stated that the CEO and Board chair position were held by the same person. The study finding shows that CEO and Board chair position were not held by the same person.

4.5 Financial Management Practices

Table 4. 10 Organization have Long Term and Short Term Budgets

Respondents	Frequency	Percentage
Strongly agree	118	40
Agree	86	28
Disagree	56	19
Strongly Disagree	38	13
Total	**298**	**100**

Source: Field Data (2016)

Table 4.10 showed that 40% of the respondents strongly agreed that the Organization had Long term and short term budgets, 28% of the respondents agreed that the Organization had Long term and short term budgets, 19% of the respondents disagreed while 13% strongly disagreed. The study finding established that long term and short term budgets were prepared by the selected PBOs.

Table 4.11 Management Meets Regularly to Review Budget Status and Performance

Respondents	Frequency	Percentage
Strongly agree	132	44
Agree	120	40
Disagree	34	12
Strongly Disagree	12	4
Total	**298**	**100**

Source: Field Data (2016)

Table 4.11 depicts that 44% of the respondents strongly agreed that there are regular management meetings to review budget status and performance, 40% of the respondents agreed that the there are regular management meetings to review budget status and performance, while 12% of the respondents disagreed that there are regular management meetings to review budget status and performance, 4% strongly disagreed with this statement. The study finding indicates that management meets regularly to review budget status and performance of the PBOs.

This finding is in line with (Okwaro, 2014) study which found that there is a significant correlation between performance of public benefit organizations and their budgetary control strategies therefore suggesting that the various budgetary control strategies affect performance of the PBOs at a noteworthy level. Further (Okwaro, 2014) in his study states that effective budgetary practices are critical for the success of PBO's in today's ever changing environment,

Table 4.12 Adequate representations from all Departments in the Budgeting Process is done

Respondents	Frequency	Percentage
Strongly agree	104	35
Agree	128	43
Disagree	46	15
Strongly Disagree	20	7
Total	**298**	**100**

Source: Field Data (2016)

Table 4.12 shows that 43% of the respondents agreed that Adequate representation from all departments in the budgeting process was done, 35% of the respondents strongly agreed that Adequate representation from all departments in the budgeting process was done, 15% of the respondents disagreed that Adequate representation from all departments in the budgeting process was done, 7% strongly disagreed with this statement. The study finding depicts that PBOs do have adequate representation from all departments during the budgeting process.

Scholars such as (Mufti & Lyne, 1997) found that an all-inclusive budgeting process promotes team spirit as it increases acceptance and motivation and makes the participants generally feel responsible for the achievement of the organizational goals. (Gachithi, 2010) in her study observes that there is inefficacy in the budgeting processes in public institutions and that the budget process faces a lot of challenges.

Table 4.13 Financial Reports are Prepared and Reviewed on a Monthly Basis

Respondents	Frequency	Percentage
Strongly agree	4	2
Agree	12	4
Disagree	144	48
Strongly Disagree	138	46
Total	**298**	**100**

Source: Field Data (2016)

Table 4.13 summary of results showed that 14% of the respondents strongly agreed that they prepared and reviewed financial reports on a monthly basis, 4% of the respondents agreed having prepared and reviewed financial reports on a monthly basis, 48% of the respondents disagreed that they prepared and reviewed financial reports on a monthly basis 46% of the respondents strongly disagreed with the same statement. The study established that financial reports were not prepared and reviewed on a monthly basis.

Table 4.14 Set of Reports Prepared on a Monthly Basis

Respondents	Frequency	Percentage
All of the above	120	40
Some of the above	178	60
None of the above	0	
Total	**298**	**100**

Source: Field Data (2016)

Table 4.14 summary of results showed that 40% of the PBO's prepared all the financial reports outlined while the other 60% only prepared some of the reports.

The findings are in line with (Nzalu, 2006) in his study where he established that financial management practices in PBO's only partially conformed to the laid down procedures according to internationally accepted financial reporting standards.

Table 4.15 Different People Conduct Approvals, Disbursements and Recording of Transactions

Respondents	Frequency	Percentage
Strongly agree	144	48
Agree	127	43
Disagree	15	5
Strongly Disagree	12	4
Total	**298**	**100**

Source: Field Data (2016)

Table 4.15 showed that 48% of the respondents strongly agreed that different people conduct approvals, disbursements and recording of transactions, 43% of the respondents agreed that different people conduct Approvals, Disbursements and recording of transactions, 5% of the respondents disagreed that different people conduct Approvals, Disbursements and recording of transactions, while 4% of the respondents strongly disagreed with the same statement. The study findings established that the PBOs had assigned roles to different people to conduct approvals, disbursements and recording of transactions.

Table 4.16 Procurement, Human Resources and Finance Departments Are Independent of Each Other

Respondents	Frequency	Percentage
Strongly agree	124	42
Agree	156	52
Disagree	10	3
Strongly Disagree	8	3
Total	**298**	**100**

Source: Field Data (2016)

Table 4.16 showed that 42% of the respondents strongly agreed that Procurement, Human resources and finance departments are independent of each other, 52% of the respondents agreed that Procurement, Human resources and finance departments are independent of each other, 3% of the respondents disagreed that procurement, Human resources and finance departments are independent of each other, while 3%of the respondents strongly disagreed with the same statement. The study findings indicated that procurement, human resources and finance departments were independent of each other in most of the PBOs.

The study findings above are in tandem with Kiilu & Ngugi (2014) who in their study established that effective public management was mostly influenced by procurement reforms followed by budgeting reforms and lastly tax revenue administration.

4.6 Two Tailed Bivariate Pearson Correlation

A two tailed Bivariate Pearson correlation analysis was conducted to establish the relationship between ratio of executive to non-executive members and Financial Management Practices, the results are shown in the table 4.17 below:

Table 4.17: Correlation between Ratio of Executive to non-Executive Members and Financial Management Practices

FMP individual factor	Statistic	Financial Management Practices
Ratio of executive to non-executive members	Pearson Correlation	.936**
	Sig. (2-tailed)	.000
	N	298

**Correlation is significant at the 0.05 level (2 tailed)

Source: *Researcher's Analysis*

The results indicate a strong positive correlation between ratio of executive to non-executive members and Financial Management Practices at a significance level of *($r=0.936$, $P<0.05$).* The r^2 = .8760 reveals that about 87.6 % of the financial management practices is attributed by the ratio of executive to non-executive members. This implies that the ratio of executive to non-executive members influences Financial Management Practices.

Bhagat & Black (2002) found no notable association between board composition and performance. (Yemack 1996) established that the percentage of outside directors does not materially affect organizational performance.

Table 4.18: Correlation of Ratio of Members with Financial Management Background and Financial Management Practices

CGP Individual factor	Statistic	Financial Management Practices
Ratio of members with financial management background	Pearson Correlation	.889**
	Sig. (2-tailed)	.000
	N	298

**correlation is significant at the 0.05 level (2 tailed)

The study findings show a statistically significance positive correlation *(r= 0.889, P<0.05)* between ratio of members with financial management background and Financial Management Practices. The r^2 = .7903 indicates that 79.03% of the financial management practices is attributed by the ratio of members with financial management background. This implies that the ratio of members with financial management background is likely to influence Financial Management Practices.

Table 4.19: Correlation of Procurement, Human resources and finance departments are independent of each other and Financial Management Practices

		Procurement, Human resources and finance departments are independent of each other	Financial Management Practices
Procurement, Human resources and finance departments are independent of each other	Pearson Correlation	1	.943**
	Sig. (2-tailed)		.000
	N	298	298
Financial Management Practices	Pearson Correlation	.943**	1
	Sig. (2-tailed)	.000	
	N	298	298

The study findings show a statistically significance positive correlation *(r= 0.943, P<0.05)* between Procurement, Human resources and finance departments are independent of each other and Financial Management Practices. The r^2 = .8892 indicates that 88.92% of the financial management practices is attributed by Procurement, Human resources and finance departments are independent of each other. This implies that the Procurement, Human resources and finance departments are independent of each other is likely to influence Financial Management Practices.

Table 4. 20 : Correlation of number of years a member as served in the board of directors and Financial Management Practices

		number of years a member as served in the board of directors	Financial Management Practices
number of years a member as served in the board of directors	Pearson Correlation	1	.875**
	Sig. (2-tailed)		.000
	N	298	298
Financial Management Practices	Pearson Correlation	.875**	1
	Sig. (2-tailed)	.000	
	N	298	298

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Field Data (2016)

The study findings show a statistically significance positive correlation *($r= 0.875$ $P<0.05$)* between number of years a member as served in the board of directors. The r^2 = .7656 indicates that 76.56% of the financial management practices is attributed by the number of years a member has served in the board of directors. This implies that the number of years a member as served in the board of directors is likely to influence Financial Management Practices.

Table 4. 21: Correlation of Management Regular Meetings to Review Budget Status and Performance and Financial Management Practices

		management regular meetings to review budget status and performance and Financial Management Practices	Financial Management Practices
management regular meetings to review budget status and performance and Financial Management Practices	Pearson Correlation	1	.962**
	Sig. (2-tailed)		.000
	N	298	298
Financial Management Practices	Pearson Correlation	.962**	1
	Sig. (2-tailed)	.000	
	N	298	298

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Field Data (2016)

The study findings show a statistically significance positive correlation *($r = 0.962$, $P<0.05$)* between management regular meetings and Financial Management Practices. The r^2 = .9254 indicates that 92.54% of the financial management practices is attributed by management regular meetings. This implies that management regular meetings to review budget status and performance are likely to influence Financial Management Practices.

Table 4. 22: Correlation of Number of Years A Member As Served In The Board of Directors and Management Meets Regularly as It Should to Review Budget Status and Performance

		number of years a member as served in the board of directors	management meets regularly as it should to review budget status and performance
number of years a member as served in the board of directors	Pearson Correlation	1	.887**
	Sig. (2-tailed)		.000
	N	298	298
management meets regularly as it should to review budget status and performance	Pearson Correlation	.887**	1
	Sig. (2-tailed)	.000	
	N	298	298

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Field Data (2016)

The study findings show a statistically significance positive correlation *(r= 0.887, P<0.05)* between number of years a member served in the board of directors and management regular meetings to review budget status and performance. The r^2 = .7867 indicates that 78.67% of management regular meetings to review budget status and performance is attributed by the number of years a member had served in the board of directors. This implies that the number of years a member served in the board of directors is likely to influence management regular meetings to review budget status and performance.

Table 4.23: Correlation of Corporate Governance Practices and Financial Management Practices

		Corporate Governance Practices	Financial Management Practices
Corporate Governance Practices	Pearson Correlation	1	.949**
	Sig. (2-tailed)		.000
	N	298	298
Financial Management Practices	Pearson Correlation	.949**	1
	Sig. (2-tailed)	.000	
	N	298	298

**. Correlation is significant at the 0.01 level (2-tailed).

The study findings show a statistically significance positive correlation *($r= 0.949$, $P<0.05$)* between Corporate Governance practices and Financial Management Practices. The $r^2 = .9006$ indicates that 90.06% of the financial management practices is attributed by Corporate Governance practices. This implies that Corporate Governance practices are likely to influence Financial Management Practices.

4.7 Discussion on Findings

The study sought to establish the relationship between corporate governance practices and financial management practices in PBO's in Kisumu county. The study results showed that most of the organizations had been in existence for more than 3 years. This finding further indicated that the researcher engaged more directors who had worked with their organizations for more than three years as compared to Board Chairs.

Majority of the respondents had served as board directors for close to 5 years while the ratio of members with financial background was more in most organizations. Statistical analysis showed that the number of years a member had served in the board of directors was likely to influence Financial Management Practices. It is also important to note that the ration of executive to non-executive was not balanced. Statistical evaluation established that the ratio of executive to non-executive members influenced Financial Management Practices.

CEO and Board chair position were not held by the same person. This finding can be related to a study by (Koriang, 2014) who argued that there were contrasting results on studies conducted focusing on CEO duality and its effect on governance. stewardship theory promotes the aspect of unity of the roles of the CEO and Board chair to minimize agency costs but according to (Dalton, 1998) organizations with superior corporate governance mechanisms like split roles or balanced ratio of executive and non-executive directors are more likely to have better mechanisms for monitoring management.

Long term and short term budgets were prepared by the selected PBOs. Okwaro, (2014) in his study found that the prosperity of PBO's in today's dynamic setting depends on reliable and efficient budgetary practices that meet the main objectives of budgetary control which are planning, coordination and control. It is for this reason that is many times not productive to discuss one without the others in context. This view was in tandem with (Wafukho, 2010) observation in her study where she identified Budgeting, Accountability, financial governance, Risk and capital management as the financial management practices practiced by PBO's.

In most of the organizations management met regularly to review budget status and performance of the PBOs. Statistical analysis depicted that management regular meetings to review budget status and performance was likely to influence Financial Management Practices.

The PBOs had adequate representation from all departments during the budgeting process. This study observed that majority of the PBO's only prepared some of financial reports regularly. These findings were consistent with (Nzalu, 2006) who concluded that financial management practices only partially conformed to the laid down procedures according to internationally accepted financial reporting standards.

Statistical analysis identified that the ratio of members with financial management background was likely to influence Financial Management Practices. This finding is similar to the observation made by (Kerine, 2015) that the sustainability of PBO's relies on the level of financial management practices adapted. She recommended having highly competent staff to ensure effective and efficient management practices in PBO's.

Most of the PBOs had assigned roles to different people to conduct approvals, disbursements and recording of transactions. Further the procurement, human resources and finance departments were independent of each other in most of the PBOs. Statistical analysis established that Procurement, Human resources and finance departments were independent of each other and this was likely to influence Financial Management Practices. Overall statistical analysis depicted that Corporate Governance practices was likely to influence Financial Management Practices.

CHAPTER FIVE: SUMMARY AND CONCLUSIONS

5.1 Introduction

This chapter summarizes the findings in chapter four, the conclusions that have been drawn based on the findings and recommendations of the study. The chapter is therefore structured into sections namely: summary of findings, conclusions, recommendations, limitations of the study and suggestions for further research.

5.2 Summary of Findings

The study sought to establish the relationship between corporate governance practices and financial management practices in public benefit organizations (PBO's) in Kisumu County, Kenya. The study was based on data collected from respondents with a response rate of 92%. Considering the response by gender, majority of the respondents were male 60%. There was approximately 3:2 gender split for males to females. On the level of education Majority of the respondents 71% had degrees of which 124 were male and 88 were female while 29% had a master's degree of which 56 were male while 30 were female. 51% of the organizations had been in existence for more than 3 years. This finding indicated that the researcher engaged more male directors as compared to women.

The study finding revealed that majority of the respondents had served as board directors for close to 5 years while the ratio of members with financial background was more in most organizations. Further the ration of executive to non executive members was not balanced. Equally it is important to note that CEO and Board chair position were not held by the same person.

The study findings further established that long term and short term budgets were prepared by the selected PBOs. Further the management met regularly to review budget status and performance of the PBOs. The study also depicted that PBOs had adequate representation from all departments during the budgeting process. However financial reports were not prepared and reviewed on a monthly basis according to the study findings. It was established that PBOs were very keen on preparing cash flow statements on a monthly basis. It was further established that PBOs had assigned roles to different people to conduct approvals, disbursements and recording of transactions. There was equally an indication that procurement, human resources and finance departments were independent of each other in most of the PBOs.

A two tailed Bivariate Pearson correlation analysis was conducted the results indicate a strong positive correlation between ratio of executive to non-executive members and Financial Management Practices at a significance level of *($r=0.936$, $P<0.05$).* The r^2 = .8760 reveals that about 87.6 % of the financial management practices is attributed by the ratio of executive to non-executive members. This implies that the ratio of executive to non-executive members influences Financial Management Practices.

The study findings show a statistically significance positive correlation *($r= 0.889$, $P<0.05$)* between ratio of members with financial management background and Financial Management Practices. The r^2 = .7903 indicates that 79.03% of the financial management practices is attributed by the ratio of members with financial management background.

The study findings show a statistically significance positive correlation *($r= 0.943$, $P<0.05$)* between Procurement, Human resources and finance departments are independent of each other and Financial Management Practices. The r^2 = .8892 indicates that 88.9% of the financial management practices is attributed by Procurement, Human resources and finance departments are independent of each other. This implies that the Procurement, Human resources and finance departments are independent of each other is likely to influence Financial Management Practices.

The study findings show a statistically significance positive correlation *($r= 0.875$ $P<0.05$)* between number of years a member as served in the board of directors. The r^2 = .7656 indicates that 76.56% of the financial management practices is attributed by the number of years a member as served in the board of directors. This implies that the number of years a member as served in the board of directors is likely to influence Financial Management Practices.

The study findings show a statistically significance positive correlation *($r= 0.962$, $P<0.05$)* between management regular meetings and Financial Management Practices. The r^2 = .9254 indicates that 92.54% of the financial management practices is attributed by management regular meetings. This implies that management regular meetings to review budget status and performance are likely to influence Financial Management Practices.

The study findings show a statistically significance positive correlation *($r= 0.887$, $P<0.05$)* between number of years a member served in the board of directors and management regular meetings to review budget status and performance. The r^2 = .7867 indicates that 78.67% of management regular meetings to review budget status and performance is attributed by the number of years a member had served in the board of directors. This implies that the number of years a member served in the board of directors is likely to influence management regular meetings to review budget status and performance.

The study findings show a statistically significance positive correlation *($r= 0.949$, $P<0.05$)* between Corporate Governance Practices and Financial Management Practices. The r^2 = .9006 indicates that 90.06% of the financial management practices is attributed by Corporate Governance Practices. This implies that Corporate Governance Practices is likely to influence Financial Management Practices.

5.3 Conclusions

Based on the study findings, the study concludes that corporate governance practices influences financial management practices in public benefit organizations. The study concluded that there was a relationship on the ratio of executive to non-executive members and Financial Management Practices.

The study concluded that members with financial management background adopted Financial Management Practices. The study further concluded that Procurement, Human resources and finance departments are independent of each other therefore Financial Management Practices were enhanced.

The study concluded that the number of years a member served in the board of directors aided the adoption of financial management practices. The study also concluded that management regular meetings enhanced adoption of Financial Management Practices.

The study concluded that the number of years a member served in the board of directors influenced management regular meetings to review budget status and performance. The study as a final point concluded that there was a strong positive relationship between Corporate Governance Practices and Financial Management Practices.

5.4 Recommendations

It is the recommendation of this study that the directors and Board chairs of PBO's that do not have CEO duality to institute accountability mechanisms of boards to improve performance of the public benefit organizations. A legislation that dictates the behaviors and responsivities of board members to also be developed to enhance the adoption of sound financial management practices.

When sound financial management practices are met, the agency principle conflict eases and as a result improving the performance of public benefit organizations, the study therefore recommends that a policy pertaining to education on financial management practices be put in place by CMA this is for the purpose of ensuring that public benefit organizations achieve their noble objective of empowering society.

The study recommends that the number of nonexecutive directors need to be selected well since they affect financial management practices in PBOs. It is therefore recommended that the management of PBOs should consider strengthening corporate governance structures as a probable way of ensuring that their financial management practices are improved for better organizational performance.

The study recommends that monthly or quarterly financial reports be instituted for proper records keeping. The study recommend that public benefit organizations should have a policy on the corporate governance practices, this policy should be made by the controlling body which is CMA, this policy can help public benefit organizations to improve on meeting their objectives since they will be consisted in practicing acceptable behavior.

5.5 Limitations of the Study

The researcher experienced a number of limitations while carrying out the research. The major limitation was the limited literature available on similar work in Kenya with most of the literature references were from the Western world.

The types of approaches used in measuring corporate governance and financial performance (i.e. by using a survey instrument) might provide limited results, and different research designs (such as interviews or an experiment) could produce different results.

The research findings are applicable to the PBOs sector and within the period of study. The study has not established whether the results are same outside Kenya or not. Further, since finance is in part a behavioral issue, the study has only given findings applicable within the context of the available data. The study has not expressly investigated whether the findings are applicable after the study conclusion.

5.6 Suggestions for Further Research

Further research can be done in the same area but data be collected for a longer period of more than three years which may be a five or ten-year period. It is also suggested that further research be done by looking at the relationship between corporate governance and financial management practices using different ways of measuring the independent and dependent variables.

The researcher suggests that a study be done to determine the relationship of corporate governance structures and CEO duality in PBOs. A study can be done to compare corporate governance structures in PBOs and Private Firms.

It is also suggested that a study be done to determine CEO Duality and the performance of Public Benefit Organizations. Finally, a study should be done to compare the performance of corporate governance structures in private and public organizations.

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APPENDICES

Appendix I: Introduction Letter

UNIVERSITY OF NAIROBI

SCHOOL OF BUSINESS
KISUMU CAMPUS

Telephone: 732160 Ext. 208
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 19134-40123
Kisumu, Kenya
0202659307 / 0720348080

Ref: CHSS-SOB D61/68777/2013

August 22, 2016

TO WHOM IT MAY CONCERN

The bearer of this letter **Migitha Deborah**

REGISTRATION NO: D61/68777/2013

The above named student is in the Master of Business Administration Degree Program. As part of requirements for the course, she is expected to carry out a study on " **Corporate Governance and Financial Management Practices of Public Benefit Organizations in Kisumu County, Kenya, Kenya**". She has identified your organization for that purpose. This is to kindly request your assistance to enable him complete the study.

The exercise is strictly for academic purposes and a copy of the final paper will be availed to your organization on request.

Your assistance will be greatly appreciated.

Thanking you in advance.

Sincerely,

CO-ORDINATOR
22 AUG 2016
SCHOOL OF BUSINESS
KISUMU CAMPUS
UNIVERSITY OF NAIROBI

DR. NIXON OMORO
ASST. COORDINATOR, SOB, KISUMU CAMPUS

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Appendix II: Questionnaire

This research work is intended to explore the general overview of corporate governance s and financial management of Public Benefit Organizations in Kisumu County Kenya.

Please provide answers to the following questions against the most suitable alternative or by giving narrative responses in the spaces provided. (Responses will be treated with utmost confidentiality).

PART A Organization background

PART B Corporate Governance Practices

PART C Organizations financial performance

Questionnaire Number…………………………

Date…………………………………………...

PART A: General Background Information

1. What is your position Gender? (please tick appropriately)

   [ ] Male [ ] Female

2. What is your Level of Education?

   [ ] Masters Degree [ ] Undergraduate Degree [ ]Diploma [ ]Certificate

3. How long has this organization been in existence? (please tick appropriately)

   [ ] Less than one year [ ] 1-3 years [ ] More than three years

4. What is your position in the organization?

   [ ] Director [ ] Board Chair

5. How Long have you worked in the organization?

   [ ] Less than three years [ ] Three years and more

PART B: Corporate Governance Practices

6. Is there a board of directors in the organization?

   [ ] Yes [ ] No

7. How many members are serving in the Board of directors?

   2 – 5 [ ] 6 – 10 [ ] 10 and above [ ]

8. What is the ratio of members with financial management background to members without such background in your board?

   [ ] Members with financial background are more [ ] Members with financial management background are less [ ] There is an equal ration of members with and without financial management background.

9. What is the ratio of executive to non-executive members?

   1:1 [ ] Less than 1:1 [ ] More than 1:1 [ ]

10. Is the CEO and Board chair position held by the same person?

    Yes [ ] No [ ]

PART C: Financial Management Practices

11. Does the organization have Long term and short term budgets?

    Strongly agree [1] Agree [2] Disagree [3] strongly Disagree [4]

12. Management meets regularly as it should to review budget status and performance

    Strongly agree [1] Agree [2] Disagree [3] strongly Disagree [4]

13. There is adequate representation from all departments in the budgeting process.

    Strongly agree [1] Agree [2] Disagree [3] strongly Disagree [4]

14. Financial reports are prepared and reviewed by management at least on a monthly basis

    Strongly agree [1] Agree [2] Disagree [3] strongly Disagree [4]

15. The Organization prepares and keeps the following set of reports at least on a monthly basis

a. General Ledger statements
b. Bank reconciliations
c. Record of Bank statements
d. Cash flow statements
e. Budget variance analysis
f. Balance sheets

   [1] All reports are prepared on a monthly basis

   [2] Some reports are prepared on a monthly basis

   [3] None of the reports are prepared on a monthly basis

16. Approvals, Disbursements and recording of transactions are done by different people.

    Strongly agree [1] Agree [2] Disagree [3] strongly Disagree [4]

17. Procurement, Human resources and finance departments are independent of each other

    Strongly agree [1] Agree [2] Disagree [3] strongly Disagree [4]

Appendix III: Originality Report

Deborah Migitha MBA research Oct 2016

ORIGINALITY REPORT

%14	%7	%2	%11
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

1	Submitted to University of Leicester Student Paper	%1
2	Submitted to Kenyatta University Student Paper	%1
3	Submitted to University Der Es Salaam Student Paper	%1
4	Submitted to African Population Health Research Centre Student Paper	%1
5	www.essa.org.za Internet Source	%1
6	Corporate Governance, Volume 13, Issue 3 (2013-06-08) Publication	%1
7	Submitted to London School of Business and Finance Student Paper	<%1
8	Submitted to University of Northampton Student Paper	<%1
9	41.89.99.18 Internet Source	<%1