THE IMPACT OF CORPORATE GOVERNANCE ON THE
FINANCIAL PERFORMANCE OF COMMUNITY BASED
ORGANIZATIONS IN KIBERA

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DECLARATION

This research project is my original work and has not been presented for an academic award in any other institution of higher learning.

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Date: November 7, 2011

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DEDICATION

I dedicate this research paper to my brother George Odondi who laid the foundation of my academic world. Special dedication to my Mother Salina Akech and late Father Elkana Odondi for the role they played in my life.
ACKNOWLEDGEMENT

My sincere gratitude goes to Almighty God who gave me the strength, courage and health to carry out my research project. I am very grateful to my supervisor Mr. Kisaka Sifunjo for his helpful comments and suggestions.

I salute my wife Judith Atieno for the unquantified support she accorded me during the entire period I was undertaking the MBA Programme. My dear without your support it would have not been easy.

I acknowledge the support from my friends Anne Nzevella, Francis Mutuku, Patrick Moturi and Samwel Gakui. In you I found the strength and motivation.

I am greatly indebted to the many individuals who contributed in one way or another to the success of this project.
ABSTRACT

This study aimed at collecting information from CBOs dealing with health implementation in Kibera. The task included determining the impact of corporate governance on the financial performance of CBO's in Kibera and determining if corporate governance affects financial performance of CBOs in Kenya. This study employed quantitative research as the main approach to guide the study. The target population included all CBOs implementing health strategies in Kibera. The research instrument used in data collection was a questionnaire to collect data from the organizations. Data was summarized into frequencies and percentages and presented in tables and conclusions drawn.

The study found out that the board size and composition, separation of ownership and control, independence of committees and financial reporting to a very great extent affect the performance of the organization. The study shows that most CBOs in Kibera face challenges in monitoring financial performance and a few face communication and coordination problems. It is concluded that financial disclosure and independence of committees positively influences financial performance of CBOs while board size negatively influences the same. However, separation of ownership and control does not have significant relationship with the financial performance of CBOs.

The study recommends; board of trustees and management of the CBOs to identify corporate governance structures that will enhance accountability hence enabling them to receive donor funding. There is need for regulators and the policy makers to use the finding as reference for policy guidelines (e.g. disclosure) on management and control of such organizations to be able to formulate viable policy documents that effectively address problems faced by the community based organizations. There is need for donors to assess the capability of the community based organization in managing their funds in transparent and efficient way.
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<tr>
<td>CBO</td>
<td>Community Based Organizations</td>
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>IAS</td>
<td>International Accounting Standard</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>NGO</td>
<td>Non Governmental Organization</td>
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<td>UNDP</td>
<td>United Nation Development Programme</td>
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CHAPTER ONE
INTRODUCTION

1.1 Background to the Study

Corporate governance has dominated policy agenda in developed market economies for more than a decade and it is gradually warming its way to the top of the policy agenda on the African continent. The global economic crisis and the relative poor performance of the corporate sector in Sub-Saharan Africa have made corporate governance a catchphrase in the development debate (Brown and Caylor, 2004). Developing countries, of which Kenya is no exception, have increasingly embraced the concept of good corporate governance, because of its ability to impact positively on sustainable growth. It is believed that, good governance generates investor goodwill and confidence. Firms are now improving their corporate governance practices knowing it increases valuations and boosts the bottom line.

Corporate governance is seen as the process and structure used to direct and manage the business affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, whilst taking into account the interest of other stakeholders. Claessens et al. (2002) maintain that better corporate frameworks benefit firms through greater access to financing, lower cost of capital, better performance and more favorable treatment of all stakeholders.

Corporate governance is the set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled (Klapper and Love, 2003). Corporate governance also includes the relationships among the many players involved (the stakeholders) and the goals for which the corporation is governed. The principal players are the shareholders, management and the board of directors. Other stakeholders include employees, suppliers, customers, bankers and other lenders, regulators, the environment and the community at large (Klapper and Love, 2003).
Governance refers to the manner in which power is exercised in the management of economic and social resources for sustainable human development initiative (McCord, 2002). In today’s world, governance has assumed critical importance in the socio-economic and political systems.

Governance is therefore a vital ingredient in the maintenance of dynamic balance between the need and equality in a production society. When applied to organization or established institution the term governance refers to corporate governance and a good corporate governance in any corporation seeks to promote efficient, effective and sustainable corporations that contributes to welfare of society by creating wealth, employment and solution to the emerging challenges such as poverty, devastating effects of HIV Pandemic and among others. It also recognizes and protects stakeholder’s rights with an approach based on the democratic ideals, legitimate representation and participation (Njoya, 1999).

Corporate governance is concerned with the relationship between the internal governance mechanisms of corporations and society's conception of the scope of corporate accountability (Klapper and Love, 2002). It has also been defined by Gompers et al. (2003) to include the structure, processes, cultures and systems that engender the successful operation of organizations. Corporate governance describes how companies ought to be run, directed and controlled (Cadbury Committee, 1992). It is about supervising and holding to account those who direct and control management. Littlefield et al (2003), describe corporate governance as the way in which suppliers of finance to corporations assure themselves of getting a return to their investment.

Corporate governance, a phrase that not long ago meant little to all but a handful of scholars and shareholders, has now become a mainstream concern triggering discussion in corporate boardrooms, academic meetings ,and policy circles around the globe (Claessens,2003). Moreover, corporate governance was traditionally thought of in the framework of large corporation, shareholders, and private sector issues in developed economies and some of the emerging markets. Corporate Governance failures undermine development efforts by
misallocating and misdirecting resources. More importantly, weak corporate governance is linked to the inability of the countries to attract investment, financial collapse, persistent corruption.

Corporate governance helps in defining the relation between the company and its general environment, the social and political systems in which it operates. Corporate governance is linked to economic performance. The way management and control are organized affects the company's performance and its long-run competitiveness. It determines the conditions for access to capital markets and the degree of investors' confidence (Brownbridge, 2007).

Good corporate governance contributes to the sustainable development prospects of countries, increased economic stability of nations, institutional reforms and improved governance in both public and private sector. Alternatively, corporate governance failures undermine development efforts by misallocating the much needed capital and resource (Hontz et al, 2009).

1.1.1 The Relationship between Corporate Governance and Financial Performance

Corporate Governance is concerned with ways in which all parties interested in the well-being of the firm (stakeholders) attempt to ensure that managers and other insiders take measures or adopt mechanisms that safeguard the interest of the stakeholders (Sanda et al., 2005). Corporate Governance is the widest control mechanism, both internal and external, to encourage the efficient use of corporate resource and equally to require accountability for the stewardship of those resources.

Corporate governance is a multi-faceted subject. An important theme of corporate governance deals with issues of accountability and fiduciary duty, essentially advocating the implementation of guidelines and mechanisms to ensure good behaviour and protect shareholders (Schilling, 2003). Corporate governance is a concept that involves practices that
entail the organization of management and control of companies. It reflects the interaction among those persons and groups, which provide resources to the company and contribute to its performance such as shareholders, employees, creditors, long-term suppliers and subcontractors (Brownbridge, 2007).

Another key focus is the economic efficiency view, through which the corporate governance system should aim to optimize economic results, with a strong emphasis on shareholders welfare. There are yet other sides to the corporate governance subject, such as the stakeholder's view, which calls for more attention and accountability to players other than the shareholders (for example, the employees or the environment) (Shivdasani and Zenner, 2004). Recently there has been considerable interest in the corporate governance practices of modern corporations, particularly since the high-profile collapses of large U.S. firms such as Enron Corporation and WorldCom (Klapper and Love, 2003).

The argument has been advanced time and time again that the governance structure of any corporate entity affects the firm's ability to respond to external factors that have some bearing on its performance. In this regard, it has been noted that well governed firms largely perform better and that good corporate governance is of essence to firms. The subject matter of corporate governance has dominated the policy agenda in developed market economies for sometime especially among very large firms. Subsequently, the concept is gradually warming itself to the top of policy agenda in the Africa continent. 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 catchphrase in the development debate (Brownbridge, 2007).

It is believed that good governance generates investor goodwill and confidence. Again, poorly governed firms are expected to be less profitable. Claessens et al. (2003) also points that better corporate framework benefits firms through greater access to financing, lower cost
of capital, better performance and more favourable treatment of all stakeholders. They argue
that weak corporate governance does not only lead to poor firm performance and risky
financing patterns, but are also conducive for macroeconomic crises like the 1997 East Asia
crisis. Other researchers contend that good corporate governance is important for increasing
investor confidence and market liquidity (Donaldson, 2003).

In theory, good corporate governance should be related to high-corporate valuation. A
number of empirical studies have found that investors are willing to pay a premium
averaging 10-12 percent for good corporate governance (Monks and Minow, 2004). The
correlation of the governance index with performance could be explained in several different
ways. One explanation, suggested by the results of other studies, is that inefficient
governance directly causes additional agency costs. If the market estimates these additional
costs, then stock returns will drop. An alternative explanation is that good governance is a
signal or symptom of lower agency costs a signal not properly incorporated in market prices
(Baysinger and Hoskinsson, 1990).

1.1.2 Community Based Organizations
Traditionally the world's poor, making up most of the global population, have suffered a
greater prevalence of malnutrition and hunger, higher infant mortality rates, shorter life spans
and other poor health indicators, illiteracy and other educational deficiencies, greater
employment problems, higher crime rates, and the intergenerational continuity of these
problems, than has been the case among the non-poor (Kamanu, 2005). In trying to improve
the quality of life for the poor, planners and policy makers of human service delivery have in
the past three decades, moved increasingly away from "top down" (government only)
program planning and implementation to strategies of increased input from the organizations,
leaders, and citizenry of the communities targeted by their policies and programs (Amulyoto,
2004).

Kamanu (2005) defines community-based organizations as civil society non-profits that
operate within a single local community. They are essentially a subset of the wider group of
nonprofits. Like other nonprofits they are often run on a voluntary basis and are self funded. Within community organizations there are many variations in terms of size and organizational structure. Some are formally incorporated, with a written constitution and a board of directors (also known as a committee), while others are much smaller and are more informal. The recent evolution of community organizations, especially in developing countries, has strengthened the view that these "bottom-up" organizations are more effective addressing local needs than larger charitable organizations (Michael, 2004).

1.2 Statement of the Problem

Corporate governance has become an issue of global significance (Donaldson, 2003). It has attracted worldwide attention because of its apparent importance for strategic health of organizations and society in general (Klein 2002). The importance of corporate governance practices cannot therefore, be understated as they are strong determinants in the survival or collapse of corporate bodies (Schilling, 2003). Improvement in corporate governance as found out by researchers such as Nam et al (2002) and Sanda et al (2005) results in improved performance. As a result, the need to strengthen corporate governance has become critical for promotion of sustainable development and self-dependence on the continent of Africa (Littlefield, 2003).

Transformation into self-sustaining organizations will mean the introduction of investors as major stakeholders in the industry which will increase the need for control and accountability (Wainaina, 2003). To attract capital flows, there is need for organizations to address the mechanism and ways of promoting corporate governance practices. If an organization does not have a reputation for strong corporate governance practices, capital will flow elsewhere, if investors are not confident with the level of disclosure, capital will flow elsewhere, and if a company opts for lax accounting and reporting standards capital will flow elsewhere (Knell, 2006).
Locally, several studies have been done on the effect of corporate governance on organizational performance. Ngugi (2007) did a study on the relationship between corporate governance structures and the performance of insurance companies in Kenya and found that inside directors are more familiar with the firm's activities and they can act as monitors to top management especially if they perceive the opportunity to advance into positions held by incompetent executives. The study also found that the effectiveness of a board depends on the optimal mix of inside and outside directors concluding that an optimal board composition lead to better performance of the companies.

Gatauwa (2008) studied the relationship between corporate governance practices and stock market liquidity for firms listed on the Nairobi Stock Exchange. The study found that greater disclosure enhances stock market liquidity, thereby reducing the cost of capital. The commitment of management team to increase the level of disclosure also lowers the information asymmetry between managers and shareholders and lowers the cost of capital. Matengo (2008) also conducted a study on the relationship between corporate governance practices and performance the case of banking industries in Kenya. The study found that good corporate governance will lead to lower firm risk and subsequently to a lower cost of capital. The study also found that separation of ownership and control maximizes shareholders wealth.

To this far, no known local or international study has ever focused on the impact of corporate governance on financial performance of the community based organizations (CBOs) in Kenya. This study focusing on the impact of corporate governance on financial performance of community based organizations in Kenya is a modest attempt to bridge the gap build by the passage of time with major changes occurring in the operating environment that affect financial performance of the CBOs. The study sought to determine the impact of corporate governance on financial performance of community based organizations in Kenya and is guided by the following research question:

i) Does corporate governance affect financial performance of CBOs in Kenya?
1.3 Study Objective

The objective of the study was to determine the impact of corporate governance on the financial performance of CBOs in Kibera.

1.4 Importance of the study

The study will be of value to various interest groups including:

The study will be of importance to the board of trustees and management of the CBOs in helping them identify corporate governance structures that will enhance accountability hence enabling them to receive donor funding. Donor funding normally come after thorough review of the organizations ability to manage such funds without which such organizations will not be able to receive any funding for their program activities.

The regulators and the policy makers can use the finding as reference for policy guidelines (e.g. disclosure) on management and control of such organizations. They will be able to use the findings of the study to formulate viable policy documents that effectively address problems faced by the local based organizations and the faith based organizations. These may relate to regulating those aspects that threaten to adversely impact on the operations and development of such organizations.

The study will enable the donors assess the capability of the community based organization in managing their funds in transparent and efficient way. Due to information asymmetry, managers may use their discretion to benefit their private interest in a variety of ways including empire building.

The study will provide additional information into the already existing body of literature regarding the impact of the corporate governance on financial performance in relation to non-profit making organizations. Extensive research has been done on the area of corporate governance and how it affects the firm performance of the market oriented firms. Some issues of interest will be highlighted later in the discussions, conclusion and recommendations.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
In this chapter of the study, the focus is on analyzing both the theoretical and empirical literature relating to the topic of research. The reader will find the following: section 2.2 presents theoretical literature; section 2.3 empirical literature; sub-section 2.3.1 board composition; 2.3.2 separation of ownership and control; 2.3.3 independence of directors and lastly 2.3.4 will highlight financial reporting and disclosure.

2.2 Theoretical Literature
Previous empirical studies have provided the nexus between corporate governance and firm performance (Claessens et al. 2002; Klapper and Love, 2002; Gompers et al. 2003; and Sanda et al. 2003). Others like (Bebchuk and Cohen, 2004; Becht et al, 2002) have shown that well-governed firms have higher firm performance. The main, characteristic of corporate governance identified in these studies include board size/ board composition, and whether the CEO is also the board chairman.

There is a view that larger boards are better for corporate performance because they have a range of expertise to help make better decisions, and are harder for a powerful CEO to dominate. In recent times on the contrary, emphasis has geared towards smaller boards. Jensen (1993) and Littlefield et al (1992) contend that large boards are less effective and are easier for a CEO to control. The reason is that when a board get too big, it becomes difficult to co-ordinate and process problems.

John and Senbet (1998) provided a comprehensive review of the Stakeholder theory of corporate governance. The main issue raised in the theory is the presence of many parties with competing interests in the operations of a firm. They also emphasized the role of non-
market mechanisms such as the size of the board, committee structure as important to firm performance; Jensen (1993) critiques the Stakeholder theory for assuming a single-valued objective. They thus, propose an extension of the theory called an enlightened stakeholder theory. However, problems relating to empirical testing of the extension have limited its relevance and applicability in a modern day corporate entity (Sanda et al., 2003).

The Agency theory was extensively analyzed by Jensen and Meckling (1976) although its root can be traced to Smith (1776) and Berle and Means (1932). Smith explained that due to the nature of joint stock companies, where there are many owners (shareholders, directors should be appointed to manage the company on their behalf. The shareholders are referred to as the principals while the directors are the agents. This kind of arrangement has resulted to agency problem in modern firms where there is a separation between management and ownership and the question is how to ensure that managers follow the interests of shareholders in order to reduce cost associated with principal-agent theory. To do that, the principals have to deal with two-problems. First, they face an adverse selection problem: that is, they must select the most capable managers. Second, they are also confronted with a moral hazard problem: that is how to adequately motivate the managers to put forth the appropriate effort and make decisions aligned with shareholders interests (Berle and Means, 1932).

Smith (1776) explained that even though executives are agents of the shareholders they are most likely to put their interest first rather than act for the benefit of the shareholders. This is what Smith refers to as agency problem. Berle and Means (1932) suggest that the agency problem is mainly due to separation of ownership and control and asymmetric information between shareholders executives. Due to this information asymmetry, managers use their discretion to benefit their private interest.
A comprehensive theory of the firm under agency arrangements was developed by Jensen and Meckling (1996), who showed that the principals (the shareholders) can assure themselves that the agent will make the optimal decisions only if appropriate incentives are given and only if the agent is monitored. Incentives include such things as stock options, bonuses and prerequisites which are directly related to how well the results of management's decisions serve the interests of shareholders. Monitoring consists of bonding the agent, systematic reviews of management prerequisites, financial audits, and placing specific limits on management decisions. These involve costs, which are an inevitable result of the separation of corporate ownership and control. Such costs are not necessarily bad for shareholders, but the monitoring activity they cover needs to be efficient.

2.3 Empirical Literature

2.3.1 Board Composition

In all fields of human endeavor good governance is founded upon the attitudes, ethics, practices and values of the society regarding accountability of power based on the fundamental belief that power should be exercised to promote human well being, democratic values in respect of the sharing of power, representation and participation, the sense of the right and wrong, what is fair and just, work ethics, technology and continuing corporate social responsibility, efficient and effective use of resources for the production of goods and services, protection of human rights and freedoms and the maintenance of essential order and security for the person and his \her property and recognition of the government as the only entity to which the society gives authority to use the coercive power to maintain public order and national security, collect taxes, re-locate society's resources to meet the public needs and use that coercive power to confiscate assets, deprive a person of liberty or life but provided that always that such power and authority are not used to suppress, oppress and deny basic human rights and freedoms (Brown and Caylor, 2004). In Corporate Governance the above can be summarized into five basic tenets namely; accountability, efficiency and effectiveness, integrity and fairness, responsibility and transparency.
The corporate governance literature identifies four sets of board attributes; namely, composition, characteristics, structure and process (Schilling, 2003). Board composition refers to the size of the board and the mix of different director’s demographics (insiders/outsiders, male/female, foreign/local) and the degree of affiliation directors have with the corporation’s (Claessens et al, 2002). Board characteristics encompass director’s background, such as director’s experience; tenure; functional background; independence; stock ownership and other variables that influence director’s interest and their performance (McCord, 2002). Board structure covers board organization; the role of subsidiary boards in holding companies; board committees; the formal independence of one-tier and two-tier boards; the leadership of boards and the flow of information between board structures (Cadbury Report, 1992). Board process refers to decision-making activities; styles of board; the frequency and the length of board meetings; the formality of board process and board culture on evaluation of director’s performance (Jensen, 1993).

Jensen (1993) argues that separating CEO and chairman roles is in the shareholders’ interest. Similarly, large firms that separate the two functions trade at higher price-to-book multiples and have higher return on assets and cost efficiency ratios than firms where the same person holds both titles.

The composition of the board may be used to ameliorate the principal-agent problem. The participation of outside directors is designed to enhance the ability of the firm to protect itself against threats from the environment and align the firm’s resources for greater advantage. However, research on the impact of outside directors has grown significantly but with mixed results. While the study by Wen et al.(2002) found a negative relationship between the number of outside directors on the board and performance, Bhagat and Black (2002) found no relationship between outside directors and Tobin’s Q. In another related work, the proportion of outside directors was found to have a significant positive relationship to firm performance (Hermalin and Weisbach, 2003). Firms with higher number of outside directors
are expected to pursue activities that would bring about low financial leverage with a high market value of equity (Sanda et al, 2003).

2.3.2 Separation of Ownership and Control

Separation between ownership and control of corporations characterizes the existence of a firm. The design of mechanisms for effective corporate control to make managers act in the best interest of shareholders has been a major concern in the area of corporate governance and finance (Abor, 2007).

Developing an effective board of directors remains an important and feasible option for an optimal corporate governance mechanism. Agents or managers may not always act in the best interest of shareholders when the control of a company is separate from its ownership. Baysinger and Hoskisson, (1990) proclaimed that managers might be "satisfiers" rather than "maximizers" that is, they tend to play it safe and seek an acceptable level of growth because they are more concerned with perpetuating their own existence than with maximizing the value of the firm to its "shareholders. But shareholders delegate decision-making authority to the agent (CEO) with the expectation that the agent will act in their best interest.

In contrast, Demesetz (1983) and Jensen (1993) suggest that the primary monitoring of managers comes not from the owners but from the managerial labour market. It is argued that management control of a large corporation is completely separate from its security ownership. Efficient capital markets provide signals about the value of a company's securities and thus about the performance of its managers. If the managerial labour market is competitive both within and outside the firm, it will tend to discipline the manager. Therefore, the signals given by changes in the total market value of the firm's securities become very important. Kaplan and Minton (1994), find evidence consistent with this argument: directors of poorly performing firms, who therefore may be perceived to have done a poor job overseeing management, are less likely to become directors at other firms.

The Board has to set strategic objectives and plans and put in place proper management structures (organization, systems and people) to achieve those objectives and plans. The
Board acts as a catalyst, initiating, influencing, evaluating and monitoring strategic decisions and actions of management and holds management accountable. The Board is not a mere formality, which takes a back seat, leaving management to make all strategic decisions (Rutherford, 2000).

Several mechanisms can be used to overcome the problems associated with separation of ownership and control: alignment of shareholders' interest with managerial interests (compensation plans, stock options, bonus schemes); board monitoring by large shareholders and lenders; legal protection of (minority) shareholders from managerial expropriation through shareholder rights and the market for corporate control as an external device.

2.3.3 Independence of Board of Directors/ Management Committees

Independence is considered important for a board committee to be an effective monitor. Klapper and Love (2003) report empirical evidence showing that the presence of monitoring committees (audit, nomination, and compensation committees) is positively related to factors associated with the benefits of monitoring. However, the presence of insiders in the compensation committees increases the probability of making decisions in favor of the CEO's interests.

The focus on board independence is grounded in agency theory (Fama and Jensen, 1983). In fact, it has long been argued in the finance literature that boards with a majority of independent directors are more effective in monitoring management (Kaplan and Minton, 1994; Bhagat and Black, 2002). More independent boards are also more likely to opt for a clean slate when company performance deteriorates significantly, and to hire a replacement CEO from outside the firm rather than promote an internal candidate (Deakin and Hughes, 1997).

Though the issue of whether directors should be employees of or affiliated with the firm (inside directors) or outsiders has been well researched, no clear conclusion is reached. On the one hand, inside directors are more familiar with the firm's activities and they can act as monitors to top management especially if they perceive the opportunity to advance into
positions held by incompetent executives. On the other hand, outside directors may act as “professional referees” to ensure that competition among insiders stimulates actions consistent with shareholder value maximization (Demsetz and Villalonga, 2002). John and Senbet (1998), argue that boards of directors are more independent as the proportion of their outside directors increases. Though it has been argued that the effectiveness of a board depends on the optimal mix of inside and outside directors, there is very little theory on the determinants of an optimal board composition.

2.3.4 Financial Reporting and Disclosure

According to the study conducted by PriceWaterhouseCoopers (1999); a national survey on financial systems of the not-profit organizations in Kenya, all organizations, whether for profit or non-profit, should consistently comply with the financial regulations as prescribed by the generally acceptable accounting principles as contained in the International Accounting Standards (IASs) and the legal framework where the organization carries out its activities.

Accounting standards are guidelines that specify the accounting treatment for financial transactions. Such standards are used to ensure the comparability, consistency, and completeness of financial records. Accounting standards may be national, such as the standards developed by a country’s recognized national accountant’s organization, or international, such as the International Accounting Standards (IAS) developed by the International Accounting Standards Committee. It is important to recognize differences between accounting standards and methods when comparing financial information from different institutions or countries.

IAS 1 looks at the presentation of a complete set of financial statements that must include a balance sheet, income statements, and statements of changes in equity, cash flow statements and notes to the accounts PriceWaterHouseCoopers, (998). IAS 24 addresses related party
disclosures; it addresses issues to do with conflict of interest that is prevalent in the NGO sector. The requirement is that founders and employees within the organization must disclose any relationship they have with any other third party that may compromise the operations of an arm's length business decision making, PriceWaterhouseCoopers (1998).

Through the Kenya National Council of NGOs, a committee of financial experts was mandated in 1999 to formulate Accounting Standards for reporting financial practices. These standards seek to define and direct how the NGOs and CBOs should account and report their financial affairs (Kenya National NGO Council, (1999).

2.4 Chapter Summary

The study was carried out on the basis of agency theory as per details given in the literature. As a result of separation of ownership and control, there is always a conflict of interest between shareholders and the executives (Jensen and Meckling, 1976). Claessens et al. (2002) maintain that better corporate frameworks benefit firms through greater access to financing, lower cost of capital, better performance and more favorable treatment of all stakeholders. Other researchers contend that good corporate governance is important for increasing investor's confidence (Donaldson, 2003).

Jensen (1993) argues that separating CEO and chairman roles is in the shareholders' interest. Similarly, large firms that separate the two functions trade at higher price-to-book multiples and have higher return on assets and cost efficiency ratios than firms where the same person holds both titles. The proportion of outside directors was found to have a significant positive relationship to firm performance (Hermalin and Weisbach, 2003)

Agents or managers may not always act in the best interest of shareholders when the control of a company is separate from its ownership. Baysinger and Hoskisson, (1990) proclaimed that managers might be "satisfiers" rather than "maximizers" that is, they tend to play it safe and seek an acceptable level of growth because they are more concerned with perpetuating their own existence than with maximizing the value of the firm to its "shareholders."
Independence is considered important for a board committee to be an effective monitor. Klapper and Love (2003) report empirical evidence showing that the presence of monitoring committees (audit, nomination, and compensation committees) is positively related to factors associated with the benefits of monitoring.

The focus on board independence is grounded in agency theory (Fama and Jensen, 1983). In fact, it has long been argued in the finance literature that boards with a majority of independent directors are more effective in monitoring management (Kaplan and Minton, 1994; Bhagat and Black, 2002).

All organizations, whether for profit or non-profit, should consistently comply with the financial regulations as prescribed by the generally acceptable accounting principles as contained in the International Accounting Standards (IASs) and the legal framework where the organization carries out its activities (PriceWaterhouse Coopers, 1999).

Previous studies on the impact of corporate governance on financial performance have only considered the market oriented firms. This study will look at the impact of corporate governance on the financial performance of the CBOs.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction
This chapter describes the methods that were employed to provide answers to the research question. The following aspects of research methodology are discussed; Section 3.2 research design; 3.3 population and sample; 3.4 research models: sub-section 3.4.1 the conceptual models; 3.4.2 analytical model; 3.5 data collection procedure; 3.6 data analysis and lastly 3.7 data reliability and validity.

3.2 Research Design
This study adopted a descriptive survey design which according to Churchill (1991) is appropriate where the study seeks to describe the characteristics of certain groups, estimate the proportion of people who have certain characteristics and make predictions. The study aimed at collecting information from CBOs dealing with health implementation in Kibera. Khan, (1993) recommends descriptive survey design for its ability to produce statistical information about aspects of education that interest policy makers and researchers.

Descriptive survey research designs are used in preliminary and exploratory studies to allow researchers to gather information and summarize, present and interpret data for the purpose of clarification (Orodho, 2003). According to Mugenda and Mugenda (2003) the purpose of descriptive research is to determine and report the way things are and it helps in establishing the current status of the population under study. The design was chosen for this study due to its ability to ensure minimization of bias and maximization of reliability of evidence collected. Furthermore, descriptive survey design raises concern for the economical completion of the research study. The method is rigid and focuses on the objectives of the study (Gay, 1992).
3.3 Population and Sample

The research involved all CBOs implementing health strategies in Kibera. Kibera has 79 CBOs involved in implementation of health strategies according to directory of organizations in Kibera, (2011).

A sample of 30 CBOs was randomly selected. The respondents were managers of heads of departments who are individuals knowledgeable with the questions at hand, literate and in management level.

Purposive sampling was used to select Kibera as the study site since it houses majority of the CBOs in Nairobi. Mugenda and Mugenda (2003), state that, the target population should have some observable characteristics, to which the researcher intends to generalize the results of the study. Simple random sampling was adopted for this study, this is appropriate, as it will give every respondent among the accessible population a chance of participating equally (Kothari, 2007).

Wiersma (2005) observed that due to limitation in time, funds and energy, a study could be carried out from a carefully selected sample of 10% of the total to represent the entire population. A sample of 10% of the CBOs was used in this study as a representation of the CBOs and was randomly selected. This generates a sample of 30 respondents for this study. Statistically, in order for generalization to take place, a sample of at least 30 must exist (Wiersma, 2005).

3.4 Research Models

3.4.1 The Conceptual model

Mugenda and Mugenda (2003), define a conceptual framework as a hypothesized model identifying the concepts under study and their relationships. In this framework, there are certain factors that determine the impact of corporate governance on the financial performance of the CBOs in Kenya. These factors include but are not limited to board size and composition, separation of ownership and control, independence of directors and financial disclosure.
Figure 3.1: Conceptual Framework

Source: Researcher 2011

Y = f(BSC, SOC, ID, FD)

Y is the financial performance and BSC, SOC, ID, FD being board size and composition, separation of ownership and control, independence of board of directors and financial disclosure.
3.4.2 The Analytical Model

The following model is derived from the conceptual model. The regression equation took the following reduced form:

\[ Y = \beta_0 + \beta_1 \text{BSC} + \beta_2 \text{SOC} + \beta_3 \text{ID} + \beta_4 \text{FD} + \epsilon \]

Where:

- \( Y \) = Financial Performance
- BSC = Board Size and Composition
- SOC = Separation of Ownership and Control
- ID = Independence of Directors
- FD = Financial Disclosure
- \( \epsilon \) = Error term

The measure of the dependent variable was determined by the donor funding level, transparency and accountability. The dependent variable in this case was denoted as \( Y \) and will be representative of the organization's financial performance.

3.5 Data Collection Procedure

The study used primary data. A structured, multiple choice questionnaire was used to elicit perceptions, feelings and attitudes of the respondents. Respondents were presented with descriptive statements in likert scale and required to rate scoring extend to which they perceive a particular statement describes the variable. The questionnaire is intended to be self administered to reduce interviewer bias.

The study targeted only one respondent per organization. The respondents were project officers of the organizations or any officer who were knowledgeable about the organization and was allowed to disseminate information to the general public.

3.6 Data Analysis

After administering the questionnaire, coding was done and the data converted into numerical codes for statistical analysis. Statistical Package for Social Sciences (SPSS)
version 17.0 was used for data analysis. Descriptive statistics was computed for all the variables to ensure quality of data. The result from the sample will be used to generalize the population.

Regression was the main tool used in measuring the relationship between the dependent variable and the independent variable. The T-test and F-test was used to measure the significance level of the relationship.

### 3.7 Data Reliability and Validity

Validity indicates whether the items measure what they are designed to measure (Borg and Gall 1989). The researcher used content validity to examine whether the instruments answered the research questions. Adjustments and additions to the research instruments consultations and discussions with the supervisor was be done to establish content validity.

Instrument reliability is the dependability, consistency or trustworthiness of a test. Cronbach’s Coefficient Alpha approach was used to measure internal consistency of the research instruments. This approach is recommended by Cohen, Manion and Morrison, (2007) for its ability to give average split-half correlation for all possible ways of dividing the test into two parts. Cronbach’s Coefficient Alpha is a scale measurement tool appropriate in measuring internal consistency in descriptive survey researches. After computation, a reliability coefficient of 0.89 was obtained. This implied a high degree of reliability of the instruments, and the instrument then used for the study.

The researcher employed self administration approach of data collection and monitored the process to ensure that the unintended people did not fill the questionnaire or are not interviewed. The questionnaires were filled and assistance sought where possible thus raising the reliability.
CHAPTER FOUR
DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The primary data was gathered exclusively from the questionnaire. The questionnaire was designed in accordance with the objectives of the study. To enhance the quality of data obtained, likert type questions were included whereby respondents indicated the extent to which the variables were placed in a five point likert scale.

The data has been presented in tables. The responses were analyzed using descriptive statistics. Out of 30 questionnaires which had been administered to the interviewees, 18 of them were returned for data analysis. This translates to 60.0 percent return rate of the respondents. Overall, the response rate can be considered to have been high.

4.2 Summary Statistics

A multiple linear regression model was applied to determine the relative effects of board size and composition, separation of ownership and control, independence of board of directors and financial disclosure on financial performance. The regression model was as follows:

\[ Y = \beta_0 + \beta_1 \text{BSC} + \beta_2 \text{SOC} + \beta_3 \text{ID} + \beta_4 \text{FD} + \epsilon \]

Where \( \beta_0 \) is the constant or y-intercept, \( \beta_1 - \beta_4 \) are the regression coefficients (change in Y, given one unit change in independent variables); Y is the financial performance; BSC is Board Size and Composition; SOC is Separation of Ownership and Control; ID is Independence of Directors; FD is Financial Disclosure; and, \( \epsilon \) is Error term.
Table 4.1: Model Goodness of Fit

<table>
<thead>
<tr>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>.674*</td>
<td>.454</td>
<td>.286</td>
<td>.86954</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Financial Disclosure, separation of ownership and control, Independence of Committees, Board Size

The study used Table 4.10 to establish whether financial performance has a linear dependence on the independent variables. The study established a correlation value of 0.674. This depicts a good linear dependence between the two variables. An R-square value of 0.454 was established and adjusted to 0.286. The coefficient of determination depicts that board size and composition, separation of ownership and control, independence of board of directors and financial disclosure brings about 45.4% variations in financial performance; 54.6% of variations are brought about by factors not captured in the objectives.

Table 4.2: Analysis of Variance (ANOVA)

<table>
<thead>
<tr>
<th></th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>8.171</td>
<td>4</td>
<td>2.043</td>
<td>2.702</td>
<td>.077a</td>
</tr>
<tr>
<td>Residual</td>
<td>9.829</td>
<td>13</td>
<td>.756</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>18.000</td>
<td>17</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Financial Disclosure, separation of ownership and control, Independence of Committees, Board Size
b. Dependent Variable: Financial Performance

Analysis of Variance was used to test the significance of the regression model as pertains to significance in the differences in means of the dependent and independent variables. The ANOVA test produced an f-value of 2.702 which was significant at p=0.077. This depicts that the regression model is not significant at 95% confidence level. That is, it has 7.7% probability of misrepresentation.
Table 4.3: Regression Coefficients

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>2.131</td>
<td>1.062</td>
<td>2.007</td>
<td>.066</td>
</tr>
<tr>
<td>Board Size</td>
<td>-1.036</td>
<td>.370</td>
<td>-2.801</td>
<td>.015</td>
</tr>
<tr>
<td>Separation of ownership and control</td>
<td>.037</td>
<td>.175</td>
<td>.212</td>
<td>.835</td>
</tr>
<tr>
<td>Independence of Committees</td>
<td>.619</td>
<td>.263</td>
<td>2.359</td>
<td>.035</td>
</tr>
<tr>
<td>Financial Disclosure</td>
<td>.742</td>
<td>.308</td>
<td>2.408</td>
<td>.032</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial Performance

From the data in the above Table 4.12, the established regression equation was:

$$Y = 2.131 - 1.036BSC + 0.037SOC + 0.619ID + 0.742FD$$  \(p=0.077\)

From the above regression model on Table 4.12, when the financial disclosure, separation of ownership and control, independence of committees and board size have null value; financial performance would be 2.131.

4.3 Impact of Corporate Governance on Financial Performance

It was found out that financial disclosure and independence of committees positively influences financial performance of CBO while board size negatively influences the same. However, separation of ownership and control does not have significant relationship with the financial performance of CBOs.

Holding other factors constant, a unit increase in separation of ownership and control would yield 0.037 increase in financial performance however t-significance value 0.835 was established depicting that separation of ownership and control is not significantly related with financial performance. A unit increase in independence of committees would lead to a 0.619
increase in financial performance. A t-significance of 0.035 was established depicting a significant relationship with financial performance. Holding other factors constant, unit increase in financial disclosure yields 0.742 increase in financial performance with a p-value of 0.032 depicting a significant relationship. However, board size would have a negative impact on financial performance given a coefficient of -1.036 (p=0.015). This clearly shows that financial disclosure, separation of ownership and control and independence of committees would lead to rise in financial performance. However, board size negates financial performance of CBO as it has a negative coefficient.

4.4 Discussion of Results

The researcher sought to find out how long the organization has worked in the CBOs in Kenya. The findings are presented in the table below:

Table 4.4: Duration the organization has worked in CBOs in Kenya

<table>
<thead>
<tr>
<th>Duration</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
<td>77.8</td>
<td></td>
</tr>
<tr>
<td>10-20 years</td>
<td>22.2</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>18</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Researcher (2011)

From table 4.4, it is evident that majority of the respondents (77.8%) indicated their organization has worked in CBOs for less than 10 years while 22.2% indicated they have worked for 10-20 years. The findings give an implication that majority of CBOs have been in existence for a long time.

The study sought to find out if the organization has been involved in any partnerships among the existing schemes and projects to improve health situations. The results revealed that all the respondents (100.0%) indicated that their organization has been involved in partnerships among the existing schemes and projects to improve health situations.

The researcher further sought to find out the level at which the organization is involved. The results are tabulated below:
Table 4.5: Level at which the organization is involved

<table>
<thead>
<tr>
<th>LEVEL</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>At international level (i.e. WHO, UNDP, IMF, FARM Foundation, NGO etc)</td>
<td>7</td>
<td>38.9</td>
</tr>
<tr>
<td>At national level (i.e. State governments, NGOs, Private sector etc)</td>
<td>9</td>
<td>50</td>
</tr>
<tr>
<td>At county level</td>
<td>1</td>
<td>5.6</td>
</tr>
<tr>
<td>At community level</td>
<td>1</td>
<td>5.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Researcher (2011)

Table 4.5 above, reveals half of the respondents represented by 50.0% indicated their organization is involved in partnership at national level, 38.9% indicated at international level, 5.6% at county level and 5.6% at community level.

4.4.1 Board Size and Composition

The study sought to ascertain the extent to which board size and composition affects financial performance in the organization. The figure below shows the findings:

<table>
<thead>
<tr>
<th>Board size and composition</th>
<th>To a very great extent</th>
<th>To a great extent</th>
<th>To a moderate extent</th>
<th>To a little extent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>27.8%</td>
<td>50.0%</td>
<td>11.1%</td>
<td>11.1%</td>
</tr>
</tbody>
</table>

Figure 4.1: Extent to which board size and composition affects financial performance in the organization

Figure 4.1 above reveals that majority of the respondents (50.0%) indicated that board size and composition affects financial performance of the organization to a great extent while 27.8% indicated to a very great extent. A relatively large proportion however indicated that
board size and composition affects financial performance of the organization to a moderate extent (11.1%) and 11.1% to a little extent.

The researcher sought to find out the extent to which the board faces the below challenges that affect the performance of the organization. The findings are shown in the table below:

Table 4.6: Extent to which board faces the following challenges that affect the performance of the organization

<table>
<thead>
<tr>
<th>CHALLENGES</th>
<th>No Extent (%)</th>
<th>Little Extent (%)</th>
<th>Neutral (%)</th>
<th>Large Extent (%)</th>
<th>Very large Extent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Challenges in monitoring financial performance in the organization</td>
<td>27.8</td>
<td>16.7</td>
<td>11.1</td>
<td>16.7</td>
<td>27.8</td>
</tr>
<tr>
<td>Communication and coordination problems</td>
<td>33.3</td>
<td>38.9</td>
<td>16.7</td>
<td>0.0</td>
<td>11.1</td>
</tr>
<tr>
<td>The number of non-executive directors affect the performance of the organization</td>
<td>27.8</td>
<td>22.2</td>
<td>33.3</td>
<td>5.6</td>
<td>11.1</td>
</tr>
</tbody>
</table>

Source: Researcher (2011)

Table 4.6 above reveals that majority of the respondents indicated that the organization face to a little extent communication/coordination problems (38.9%) and the number of non-executive directors affect the performance of the organization (22.2%). A large proportion indicated the organization faces to no extent communication and coordination problems (33.3%), challenges in monitoring financial performance in the organization (27.8%) and the number of non-executive directors affect the performance of the organization (27.8%). However a relatively large proportion indicates to a very large extent that they face challenges in monitoring financial performance in the organization (27.8%). The findings
imply that most CBOs in Kibera face challenges in monitoring financial performance and a few face communication and coordination problems.

The researcher sought to find out the extent to which the respondent agrees or disagrees with the following statement regarding the board size and composition in the organization. The findings are shown in the table below:

Table 4.7: Extent of agreement with the following statements on board size and composition

<table>
<thead>
<tr>
<th>STATEMENTS ON BOARD SIZE AND COMPOSITION</th>
<th>Strongly disagree (%)</th>
<th>disagree (%)</th>
<th>Neutral (%)</th>
<th>Agree (%)</th>
<th>Strongly agree (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial statements are prepared by top management and reviewed by the board</td>
<td>16.7</td>
<td>11.1</td>
<td>22.2</td>
<td>11.1</td>
<td>38.9</td>
</tr>
<tr>
<td>Cash flows are regularly reviewed by board</td>
<td>16.7</td>
<td>11.1</td>
<td>11.1</td>
<td>16.7</td>
<td>44.4</td>
</tr>
<tr>
<td>The board closely monitors top management strategic decision making</td>
<td>5.6</td>
<td>16.7</td>
<td>16.7</td>
<td>11.1</td>
<td>50.0</td>
</tr>
<tr>
<td>The board formally evaluates performance of top management in regularly held feedback meetings</td>
<td>11.1</td>
<td>5.6</td>
<td>22.2</td>
<td>16.7</td>
<td>44.4</td>
</tr>
<tr>
<td>The board and top management meet often to discuss organization’s future strategic</td>
<td>5.6</td>
<td>0.0</td>
<td>22.2</td>
<td>22.2</td>
<td>50.0</td>
</tr>
</tbody>
</table>

Source: Researcher (2011)

Table 4.7 above shows that majority of the respondents strongly agreed to the following statements regarding board size and composition: the board closely monitors top
management strategic decision making (50.0%), the board and top management meet often to discuss organization’s future strategic (50.0%), the board formally evaluates performance of top management in regularly held feedback meetings (44.4%), cash flows are regularly reviewed by board (44.4%) and financial statements are prepared by top management and reviewed by the board (38.9%). A large proportion agreed to the following regarding board size and composition: the board and top management meet often to discuss organization’s future strategic (22.2%), the board formally evaluates performance of top management in regularly held feedback meetings (16.7%) and cash flows are regularly reviewed by board (16.7%). However, a small proportion strongly disagreed to the following statements: financial statements are prepared by top management and reviewed by the board (16.7%) and cash flows are regularly reviewed by board (16.7%).

The findings imply that; the board closely monitors top management strategic decision making, the board and top management meeting often to discuss organization’s future strategic, the board formally evaluating performance of top management in regularly held feedback meetings, cash flows being regularly reviewed by board and financial statements being prepared by top management and reviewed by the board are important factors to a CBOs financial performance.

4.4.2 Separation of Ownership and Control

The study sought to find out the extent to which separation of ownership and control affects financial performance. The figure below shows the findings:

<table>
<thead>
<tr>
<th>Separation of ownership and control</th>
<th>To a very great extent</th>
<th>To a great extent</th>
<th>To a moderate extent</th>
<th>To a little extent</th>
<th>To no extent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>22.2%</td>
<td>44.4%</td>
<td>5.6%</td>
<td>16.7%</td>
<td>11.1%</td>
</tr>
</tbody>
</table>

Figure 4.2: Extent to which separation of ownership and control affects financial performance of the organization

30
Figure 4.2 above reveals that majority of the respondents (44.4%) indicated that separation of ownership and control affects financial performance of the organization to a great extent while 22.2% indicated to a very great extent, 16.1% to a little extent, 11.1% to no extent at all and the minority 5.6% indicated separation of ownership and control affects financial performance of the organization to a moderate extent.

The study sought to find out to what extent the respondent agrees with the statement that the separation of ownership and control constitutes agency problems between managers and the suppliers of capital with regard to the effects of separation of ownership and control on the financial performance of the organization. The findings are presented in the figure below;

<table>
<thead>
<tr>
<th>Level of agreement on separation of ownership and control creating agency problems</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Disagree</th>
<th>No response</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>38.9%</td>
<td>38.9%</td>
<td>16.7%</td>
<td>5.6%</td>
</tr>
</tbody>
</table>

Figure 4.3: Level of agreement on separation of ownership and control creating agency problems

Figure 4.3 above depicts that majority of the respondents (38.9%) indicated that they strongly agreed that separation of ownership and control constitutes agency problems, 38.9% agree with the statement while 16.7% disagreed to the statement. However a small proportion 5.6% did not respond to the question. This could imply that separation of ownership and control constitutes agency problems between managers and the suppliers of capital. The findings imply that separation of ownership and control constitutes agency problems in CBOs.

The study sought to find out the extent to which corporate governance affects the following aspects of financial performance of the respondents’ organization. The findings are shown in the table below:
Table 4.8: Extent to which corporate governance affects the following aspects of financial performance of the organization

<table>
<thead>
<tr>
<th></th>
<th>Very Great Extent (%)</th>
<th>Great Extent (%)</th>
<th>Moderate Extent (%)</th>
<th>Little Extent (%)</th>
<th>To no Extent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donor funding</td>
<td>72.2</td>
<td>16.7</td>
<td>0.0</td>
<td>5.6</td>
<td>5.6</td>
</tr>
<tr>
<td>Budgeting</td>
<td>22.2</td>
<td>38.9</td>
<td>22.2</td>
<td>11.1</td>
<td>5.6</td>
</tr>
<tr>
<td>Related Party Transactions</td>
<td>11.1</td>
<td>44.4</td>
<td>22.2</td>
<td>5.6</td>
<td>16.7</td>
</tr>
</tbody>
</table>

Source: Researcher (2011)

Table 4.8 above shows that majority of the respondents (72.2%) to a very great extent feel corporate governance affects donor funding in aspects of financial performance. However a large proportion felt to great extent corporate governance affects budgeting (38.9%) and related party transactions (44.4%) in financial performance of CBOs. The findings give an implication that corporate governance affects donor funding, budgeting and related party transactions in financial performance of CBOs.

4.4.3 Independence of Committees

The researcher sought to find out the extent to which independence of committees affects the financial performance of the organization. The figure below shows the findings:

<table>
<thead>
<tr>
<th>Extent to which independence of committees affects the performance of the organization</th>
<th>To avery great extent</th>
<th>To a great extent</th>
<th>To a moderate extent</th>
<th>To a little extent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>44.4%</td>
<td>33.3%</td>
<td>5.6%</td>
<td>16.7%</td>
</tr>
</tbody>
</table>

Source: Researcher (2011)
Figure 4.4: Extent to which Independence of Committees affects the performance of the organization

Figure 4.4 depicts that majority of the respondents (44.4%) indicated that independence of committees to a very great extent affect the financial performance of the organization, 33.3% indicated to a great extent, 16.7% to a little extent while the minority 5.6% indicated to a moderate extent. This could imply that the independence of committees is assumed to have an influence on financial performance. The findings imply that independence of committees to a very great extent affect the performance of the organization.

The researcher sought to find out the extent to which the respondent agrees or disagrees with the following statement regarding corporate governance and organizations' performance. The findings are shown in the table below:

Table 4.9: Extent of agreement with the following statements that relate to corporate governance and the performance of the organization

<table>
<thead>
<tr>
<th>STATEMENTS</th>
<th>Strongly Disagree (%)</th>
<th>Disagree (%)</th>
<th>Neutral (%)</th>
<th>Agree (%)</th>
<th>Strongly agree (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good corporate governance shields the organization from vulnerability to future financial distress</td>
<td>5.6</td>
<td>0</td>
<td>5.6</td>
<td>5.6</td>
<td>83.3</td>
</tr>
<tr>
<td>Good governance generates investor goodwill and confidence.</td>
<td>0</td>
<td>0</td>
<td>5.6</td>
<td>16.7</td>
<td>77.8</td>
</tr>
<tr>
<td>Better corporate framework benefits the organization through greater access to financing and lower cost of capital</td>
<td>0</td>
<td>0</td>
<td>11.1</td>
<td>11.1</td>
<td>77.8</td>
</tr>
<tr>
<td>Good corporate governance is important for increasing investor confidence and market liquidity</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>22.2</td>
<td>77.8</td>
</tr>
<tr>
<td>Good corporate governance increases firm valuation and reduces the financial fraud</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>16.7</td>
<td>83.3</td>
</tr>
</tbody>
</table>

Source: Researcher (2011)
The findings on Table 4.9 reveal that majority of the respondents strongly agreed that good corporate governance shields the organization from vulnerability to future financial distress (83.3%), good governance generates investor goodwill and confidence (77.8%), better corporate framework benefits the organization through greater access to financing and lower cost of capital (77.8%), good corporate governance is important for increasing investor confidence and market liquidity (77.8%) and good corporate governance increases firm valuation and reduces the financial fraud (88.3%). The findings imply that corporate governance plays a major role in financial performance of CBOs.

The researcher sought to find out the extent to which the respondents agree with the following statements about the independent committees on performance of CBOs. The findings are shown in the table below:

Table 4.10: Extent of agreement to statements regarding independent committees on organization performance

<table>
<thead>
<tr>
<th>Statement</th>
<th>To No Extent (%)</th>
<th>Small Extent (%)</th>
<th>Moderate Extent (%)</th>
<th>Great Extent (%)</th>
<th>Very Great Extent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actively involved in formulating long-term strategies</td>
<td>5.6</td>
<td>22.2</td>
<td>22.2</td>
<td>50.0</td>
<td></td>
</tr>
<tr>
<td>No external interference in existing duties</td>
<td>11.1</td>
<td>5.6</td>
<td>27.8</td>
<td>11.1</td>
<td>44.4</td>
</tr>
<tr>
<td>Effectively oversees potential conflict of interest including party related transactions’</td>
<td>5.6</td>
<td>5.6</td>
<td>11.1</td>
<td>16.7</td>
<td>61.1</td>
</tr>
<tr>
<td>Independently review accounting transactions of the organization</td>
<td>16.7</td>
<td>11.1</td>
<td>27.8</td>
<td>0.0</td>
<td>44.4</td>
</tr>
<tr>
<td>Enhancing the standards of accounting, audit and disclosure</td>
<td>16.7</td>
<td>5.6</td>
<td>16.7</td>
<td>5.6</td>
<td>55.6</td>
</tr>
</tbody>
</table>

Source: Researcher (2011)
Table 4.10 shows majority of the respondents feel to a very great extent agreed to the following statements about the independent committees on performance of CBOs; being actively involved in formulating long-term strategies (50.0%), lack of external interference in existing duties (44.4%), effectively overseeing potential conflict of interest including party related transactions' (61.1%), independent reviewing of accounting transactions of the organization (44.4%) and enhancing the standards of accounting, audit and disclosure (55.6%).

The researcher sought to find out the extent to which the following factors that affect the performance of the organization. The findings are shown in the table below:

Table 4.11: Extent to which the following factors affect the performance of the organization

<table>
<thead>
<tr>
<th></th>
<th>To no Extent (%)</th>
<th>Little Extent (%)</th>
<th>Moderate Extent (%)</th>
<th>Great Extent (%)</th>
<th>Very great Extent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top management support</td>
<td>11.1</td>
<td>5.6</td>
<td>0.0</td>
<td>16.7</td>
<td>66.7</td>
</tr>
<tr>
<td>Transparency and disclosure</td>
<td>16.7</td>
<td>0.0</td>
<td>16.7</td>
<td>22.2</td>
<td>44.4</td>
</tr>
<tr>
<td>Reducing ownership concentration</td>
<td>16.7</td>
<td>0.0</td>
<td>27.8</td>
<td>11.1</td>
<td>44.4</td>
</tr>
<tr>
<td>Checks and balances</td>
<td>11.1</td>
<td>0.0</td>
<td>16.7</td>
<td>27.8</td>
<td>44.4</td>
</tr>
</tbody>
</table>

Source: Researcher (2011)

From Table 4.11, it can be seen that majority of the respondents indicated top management support (66.7%), transparency and disclosure (44.4%), reducing ownership concentration (44.4%) and, checks and balances (44.4%) to a very great extent affect the performance of the organization.
The findings imply that top management support, transparency and disclosure, reducing ownership concentration and, checks and balances to a very great extent affect the performance of CBOs.

4.4.4 Financial Reporting

The researcher sought to find out the extent to which financial reporting affects the performance of the organization. The figure below shows the findings:

<table>
<thead>
<tr>
<th>Extent to which financial reporting affects the performance of the organization</th>
<th>To a very great extent</th>
<th>To a great extent</th>
<th>To a little extent</th>
<th>To no extent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>61.1%</td>
<td>27.8%</td>
<td>5.6%</td>
<td>5.6%</td>
</tr>
</tbody>
</table>

Figure 4.5: Extent to which financial reporting affects the performance of the organization

The figure above depicts that more than half of the respondents (61.1%) indicated that financial reporting to a very great extent affect the performance of the organization, 27.8% indicated to a great extent, 5.6% to a little extent while the minority 5.6% indicated to no extent at all. This could imply that the financial reporting is assumed to have an influence on financial performance. The findings reveal that financial reporting to a very great extent affects performance of CBOs.

The researcher sought to find out the extent to which the respondent agrees or disagrees with the following statement regarding financial reporting of the organization. The findings are shown in the table below:
Table 4.12: Extent of agreement with the following statements regarding financial reporting of the organization

<table>
<thead>
<tr>
<th>Statement</th>
<th>To no Extent (%)</th>
<th>Little Extent (%)</th>
<th>Moderate Extent (%)</th>
<th>Great Extent (%)</th>
<th>Very great Extent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The accounting standards are being adhered to by the organization</td>
<td>0.0</td>
<td>5.6</td>
<td>33.3</td>
<td>5.6</td>
<td>55.6</td>
</tr>
<tr>
<td>Donor reporting requirements are being observed</td>
<td>11.1</td>
<td>0.0</td>
<td>16.7</td>
<td>11.1</td>
<td>11.1</td>
</tr>
<tr>
<td>The board effectively oversees potential conflict of interest including party related transactions</td>
<td>11.1</td>
<td>5.6</td>
<td>38.9</td>
<td>11.1</td>
<td>33.3</td>
</tr>
<tr>
<td>Board independently reviewing accounting transactions of the organization are carried out</td>
<td>0.0</td>
<td>11.1</td>
<td>22.2</td>
<td>22.2</td>
<td>44.4</td>
</tr>
</tbody>
</table>

Source: Researcher (2011)

The findings on Table 4.12 show that majority of the respondents to a very great extent agreed to the following statements regarding financial reporting of the organization; the accounting standards being adhered to by the organization (55.6%) and board independently reviewing accounting transactions of the organization being carried out (44.4%). However a large proportion felt to a moderate extent the board effectively overseeing potential conflict of interest including party related transactions (38.9%) and donor reporting requirements are being observed (16.7%) to be true regarding financial reporting of the organization. The findings imply that to a very great extent accounting standards being adhered to by the organization and board independently reviewing accounting transactions of the organization being carried out to be true in regard to financial reporting.
4.5 Summary

On the issue of extent to which board size and composition affects financial performance in the organization majority of the respondents (50.0%) indicated that board size and composition affects financial performance of the organization to a great extent while 27.8% indicated to a very great extent. A relatively large proportion however indicated that board size and composition affects financial performance of the organization to a moderate extent (11.1%) and 11.1% to a little extent.

Majority of the respondents (44.4%) indicated that separation of ownership and control affects financial performance of the organization to a great extent while 22.2% indicated to a very great extent, 16.1% to a little extent, 11.1% to no extent at all and the minority 5.6% indicated separation of ownership and control affects financial performance of the organization to a moderate extent.

The results also show that majority of the respondents (38.9%) indicated that they strongly agreed that separation of ownership and control constitutes agency problems, 38.9% agree with the statement while 16.7% disagreed to the statement. However a small proportion 5.6% did not respond to the question. This could imply that separation of ownership and control constitutes agency problems between managers and the suppliers of capital. The findings imply that separation of ownership and control constitutes agency problems in CBOs.

In addition, majority of the respondents (72.2%) to a very great extent feel corporate governance affects donor funding in aspects of financial performance. However a large proportion felt to great extent corporate governance affects budgeting (38.9%) and related party transactions (44.4%) in financial performance of CBOs. The findings give an implication that corporate governance affects donor funding, budgeting and related party transactions in financial performance of CBOs.

According to the results, majority of the respondents (44.4%) indicated that independence of committees to a very great extent affect the financial performance of the organization, 33.3%
indicated to a great extent, 16.7% to a little extent while the minority 5.6% indicated to a moderate extent.

The findings further shows that majority of the respondents strongly agreed that good corporate governance shields the organization from vulnerability to future financial distress (83.3%), good governance generates investor goodwill and confidence (77.8%), better corporate framework benefits the organization through greater access to financing and lower cost of capital (77.8%), good corporate governance is important for increasing investor confidence and market liquidity (77.8%) and good corporate governance increases firm valuation and reduces the financial fraud (88.3%). The findings imply that corporate governance plays a major role in financial performance of CBOs.

On financial reporting more than half of the respondents (61.1%) indicated that financial reporting to a very great extent affect the performance of the organization, 27.8% indicated to a great extent, 5.6% to a little extent while the minority 5.6% indicated to no extent at all. This could imply that the financial reporting is assumed to have an influence on financial performance. The findings reveal that financial reporting to a very great extent affects performance of CBOs.
CHAPTER FIVE
SUMMARY AND CONCLUSIONS

5.1 Introduction
The study focused on establishing the relationship between Corporate Governance structures and financial performance of the CBOs in Kibera. The study basically gives an overview of the direction and strength of the relationship between the variables involved.

The study employed quantitative research as the main approach to guide the study. The target population included all CBOs implementing health strategies in Kibera. The research instrument used in data collection was a questionnaire to collect data from the organizations. Data analysis was started immediately after the field. Data was summarized into frequencies and percentages and presented in tables.

5.2 Summary of the Study
The study aimed at determining how governance practices such as: board size and composition; separation of ownership and control; independence of management committees and financial reporting and disclosure affect the financial performance of the CBOs.

It was found out that financial disclosure and independence of committees positively influences financial performance of CBO while board size negatively influences the same. However, separation of ownership and control does not have significant relationship with the financial performance of CBOs. This relationship is depicted by the following function:

\[ Y = 2.131 - 1.036\text{BSC} + 0.037\text{SOC} + 0.619\text{ID} + 0.742\text{FD} \]

The study found out that majority of the respondents indicated their organization has worked in CBOs for less than 10 years (77.8%) with all (100.0%) indicating their organization has been involved in partnerships among the existing schemes and projects to improve health situations with half (50.0%) indicating their organization is involved in partnership at national level.
The study findings also depict that majority of the respondents (50.0%) indicated that board size and composition affects financial performance of the organization to a great extent. A relatively large proportion indicated to a very large extent that they face challenges in monitoring financial performance in the organization (27.8%). The findings further reveal majority of the respondents strongly agreed that; the board closely monitoring top management strategic decision making, the board and top management meeting often to discuss organization’s future strategic, the board formally evaluating performance of top management in regularly held feedback meetings, cash flows being regularly reviewed by board and financial statements being prepared by top management and reviewed by the board are important factors to a CBOs financial performance.

The study findings also revealed that majority of the respondents (44.4%) indicated that separation of ownership and control affects financial performance of the organization to a great extent with (38.9%) indicating that they strongly agreed that separation of ownership and control constitutes agency problems. From the findings majority of the respondents (72.2%) feel to very great extent corporate governance affects donor funding in aspects of financial performance.

The study also noted that majority of the respondents (44.4%) indicated that independence of committees to a very great extent affect the performance of the organization. Majority of the respondents strongly agreed that good corporate governance shields the organization from vulnerability to future financial distress (83.3%), good governance generates investor goodwill and confidence (77.8%), better corporate framework benefits the organization through greater access to financing and lower cost of capital (77.8%), good corporate governance is important for increasing investor confidence and market liquidity (77.8%) and good corporate governance increases firm valuation and reduces the financial fraud (88.3%).

The study findings ascertained that a big proportion of the respondents feel to a very great extent agreed to the following statements about the independent committees on performance of CBOs; being actively involved in formulating long-term strategies (50.0%), lack of
external interference in existing duties (44.4%), effectively overseeing potential conflict of interest including party related transactions (61.1%), independent reviewing of accounting transactions of the organization (44.4%) and enhancing the standards of accounting, audit and disclosure (55.6%). The findings also show majority of the respondents indicated top management support (66.7%), transparency and disclosure (44.4%), reducing ownership concentration (44.4%) and, checks and balances (44.4%) to a very great extent affect the performance of the organization.

The study also found out that majority of the respondents (61.1%) indicated that financial reporting to a very great extent affect the performance of the organization. The findings reveal that majority of the respondents to a very great extent agreed to the following statements regarding financial reporting of the organization; the accounting standards being adhered to by the organization (55.6%) and board independently reviewing accounting transactions of the organization being carried out (44.4%). The regression model findings reveal that financial disclosure, separation of ownership and control and independence of committees would lead to rise in financial performance. However, board size negates financial performance of CBO as it has a negative coefficient.

5.3 Conclusions

Based on the findings of the study, the following conclusions were made for the impact of corporate governance on financial performance of community based organizations in Kibera.

Community Based Organizations implementing health strategies in Kibera have worked less than 10 years and have been involved in partnerships among the existing schemes and projects to improve health situations with half involved in partnership at national level. The findings reveal all the CBOs in Kibera are registered. The study findings reveal board size and composition, separation of ownership and control, independence of committees and financial reporting to a very great extent affect the performance of the organization.
The study shows that most CBOs in Kibera face challenges in monitoring financial performance and a few face communication and coordination problems. The findings further revealed that; the board closely monitor top management strategic decision making, the board and top management meeting often to discuss organization’s future strategic, the board formally evaluating performance of top management in regularly held feedback meetings, cash flows being regularly reviewed by board and financial statements being prepared by top management and reviewed by the board are important factors to a CBOs financial performance. The findings also indicate that separation of ownership and control constitutes agency problems in CBOs and that corporate governance affects donor funding, budgeting and related party transactions in financial performance of CBOs.

The study findings further reveal that good corporate governance shields the organization from vulnerability to future financial distress, good governance generates investor goodwill and confidence, better corporate framework benefits the organization through greater access to financing and lower cost of capital, good corporate governance is important for increasing investor confidence and market liquidity and good corporate governance increases firm valuation and reduces the financial fraud implying that corporate governance plays a major role in financial performance of CBOs. The findings also show that top management support, transparency and disclosure, reducing ownership concentration and, checks and balances to a very great extent affect the performance of CBOs.

It is concluded that financial disclosure and independence of committees positively influences financial performance of CBO while board size negatively influences the same. However, separation of ownership and control does not have significant relationship with the financial performance of CBOs.

5.4 Limitations of the Study

The findings of this study should however be considered in light of their limitations. The researcher’s wish was to get responses from all the 30 samples CBOs operating within Kibera but that was not achieved as some Managers were reluctant to fill the questionnaire as they were not directly gaining.
The limitations of resources were a major limitation in carrying out the study. The researcher did not have enough finances to hire research assistants for the purpose of data collection resulting into inadequate follow up on the CBOs sampled for data collection.

5.5 Recommendations for further Research

This study sought to determine the impact of corporate governance on financial performance of CBOs in Kibera attempting to bridge the gap in knowledge that existed with major challenges and factors affecting the CBOs dealing with health implementation. Although the study attained these, it mainly focused on the impact of governance structures on the financial performance. There is need to conduct a similar study which will attempt to find out what other factors affect the financial performance of the Community Based Organizations. In addition, the other area of the study could be on how corporate governance affects the overall performance of the CBOs.

5.6 Policy Implications

There will be need for; board of trustees and management of the CBOs to identify corporate governance structures that will enhance accountability hence enabling them to receive donor funding. Donor funding normally come after thorough review of the organizations ability to manage such funds without which such organizations will not be able to receive any funding for their program activities.

Also, there is need for regulators and the policy makers to use the finding as reference for policy guidelines (e.g. disclosure) on management and control of such organizations to be able to formulate viable policy documents that effectively address problems faced by the community based organizations. These may relate to regulating those aspects that threaten to adversely impact on the operations and development of such organizations.

There is need for donors to assess the capability of the community based organization in managing their funds in transparent and efficient way. Due to information asymmetry,
managers may use their positions to benefit their private interest in a variety of ways including empire building.
REFERENCES


Wen, Y. Rwegasira, K. and Bilderbeek, J. (2002). Corporate governance and capital structure decisions of Chinese listed firms, Corporate Governance: An International Review, 10 (2), 75-83.

APPENDIX I: LETTER OF INTRODUCTION

Harrison Okeyo,
P.O BOX 30197,
Nairobi, KENYA.

Dear Respondents,

RE: DATA COLLECTION
This questionnaire is designed to survey of impact of corporate governance on financial performance of the community based organizations (CBOs) in Kenya. The information provided by the organizations will enable me to make conclusions concerning the above subject. The objectives of the study are to investigate the effects of board size and composition, to establish the effects of ownership and control, to determine the effects of independence of directors on financial performance of CBOs and to find out if corporate governance practices contribute to financial disclosure and reporting.

Please note that the study will be conducted as academic research and the information you provide will be treated in strict confidence. Strict ethical principles will be observed to ensure confidentiality and the study outcomes and report will not include reference to any individuals or organizations, in order to ensure comprehensive analysis of the findings, it is important that each questionnaire be completed and returned.

The researcher requests that you kindly spare the next 15 minutes to complete the attached questionnaire.
Thank you in advance for your co-operation.
Yours Faithfully,

Harrison Okeyo
APPENDIX II: STRUCTURED QUESTIONNAIRE

Instructions: Kindly complete the following questionnaire using the instructions provided for each set of question. Tick appropriately.

Confidentiality: The responses you provide will be strictly confidential. No reference will be made to any individual(s) or organization in the report of the study.

SECTION A: BACKGROUND INFORMATION

1. Name of organization (optional): .................................................................

2. Is your Organization Registered?
   a) Yes [ ]  b) No [ ]

3. How long has your organization worked in the CBOs in Kenya?
   a) Less than 10 years [ ]  b) 10-20 years [ ]  c) Over 20 years [ ]

4. Among the many existing schemes and projects to improve the world health situation, is your organization involved in any partnerships?
   a) Yes [ ]  b) No [ ]

5. If Yes to Q.4 above at what level does your organization get involved?
   [ ] at international level (i.e. WHO, UNDP, IMF, FARM Foundation, NGO etc)
   [ ] at national level (State governments, NGOs, private sector, etc)
   [ ] at county level
   [ ] Other (specify) __________________________________________

SECTION B: CORPORATE GOVERNANCE AND PERFORMANCE

6. To what extent does corporate governance affect financial performance in the organization?
   To a very great extent [ ]  To a great extent [ ]
   To a moderate extent [ ]  To a little extent [ ]
   To no extent [ ]
BOARD SIZE AND COMPOSITION

7. To what extent does board size and composition affect the financial performance in the organization?

- To a very extent [ ]
- To a great extent [ ]
- To a moderate extent [ ]
- To a little extent [ ]
- To no extent [ ]

8. To what extent does the board face the following challenges that affect the performance of the organization? 1= to no extent, 2= to a little extent........5= to a very large extent

<table>
<thead>
<tr>
<th>Challenges</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Challenges in monitoring financial performance in the organizations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Communication and coordination problems</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The number of non-executive directors affect the performance of the organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(specify..................................................................................)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

9. To what extent do you agree with the following statement regarding the board size and composition in your organization? Use a scale of 1 to 5 where 1 is strongly disagree and 5 is strongly agree.

<table>
<thead>
<tr>
<th>Statement about board size and composition</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial statements are prepared by top management and reviewed by board</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash flows are regularly reviewed by board</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The board closely monitors top management strategic decision</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The board formally evaluates performance of top management in regularly held feedback meetings.

The board is actively involved in shaping organizations strategy.

The board and top management meet often to discuss organization's future strategic choices.

Board give top management sufficient counsel on organizations strategy.

Directors provide counsel to top management in discussions outside board meetings.

### SECTION C: SEPARATION OF OWNERSHIP AND CONTROL

10. To what extent does separation of ownership and control affect financial performance of the organization?
   - To a very extent [  ]
   - To a great extent [  ]
   - To a moderate extent [  ]
   - To a little extent [  ]
   - To no extent [  ]

11. The separation of ownership and control constitutes agency problems between managers and the suppliers of capital. To what extent do you agree with this statement with regard to the effects of separation of ownership and control on the financial performance of the organization?
   - Strongly agree [  ]
   - Agree [  ]
   - Neutral [  ]
   - Disagree [  ]
   - Strongly disagree [  ]
12. To what extent does corporate governance affect the following aspects of financial performance of your organization?

<table>
<thead>
<tr>
<th>Financial performance measure</th>
<th>Very great extent</th>
<th>Great extent</th>
<th>Moderate extent</th>
<th>Little extent</th>
<th>Not at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donor Funding</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budgeting</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Related Party Transaction</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

SECTION D: INDEPENDENCE OF COMMITTEES/DIRECTORS

13. To what extent does independence of committees affect the performance of this organization?

To a very great extent [ ]
To a great extent [ ]
To a moderate extent [ ]
To a little extent [ ]
To no extent [ ]

14. Various aspects of good corporate governance are said to enhance performance of a firm. To what extent do you agree with the following statements that relate to corporate governance and the performance of the organization? Use a scale of 1 - 5 where 1 = strongly disagree and 5 = strongly agree.

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good corporate governance shields the organization from vulnerability to future financial distress</td>
<td></td>
<td></td>
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<tr>
<td>Governance structure of the organization affects the firm's ability to respond to external factors that have some bearing</td>
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</tbody>
</table>
on its financial performance

<table>
<thead>
<tr>
<th>Good governance generates investor goodwill and confidence.</th>
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</thead>
<tbody>
<tr>
<td>Better corporate framework benefits the organization through greater access to financing</td>
</tr>
<tr>
<td>Good corporate governance is important for increasing investor confidence</td>
</tr>
<tr>
<td>Better corporate governance is correlated with better financial performance and organization funding level</td>
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<tr>
<td>Good corporate governance increases firm valuation and reduces the financial fraud</td>
</tr>
<tr>
<td>There is no relation between the proportion of outside directors and various financial performance measures</td>
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</tbody>
</table>

15. To what extent do you agree with the following statements about the independent committees on performance of this organization? Use a scale of 1 to 5, where 1 is to no extent at all and 5 is to a very great extent

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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</thead>
<tbody>
<tr>
<td>Actively involved in formulating long-term Strategies</td>
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<td>No external interference in executing duties</td>
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<td>Seriously reviews key executive and director remuneration</td>
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<td>Effectively oversees potential conflict of interest including party related transactions[1]</td>
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<td>Independently review Accounting Transaction of the organizations</td>
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</table>
16. To what extent do the following factors affect the performance of the organization? Use a scale of 1 to 5, where 1 is to no extent at all and 5 is to a very great extent

<table>
<thead>
<tr>
<th>Factor</th>
<th>1</th>
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</thead>
<tbody>
<tr>
<td>Knowledge of data requirements and collection processes</td>
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<td>Top management support</td>
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<td>Transparency and disclosure</td>
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<td>Reducing ownership concentration</td>
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<td>Checks and balances</td>
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<td>High cost of corporate governance ratings</td>
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<td>Employee involvement</td>
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<tr>
<td>Other</td>
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<td>(specify....................................................................................)</td>
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</table>

THANK YOU FOR YOUR COOPERATION AND TIME!!!