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EFFECT OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE OF NGOs IN HEATH SECTOR IN KENYA

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Abstract

The main objective of this study was to establish the effect of corporate governance on financial performance of NGOs in health sector in Kenya, applying agency theory. The study adopted time series research design and applied stratified sampling technique on a sample size of 270 NGOs. Data analysis was done by applying descriptive and linear regression statistical analysis. Regression results revealed that corporate governance had significant influence on financial performance of NGOs in health sector in Kenya and tests for significance also showed that the influence was statistically significant (r=0.342). Embracing corporate governance practices therefore positively influence financial performance of NGOs in health sector in Kenya. On formulation of policy, both management of NGOs and the Government should explore and implement sustainable policies and regulations that are geared towards improving, corporate governance as a way of accelerating financial performance of NGOs.

Keywords: Agency Theory, Corporate Governance, Financial Performance, NGOs in Health Sector, Audit Committees

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INTRODUCTION

In this study, the term NGO will be used to define an agency that has no government control but receives aid and donations from national and international agencies to carry out poverty alleviation activities on humanitarian sectors (Perkins, 2005). The beginning of NGOs is inherently related to capitalism and failure of states to meet the needs of its citizens. NGOs have not only grown in number and capacity, but also with regard to their political influence. The numbers of NGOs with consultative status at the United Nations (UN) were limited in 1945 but the number increased to 3,289 in September 2009 (UNDESA, 2009). The World Bank reports that projects with some degree of civil society' involvement increased from six percent in the late 1980s to over 70 percent in 2006 (Werker and Ahmed, 2008).

NGOs render welfare services and help in all such sectors of society, which aim to improve the life of the people in the community. NGOs can perform a major role because of having features for the promotion of micro- level development (Nzimakwe, 2008). NGOs are often seen as more trustworthy and credible than governments or private firms (Todaro, 2009). NGOs also provide public goods to sections of the population that might be socially excluded.

NGOs Global Perspective

The period between 1978 and 1985 saw an 'explosion of donor aid' in Sri-lanka when 70% of the total $6,140 million aid was received between 1960 and 1985 (Bastian, 2007). The rapid influx of foreign funds allowed overall government expenditure to rise. This 'minor Keynesian boom' helped to entrench and extend existing modes of governance and expanding police and military sectors (Spencer, 2008).Total aid to Sri Lanka increased significantly after the war ceasefire, rising from $572 million in 2002 to $991 million in 2003 (ERD, 2003). In 2003, donors pledged $4.5 billion to help development and reconstruction in Sri Lanka and delivery of these funds was contingent upon progress in peace negotiations. As well as attempting to avert the resumption of conflict by applying peace conditionality's, aid was designed to address both the consequences and the causes of conflict (Goodhand and Klem, 2005).

NGOs in Bangladesh claim to operate in over 90% of villages (Fruttero and Gauri 2005), benefiting 35% of the population (Thornton et al, 2000). It's believed that the root cause of poverty was social injustice and that poverty could not be eradicated until there was a 'basic change in the social structure' (Rutherford, 2010).Many NGOs work in two ways. They modify traditional products into handicrafts for which there is a market. The income affords people access to mass produced industrialized goods. A few NGOs, such as Bangladesh Rural Advancement Committee (BRAC), became agents for multinational companies such as Monsanto and Information Technology businesses. (Aminuzzaman et al, 2003). They also take

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responsibility to market the produce as a further extension of NGO business (Makita, 2009). In 1992 the government was forced to withdraw its order to cancel the registration of a few NGOs for financial irregularities. In 2007, NGOs resisted the government's attempt to modify the 1978 regulation on NGOs (Agarwal et.al. 2007). However, in 2006 the government was forced to implement the regulations on NGOs because of widespread financial corruption and swindling of the poor's money by many NGOs (Jumma and Nasir 2007).

In Botswana the local NGOs play a huge role by bringing the much needed services to the communities in which they operate (Hans, 2003). Helen et al. (2005) identify the strengths of the local NGOs as being flexible as opposed to government bureaucrats to respond to community needs and priorities. In the initial phases of Africa Comprehensive HIV/AIDS Partnership (ACHAP) activities in Botswana, they faced a lot frustration from government bureaucrats and red tape and they choose to engage local NGOs to facilitate quick implementation of their projects (Ramiah & Reich, 2006).

NGOs in Health Sector, Kenya

By June 2010 the NGO Co-ordination Board had registered a total of 6,752 organizations. On average the sector has grown at the rate of 490 organizations per annum in the last ten years (NGO Board, 2010). The annual report for 2010 by the NGO Co-ordination Board further highlights that during the period in review (2010) most projects implemented by NGOs were in the Education followed by Health sectors. The emphasis on Health was consistent with the focus of the Millennium Development Goals and Vision 2030 (Kenya Vision 2030, 2008).

Mbote (2000) notes that the proliferation of NGOs in the 80s and 90s in Africa and particularly in Kenya was as a result of the escalation of poverty, civil strife, internal displacements of people following war and conflicts and the general degradation or near collapse of socio-economic and political systems. For the first time in 1978, Kenya experienced a proliferation of civil society organizations (CSOs) that could be distinguished from the state (M'boge and Doe, 2004).

The Kenyan health system is impacted by the work of NGOs. According to the NGOs register at the NGOs Co-ordination Board, as at 28 February 2015, there were 16,844 NGOs operating in the 47 counties in Kenya (NGO Board, 2015). Most facilities operated by NGOs are often the best balance of care and cost where they are available. For example at the Lwala Community Health Center, a facility operated by the NGO group Lwala Community Alliance, the minimal fee of Ksh. 50 (about $0.65 USD) is waived for up to 85% of patients. As a result of the high quality of care and low cost, patients come from a wide area of up to 30 to 40 kilometers to access the facility. Unfortunately, this phenomenon also challenges the sustainability of the

facility, which is almost completely reliant on donor funding. In the NGO sector as a whole, reliance on donor funding is often the limiting factor that prevents facilities from offering a broader service spectrum, or offering services to more people (Turin, D. R., 2010). This study attempts to contribute to the existing literature focusing the debate on corporate governance and financial performance of NGOs from a developing country perspective and examines the corporate governance practices and financial performance that represents Kenyan NGOs in health sector based on agency theory. Therefore this study attempts to fill the gap in finance literature addressing the research question "How does corporate governance affect financial performance of NGOs in the health sector in Kenya". The study is organized as follows; section two provides literature review that examines theories of corporate governance; the methodology is developed in section three while section four provides analysis and discussion of the results. The last section provides Summary, conclusion and recommendations.

THEORETICAL LITERATURE REVIEW

A theory is a systematic explanation of the relationship among phenomena that provide a generalized explanation to an occurrence (Kombo &Tromp, 2009, Smyth, 2009). This study was guided by agency theory.

Agency Theory

The 1976 article on theory of the firm: Managerial Behavior, Agency Costs and Ownership Structure by Jensen and Meckling helped establish agency theory as the dominant theoretical framework of the corporate governance literature, and position shareholders as the main stakeholder (Lan et al., 2010, Daily et al. 2003). Berle and Means (1933) discuss issues surrounding the separation between ownership and control in large organizations, and became widely accepted when Jensen and Meckling (1983) formulated the agency problem in the governance of organizations.

The theory is defined as the relationship between the principals which may include Board of Directors of NGOs on the one hand and the agents comprising Managers on the other hand. The principals usually dedicate their authority to agents. However, organization objectives may not be achieved because the agents with whom principals have entrusted the operations will act opportunistically to attain their own interest instead of the principals' interests thus creating the agency conflict. To mitigate the agency problems, the principal-agent risk bearing mechanism must be designed efficiently; and the design must be monitored through the nexus of organizations and contracts. This makes the firm incurs agency costs in ensuring that managers' activities are aligned to the organization's goals and activities. The theory was

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relevant to the study because it explains the principal –agent relationship between Board of directors and managers of NGOs and possible conflicts that may arise thereof.

Corporate Governance and Financial Performance

Corporate governance is the mechanisms by which corporate managers are held accountable for corporate management and financial performance, and the mechanism by which business is organized, directed, and controlled (Krivogorsky & Dick, 2011). A theoretical perspective of stakeholder-agency allowing exploring the impact of particular corporate governance mechanisms on the company's financial performance is the subject of an empirical research by Kock et al., (2011) starting with the work of Hill and Jones, (1992), who speak of a stakeholder-agency paradigm in which the managers can be seen as the agents of various stakeholders. The results of this research indicate that the corporate governance mechanisms employed affect the company's financial performance by increasing the manager's sensitivity towards the stakeholders' preferences.

Recently researchers have managed to come up with other definitions of corporate governance. Strine (2010) pointed out that corporate governance is about putting in place the structure, processes and mechanisms that insure that the firm is directed and managed in a way that enhances long-term shareholder value through accountability of manager, which will then enhancing firm financial performance . Currently financial sectors have seen the importance of having good corporate governance practices (Kolk & Pinkse, 2010). IFC (2004) examined the benefits of having good Corporate Governance at different levels. At the company level, well-governed companies tend to have better and cheaper access to capital, and tend to outperform their poorly governed peers over the long-term, on the other hand corporate governance reduce financial crisis.

Currently many country leaders all over the world have increased concern over corporate governance due to the increase of reported cases of frauds, inside trading, agency conflicts among other corporations saga (Enobakhare, 2010). This is supported by Ahmad (2006) who argued that a sound banking system requires appropriate infrastructure to support efficient conduct of banking business operating environment, governance and regulatory framework at domestic as well as international levels in order to reduce bank crisis. The World Bank is helping many economies to undertaking the banking sector reformation and restructuring. This exercise will easy, reduce or eliminate some fatal global macroeconomic troubles which have emanated from poor governance of large financial and non-financial institutions (Zaharia et al, 2010).The directors are the key characteristic of good corporate

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governance mechanism (Blair, 1995) and are regarded as the officers of the company by the company law (Coleman, 2008).

Board diversity could be used as a proxy for corporate governance. It is the mixture of men and women, people from different age brackets, people with different ethnic groups and racial backgrounds (Enobakhare, 2010).Currently board diversity is a highly debatable corporate governance topic. The topic put more emphasis on, gender diversity, i.e. the inclusion of women on corporate boards of directors, considered as an instrument to improve board variety and thus discussions. Though board diversity might be a constraint according to Goodstein, nevertheless it goes without doubt that for boards to be effective there is need for diverse perspective (Ogbechie & Koufopoulos, 2009).

There has been an increasing focus on studies about board composition such as board size, board diversity and board independence (Carter, Simkins, & Simpson, 2003; De Andres et al., 2005; Erhardt, Werbel, & Shrader, 2003). Several studies tried to relate board diversity with organizational performance. Carter, D'Souza, Simkins, and Simpson (2010) indicate that gender and ethnic diversity in board of director could lead to better corporate governance which leads to the more profitable business.

Furthermore, some previous studies prove clearly that board diversity is positively associated with firm financial performance (Carter et al., 2003; Erhardt et al., 2003; Kiel & Nicholson, 2003). On the contrary, the other studies show the opposite result: there is no significant relationship between board diversity and financial performance (Adams & Ferreira, 2009; Carter et al., 2010; De Andres et al., 2005; Ross, 2008). Despite this, there has been mixed evidence regarding the effect of board diversity on performance, diversity in board composition is still considered favorable based on these two important reasons (Kang et al, 2007). Firstly, diversity increases discussion, exchange of ideas and group performance. A more diverse board provides different insights and perspectives in facing problem and finding solution.

As reported by Dutta and Bose, (2006) the presence of women on boards of directors is limited, even if the literature reveals a slow but steady rise in the female presence on corporate boards throughout the world. With reference to the relationship between gender diversity and firm financial performance, the few existing empirical studies show contrasting results. Considering the United States context, Zahra and Stanton (1988) find no statistically significant relationship between gender diversity and firm financial performance. Dutta and Bose, (2006) reported a statistically significant positive relationships between both the presence and the percentage of women on the board of directors and market value added (MVA) and firm value.

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The Audit committee (AC) has been endorsed by professional and regulatory committees to be adopted by corporate entities. The AC is thought to be effective in overcoming weaknesses in corporate governance and serving as one of the measures in curtailing the agency conflict. The agency framework developed by Jensen and Meckling (1976; Jensen & Fama, 1980) depicts the AC as a means of reducing these agency costs, providing more credibility to the firm, boosting its image which subsequently lead to increased financial performance . Kajola (2008) seeks to examine the relationship between audit committee and two firm financial performance measures: return on equity (ROE) and profit margin (PM) of a sample of twenty Nigerian listed firms between 2000 and 2006. Using panel methodology as a method of estimation, the results could not provide a significant relationship between the two financial performance measures and audit committee.

EMPIRICAL REVIEW

Kock et al., (2011) studied corporate governance based on stakeholder-agency paradigm in which the managers can be seen as the agents of various stakeholders. The results of this research indicated that the corporate governance mechanisms employed affected the company's environmental financial performance by increasing the managers' sensitivity towards the stakeholders' environmental preferences. More specifically, the empirical evidence showed that companies that had a greater exposure to the market for corporate control also had a lower greater representation of pro-stakeholders directors in their boards, and a superior level of financial performance.

Hermalin and Weisbach (2003) argue in their paper that larger boards can be less effective than smaller boards. They further that too many members on a board may create agency problem, and some members may be considered free rider without corresponding impact to relevant decision making. More recent empirical studies have supported this finding (Jensen, 2003) and noted that large board size can be disadvantageous and expensive for the firm.

Chen (2008) in his studies of 923 large firms from 1998 to 2004 concluded that the multiple directorship have both cost and benefits to the firm. He found that firms with high growth opportunity and low agency conflict need multiple directorships which can be source of beneficial advising and can lead to improvement in firm financial performance. Kajola (2008) seeks to examine the relationship between four corporate governance mechanisms (board size, board composition, and chief executive status and audit committee) and return on equity (ROE), and profit margin (PM), of a sample of twenty Nigerian listed firms between 2000 and 2006.

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Using panel methodology as a method of estimation, the results provide evidence of a positive significant relationship between ROE and board size as well as chief executive status.

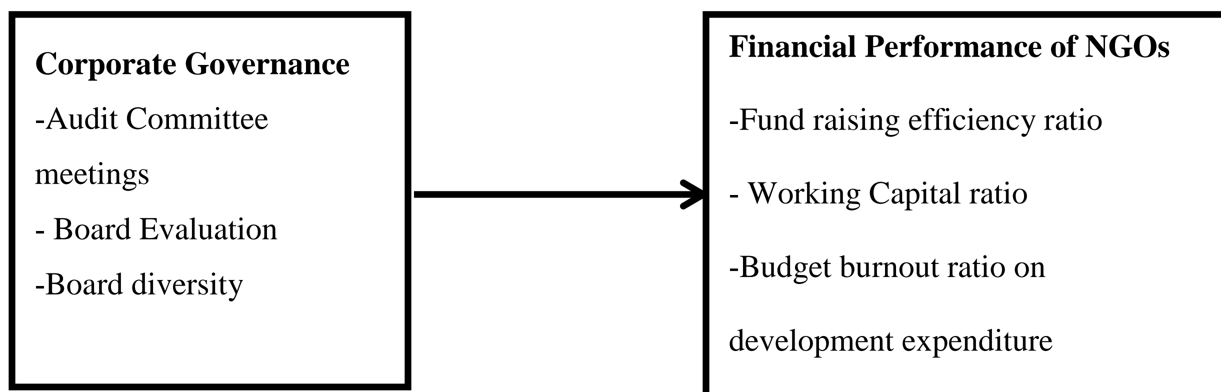
Critique of Past Studies /Research Gaps

Hermalin and Weisbach (2003) studied corporate governance on companies listed in the stock exchange rather than NGOs. The studies also focused on board size as a measure of corporate governance. Corporate governance is a wider concept that should be measured by many other variables such as board diversity, independency and accountability. This study measures financial performance in terms of non-profitability ratios such as budget burn out rates on program expenses, fund raising ratio and working capital ratio. This is a divergent from previous studies that measured financial performance of organizations using profitability ratio analysis such as returns on investment and return on capital employed.

Conceptual Framework

A conceptual framework is a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation (Kombo and Tromp, 2009). It forms part of the agenda for negotiation to be scrutinized, tested, reviewed and reformed as a result of investigation and it explains the possible connections between the variables (Smyth, 2009).A conceptual framework for the study shows the relationship of corporate governance on financial performance of NGOs in Kenya and has been depicted in the figure below.

Figure 1: Conceptual Framework



RESEARCH METHODOLOGY

The study adopted a time series research design. A time series is a sequence of data points, typically consisting of successive measurements made over a time interval. The technique comprises methods for analyzing data in order to extract meaningful statistics and other

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characteristics of the data to predict future values based on previously observed values. Kumar (2005) observes that research is the process of collection, analysis and interpretation of data in order to answer questions.

Population and Sample

This study targeted 16,844 NGOs registered to operate in health sector by the NGOs Co-ordination Board as at 28 February 2015.The population is considered ideal for the study since the major bilateral and multilateral actors in international health have increasingly channeled aid to the health sector in poor countries through NGOs (World Bank, 2000). Further, as per the Abuja Declaration of 2001, countries were to earmark 15% of the national budget for the health sector but Kenya is yet to meet this target. Also high levels of corruption have resulted in the degradation of financial performance of NGOs in health sector in Kenya (World Bank, 2008).

The study used stratified random sampling technique adopting a sample of 270 NGOs operating in health sector in Kenya selected from the 47 Counties in Kenya. The sample size was arrived at using the following formulae by Mugenda and Mugenda, 1999 for computing sample size for larger sample:

$$\text{Necessary sample size} = \frac{(Z-score)^2 \times std\ Dev \times (1-stdDev)}{(Margin\ of\ error)^2}$$

The research was conducted at 90% confidence level, 0.5 standard deviation, and a margin of error (confidence interval) of +/- 5%. From Z tables, the corresponding Z score is 1.645.

$$\text{Necessary sample size} = \frac{(1.645)^2 \times 0.5 \times (1-0.5}{(0.05)^2} = 270.6$$

Therefore 270 respondents from NGOs were interviewed out of 16,844 NGOs registered to operate in the health sector in Kenya. A pilot study was conducted in 27 NGOs in Nairobi County. Baker (1994) notes that a pilot study is used to pretest a research instrument and a sample size of 10-20% of sample size is adequate to consider for pilot study.

Research Instrument

The study employed both structured and unstructured questionnaires as instruments for data collection. Unstructured questions shall allow the respondents to give opinion and recommendations of improving financial management in NGOs in Kenya. This will allow future exploratory studies on the same. The research instruments were given to supervisors who scrutinized the questions in the tool to assess their appropriateness in addressing key issues of

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the study .This ensured internal and external validity. Ecological validity was ensured by use of real data obtained from NGOs. The instruments were subjected to peer review where questions were restructured and language use reviewed where deemed necessary. Reliability is if the analyst measures the same variable several times, and the results are approximately the same (Rabianski, 2003).Secondary data was collected from audited financial statements verified and inspected by licensed Certified Public Accountants of Kenya. Key ratios were calculated a few times before implementing them in this paper, this was to make sure that all the calculations were right to ensure reliability.

Research Hypothesis

A number of researchers have provided empirical evidence suggesting that organization that embraced corporate governance had a superior level of financial performance. Kock et al (2011) found out that those organizations that embraced corporate governance had a superior level of financial performance while Chen (2008) established that multiple directorship lead to improved firm performance. Therefore based on theoretical and empirical evidence reviewed on agency theory, the researcher formulates the following hypotheses:

Ho1: Corporate governance has a negative influence on financial performance of NGOs in the health sector in Kenya.

Model and Data Description

The variable under study was analyzed by applying the following econometric model:

$FP = \beta 0 + \beta 1 CG + \varepsilon$

Where:

FP= Financial performance of NGOs in health sector

$\beta 0$= Model constant

$\beta 1$ = Sensitivity of Corporate governance to financial performance of NGOs in health sector

CG= Corporate governance

ε = Error term with an expected value of zero

Hypothesis testing was done at 5% significance level ($\alpha = 0.05$). SPSS was used to compute t tests to give results of critical values (p value). The decision rule applied was if $p \leq \alpha$, then reject H_0 otherwise fail to reject the H_0.

Variable Definition and Measurement

The principle functions of financial performance measurement are to ensure that organizations are held accountable for their financial performance (Sharma, 2012). Ritchie and Kolodinsky

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(2003) concluded that fiscal performance and fund raising financial ratios are reliable and appropriate to evaluate financial performance of NGOs. The Charity Navigator in United Kingdom uses program service ratio and fundraising ratios as a means of measuring the financial health of NGOs. Program service ratio refers to budget burn out rates on development expenditure obtained by dividing development expenditure and the total expenditure. Fundraising expenses is a ratio of fundraising expenses over the total expenditures (Charity Navigator, 2006). Working capital ratio is the ratio of current assets to current liabilities. In this study, fiscal performance, fundraising efficiency, and working capital ratios are used. Corporate governance was measured as a weighted average of the number of audit committee meetings held per year, number of board evaluations per year and board diversity measured in terms of proportion of board members who were women, youth and disabled.

ANALYSIS AND DISCUSSION

Response Rate

Two hundred and seventy (270) questionnaires were issued to managers from 270 NGOs operating in the health sector in Kenya. Two hundred and twenty two (222) questionnaires were returned representing an 82% response rate. The response rate is considered adequate given the recommendations by Mugenda and Mugenda (2003) who advise on response rates exceeding 50% and Arora and Arora (2003) who consent that a response rate of 75% is adequate.

Indicators of Corporate Governance in NGOs in Health Sector

Audit Committees

The results indicated that most (55.9%) of NGOs in the health sector had independent audit committees in place. These findings are in agreement with observations by Jensen and Meciking (1976) who observed that most organizations have audit committee as a means of providing credibility to a firm, boosting its image and reducing agency conflict. Similar observations were made by Jensen and Fama (1983).

The study also established that most of the NGOs in the health sector held between 2-4 audit committee meetings per year. This finds corroborate with recommendations on best practices in managing corporate organizations issued by Capital Markets Authority in 2002 under Gazette notice number 3362 that required corporate bodies to hold regular audit committee meetings as a way of providing oversight. The results also imply existence of adequate oversight over internal controls in NGOs in the health sector in Kenya in line with observation by Oxelheim et al. (2013) who noted that in addition to board function, there are

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three basic roles of board of directors that includes monitoring role, advisory role and resource provision role

Board Evaluation

The results indicated that most (66.7%) of the respondents had a performance evaluation system for the board of directors. It can therefore be concluded that most NGOs in health sector have performance evaluation systems for board of directors. This finding is in agreement with an observation by Blair (1995) who established that directors are the key characteristic of good governance mechanism. A similar opinion was held by Coleman (2008) who indicated that directors are also regarded as officers of a Company.

The results also indicated that most of NGOs in the health sector evaluated board of directors between 2-4 times in a year. This may be explained by the increasing demand / requirement for organizations to comply with principles of good governance. This finding is also in agreement with a study by Enobakhare (2010) who argued that many country leaders all over the world have increased concerns over corporate governance due to increased cases of frauds, agency conflicts and other corporation sagas.

Board Diversity

The study sought to establish the number of women, disabled and youth represented in board of directors of NGOs in the health sector in Kenya. Most of the respondents indicated that they had two (2) women in their board of directors. It can therefore be concluded that most of NGOs in the health sector have two (2) women board of directors. This finding corroborate with a study by Dutta and Bose (2007) who established that though the presence of women on corporate boards was limited , there has been a slow but steady rise in the female presence in corporate boards.

The results also indicated that most NGOs in the health sector had two (2) representatives' each for people with disability and the youth in their boards. This finding is in line with report on the National Validation Survey of NGOs (2009) that stipulates that NGOs in Kenya are expected to demonstrate values of probity, self-regulatory, justice, service, co-operation, prudence respect.

Normality of Data

The testing of normality of financial performance (Dependent Variable) in this study was done by using the box plot outlined in figure 1. Testing was done to evaluate whether data conforms to Gaussian distribution in order to apply data analysis methods such as; t- test, ANOVA, and

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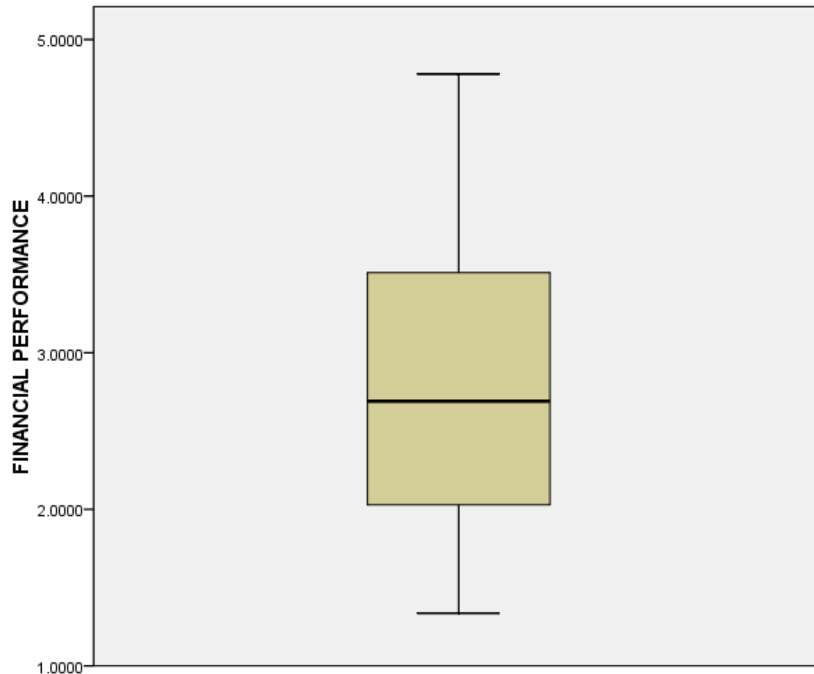
regression which depend on the assumption that data were sampled from a gaussian distribution (Indiana, 2011).

Figure 2: Box Plot on Financial Performance



The results are approximately bell-shaped normal distribution and therefore eligible to be subjected to data analysis such as; t- test, ANOVA, and regression (Gujarati, 2003).

Correlations and Regression of Corporate Governance and Financial Performance

Table 1 reports the results of the correlation coefficients of corporate governance and financial performance:

Table 1: Correlations of Corporate Governance and Financial Performance

Study variable		Financial performance	Corporate governance
Financial performance	Pearson Correlation	1	0.342
	Sig. (2-tailed)		0.000
	N	222	222
Corporate governance	Pearson Correlation	0.342	1
	Sig. (2-tailed)	0.000	
	N	222	222

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The correlation matrix presented in table 1 shows moderate positive linear correlation between independent variable (corporate governance) and dependent variable (financial performance).This finding corroborate with studies by Kock et al (2011) who argued that organizations that embraced corporate governance had a superior level of financial performance. Chen (2008) also established that multiple directorship lead to improved firm performance.

Table 2: Regression coefficients-Corporate Governance and Financial Performance

	Unstandardized Coefficients		Standardized Coefficients		
Study Variable	**B**	**Std. Error**	**Beta**	**t**	**Sig.**
(Constant)	1.516	0.265		5.727	0.000
Corporate Governance	0.202	0.038	0.342	5.383	0.000

The regression matrix presented in table 2 shows the calculated t = 5.383 and the critical t/sig value 0.000. Therefore, since the calculated t is greater than the critical t, the study rejected the null hypothesis and failed to reject the alternate hypothesis. The results further indicate a Beta coefficient of 0.342 and a p value of 0.000. Since p value is less than 0.05, the study rejected the null hypothesis and failed to reject the alternate hypothesis. The relationship between corporate governance and financial performance followed a linear regression model of the nature $FP = 1.516 + 0.202\ CG + \boldsymbol{\varepsilon}$**,** Where FP is financial performance, CG is corporate governance while ε is the error term with zero expected value. From the regression equation above, a unit increase in corporate governance will result to 20.2% increases in financial performance of NGOs in the health sector.

This implies that corporate governance is significant in explaining financial performance of NGOs in health sector in Kenya. This leads us to reject the null hypothesis and conclude that corporate governance has a positive influence on financial performance of NGOs in Kenya. This finding agrees with Kihara (2006) who established that corporate governance brings new outlook and enhances a firm's corporate entrepreneurship and competitiveness. Bebchuk, Cohen and Ferrell (2004) also found out that well-governed firms have higher firm performance.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The objective of the study was to establish the influence of corporate governance on financial performance of NGOs in health sector in Kenya. The results showed that corporate governance had a significant positive influence on financial performance of NGOs in health sector in Kenya

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(r=0.342, p <0.000). The significance test showed that influence of corporate governance on financial performance was statistically significant and hence the null hypothesis was rejected.

This thesis concludes that good corporate governance practices through establishing independent audit committees, performance evaluation system for board of directors and incorporation of women and youth in the board of directors improve financial performance of NGOs in health sector in Kenya. The Government should develop a code of conduct that outlines proper corporate governance measures for NGOs in health sector in Kenya. Such measures should include requirements for NGOs to have board diversity in terms of gender, youth and disability. The code of conduct should also provide guidelines and mandatory requirements for independent appraisal of board of directors of NGOs. While the objective was clear and successfully accomplished, several areas remain unclear and require further research. First the study focused only on NGOs in the health sector in Kenya. Other sectors such as education, agriculture, microfinance and advocacy should be considered for further study. Second, data was collected from a sample of 270 NGOs in the health sector. It is proposed that further research be carried out on a larger sample size to see whether it will yield consistent results.

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