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EFFECT OF CORPORATE GOVERNANCE PRACTICES ON FINANCIAL MANAGEMENT IN NON-GOVERNMENTAL ORGANIZATION, KENYA

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Abstract

The main purpose of the study was to establish the role of corporate governance in financial management. An explanatory research design was adopted in the in-depth study on the corporate governance applied by 50 NGOs in Kenya. Primary data was obtained by administering questionnaires. Data was analyzed using both quantitative. From the regression results corporate governance efficiency/effectiveness, Responsibility, Transparency, Integrity and Accountability had significant and positive effect on financial management of MFI. Thus, leading to efficient, effective and sustainable entities that have contributed to the welfare of society by creating wealth, employment and solutions to emerging challenges; creating positive image among the stakeholders both locally and internationally; and promoting transparency and accountability recognized by the stakeholders are among the major importance of corporate governance. The study recommends that there is need for the Non-Governmental Organizations through relevant agencies to train shareholders and establish a shareholders association to heighten their involvement and that there is need for the management to ensure that there are sound communications channels in order to facilitate easy adoption of corporate governance.

Keywords: Corporate Governance, Efficiency, Effectiveness, Responsibility, Transparency, Integrity, Accountability, Financial Management, MFI

INTRODUCTION

Financial management have been shown to be essential in improving transparency, efficiency, accuracy and accountability resulting in the organizations achieving their objectives (Koitaba, 2013). Financial management practices are likely to have a marked effect on the financial performance of an organization. Therefore sound financial decision /practices can contribute towards achieving the desired objectives of an organization (Robert Son & Louwers, 2002). Financial management ranges from daily cash management through to the formulation of long-term financial objectives, policies and strategies in support of the strategic and operational plans of the department. It includes the planning and control of capital expenditure, working capital management, interaction with the relevant Treasury, funding and performance decisions. It supervises the supporting financial and management accounting functions, which are predominately concerned with the collection, processing and provision of financial information and the planning, operation and control of the supporting financial information systems (Fourier, 2008).

Boards will normally delegate to management the task of establishing, operating and monitoring the system, but they cannot delegate their responsibility for it. The Board should set appropriate policies on internal control and regularly assure itself that appropriate processes are functioning effectively to monitor the risks to which the company is exposed and that the system of internal control is effective in reducing those risks to an acceptable level. It is essential that the right tone is set at the top of the company. Governance is concerned with the processes, systems, practices and procedures – the formal and informal rules that govern institutions, the manner in which these rules and regulations are applied and followed, the relationships that these rules and regulations determine or create, and the nature of those relationships. Essentially, governance addresses the leadership role in the institutional framework (KSCGT, 2010).Corporate governance has become an increasingly important topic in recent years, partly because corporate governance failures were a contributing factor to several corporate scandals (OECD, 2006) and partly because the dismantling of the Berlin Wall and the implosion of the Soviet Union caused thousands of enterprises in former communist centrally planned economies to become privatized, which caused top management, shareholders and various stock exchanges to closely examine what kind of corporate governance policies these newly created companies should adopt.

One of the main sources of guidance on corporate governance has been the Organization for Economic Cooperation and Development (OECD), (Holly, 2002) a private-sector, Paris-based organization that has published several major documents on various aspects of corporate governance. But the OECD is not the only organization that has published guidance on corporate governance. Various other organizations and individuals have also published guidance.During the last decade, policy makers, regulators, and market participants around the world have increasingly come to emphasize the need to develop good corporate governance policies and practices. An increasing amount of empirical evidence shows that good corporate governance contributes to competitiveness, facilitates corporate wide spreading, and thus helps develop area of participation and spur economic growth.

NGOs have become major players in the field of international development. Since the mid-1970s, the NGO sector in both developed and developing countries has experienced exponential growth. From 1970 to 1985 total development aid disbursed by international NGOs increased ten-fold (Malena, 1995). The structures of NGOs vary considerably. They can be global hierarchies, with either a relatively strong central authority or a more loose federal arrangement. Alternatively, they may be based in a single country and operate transnational. With the improvement in communications, more locally-based groups, referred to as grass-roots organizations or community based organizations, have become active at the national or even the global level. Increasingly this occurs through the formation of coalitions (Willetts, 2002).

In Kenya, the government remained the major actor in development providing social services to its citizens both during the colonial and the post-independence periods in Africa. This is demonstrated by the high percentages of money allocated to development expenditures in the 60s and 70s. However, state-funded social services did not last long. The introduction of Structural Adjustment Programmes (SAPs) in the 1980s forced the state to decrease resources allocated to social services. Government withdrawal from social provisioning created fertile ground for the spread of NGOs in the country, which increased from 478 in 1980 to 1840 in 1990.

A study of nonprofit organizations performed by the accounting firm Grant Thornton found that 48% of the respondents voluntarily made changes to their operations because of SOX (Williams, 2004). The changes were effected in such areas as establishing conflict-of-interest policies, developing procedures for internal financial controls and record retention, drafting code of ethics and audit committee charters, and in codifying protection for whistle-blowers. One organization went a step further by contracting for an internal controls audit to be performed by an independent accountant. The audit focused on the areas of grant making, contract management, and travel and entertainment as part of the organization's efforts to voluntarily comply with SOX (Anft and Williams, 2004b).

Wolverton (2005) recommends that nonprofit groups voluntarily improve governance by adopting conflict of interest policies, obtaining a financial statement audit if they have $2 million or more in total revenue, including financially literate individuals, and consider establishing a separate board committee to oversee audits of the organization as well as monitoring and reviewing the integrity of the company's financial statements, its internal financial controls, the external auditor's independence and objectivity and the effectiveness of the audit process as a whole. Thus, the study hypothesized that:

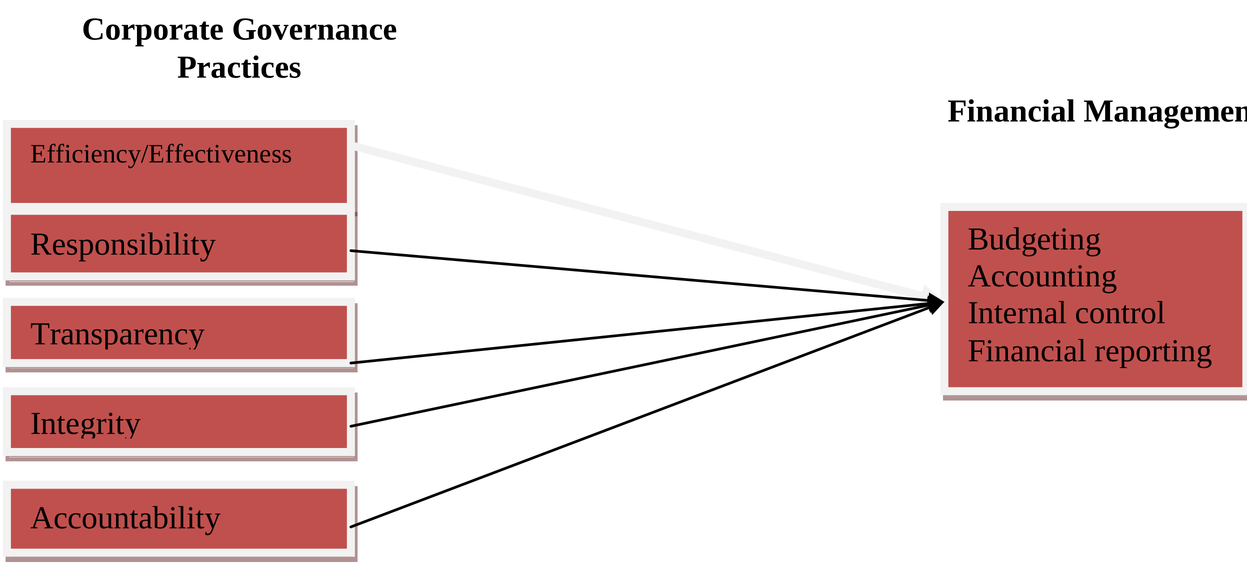
Ho: Corporate Governance Practices Have No Significant Effect On Financial Management Of Ngos

THEORETICAL FRAMEWORK

Institutional theory has traditionally reached for an understanding of the social embeddedness of market practices and structures. Institutional theorists have been intrigued, for example, by the conformity of professional legal and accounting firms to sets of practices that do not hold obvious economic advantages (Greenwood 2006). Resisting predominant economic accounts, institutionalists have examined how the persistence of institutionalized practices and structures cannot be fully explained by their technical virtuosity or unparalleled efficiency (Colomy, 1998). According to Jepperson (1991) institutions are viewed as socially constructed, routine-reproduced programs or rule systems. These systems become stabilized around a particular institutional logic, known as the belief systems and associated practices that predominate in an organizational field (Scott, 2000). The social forces shaping institutions are increasingly understood as discursive formations, where discourse refers to the structures of meaning that attach to texts and practices (Phillips, 2004). As Munir (2005: 1669) express it, "institutions are social constructions produced by discourses."

Emphasis on the discursive structure of fields has come at the expense of attention to the economic and political dimensions, resulting in an inadequate theorization of power, strategy and dynamics in processes of institutional change (Levy, 2007). According to Levy, fields are complex systems that achieved a degree of stability when their discursive, economic, and political dimensions are aligned and mutually reinforcing. Fields need to reproduce themselves not just as social, symbolic structures but also on a material level; they require a viable 'business model' that generates sufficient resources to enable the reproduction of the field and gain the cooperation of the relevant network of actors (Levy, 2007). The concept of hegemony points to a dialectical process in which economic interests and processes are embedded within social structures, but the economic context in turn shapes practices and norms; the political economy of institutional logics thus demands greater attention. According to Zysman (1994), the notion of hegemony also enriches an understanding of the political and organizational structure of a field. It suggests a process of bargaining and compromise that results in a negotiated arrangement or institutional settlement which primarily serves the interests of a dominant coalition, or 'historical bloc', but is portrayed as representing the general interest.

Figure 1. Conceptual Framework



Principles of corporate management

Effectiveness

Most of the NGOs have put in place planning systems ranging from annual operational plans and budgets to three-to-five year strategic plans that include articulation of the mission, an analysis of the Strengths, Weaknesses, Opportunities and Threats (SWOT), strategic priorities, programme and non-programme strategies and resource requirements. Although many NGOs are attempting to define results at the impact level, results-based management (RBM) as a tool, is not widely used.

Most NGOs in East Africa have formal organizational structures based on programmes and functions and some form of documented management policies and systems. Those systems, however, do not always translate into effective practices. Decision-making in many organizations in all the regions is still a one-person show and lacks transparency and internal democracy. In terms of impact, many NGOs conduct mid-term or end of project evaluations to determine performance and impact.

This is a fairly new phenomenon and the information is not always utilized for quality improvement. Most NGOs also lack baseline data on which to base their decisions. NGOs interviewed across regions do not have adequate management structures and processes, although the need for the same has been recognized. The general complaint across the regions was that a significant number of NGOs had management practices that were too bureaucratic and used models from the public sector, or management was the responsibility of one person, most likely the founder-member, and often lacked transparency. The systems were also too complex for the size of the organization in some cases.

Accountability

Organizations are accountable both to themselves (in terms of internal expectations and values) and to multiple external stakeholders including members, beneficiaries, donors, the government. An explicit governance structure is the first step toward establishing a stable and predictable framework for accountability in the NGO. An organization exercises good governance when it has an internal system for checks and balances that ensures the public interest is served. Good NGO governance is based on the distinction between organizational entities (management and the governing body) and the distribution of decision-making power between them. This arrangement helps restrain and moderate the control of any one person or group, ensure the organization's resources are well managed, and safeguard the NGO's public-service orientation.

It is evident in Kenya that the prototype constitution provided by the government's NGO Coordination Bureau, has no in-built mechanism for ensuring accountability of officials. In effect, only the three officials named in the original application are recognized and liable in law. There is no stipulation in the Act of legal liability for boards of directors or other types of governing bodies. Besides, there is no impediment for the original subscribers to the application from becoming board members, CEO or other staff.

The NGOs are expected to be accountable to the beneficiaries but in absence of any transparent mechanism to scrutinize their accountability to the beneficiaries, they become immune to any public criticism. Instead of being people-centric, most of the NGOs are donor-centric. This is a dangerous trend, which requires scrutiny through some legal agencies under the existing law of the land. Donors are particularly concerned about accountability of NGOs in the efficient and effective delivery of services.

Finally, NGOs are supposed to be accountable to the government. In Kenya, NGOs register with the NGO Co-ordination Bureau as well as the National Council of NGOs. NGOs make annual reports of their activities to the National Council of NGOs. Although registration with both bodies is mandatory, an NGO registers with latter after it has been issued with a certificate of registration from the former and could therefore overlook this aspect. Moreover, not all NGOs that are registered with the Council submit their annual reports. However, even the ones reporting to the Council do not give the correct picture especially of their budget for fear among others of paying a huge annual subscription fee which is pegged on the organization's annual budget.

Relevance

The relevance of management systems and practices remains a challenge. In their desire to institutionalize, many NGOs have incorporated management systems and practices from public and private sector organizations. For instance, elaborations on job descriptions, performance appraisal systems and bulky operational manuals are examples of such 'institutionalization.' Institutionalization is critical for sustainability, yet the process should take into account the dynamic nature of NGOs. Management systems and practices have to be adapted to NGOs to allow for flexibility and innovativeness. In the smaller NGOs, employees have to be multi-skilled and often perform numerous tasks that may not be in their job descriptions.

Organizational structures of NGOs should take into account the dynamic world of NGOs. Traditional hierarchical structures with clearly defined channels of authority may not be the best for NGOs. Results-based management with clearly defined outputs at each individual and team levels would require a flexible team management approach that would facilitate easy communication and coordination.

Sustainability

Many NGOs still depend to a significant extent on the founder members or the chief executive for sustainability of the organization. The gap between the chief executive and other employees is often so significant that the departure of the chief executive may mean the collapse of the organization. The need for institutionalization has been recognized across the regions. Institutionalization is usually dealt with by putting in place policies and systems for managing financial and human resources. Most of the NGOs have put in place financial systems including external auditing which is conducted regularly, usually annually. Many NGOs have also developed policies for managing human resources. These policies and systems are tailored to the experiences of public and private sector and may not always be relevant to the development sector.

Programmes are often based on some form of needs analysis with some degree of participation of the communities. In addition, beneficiaries are consulted during the implementation stages. Attempts are made to incorporate the sustainability of the programme, into the communities, after its completion. Success stories are few, although it may be too soon to make an objective assessment. Many programmes fairly 'young' and it is not yet possible to assess their sustainability within communities. It may be important to document good practices in community participation or communities carrying out the project after the NGO have moved out and disseminate them. Ensuring the community is a complex yet a very important aspect of the design of any project. Learning from successes may assist many NGOs in RH to address the issue in the project design stage.

A great majority of NGOs depend almost entirely on donor funding. When donor funds cease, many collapse. The challenge of financial sustainability has been taken up by very few NGOs. Reducing dependency on donor funding through mobilization of local resources, cost recovery, identifying alternative sources of revenues and investments will have to be addressed immediately. NGOs in Kenya, Uganda and Tanzania face the challenge of making difficult choices between offering affordable reproductive health services and sustainability. Many of the NGOs have had difficulties in generating resources to maintain a comprehensive reproductive health approach, especially when this is linked to the issues of rights of individuals to RH services vis-à-vis what they can afford. NGOs interviewed indicated that the issue of sustainability was not easily viable taking into account the socio-economic status of the communities that they served.

Empirical Studies

Firms that have good governance observe a positive relationship between institutional ownership and firm performance suggesting that institutional shareholders have the incentive as well as the power to monitor and control the behavior of firms, and have played a significant role in corporate governance. The role of large institutions in corporate governance is particularly important in countries where legal protection of shareholders' interest is weak for historical and institutional reasons. This is a situation that exists in many transition economies. According to Jongsureyapart et al (2007) the roles and effectiveness of the board of directors of Thai listed companies have to the drive by the regulators to develop more independent boards. They commented that corporate governance in Thailand is generally regarded as having improved since financial crisis and outside directors are identified as playing leading role.

The last decade has been marked by an increased involvement of non-governmental organizations (NGOs) in the development process. This in part reflects frustration and impatience with what is perceived to be the failure of governmental development assistance either to generate growth or to reach the poor, while the success of non-governmental initiatives, such as the Grameen Bank in Bangladesh, has been strongly suggestive of NGO potential. An increased role for NGOs has also been made possible by traditional donors renewed interest in democratization and society and, hence, their willingness to experiment with funding domestic NGOs in recipient countries. Religious activism especially among evangelical churches and Muslim communities' may also have contributed to the rise of the NGO sector.

Effective corporate governance mechanisms ensure better resource allocation and management raising the return to capital. The return on assets (ROA) is about twice as high in the countries with the highest level of equity rights protection as in countries with the lowest protection (Claessens, 2003).

Good corporate governance can significantly reduce the risk of nation-wide financial crises. There is a strong inverse relationship between the quality of corporate governance and currency depreciation (Johnsons et al, 2000). Indeed poor transparency and corporate governance norms are believed to be the key reasons behind the Asian Crisis of 1997. Such financial crises have massive economic and social costs and can set a country several years back in its path to development.

Finally, good corporate governance can remove mistrust between different stakeholders, reduce legal costs and improve social and labor relationships and external economies like environmental protection. Making sure that the managers actually act on behalf of the owners of the company and pass on the profits to them are the key issues in corporate governance. Limited liability and dispersed ownership – essential features that the joint-stock company form of organization thrives on inevitably lead to a distance and inefficient monitoring of management by the actual owners of the business.

Managers enjoy actual control of business and may not serve in the best interests of the shareholders. These potential problems of corporate governance are universal. In addition, the Indian financial sector is marked with a relatively unsophisticated equity market vulnerable to manipulation and with rudimentary analyst activity; a dominance of family firms; a history of managing agency system; and a generally high level of corruption.

Much of the literature on corporate governance implicitly assumes that only publicly traded firms are the subject of analysis (Blair, 1995). As a result, there is limited literature on the same in the private sectors. This creates a literature gap of corporate governance in other organizations including the NGOs. The complex dynamic nature of contested fields that provides insights into the potential and limitations of strategic intervention in fields among various NGOs require transparency, accountability and openness in reporting and disclosure of information, both operational and financial, which are internationally accepted. This will only be achieved as a result of adopting good corporate governance.

Organizations will be challenged by their constituents to be more transparent in their operations. They may need to implement any new legislation that is passed by the government addressing governance in nonprofit organizations. Due to limited resources, churches will need to find creative solutions to implement the legislative actions. Perhaps the current governance practices in churches are not bleak. However, very little research is available that addresses corporate governance in churches so the current state of affair is difficult to ascertain. This led to the current research that attempts to address the role of corporate governance in the financial management by specifically finding out the corporate governance principles, examining the role of corporate governance in financial management, finding out the challenges in applying corporate governance and solutions to the identified challenges.

There is a substantial literature devoted to NGOs and their role in development (Wellard and Lewis 1993). The literature has outlined the many different roles that NGOs play in society, especially as providers of services, catalysts of social capital, and advocates for vulnerable groups. The role of Bangladeshi NGOs in the provision of micro-finance, for instance, has long been recognized and heralded (Pitt and Khandker 1996, Morduch 1999). This recognition has spawned numerous copycat efforts elsewhere.

The involvement of NGOs in humanitarian interventions is also well documented. The extensive works of the International Center for Not-for-Profit Law and of the Johns Hopkins University Institute for Policy Studies have extensively reported and advocated the role of NGOs as expressions of civil society and have emphasized their importance in the democratization process (Simon 1995). Even the most fervent enthusiasts of the NGO sector recognize that good governance is essential for the sector to retain its credibility. NGOs serve their philanthropic purpose typically by collecting funds from the public or from donors. Their capacity to do so depends crucially on a reputation of integrity and efficiency. Abuse by a few can hurt the sector as a whole. Monitoring NGOs to eliminate or minimize abuse and to maintain public confidence is thus essential to the effectiveness of the sector as a whole. This important point has been repeatedly emphasized in the literature (Farringhton et al. 1993), while recognition has also been given to the difficulty of striking a balance between the role of the state as protector of the public interest and the autocratic tendencies of many governments (ICNL 1995). The duty of the NGO sector to monitor itself has also been emphasized (Simon, 1995).

RESEARCH METHOD

The study employed explanatory research design The target population of the study included all the 50 NGOs in Kenya, North Rift Region. The study used a census technique of 50 board of director's secretary. A questionnaire was used as the main research tool for this study. The questionnaire was chosen as it provides a more comprehensive view than any other research tool. Questionnaires were used to obtain primary data from the sampled population. To test responsibility, the researcher used test re-tests method at an interval of two weeks. This ensured that the data collection instruments were reliable for data collection. Descriptive statistics of variables complimented the use of frequencies, mean and percentages, which was summarized and presented using tables, graphs and charts. Moreover, Pearson correlation and regression model was used to test the hypothesis.

RESULTS

Principles of Corporate Governance

Corporate governance is the set of processes, customs, policies, laws, and institutions affecting the way a corporation (or company) is directed, administered or controlled. In relation to the principles of corporate governance in the organization; 17.1% of the respondent stated the principle of ensuring the basis for an effective corporate governance framework, 17.1% stated the principle of responsibility of board, 16.7% stated the principle of rights of shareholders and key ownership function, the role of shareholders in corporate governance, and the equitable treatment of shareholders while 15.7% stated the principle of disclosure and transparency (table 1).

As a result, organizations should respect the rights of shareholders and help shareholders to exercise those rights. They can help shareholders exercise their rights by effectively communicating information that is understandable and accessible and encouraging shareholders to participate in general meetings. Furthermore, organizations should recognize that they have legal and other obligations to all legitimate stakeholders.

Organizations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision making. It is important to understand, though, that reliance by a company on the integrity and ethics of individuals is bound to eventual failure. Because of this, most organizations or corporate establish Compliance and Ethics Programs to minimize the risk that the firm steps outside of ethical and legal boundaries.

Consequently, organizations should clarify and make publicly known the roles and responsibilities of board and management to provide shareholders with a level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information.

In conclusion, good governance is essential for all successful organizations. The principles of good governance; stewardship, transparency, accountability and internal controls are not just optional extras. They are the fundamental foundations on which effective organizations are built. In the public sector, governance is as important, or even more important, than in the private sector. NGOs as civil society organizations should therefore represent the views of the civil society in their services and provide public disclosures of their organizational mission, management, financing, programs and impact. Governance processes and arrangements are therefore essential to ensure that NGOs live up to their name. The term Governance from the NGO perspective assumes that NGOs participate in the definition, protection and promotion of public interest.

Table 1: Principles of Corporate Governance

Principles of Corporate Governance	Frequency	Percent
Ensuring the basis for an effective corporate governance framework	48	17.1
The responsibility of Board	48	17.1
The rights of shareholders and key ownership function	47	16.7
The role of shareholders in corporate governance	47	16.7
The equitable treatment of shareholders	47	16.7
Disclosure and transparency	44	15.7
Total	**281**	**100**

Note: n = 281; due to multiple response

Frequency of Adoption to Principles of Corporate Governance

Since the employees were aware of the codes of corporate governance they were further asked to state how often the codes of corporate governance were utilized. Because of the importance of frequency of adoption to the principles of corporate governance listed, Likert scale was used for answering (1 = never, 2 = rarely, 3 = sometimes, 4 = often, 5 = very often). Thus, this question was analyzed by using the mean to identify the rank of each factor (Table 2). In relation to the frequency of adopting to the principles of corporate governance; the responsibility of Board was ranked first (3.87), ensuring the basis for an effective corporate governance framework was ranked second (3.42), the role of shareholders in corporate governance was third (2.32), the rights of shareholders and key ownership function was fourth (2.14), disclosure and transparency was fifth (2.06) while the equitable treatment of shareholders was least ranked six with a mean of 2.02 from the Likert scale.

As a result, it is evident that respondents were in agreement with the principle of board responsibility as being frequently utilized. This is attested by the statement being ranked first with a mean of 3.87 which stands for 'often'. This therefore implies that NGOs have a board of directors who are concerned with daily activities of the organization and the board is able to make rational decisions for the well being of the organization. It was also established that ensuring the basis for an effective corporate governance framework was frequently adopted. However, the role of shareholders in corporate governance; the rights of shareholders and key ownership function; disclosure and transparency; and the equitable treatment of shareholders were rarely utilized by the organization. This therefore implies that despite the introduction of corporate governance, there are still a lot of issues to be amended. For instance, there is still lack of disclosure and transparency and also the organization still exhibit inequitable treatment of the shareholders.

Minority shareholders rights are lacking in some respects, according to the report on corporate governance in Africa by Nganga et al., (2003) a large number of companies have majority shareholders, and these are, oftentimes, multinationals. In cases where the majority shareholder is not the government, unsatisfied minority shareholders only have two options: sell their shares or sue the company. The corporate governance code mandates the disclosure of director and senior executive remuneration. In addition, the board must present the annual accounts to ensure that they follow the International Accounting Standards (IASs).

Table 2: Frequency of Adoption to Principles of Corporate Governance

Frequency of Adoption to Principles of Corporate Governance	**Mean**	**Std. Deviation**	**Rank**
The responsibility of Board	3.87	0.94	1
Ensuring the basis for an effective corporate governance framework	3.42	1.2	2
The role of shareholders in corporate governance	2.32	1.68	3
The rights of shareholders and key ownership function	2.14	0.25	4
Disclosure and transparency	2.06	1.57	5
The equitable treatment of shareholders	2.02	1.54	6

Testing hypothesis

Findings in table 3 showed that Efficiency/Effectiveness had coefficients of estimate which was significant basing on $\beta_1 = 0.14$ (p-value = 0.000 which is less than $\alpha = 0.05$) thus we reject the null hypothesis and conclude that Efficiency/Effectiveness has a significant effect on financial management. This suggests that there is up to 0.14 unit increase in financial management for each unit increase in Efficiency/Effectiveness. The study findings showed that responsibility has a positive and significant effect on financial management basing on $\beta_2= 0.204$ (p-value = 0.000 which is less than $\alpha = 0.05$) implying responsibility has a significant effect on financial management. the study findings showed that transparency had coefficients of estimate which was significant basing on β_3= 0.122 (p-value = 0.01 which is less than α = 0.05) implying that w transparency has significant effect on financial management. Integrity has a positive and significant effect on financial management basing on β_4 = 0.093 (p-value = 0.027 which is less than α = 0.05) thus we fail to accept the hypothesis and conclude that Integrity has a significant effect on financial management. This suggests that there is up to 0.093 unit increase in financial management for each unit increase in Integrity. the study findings showed that accountability has a positive and significant effect on financial management basing on β_5= 0.284 (p-value = 0.000 which is less than α = 0.05) implying accountability has a significant effect on financial management. To sum up, findings from the table revealed that 47.2% variation of financial managements predicted by Efficiency/Effectiveness, responsibility, transparency, Integrity and accountability (R^2 = 0.472). Their joint prediction was significant as shown by F value of 112.133, $\rho<0.05$. Furthermore, the VIF values were less than 4 indicating the absence of multi-collinearity and thus the variation contributed by each of the independent variables was significant.

Table 3. Multiple Regression Model

	Unstandardized Coefficients		Standardized Coefficients			Correlations	Collinearity Statistics	
	B	Std. Error	Beta	t	Sig.	Zero-order	Tolerance	VIF
(Constant)	1.129	0.13		8.665	0.00			
Efficiency/Effectiveness	0.13	0.036	0.14	3.648	0.00	0.679	0.574	1.742
Responsibility	0.167	0.038	0.204	4.377	0.00	0.615	0.388	2.578
Transparency	0.11	0.042	0.122	2.591	0.01	0.745	0.377	2.656
Integrity	0.09	0.041	0.093	2.21	0.027	0.679	0.474	2.109
Accountability	0.246	0.034	0.284	7.202	0.00	0.615	0.543	1.842
R	.687a							
R Square	0.472							
Adjusted R Square	0.467							
Durbin-Watson	0.732							
F	112.133							
Sig.	.000b							

a Dependent Variable: financial management

CONCLUSIONS AND RECOMMENDATIONS

In conclusion, the challenges of adhering to the principals of corporate governance are more pronounced in public enterprises than in the private sector organizations. This is due to the governance structure in the state-owned enterprises where the government delegates its management responsibilities and authority to a minister. This can result in the relationship between the responsible minister and the board being personality driven and vulnerable to political agenda that may not be in the best interest of the corporation.

The study revealed the need for setting up an independent internal audit department and a corporate governance-monitoring department. Both departments should be staffed with qualified and independent personnel. Their functions should include; building capacity in order to upgrade the capabilities of the management and staff through advocacy, awareness-rising, corporate governance training and awareness programmes. The corporate governing monitoring department should have the capacity to implement and enforce best corporate governance practices basing on the pillars of corporate governance. There's need for promotion of greater public and community understanding of the benefits of good corporate governance and thus community participation in promoting, demanding and enforcing good corporate governance practices.

Corporate entities should educate and train stakeholders on corporate governance. CCG advocates for stakeholder training in public seminars, media forums and corporate meetings. This should be done in order to enhance open communication channels between the management and other personnel. Open communication channels encourage 'whistleblowers' to report on ay unethical practices within the organization. The State Corporations Advisory Committee (SCAC) should carry out research on effective corporate governance structure designs that will also incorporate the CMA Guidelines in coming up with effective and reliable corporate governance structures that will be acceptable in all public corporations. The Government should ensure that there's adherence to corporate governance policies and the 'whistleblowers' ACT is strictly adhered to in order to protect those with vital information that in the long-run will improve on the responsibility of the established corporate governance structure.

From the study findings above, it is evident that effective corporate governance requires a clear understanding of the respective roles of the board and of senior management and their relationships with others in the corporate structure. Furthermore, with vast increment in size and complexity of corporations and the bureaucracies constructed to attempt to control it, adoption of corporate governance and internal regulation is inevitably thus, amplifying the importance of corporate governance.

In the light of the study findings and conclusions, the following recommendations were made; The government, regulators and professional associations should sensitive enterprises, workers and the public on the importance of corporate governance through the issuance of guidelines on corporate governance, holding training seminars and establishment recognition schemes to reward 'whistleblowers' and motivate workers. CCG (2002) recommends that boards of state-owned corporations should indicate in their annual reports to the extent to which they have adhered to good corporate governance principals and practices. It was also established that the organization has poor communication channels in place. This hinders effective communication in the organization. There is need for the management to ensure that there are sound communication channels in order to facilitate easy adoption of corporate governance. SCAC; mandated to review and investigate the affairs of state corporations should carry out research on corporate governance areas that need further improvement and benchmarking with international corporate governance standards. For public non-listed companies, disclosure of information to shareholders and stakeholders is largely restricted to the financial accountability dimension through filing annual financial reports with the Registrar of Companies. There's a need for a further requirement for public non-listed companies to file with the Registrar of Companies, annual returns containing information on company membership, particulars of is directors and any secured indebtedness. The study as limited to NGOs in Nairobi county only. The sample of the study was small. Further studies need to focus on wider sample size.

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