

# EFFECT OF BOARD OF DIRECTORS' CHARACTERISTICS PRACTICES ON PERFORMANCE OF NON-GOVERNMENTAL ORGANIZATIONS IN UASIN GISHU COUNTY, KENYA

<sup>1</sup>Komen Irene Jebor, <sup>2</sup>Buluma Fred, <sup>3</sup>Margaret Waruguru

School of Business, Jomo Kenyatta University of Agriculture and Technology, Kenya  
[komenirenej@gmail.com](mailto:komenirenej@gmail.com)

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**Abstract:** Non-financial organizations face the challenge of attracting enough donor funding and as such are unable to undertake their activities, programmes and projects efficiently. This implies that they face the problem of performance. The objective of the study was to assess the effect of board of directors' characteristics on performance of the aforementioned organizations. The stakeholder theory guided the study. A descriptive research design was adopted. The study population comprised of the 106 accounting and management staff working with registered NGOs in Uasin Gishu County. A census approach was used. A structured and self-designed research questionnaire was used. A pilot study was conducted to assess the validity and reliability of the research questionnaire. The data collected were subjected to both descriptive and inferential analyses with the facilitation of the Statistical Package for Social Sciences Version 24. The results of the analyses were presented in form of tables. The study results indicated that characteristics of board of directors influenced the performance of these organizations. The study concluded that board of directors' characteristics were very crucial in influencing performance of NGOs. The study recommended that the management of NGOs should ensure that the board of directors' characteristics are upheld and improved in order to ensure that their performance is sustained.

**Keywords:** Corporate governance practices, board of directors' characteristics, Non-governmental organizations, Organizational performance, Uasin Gishu County.

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## 1. INTRODUCTION

Corporate governance is a concept that has been around for years. Yousef [1] defines governance as very formal process of governing a country or organization. On the other hand, corporate governance as described as the system by which organizations are directed and controlled. In the same breadth, corporate governance is said to constitute a set of rules that define the interactions amongst stakeholders, management, and the board of directors of a given organization and has an influence on its operations. Moreover, corporate governance provides the structure through which an organization's objectives are set. It also determines the means of realizing the stated objectives and monitoring performance [2].

In Bangladesh, it is noted that the rapid growth and diversification of the NGO sector has raised public policy challenges and questions [3]. These include among others, NGO corporate governance and the implications of various ways of financing these organizations. Moreover, it is reported that there has been little systematic review of the public policy and corporate governance implicating of the evolving character of NGOs in Bangladesh [3].

In an assessment of governance of non-governmental organizations in Uganda, it was reported that there exists corporate governance issues especially in reference to filing tax return [4]. This is supported by the evidence that the NGOs are exempt to corporate tax yet, they fail to demonstrate that they certainly deserve such exemption. In Uganda, there are crooks and swindlers who are attracted to the sector by the prospect of securing grant money. The foregoing governance issues necessitate improvements in both monitoring and oversight of the growing NGO sector [4].

In the local context, corporate governance is defined as the process and structure that is employed to both direct and manage the business issues of an organization with the view of ensuring that there is corporate accounting and prosperity is enhanced [5]. The ultimate objective of corporate governance is to realize the long-term value of shareholders while simultaneously factoring in the interest of other pertinent stakeholders. In tandem, it is postulated that good corporate government practices relate to the board of directors, position of the chief executive, rights of shareholders, accountability, and role of the audit committee.

## 2. STATEMENT OF THE PROBLEM

Some of crucial challenges facing non-governmental organizations in Kenya include lack of proper accounting standards, failure to effectively enforce pertinent laws and struggle to remain afloat. This is against the backdrop of requirement for effective supervision coupled by good corporate governance practices which enhance both accountability and transparency considered as important in attracting much needed donors. The latter is a pointer of the performance of NGOs.

Non-governmental organizations in Kenya face challenges in ensuring both the achievement and effectiveness of the projects and programmes that they run, a fact that underlines their performance being below the stakeholders' expectations [6]. Subsequently, this has lowered the confidence various stakeholder have in them as change agents. Granted that NGOs in the country largely depend on donor funding, that funding from the 15 of the world's leading donor institutions dropped by a margin of 10% in 2010 [7], it is imperative to underline the importance of accountability and transparency which characterize effective corporate governance practices. Despite the importance of integrity and other governance practices being essential in running of NGOs, mismanagement of finances held by these organizations has raised pertinent questions [8]. Lack of financial sustainability of several NGOs in Kenya not only characterize poor performance, but it is also a pointer of ineffective corporate governance.

Some past scholars who have attempted to address the relationship between corporate governance practices and performance locally [9], [10], [11], [12]. However, they did not examine how corporate governance practices influence performance of NGOs. Instead the studies investigated financial accountability, performance, and implementation of control systems. It is against this background that it is imperative to investigate the aforesaid performance as affected by characteristics of board of directors. The study was delimited to a cross-section of registered NGOs presently operating in Uasin Gishu County, Kenya. The choice of this County was premised on the fact that, it is largely cosmopolitan and has in the past been an epicentre of ethnic violence. To this end, there are several NGOs that have set base in the County with the object of addressing issues affecting diverse ethnicities and arising from infringement of human rights occasioned by politically-instigated violence

## 3. OBJECTIVE OF THE STUDY

To assess the effect of board of directors' characteristics on performance of non-governmental organizations in Uasin Gishu County

## 4. RESEARCH HYPOTHESIS

$H_0$ : There is no statistically significant effect of board of directors' characteristics on performance of non-governmental organizations in Uasin Gishu County.

## 5. STAKEHOLDER THEORY

The stakeholder theory was proposed by Freeman [13]. The theory states that shareholders are not the only group with a stake in an organization; and that other entities such as suppliers, customers and surrounding communities also have a stake in an organization and can be affected by the success or failure of the organization. In this respect, the theory holds that managers have a special obligation of ensuring that all stakeholders (and not just shareholders) receive a fair return from their stake in the organization [14].

The conventional definition of a stakeholder is an individual or group that can affect or be affected by the activities and achievements of a given organization's objectives. Though Freeman [13] defined stakeholders as those groups without whose support the organization would cease to exist, a modified definition of the same is in reference to the groups who are crucial to the survival, success and sustainability of the organization. The organization ought to be thought of as a group of stakeholders and its purpose should be to manage the stakeholders' interests, needs and opinions [15]. Essentially, the managers of an organization are tasked with the responsibility of management of stakeholders. It is further asserted that the managers manage the organization for the benefit of its stakeholders with the view of ensuring that both their rights are upheld and they participate in decision making.

Though the main groups of stakeholders include customers, employees, local communities, suppliers or distributors, and shareholders, it is argued that there are other groups which are equally important stakeholders such as the media, the general public, partners, competitors, financiers, and NGOs [15]. In the same perspective, there is a close connection between the practice of stakeholder management and the achievement of various corporate governance goals [16]. This is founded on the fact that, the corporate governance emphasizes of integrity and ethical tenets that mirror the stipulations of stakeholder theory, where the management of entities such as NGOs are held responsible for the operations of the organizations. Moreover, the leadership or management of NGOs which is exemplified by the board, is expected to run the organizations in the interest of all pertinent stakeholders by ensuring that the resources, particularly financial resources, are utilized in an accountable manner in order to ensure that the entities are financially sustainable and perform as per the expectations of the stakeholders.

## **6. EMPIRICAL REVIEW ON CHARACTERISTICS OF BOARD OF DIRECTORS AND PERFORMANCE OF NGOS**

A study by Bernstein, Buse and Slatten [17] examined Non-Profit board performance. The study purposed to deliver a new concept on measuring NPO effectiveness. This was achieved by investigating the effect of internal board performance on external performance. Data from non-profit CEOs and board chairs obtained from the Board Source Non-profit Governance Index Survey were used. The study used path analysis to determine the effect of internal board performance on external performance. The results illustrated that the performance of the boards measured by the board understanding its roles and responsibilities largely influenced external performance.

In Africa, another study delved into the factors that influence good governance in NGOs [18]. The study particularly examined Africa Region Member Associations of the International Planned Parenthood Federation. The aim was to investigate the factors that drive good governance in the said organization. The study adopted census design 33 member associations in operation in Sub-Saharan Africa were selected. Questionnaires were used to collect data. It was established that participatory and representative framework that allows exercise of board member skills and expertise, ensures separation of roles of the board and executive directors was healthy for good governance. Notably, active participation of the board in strategy, policy, performance review and collective responsibility of the board was noted to determine good governance at the organizations. It was recommended that the board of the organization ought to be strengthened in terms of diversity, skills, experiences and backgrounds in order to enhance good governance.

A study conducted locally addressed the factors that affect performance of Non-Governmental Organizations [10]. The study purposed to identify the factors in play for the performance of NGOs in Kenya. Specifically, the effect of strategic plans, governance practices, staffing strategies and financial stability strategies on performance of NGOs. Census survey was adopted by the study. The study found out that there was a positive relationship between strategic plans, governance practices, staff management, and financial stability with performance of NGOs. Notably, effective board management was noted healthy for the performance of the organization. The board of directors was found to facilitate decision making in regard to the organization and continually improve strategies, compliance, accountability and engage stakeholders. The foregoing was noted to enhance performance of the organization.

## **7. CONCEPTUAL FRAMEWORK**

A conceptual framework is defined as a schematic model that is employed to express abstract concepts and relationships easily and/or using minimal words [19]. In this respect, a conceptual framework outlines variables or concepts regarding a given study. It further illustrates the presumed interaction between the stated variables. There were two sets of variables that were depicted in the framework that were, independent and dependent variables. Independent variables which are also

referred to as predictor variables included the various corporate governance practices. The independent variable was characteristics of board of directors and Organizational performance was the dependent variable. Each of the stated variables (both independent and dependent) were operationalized using measurable indicators as illustrated.

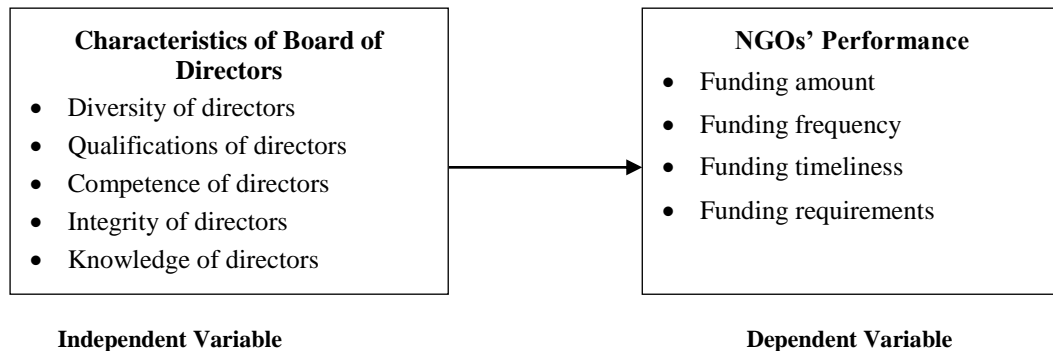


Figure 1: Conceptual Framework

## 8. RESEARCH METHODOLOGY

Research methodology entails the procedure that is undertaken in respect of what kind of data, and how such data will be collected, from who, facilitated by what tools, and how the collected data will be processed and analyzed. In this respect, therefore, the chapter outlines the research design, target population, census design, research instrument, pilot testing, data collection procedure and data analysis methods. The chapter also states how the findings resulting from the aforesaid data analysis were presented.

### 8.1 Research Design:

The success of every study is founded on the suitability of a research design. A research design is defined as a blueprint which guides how a research study is conducted [20]. Considering various factors such as the target population, kind of data to be collected and methods of analysis, a descriptive survey research design was adopted. Descriptive design, in general, seeks to address ‘what?’ type of questions without distorting the study phenomena. In the context of the present study, the general question was, “What is the relationship between internal control system and corporate governance of non-governmental organizations in Uasin Gishu County?” Moreover, there was no any attempt to alter how the prospective respondents worked within their company nor interfere with the firm’s day-to-day operations, hence the choice of descriptive research design. In addition, the study adopted a quantitative approach where the data collected was exclusively numerical.

### 8.2 Target Population:

An entire population to which the findings of a given study and conclusions thereof are generalized constitutes the target population (Kothari, 2004). The accounts and management staff working with registered NGOs in Kenya constituted the target population. The study population, on the other hand, is described as people, entities, or subjects who meet the operational definition of the target population. Interpretatively, it is the population to which the scope of the study is delimited [21]. In respect of the present research, the study population comprised of the 106 accounting and management staff working with registered NGOs in Uasin Gishu County.

### 8.3 Census Design:

A census is an attempt to list all elements in a group, and to measure one or more characteristics of the stated elements [22]. A census is preferred in research studies since it enables provision of detailed information regarding all or most elements in the population. Moreover, a census design enhances the generalizability of the findings to both the study and target populations [23]. In respect of the present study, a census approach was adopted where all the 106 accounts and management staff working with NGOs in Uasin Gishu County were projected to take part in the study.

### 8.4 Research Instrument:

A research instrument is described as a tool that assists in the collection of data for a given study. This study adopted a research questionnaire that was both structured and self-designed. This implied that the questionnaire consisted of

exclusively close-ended items (questions) hence the aspect of being structured. In addition, it was drafted by the researcher in person instead of adopting from other sources, hence the aspect of being self-designed. Questionnaires are the most appropriate tools in facilitating collection of data from a relatively large population as it is the case of the present study [24]. The choice of the structured questionnaire was further in tandem with the quantitative approach that the study adopted.

### 8.5 Data Analysis:

The collected data were first screened to ensure both appropriateness and completeness. Any inappropriately or incompletely filled questionnaires were discarded as one way of minimizing outliers. The data were subjected to both descriptive and inferential analyses with the facilitation of the Statistical Package for Social Sciences (SPSS) Version 24.0 programme. Descriptive statistics comprised frequencies, percentages, means, and standard deviations. On the other hand, Pearson's correlation and multiple regression analyses constituted inferential statistics. The following regression model was adopted to address the objective of the study.

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Where

Y represents 'Organizational Performance'

$\beta_0$  represents 'Constant'

$X_1$  represents 'Characteristics of board of directors'

$\varepsilon$  represents 'Error Term'

$\beta_1$  represents 'Regression Coefficient of the Independent Variable'

## 9. RESULTS AND DISCUSSION

### 9.1 Response Rate:

Response rate is defined as the proportion of the number of questionnaires filled and returned vis-à-vis the total number of questionnaires administered on the respondents. The unit of analysis of the study comprised of a total of 106 accounting and management staff. This implies that all these staff were issued with questionnaires. However, not all the questionnaires issued were filled and returned. The returned figure amounted to 98 questionnaires, which translated to 92.5%.

### 9.2 Descriptive Results:

The opinions of the accounting and management staff working NGOs were assessed and duly analyzed. The opinions were in regard to the Board of directors' characteristics and performance of NGOs in Uasin Gishu County. The data collected were in Likert scale ranging from 1 to 5 denoted as; 1 = Strongly Disagree, 2 = Disagree, 3 = Neither Agree nor Disagree, 4 = Agree, and 5 = Strongly Agree.

#### 9.2.1 Characteristics of Board of Directors:

The descriptive results indicated in Table 1 are in relation to Board of directors' characteristics in the context of performance of NGOs' in Uasin Gishu County, Kenya.

**Table 1: Descriptive Statistics for Characteristics of Board of Directors**

	N	SA	A	NAD	D	SD	Mean	Std. Dev.
Directors of NGOs are highly competent in respective organizational scope	98	59.2	30.6	10.2	0	0	4.49	.677
Integrity of directors is of great concern to NGOs	98	55.1	36.7	8.2	0	0	4.47	.645
Directors of NGOs have varied skillsets	98	51.0	42.9	6.1	0	0	4.45	.611
There is a minimum threshold regarding qualifications of directors	98	40.8	55.1	4.1	0	0	4.37	.563
Directors are highly knowledgeable regarding operations of NGOs	98	46.9	42.9	10.2	0	0	4.37	.664
NGOs ensure diversity of directors	98	38.8	38.8	22.4	0	0	4.16	.769

As shown in Table 1, it was noted that majority (89.8%) of the respondents admitted that the directors of NGOs were highly competent in respective organizational scope. A total of 91.8% of the respondents were also in agreement that the integrity of directors was of great concern to NGOs. Moreover, 92.9% registered their agreement with the view that directors of NGOs had varied skillsets. Additionally, the assertion that there was a minimum threshold regarding qualifications of directors was agreed by majority (95.1%) of the respondents. Furthermore, 89.8% concurred that directors were highly knowledgeable regarding operations of NGOs. Most (68.8%) of the respondents also held the view that NGOs ensured diversity of directors.

The study also ascertained that on average, respondents agreed to the views that directors of NGOs were highly competent in respective organizational scope (mean = 4.49); integrity of directors was of great concern to NGOs (mean = 4.47); directors of NGOs had varied skillsets (mean = 4.45); and that there was a minimum threshold regarding qualifications of directors (mean = 4.37). In relation to the foregoing views, respondents' responses were generally similar (std dev < 1.000). More so, the respondents concurred that directors were highly knowledgeable regarding operations of NGOs (mean = 4.37); and that NGOs ensured diversity of directors (mean = 4.16). Similarly, the respondents held closely related opinions (std dev < 1.000).

### 9.2.2 Performance of NGOs

Performance of NGOs was represented by a number of indicators of funding. The study findings concerning performance of NGOs are as shown in Table 2.

**Table 2: Descriptive Statistics for Performance of NGOs**

	N	SA	A	NAD	D	SD	Mean	Std. Dev.
Funding requirements or conditions have increased significantly	98	24.5	63.3	8.2	4.1	0	4.08	.699
The funds received are hardly sufficient to address our NGO's budgetary requirements (budget deficit has been increasing)	98	6.1	81.6	4.1	4.1	4.1	3.82	.778
Our organization has been receiving regular funding (at least once every year)	98	4.1	75.5	4.1	16.3	0	3.67	.797
Our NGO rarely receives funding timely (at least one month since the expected data of receipt)	98	14.3	59.2	4.1	12.2	10.2	3.55	1.185
Our NGO has received increased amount of funding from donor agencies (at least 10% increase every subsequent financial year)	98	6.1	12.2	12.2	30.6	38.8	2.16	1.241

The analyses of the opinions of the respondents in respect of performance of NGOs showed that 87.8% of the respondents admitted that funding requirements or conditions had increased significantly in the NGOs. Additionally, most (87.7%) of the study respondents concurred that the funds received were hardly sufficient to address the NGOs' budgetary requirements. On the same breadth, 79.6% illustrated that at least once a year, the organization had been receiving regular funding. However, 16.3% of the respondents disagreed with the view. A total of 73.5% of the accounting and management staff were in agreement with the notion that in at least one month since the expected date of receipt, the NGOs rarely received funding in time. A significant number (22.2%), however, disputed the aforementioned assertion. The argument that the NGOs had received funding amounting to at least 10% increase in every subsequent financial year from donor agencies was disagreed by majority (69.4%) of the respondents.

The study also ascertained that respondents admitted to the views that funding requirements or conditions had increased significantly (mean = 4.08); and that the funds received were hardly sufficient to address the NGOs' budgetary requirements (mean = 3.82). Respondents were noted to have related views regarding the foregoing notion (std dev < 1.000). The surveyed accounting and management staff admitted that the organizations, at least once every year, had been receiving regular funding (mean = 3.67) and that the NGO rarely received funding timely (mean = 3.55). In the same light, the respondents displayed similarity in responding to the aforesaid opinions (std dev < 1.000). Additionally, respondents disagreed with the view that the NGOs had received increased amount of funding from donor agencies (mean = 2.16). The respondents, however, had differing views regarding the assertion (std dev > 1.000).

### 9.3 Inferential Results

The characteristics of board of directors was correlated with performance of NGOs. The coefficient of determination ( $R^2$ ) was further determined. The F-statistic was employed to assess the significance of the simple linear regression model. The beta coefficient was used to illustrate the extent to which the characteristics of board of directors influenced performance of NGOs. The t-statistics were used to test the null hypothesis.

#### 9.3.1 Results of correlation analysis

The study further sought to unearth, in isolation, the nexus between Board of directors' characteristics and performance of NGOs. The pertinent results are as shown in Table 3.

**Table 3: Correlation between of Board of Directors' Characteristics and Performance**

Board of Directors Characteristics		Performance of NGOs
	Pearson Correlation	.327**
	Sig. (2-tailed)	.001
	N	98

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

The study examined the relationship between characteristics of board of directors and NGOs operating in Uasin Gishu County. As indicated in Table 3, the correlation between the two study constructs was established to be positive, weak and statistically significant ( $r = 0.327^{**}$ ;  $p < 0.05$ ) at 0.01 significant level. The foregoing elucidates that improving characteristics of the board of directors was likely to result in slight but substantive improvement in the performance of NGOs. Therefore, it was deduced that characteristics of the board of directors were important in regard to performance of NGOs in Uasin Gishu County. The results were partly in agreement with the findings of a past study [17] which revealed a link between performance of board of directors and NGOs' performance.

#### 9.3.2 Results of simple linear regression analysis

Simple linear regression analysis was conducted with the aim of investigating the influence of board of directors' characteristics on performance of NGOs. The results to this end are presented in Tables 4 to 6.

**Table 4: Model Summary for Board of Directors' Characteristics and Performance of NGOs**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.327 <sup>a</sup>	.107	.098	.39902

##### a. Predictors: (Constant), Board of Directors Characteristics

The results shown in Table 4 indicated that 10.7% of the variance in performance of the surveyed NGOs was as a result of the characteristics of the board of directors of these firms. The results indicated that the mentioned characteristics were important in reference to performance of the NGOs.

**Table 5: Analysis of Variance for Board of Directors' Characteristics and Performance of NGOs**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	2.480	1	2.480	11.527	.000 <sup>a</sup>
Residual	14.640	96	.153		
Total	17.120	97			

##### a. Predictors: (Constant), Ethical Practices

##### b. Dependent Variable: Performance of NGOs

The results shown in Table 5 ( $F = 11.527$ ;  $p < 0.05$ ) indicated that the linear regression model below was statistically significant hence suitable for further analysis.

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Where ;

Y,  $\beta_0$ ,  $X_1$ , and  $\varepsilon$ , denote performance of NGOs, constant, board of directors' characteristics, and the error term respectively.

Table 6: Beta Coefficients for Board of Directors' Characteristics and Performance of NGOs

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	2.326	.336		6.932	.000
Board of Directors Characteristics	.258	.076	.327	3.395	.001

**a. Dependent Variable: Performance of NGOs**

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Therefore,

$$Y = 2.326 + 0.258X_1 + 0.076$$

The study established that changing characteristics of the board of directors by 0.258 units could result in one unit change of performance of NGOs while holding other factors constant ( $\beta_0 = 2.326$ ). Furthermore, the simple linear regression results were used to test the null hypothesis.

**9.3.3 Testing Null Hypothesis ( $H_0$ )**

The results of the t-statistics were used to test the null hypothesis ( $H_0$ ) as illustrated below.

$H_0$ : There is no statistically significant effect of board of directors' characteristics on performance of NGOs in Uasin Gishu County.

$H_A$ : There is statistically significant effect of board of directors' characteristics on performance of NGOs in Uasin Gishu County.

The results for t-statistics are ( $t = 3.395$ ;  $p < 0.05$ ). Therefore, the influence of board of directors' characteristics on performance of NGOs was found to be positive and statistically significant. As such, the null hypothesis was rejected and the alternative hypothesis taken to be true. The foregoing results illustrate the essence of the characteristics of the board in NGOs in Uasin Gishu County.

**10. CONCLUSIONS AND RECOMMENDATIONS**

It was concluded that the directors of the surveyed NGOs were highly competent in respective organizational scope, had varied skillsets, and were highly knowledgeable regarding the operations of the said organizations and their integrity was of great concern to the organizations. The study further inferred that the NGOs set minimum threshold regarding qualifications of directors and ensured their diversity. It was also concluded that enhancing the characteristics of the board of directors were likely to improve performance of NGOs. The study recommended that the characteristics of the board of directors should be aligned to the organizational culture such that the board functions to the interest of the NGOs and the donors. Indeed, the characteristics of the board should be enhanced to ensure that NGOs progress and meet their set out goals.

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