FACTORS AFFECTING FINANCIAL HEALTH OF NON-GOVERMENTAL ORGANIZATIONS (NGOs) IN THE HEALTH SECTOR IN KENYA

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DOCTOR OF PHILOSOPHY

(Business Administration)

JOMO KENYATTA UNIVERSITY OF

AGRICULTURE AND TECHNOLOGY

2017

Factors Affecting Financial Health of NGOs in Health Sector in Kenya

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A Thesis Submitted in partial fulfillment for the Degree of Doctor of Philosophy in Business Administration in the Jomo Kenyatta University of Agriculture and Technology

2017

DECLARATION

This thesis is my original work and has not been presented for a degree in any other University.

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This thesis has been submitted for examination with our approval as university supervisors.

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DEDICATION

This thesis is dedicated to my family for motivation they have given me to overcome the many challenges throughout my doctoral studies.

ACKNOWLEDGEMENTS

I am thankful to my supervisors, Dr. Florence Memba, and Dr. Agnes Njerufor their effective guidance, encouragement and perpetual availability for consultation. I am also thankful to my lectures: Professor Gregory Namusonge, Professor Christopher Kanali Dr. Joseph Mung'atu and Dr.WillyMuturi for introducing me to finance theory, advanced research methods, business statistical methods and econometrics respectively.

I also wish to thank the coordinator of Jomo Kenyatta University, Westlands Campus for co-ordination of lectures and provision of information for the course. Lastly, I wish to thank my classmates taking Doctor of Philosophy degree in Business Administration Course for the year 2013 for their support in group discussions and sharing of academic information.

To very special people, my parents, Japheth and Rose Kimunguyi, my brothers and sisters, whose undying love, prayers and encouragement enabled me to attain education. My wife Elizabeth Jahenda, children: Caren and Mitchell, thanks for being there for me and for giving me hope!

The Almighty God, be all the glory, forever!

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ABBREVIATIONS AND ACRONYMS

AC	Audit Committee
ANOVA	Analysis of Variance
AIM	Aids Integrated Model
ASA	Association of Social Advancement
BRAC	Bangladesh Rural Advancement Committee
CBD	Central Business District
CBO	Community Based Organizations
CIDA	Canadian International Development Agency
CR	Current Ratio
CSOs	Civil Society Organizations
DFID	Department for International Development
ERD	External Resource Department
FH	Financial health
FRR	Fund Raising Ratio
GAAP	Generally Acceptable Accounting Principles
HIV	Human immunodeficiency virus
ICPAK	Institute of Certified Public Accountants of Kenya
IFC	International Finance Corporation
KES	Kenya Shillings
KRA	Kenya Revenue Authority
MDGs	Millennium Development Goals

MVA	Market Value Added
NGOs	Non-Governmental Organizations
OECD	Organization for Economic Co-operation and Development
PhD	Doctor of Philosophy
PSR	Programme Service Ratio
ROE	Return on Equity
SMEs	Small Medium Enterprises
SDC	Swedish Agency for International Development
UN	United Nations
UNDESA	United Nations Department of Economics and Social Affairs
UNDP	United Nations Development Programme
US	United States of America
USAID	United States Agency for International Development

DEFINITION OF KEY TERMINOLOGY IN THE STUDY

Budgetary process	Refers to systematic planning for the utilization of manpower and materials resources. In a business, organization a budget represents an estimate of future costs and revenues. (Drury, 2006)
Corporate governance	Refers to process through which Board of directors induce management to act in their interests, providing a degree of stakeholder confidence that is necessary for organizations to function effectively" (Rezaee, 2009)
Cash Management	Optimizing the amount of cash available, maximizing the interest earned by spare funds not required immediately and reducing losses caused by delays in the transmission of funds (Wetson,2008).
Financial Health	Efficiency and effectiveness in utilization of financial resources (Andy *et al.,* 2005)
Funding Mechanisms	Ability of an organization to generate revenue to keep on towards an organization objective without continuing donor support (Durnford, 2003)
Government policy	Plan or course of action, of a government intended to influence and determined decisions, actions, and other matters. (Business dictionary, 2011)

NGO	A private voluntary grouping of individuals or associations, not operated for profit or for other commercial purposes but which have organized themselves nationally or internationally for the promotion of social welfare, development, charity or research through mobilization of resources". (NGOs Board, 1990)

ABSTRACT

The interest in financial health in Non-Governmental Organizations (NGOs) is due to the evolving pressure from donors, governments and citizens to NGOs managers to demonstrate effectiveness in their work. Despite NGOs spending an equivalent of 10% of Kenya's annual budget, many complaints in financial management have been lodged at the NGO Co-ordination Board. In order to achieve this, NGOs need to evaluate the factors affecting their financial health, measure and monitor the various determinants in order to demonstrate their effectiveness .The principle function of financial health is to ensure organizations are held accountable for their actions and to facilitate learning. However, various weaknesses and deficiencies in accountability in NGOs have been highlighted by donors and Government agencies. This study sought to address the factors affecting financial health of NGOs in the health sector in Kenya. The objectives of the study were to establish the effect of funding mechanisms on financial health of NGOs, determine how corporate governance affects financial health of NGOs, establish the effect of budgetary process on financial health of NGOs, determine how cash management affects financial health of NGOs and examine the intervening effect of government policy on financial health of NGOs. The study adopted survey research design and the target population was 16,844 NGOs operating in the health sector in Kenya. The study adopted stratified sampling technique and the sample size was 384 NGOs. Data was collected using questionnaires which were pre-tested before actual data collection. Discussions were held between the researcher and Managers of the selected NGOs. Data analysis was done using Microsoft Excel and statistical packages for social scientists software version 21. Findings were presented using tables, means and percentages. A regression model was formulated to show relationship between dependent and independent variables. The findings revealed that funding mechanisms, budgetary process, corporate governance and cash management had statistically significant influence on financial health of NGOs in health sector in Kenya and tests for significance also showed that the influence was statistically significant. However, budgetary process was found out to have the highest influence (r=0.419), followed by cash management (r=0.384),funding mechanisms (r= 0.378) while corporate governance had the lease influence (r=0.342).The findings also revealed that Government policy had a higher intervening effect on budgetary process (r= 0.411) when influencing financial health of NGOs in health sector while the intervening effect was lowest on funding mechanisms. Based on the findings of the study, it was concluded that funding mechanisms, budgetary process, corporate governance and cash management influence financial health of NGOs in health sector in Kenya positively. It is therefore recommended to the management of NGOs in health sector and the Government continues to explore and implement sustainable policies and regulations that are geared towards improving funding mechanisms, budgetary process, corporate governance and cash management as a way of accelerating financial health of NGOs in health sector and eventually creating desired impacts in the economy. The findings of the study will be beneficial to the Board of Directors of NGOs, donors, Government agencies and future researchers. The study provides an empirical contribution to literature by establishing the intervening effect of Government policy on financial health of NGOs.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

1.1.1 Overview

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 & 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.

1.1.2 NGOs Global Perspective

NGOs sector in Sri Lanka is regarded as a vibrant sector. They increasingly gain the wider recognition as a passionate, dedicated and effective channel to reach the poor people. The poor people gather the required information for their livelihood issues primarily from informal networks fabricated by kinships, friendships, culture and locality (Schilderman, 2004). Goetschell and Hagman (2009) observed that In Sri-Lanka donors lamented about the deteriorating performance of NGOs resulting in failure to by the NGOs to create impact. Alonzo (2007) observes that because of failed corporate governance and financial malpractices such as Enron, WorldCom, Tyco and Red Cross, one way to demonstrate accountability in NGOs is through use of strong internal control procedures. The Agency theory has been used to explain demands for monitoring controls such as the financial statement audit, audit committees, internal audit and compensation schemes (Arwinge, 2013).

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 after 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 & Klem, 2005).

NGOs in Bangladesh have grown from a virtual non-existence in 1970 to a large organizational movement by 2005 (Irish & Simon, 2005).NGOs claim to operate in over 90% of villages (Fruttero & Gauri, 2005), benefiting 35% of the population (Thornton *et al*., 2000). It 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 responsibility to market the produce as a further extension of NGO business (Makita, 2009).

The government claimed that over 2000 NGOs had registered with the NGO Affairs Bureau as at end of 2006, but the aspiration of NGOs to register as Micro-Finance Institutions (MFI) under the Micro-credit Regulatory Authority in 2006 suggested the existence of over 4,000 organizations. 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 poor corporate governance practices such as widespread financial corruption and swindling of the poor's money by many NGOs (Jumma & Nasir, 2007).

Stakeholder theorists argue that organizations financial health is determined by adequate provision of resources / funding mechanisms in response to the organizations actions .Lotsmart (2007) observes that NGOs that NGOs in Cameroon are principally funded externally receiving support from governments, corporations, private sector, churches and rich individuals willing to support. Warner (2008) argued that as foreign funding declines, local NGOs were increasingly looking for domestic sources of income such members contribution and incomes from investments. This signifies funding challenges in NGOs and the need to diversify sources of funding in order to ensure financial health of NGOs.

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) identifies 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).

In Uganda , the HIV /AIDS Integrated Model District Programme (AIM) was a 5-year project that started in 2001, implemented by JSI (John Snow Incorporated), an

International NGO funded by USAID (United States Agency for International Development).USAID required that the NGO had acceptable governance structures and provided regular, timely and accurate programme and financial reports. Because the staff and management committees of these NGOs were either unqualified or incompetent, the NGOs were not providing timely accountability for grant funds. According to Eyong (2001), good governance means the effective management of an NGO's resources in a manner that is open, transparent, accountable, equitable and responsive to people's needs. As referred by Cohen*et al.,* 2004 one of the most important functions of corporate governance is to ensure the quality of financial reports. Sloan, (2004) observes that the financial report is the first source of independent and true communication about financial performance of company managers.

1.1.3 NGOs in 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 reveals weak institutional management and lack of transparency and accountability among NGOs in Kenya.

Donor agencies have reduced their funding of NGOs once the country was elevated to an uppermid income status. This has led to closing down of some NGOs due to a lack of funding and insufficient staffing levels The Common impact of financial dependence on donor funding is that once Donors pull out their financial support, NGOs collapse. (Pandey, 2004).

The Government through the NGO Co-ordination Board develops and publishes a code of conduct for the regulation of NGOs and their activities in Kenya. Finally, it receives, discusses and approves regular financial reports of NGOs while providing strategies for efficient planning and coordination of activities for NGOs in Kenya. NGO Board (2010). According to Kingoro and Bujra (2009) the NGO Act is un clear about who actually governs an NGO and how they are to be held legally accountable. Lack of clarity is partly due to the Act itself and partly due to the application of self-regulation through the NGO code of conduct.

1.1.4 NGOs in the Health Sector

The annual report by the NGO Coordination Board reveal that 11 percent of all registered NGOs operated in the health sector (NGO Board, 2008). For the first time in 1978, Kenya experienced a proliferation of civil society organizations (CSOs) that could be distinguished from the state (M'boge & Doe, 2004).

The Kenyan health system is impacted by the work of non-governmental organizations (NGOs). Records at the NGOs Co-ordination Board indicated that as at 28 February 2015, there were 16,844 NGOs operating in the 47 counties in Kenya .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, 2010).

1.1.5 Measurement of Financial Health of NGOs

The interest in financial health measurement in nonprofits is due to the evolving pressure on showing effectiveness which is experienced by non-profit managers (Cairns, *et al.,* 2005). The principle functions of financial health measurement are to ensure that organizations are held accountable for their financial health (Sharma, 2012). Ritchie and Kolodinsky (2003) concluded that fiscal health and fund raising financial ratios are reliable and appropriate to evaluate financial health 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, 2006).

In this study, fiscal performance, fundraising efficiency, and working capital ratios are used. Zimmermann and Stevens (2006) studied 149 non-profit organizations in South Carolina and their findings show that the requirement from external stakeholders was the most frequent motivator and reason for measuring financial health. Sawhill and Williamson (2004) indicate that NGOs can use financial health measurement to obtain control of local office efforts and to get the whole organization to work towards the same mission and goals. Otley and Pollanen (2004) reveal that budgetary participation affect financial health negatively. Suberu (2010) observed that organizations to perform creditably, budget and budgeting should facilitate effective utilization of available funds, and provide a benchmark to measure and control financial health.

The issue of financial health of NGOs has become topical and a major focal point of assessing the credibility and operations of NGOs. Many NGOs have had challenges in their funding support, particularly from donors for their deteriorating financial health (Anlove *et al*., 2006; Banks & Hulme, 2013). For instance the perceived weak financial health of NGOs in Mongolia has seriously affected their effective operations (Hoelman, 2004) .Similarly in Uganda, several donors and governments withdrew funding to NGOs citing among other problems deteriorating financial health (Burger and Owens, 2010). According to Ministry of Economics of Afghanistan, 60% of donor funds were unaccounted for leading to deteriorating financial health of NGOs and resulted in closure of over 2,000 NGOs (Dennissen, 2009).

1.2 Statement of the Problem

NGOs have been involved in scandals that are a result of having less than credible governance structures. The watchdog organization in Uganda called Sustainability reported that accountability and transparency are issues on which several NGOs are found wanting (Annon, 2003). Reports from NGOs Co-ordination Board in Kenya reveal that despite NGOs spending an equivalent of 10% of Kenya's annual budget, more complaints on financial management were lodged at the Board. 54% of the complaints were received from NGOs officials while internal investigations uncovered 20 % the cases (NGO Board, 2010).

The annual report on NGO sector financial performance of 2010 highlights weak institutional management, lack of financial transparency and accountability among the concerned organisations. It indicate that only 9% of total donations in year 2010 were raised through income generating activities meaning that NGOs may not be able to pursue their objectives in the event that their donors withdraw funds. (NGO Board, 2010).Further a report on the National Validation Survey of NGOs conducted by the NGO Co-ordination Board revealed that 41% of NGOs consider financial sustainability as the biggest challenge.

Several studies have been conducted on factors affecting financial performance in organizations. However, the studies have not comprehensively addressed factors affecting performance of NGOs in health sector as discussed below. Diamond and Khemani (2006) studied accounting systems among businesses and budgeting in the developing countries. The study was focused on profit making organization and limited to effect of accounting systems on budgetary process. Chidi and Shadare (2011) studied challenges confronting human capital development in SMEs in Nigeria. The researcher selected the sample size from commercial SMEs which did not include NGOs. Further, the study was conducted in Nigeria whose political, social, economic and legal environment is different from one in Kenya in which this research will be conducted.

Raghunandan (2012) studied budgetary management based on a sample size drawn from public sector entities. Patterson and Williams (2006) studies budget process in the military sector in Nigeria. Kock *et al*., (2011) studied corporate governance and focused on limited companies rather than NGOs. Hermalin and Weisbach (2003) studied effectiveness of board sizes in firms. The study considered only board size as a measure of corporate governance and also focused on commercial entities. Chen (2008) and Kajola studied multiple directorships and corporate governance mechanisms and profitability of commercial firms. Caviezel (2007) studied cash management techniques using survey research design targeting commercial enterprises.

In fiscal year 2013, the World Bank invested more than USD 2.4 billion in health programs and managed a portfolio totaling USD 8.7 billion in 65 countries including Kenya (World Bank, 2013).The constitution of Kenya 2010 requires the Government to devolve health sector to county level. Consequently NGOs in health sector will be required to play a significant role in supplementing government efforts in financing of health care projects.

Financial health serve as an important tool to demonstrate value creation to stakeholders among NGOs (Cairns *et al.,* 2006). Donors and other stakeholder's use program service ratios also called fiscal ratios and fund raising efficiency ratios as a measure of effectiveness and efficiency in NGOs respectively. In this regard, there is an incentive for NGOs to overstate the program/fiscal expenditures and understate fund raising costs in order to report favorable financial health (Charity, 2006).

Given the increasing pressure on financial health of NGOs, it is surprising that not much academic research has examined factors affecting financial health of NGOs. The empirical question that has remained unanswered is "what are the factors affecting financial health of NGOs". Further, the existing literature assumes that financial health of organizations should be measured based on profitability ratios.

There is no much empirical study on how financial health of not for profit making organizations can be determined. As a results, the study investigates various factors affecting financial health of NGOs in health sector in Kenya.

1.3 General Objective

To establish the factors affecting financial health of NGOs in the Health Sector in Kenya

1.3.1 Specific Objectives

The annual report for 2010 by the NGOs Co-ordination Board indicated that 41% of NGOs lacked adequate funding mechanisms to implement project activities. Diamond and Kehemani (2006) studied budgeting processing in organizations using a sample drawn from commercial entities rather than NGOs. Chen (2008) studied corporate governance mechanisms in profit making organizations. None of these studies considered the intervening effect of government policy on financial health of NGOs in the health sector yet the NGOs in Kenya are regulated by the NGOs Co-ordination Board based on the NGOs Co-ordination Act, 1990. Further, the studies did not consider the effect of cash management practices on financial health of NGOs.

The study therefore pursued the following specific objectives to address the problem;

i. To establish the effect of funding mechanisms on financial health of NGOs in the health sector in Kenya.
ii. To establish the effect of budgetary process on financial health of NGOs in the health sector in Kenya.
iii. To determine how corporate governance affects financial health of NGOs in the health sector in Kenya.
iv. To determine how cash management affects financial health of NGOs in the health sector in Kenya.
v. To examine the intervening effect of government policy on financial health of NGOs in the health sector in Kenya.

1.4 Research Hypotheses

The study sought to address the following pertinent research hypotheses;

H_{01} Funding mechanisms has no effect on financial health of NGOs in the health sector in Kenya.

H_{02} Budgetary process has no effect on financial health of NGOs in the health sector in Kenya.

H_{03} Corporate governance has no effect on financial health of NGOs in the health sector in Kenya.

H_{04} Cash management has no effect on financial health of NGOs in the health sector in Kenya.

H_{05} Government policy has no effect on financial performance of NGOs in the health sector in Kenya.

1.5 Justification of the Study

The study identified factors affecting financial health of NGOs and proposed recommendations on how NGOs can improve their financial health. Further, the study has contributed to existing academic literature by examining the intervening effect of government policy on financial health of NGOs. The study investigates intervening effect of Government policy on the effect of various factors affecting financial health of NGOs. The factors were funding mechanism, budgetary process, corporate governance and cash management. Empirical findings have been presented to justify government intervention in improving financial health of NGOs. To bridge the existing gap in measuring financial health of NGOs, the study adopted use of nonprofit ratios as a measure of financial health of NGOs a departure from most academic literature that measures financial health using profitability ratios.

The study is relevant to the following stakeholders;

Management of NGOs will benefit from the findings of this study by adopting findings which will help them establish effective governance and financial management systems that will lead to sustained productivity and better financial performance. Future researchers and academic institutions, especially those of higher learning can use the findings of this research as a source for future reference.

Development partners will use the research findings to develop appropriate guidelines in funding NGOs. Further, the NGOs Coordination Board may benefit from the research findings by developing appropriate financial management and reporting guidelines in line with findings of the study to improve financial health of NGOs. NGOs regulatory authorities in Africa will learn from this Kenya study and understand the factors that they can replicate in their NGOs in order to improve on their financial health. The study findings will inform them on which factors have better link to financial health and hence save on the costs of conducting cost benefit research in their institutions.

1.6 Scope

The study targeted 16,844 NGOs registered by the NGOs Co-ordination Board as at 28thfebruary 2015 to operate in the health sector in Kenya. The selected NGOs were those that were in existence for at least five years for the purpose of establishing trend The focus on NGOs in health sector was because the Kenya Vision 2030 and the Millennium Development Goals focus more on the health sector as a key pillar for economic prosperity. In this regard, the Kenyan health system is impacted by work of NGOs. Over the last 20 years, the major bilateral and multilateral actors in international health have increasingly channeled aid to the health sector in poor countries through NGOs .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. Further with high levels of corruption the results have been degradation of financial performance of NGOs in health sector in Kenya and other developing countries (World Bank, 2008).

Studies have previously been conducted in commercial entities on factors affecting financial health including funding mechanisms, budgetary process, corporate governance and cash management. There exist a gap in literature on how these factors affecting financial health of NGOs in health sector. The independent variables of the study were funding mechanisms, corporate governance, budgetary process and cash management. The Intervening variable was government policy. The dependent variable was financial health which was measured using efficiency ratios such as program and administrative service ratios. The study utilized both primary and secondary data.

1.7 Limitation

Time was a limiting factor since some of the NGOs are located in the interior rural communities. However this was overcome by assigning research assistants specific areas of operations. Another challenge was the available resources within which to complete the study, particularly given the study scope and quality of work expected by the university. The study however sourced enough funds from family and friends before commencing the research. The funds were used to meet the research budget. These limitations did not impair the study results. Extra caution was taken to avert and minimize, as far as possible, the potential effects of these limitations.

The study was based on dependency theory, agency theory, stakeholder theory and priority based budgeting theory. While the theories were considered adequate for the study, it is important to note that these are not the only theories that explain financial health of organizations. Other theories such as programme and zero based budgeting theories not considered by this study also explain financial health of NGOs. The study adopted a survey research design based on stratified random sampling. Though the research design and sampling techniques were considered sufficient for the study, other sampling techniques such as simple random sampling can also be considered for further studies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents academic work written by other scholars on factors affecting financial health in organizations. The chapter provides a theoretical framework, conceptual framework, reviews work done by other scholars beginning from key thematic areas on financial sustainability, budgetary process, corporate governance, cash management, Government policy and how they influence financial health of NGOs. It further provides empirical review of studies, provides critique of past studies, outlines the research gaps and provides a summary of the chapter findings.

2.2 Theoretical Review

A theory is a systematic explanation of the relationship among phenomena that provide a generalized explanation to an occurrence (Smyth, 2009). The theories which inform the study are; agency theory, stakeholder theory, priority based budgeting and resource dependency theory.

2.2.1 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.

In the year2010, the NGOs Co-ordination Board in Kenya reported that most complaints (54%) reported by stakeholders related to financial mismanagement attributed to inadequate corporate governance among NGOs (NGO Board, 2010). Burger and Owens (2010) observed that several donors in Uganda withdrew funding to NGOs citing inadequate governance mechanisms. Enobakhare, (2010) established that board diversity in terms of gender and age could be used as a proxy for corporate governance. Good corporate governance practices implies an effective board that constantly evaluates its performance and provides oversight to the management through audit committee (Kajola, 2008). Therefore existence of corporate governance structures such as board diversity, board evaluation and audit committees mitigate against 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. Further, organizations establish audit committees to provide oversight over the management and also to act as shareholders watchdog. This makes the firm incurs agency costs in ensuring that managers' activities are aligned to the organization's goals and activities. The theory was 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.

2.2.2 Stakeholder Theory

Stakeholder theorists argue that the organization's financial health is determined by their stakeholders' provision of resources in response to the organization's actions (Fooman, 1999).This theory further states that the purpose of the organization is to create value for all its stakeholders by converting their stakes into goods or services (Clarkson, 1994). Stakeholders include any group or individual who has a stake in the achievement of an organization objective.

Freeman (1994) articulates that the focus of stakeholder theory is put forth in two key questions. First, "what is the purpose of the firm?" This encourages management to create a shared sense of value they create, thus bringing its stakeholders together. This enhances the firm financial performance. Second, "what responsibility does management have to stakeholders?" This propels to design how they want to do business and how they will relate to their stakeholders in achieving their business goals. In the view of this theory everyone comes together in creating economic value that improves everyone circumstances. Stakeholders are uniquely positioned to affect the financial health of the organization whether through withholding or providing efforts provision of infrastructure (e.g. government) or provision of cash flow (e.g. donors), among other things. (Rowley & Berman, 2008).

Warner (2008) observes that as foreign funding declines, NGOs are increasingly looking to domestic sources of income. NGOs in different fields of service exhibit substantially different funding mechanisms that includes self-generated incomes, having several donors as a way of risk diversification and financial administration controls that minimize wastage of funds (Wing *et al.,* 2008). This theory is related to this study because it provides an explanation of the roles of stake holders in NGOs to ensure adequate funding mechanisms of organizations either through self-generated incomes or through sustained external funds from donors and other well-wishers.

2.2.3 Priority Based Budgeting Theory

The Priority-based budgeting theory was propounded by Kavanagh, Johnson and Fabian (2011). The theory focuses on corporate priorities and allocates growth and savings in budgets accordingly but does not require zero-sum. The underlying philosophy of priority-driven budgeting is about how an entity should invest resources to meet its stated objectives. Kavanagh *et al.,* (2011) argues that SMEs, like all other business have their budgeting process governed by the need to have proper funding, transparency and accountability at all levels.

Yang (2010) argued that budgeting involves planning and management of organization resources to maximize its effectiveness. Effective budget process require adequate planning, budgeting skills competency and appropriate computer software for analysis (Shah *et al.,* (2007).The theory is relevant to the study since it provided a possible explanation as to how budgeting in NGOs through planning and budgetary information systems that enhance transparency and accountability in budget management affects financial health of NGOs.

2.2.4 Resource Dependency Theory

This theory focuses on the role of the board of directors in availing access to resources needed by the organization. This entails that directors play active role in providing or securing resources essential to an organization through their linkages with the external environment (Hillman, *et al.,* 2006).The Ministry of Economics of Afghanstan reported that 60% of donors funds were unaccounted for leading to poor financial health of NGOs resulting in closure of over 2,000 NGOs (Dennissen, 2009).

A study by Kwame (2007) established that the setting up of a cash balance policy, investment of surplus cash and frequent cash reconciliations ensures enhances organizations health. This finding agreed with the finding by Kotut (2003) who established that cash management through investment of surplus cash and cash controls has an effect on the financial performance of the firms. The theory was linked to the study because it explains the roles of the board of directors to ensure adequate cash flow management practices in NGOs.

2.3 Conceptual Framework

A conceptual framework for the study shows the relationship of financial sustainability, budgetary process, corporate governance and cash management on financial health of NGOs in Kenya and has been depicted in Figure 2.1 below.

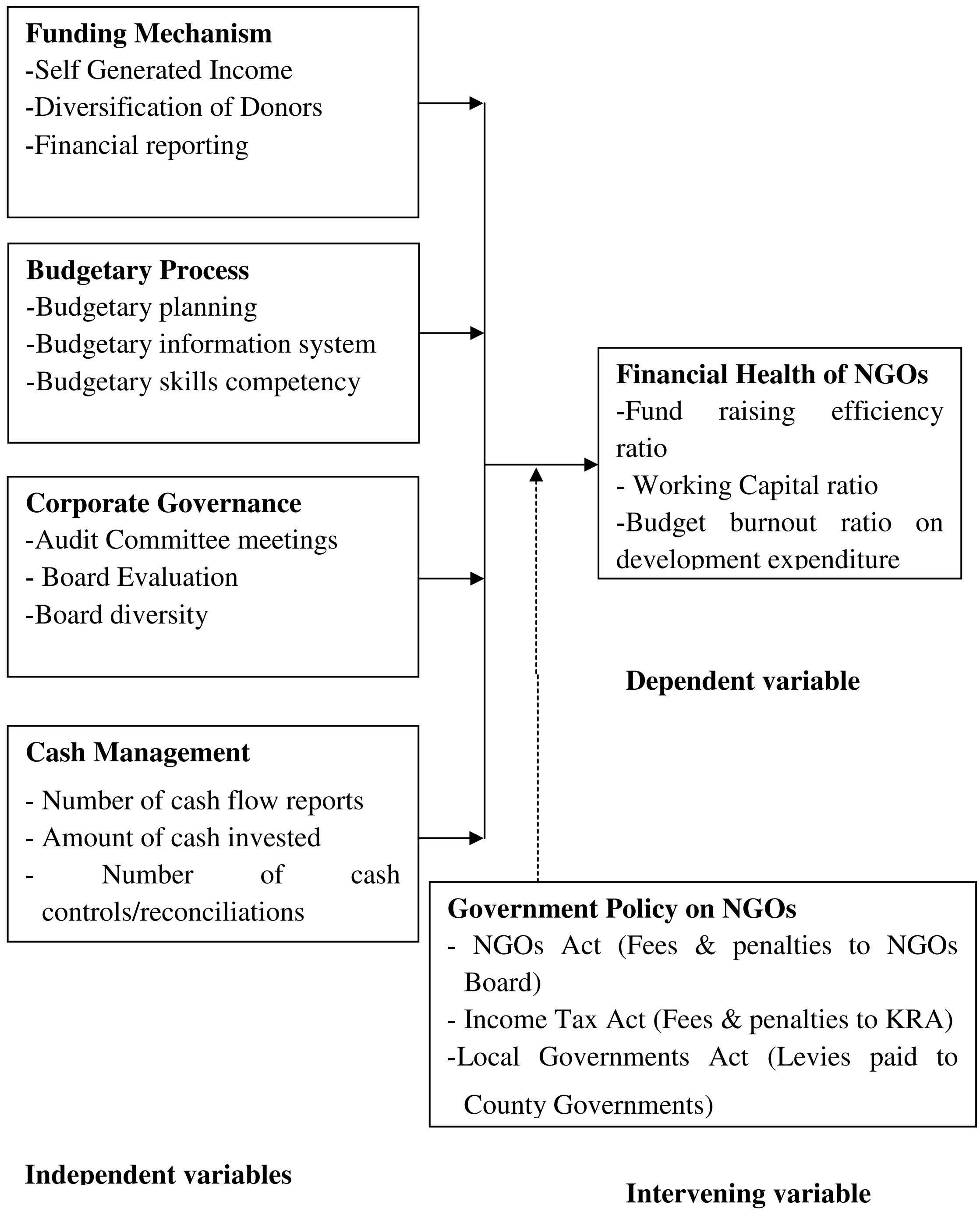


Figure 2.1: Conceptual Framework

Funding mechanisms involved establishing the ability of the NGO to put in place appropriate measures to raise funds for project activities (Durnford, 2003). The variable component were amount of self-generated income by NGOs from domestic sources (Warner, 2008), diversification/ number of donors funding the NGO (Wing *et al.,* 2008) and frequency of review of financial reports on fund raising strategies by the board of directors.

Budgetary process involved number of budgetary planning meetings, annual expenditures on budgetary information systems and expenses on budgetary competency trainings (Yang, 2010). Corporate governance involved establishing number of audit committee meetings 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 (Razaee, 2009.) Cash management involved determination of cash flow reports prepared by NGOs, ascertaining the amount of surplus cash invested and determination of number of cash reconciliations /controls in place (Ross, 2008; Atrill, 2006).

Charity (2006) recommends that financial health of NGOs is determined by the effectiveness in utilization of programme budgets, efficiency in raising funds and management of assets. Financial health was therefore determined by budget burns out rates on development/programme expenditure obtained by dividing development /programme expenditure and the total expenditure. Efficiency in raising funds was measured by computing fund raising efficiency ratio calculated as a ratio of fund raising costs over total donations received while working capital ratio is the ratio of current assets to current liabilities and it measures NGOs abilities to pay off its current liabilities with current assets.

NGOs in Kenya are registered and regulated by the NGOs Co-ordination Act, 1990 (Act No. 19 Laws of Kenya) and its regulations of 1992. The Act requires all NGOs to comply with the Income Tax Act (Cap 470 Laws of Kenya) by filing annual returns and obtaining tax exemption certificate. Failure to file returns to KRA and acquire valid tax exemption certificates attract huge penalties. The Act also require NGOs to file annual returns to the NGO Co-ordination Board at the end of each financial. Late returns attract huge penalties and risks of deregistration. Since NGOs operate at grassroots level, they are also required to comply with local/ county government by-laws (NGO Board, 2010). Government intervention was therefore measured by level of compliance with NGOs Act, 1990, Income Tax Act (Cap 470 Laws of Kenya) and local government by laws through fees and penalties paid by NGOs to respective institutions.

2.3.1 Funding Mechanisms and Financial Health of NGOs

Historically, most research on nonprofit funding has focused on the motives and patterns of charitable contributions (Havens *et al.,* 2006). Wing *et al.,* (2008)established that nonprofits in the United States of America filing tax forms report only 12.3 percent of their revenues are attributable to charitable donations, while 70.4 percent are program revenues paid either directly by the beneficiary or by the government .Nonprofits in different fields of service exhibit substantially different fund raising mechanisms and nonprofit sectors in different countries also exhibit wide variation in their sources of support (Salamon *et al.,* 2004).In an era in which funding mechanisms is a fundamental imperative, donor diversification has been considered one of the most prominent and well-accepted ideas about financial health. We can find the justification from two disciplinary perspectives: dependence theory and finance theory.

The basic idea behind resource dependence theory is that, to survive, an organization should be able to acquire and maintain resources (Pfeffer, 1978), which leads to a dependence relationship between resource suppliers and users. According to Froelich (1999), ‘‘the degree of dependence experienced by an organization is determined by the importance and concentration of resources provided.’’ One approach to manage the dependencies is by acquiring and maintaining alternative resources. In the context of nonprofit management, multiple revenue sources may enable organizations to protect themselves from the turbulence of a single revenue source.

The portfolio theory in the field of risk management indicates that financial risk can be reduced by combining a mix of security holdings, because it helps to hedge against the loss of any single holding while enabling the growth of the portfolio over time (Fruttero & Gauri, 2005). Revenue diversification as a financial strategy has been broadly embraced within nonprofits, and there is evidence that a diversified revenue structure may increase the financial health and sustainability of a nonprofit .The search for external funding is necessary for the survival and development of local NGOs (Fernand, 2006). Contributing to the discussion, Lotsmart (2007) noted that local NGOs in Cameroon are principally funded externally. They seek support from governments, corporations, the related private sector and rich individuals willing to help.

As foreign funding declines, local NGOs are increasingly looking to domestic sources of support (Warner, 2008,). Internal revenues can have several sources which include: members' contributions, donations from friends and sympathizers and income from investments of reserves .In 2003, the John Hopkins University Comparative Nonprofit Sector Project (cited in Moor, 2005) published a comparative analysis on global civil society based on research in 35 countries, on the sources of NGO's income. It revealed that; Self-generated income was the dominant source of revenue for NGOs accounting for 43 percent of local NGOs total income; private giving – that is, individual, corporate and foundation-based accounting for 30 percent while Government support constituted 27 percent.

Barr *et al*.(2005) conducted a study of local NGOs in Uganda using descriptive research design established that local NGOs derived very little revenue from members and non-members, with only 2.5 percent of all funding coming from these sources. On Self-generated income the authors identified that only one-third of NGOs own a business, the profit of which is used to finance NGO activities. Turary (2005) studied fund raising mechanisms of local NGOs in Ghana using descriptive research design and observed that Youth Development Foundation a local NGO in Kumasi raised 7 percent of its income internally through individuals and corporate bodies' donation while external source from donor agencies and international foundations accounted for 93 percent of the total income of the organization in 2001.

Andreas (2005) argues that Chinese local NGOs face serious problems when trying to raise funds from the Chinese population or from private enterprises. The reasons for this situation according to Andreas (2005) are that China's local NGOs lack an effective institutional structure for charitable contributions and do not have a strong philanthropic culture such as Western society's Local NGOs in China for example receive on average less than 20 percent of their funding from a combination of membership fees and donations from Chinese individuals and business enterprises.

Funding Mechanisms has become something of a buzzword in the NGO sector given 'donor fatigue' in rich nations. For example, the recent economic recession has dramatically influenced trends in donations, particularly from individuals, as Americans have less disposable income to continue giving to nonprofit organizations at the levels they had in previous years. In a survey of 800 nonprofits at the end of 2008, 75 percent of nonprofits reported feeling the effects of the downturn, with 52 percent already experiencing cuts in funding (Renz, 2010).

Renz *et al.* (2010) established that nonprofit organizations are struggling financially, particularly those that rely on government funding-with 61 percent of nonprofits reporting cuts in government funding- as well those that rely on foundations for monetary contributions with 48 percent of nonprofits reporting cuts in foundation funding . The study was based on descriptive research methodology using both qualitative and quantitative data. In light of the substantial cutbacks in both federal and state funds with the recent recession and subsequent declines in philanthropic giving, identifying promising strategies to sustain nonprofits is necessary to avoid cutbacks in community-based services (Besel *et al.,* 2011).

In Kenya, the Harambee spirit kept most of the NGOs growing. This spirit was based on the understanding that one could not be able to carry out plans or actions by him/herself but would require a certain contribution from the other members of the society (Wanjohi, 2010).Non-Governmental Organizations (NGOs) are registered by the NGO Coordination Board and governed by the NGO Coordination Act of 1990 (Act No. 19, Laws of Kenya) and it's Regulations of 1992. The Act will effectively be replaced by the Public Benefit Organizations (PBO) Act, 2013, as soon as the Cabinet Secretary for Devolution officially announces the PBO Act's commencement date (Kisinga, 2014).

The Miscellaneous Amendment Bill of 2013, published on October 30, 2013, included, among several problematic provisions, an amendment to the Public Benefit Organization Act of 2012 that sought to cap the amount of foreign funding NGOs could receive at 15% of their budget (Kenya Gazette Supplement Number 146, 2013). However, Members of Parliament (MPs) voted to reject the Bill in its second reading in December 2013, it is uncertain as to whether the bill will come back to parliament (Kisinga, 2014).The Academy for Educational Development (AED) is one of the International NGOs that ceased operation as a result of donor funding being stopped. AED collapsed three months after the United States Agency for International Development (USAID) stopped their funding (Beam, 2011). The fall of AED made waves in part because of its size and history. It collapsed because of overreliance on one donor who eventually pulled out leading to the death of the organization.

2.3.2 Budgetary Process and Financial Health of NGOs

Yang (2010) views a budget as a management tool concerned with the planning and management of the firm's financial needs, concerning the alternative sources of and costs of finance. Relying on certain standards and General Accepted Accounting Principles (GAAP), the accountant of an organization develops and reports data that measures financial performance of a firm and that assess its financial position in compliance with and filed reports needed by interested parties (Yang, 2010).

The success and importance of budgeting relates to the identification of organizational goals, allocation of responsibilities for achieving these goals, and consequently its execution (Shah *et al*., 2007). It is an economic tool for facilitating and realizing the vision of an organization in a given fiscal year, and if a budget is to serves as an effective tool, proper linkages and management of all the stages of budgeting is necessary. Apparently public-sector' budgets have same characteristics as private-sector budgets (Olomola, 2009).

Ahrens and Chapman (2006) and Yang (2010) studied effect of budgeting on financial performance of organizations using survey research technique and established that, if administered wisely, budgeting drives management planning, provides best framework for judging financial performance. Diamond and Khemani (2006) studied accounting systems among businesses using survey research techniques in the developing countries, focusing on Africa deduced that budget execution and accounting processes were either manual or supported by very old and inadequately maintained software applications and hardware. He found that this had damaging effects on their functioning due to the consequent lack of reliable and timely revenue and expenditure data for budget planning, monitoring, expenditure control, and reporting negatively impacting budget management. In this study, it will be established whether computerization of budgeting functions affects financial performance of NGOs in Kenya.

Most NGOs have the inability to employ a skilled labor force due to the small budgets to manage specialized areas of their business such as budgetary planning and management. During favorable economic conditions, many organizations embrace training and development than during unfavorable economic conditions (Obokoh, 2008). A study conducted by Chidi and Shadare (2011) in Nigeria focusing on challenges confronting human capital development in small medium enterprises (SMEs) in Nigeria found that budgeting among SMEs faced challenges by the businesses not taking ownership.These researchers confirm that the skill that managers have concerning budgeting affect the budgeting process.

A study by Njeru and Thuo (2013) on budgetary process in SMEs in hospitality industry in Nairobi Central Business District found out that skills and power of managers had positive and significantly (t-values 2.882) related to budgeting. The study was based on quantitative research methodology and was conducted using econometric models. The results suggest that a positive development on skills and power of managers improves budgeting process in SME'S in the hospitality industry in Nairobi CBD. This concurs with the findings of Bowen *et al.* (2009) and Chidi and Shadare (2011) who found that the skill that managers have concerning budgeting have an effect on the budgeting process.

Chai (2011) conducted a study aimed at establishing budget planning through capital budgeting techniques and how it impacts on the financial performance using a case study of courier companies in Kenya. He then concluded that there was a significant relationship between budget planning and the financial performance of courier companies. Another study by Adongo (2012) to determine the salient features of budgetary controls in state corporations observed that there are factors affecting financial performance which thus reveal that there are gaps that remain on the influence of budgetary control on financial performance of public institutions. Joshi *et al*., (2003) posited that budgetary participation through planning is expected to be a crucial channel to improve the information exchange and sharing among all levels of management and when this process is pursued by a firm, it is expected that the realization of the set target is improved.

Chêne (2009) conducted a study on effect of budget information system on business organizations using descriptive research design and established that budgetary information systems extensiveness and transparency of financial data. The reason for utilizing a budgetary information system is to enhance plan arranging and execution by giving convenient and precise information to decision making particularly regarding assessing financial health of organizations and individuals.

2.3.3 Corporate Governance and Financial Health of NGOs

Kock *et al.* (2011) provide a theoretical perspective of stakeholder-agency theories that allow exploration of the impact of particular corporate governance mechanisms on the company's financial performance. The study established a stakeholder-agency paradigm in which managers can be seen as agents of various stakeholders. The results of this research indicated that the corporate governance mechanisms employed affect the company's financial performance by increasing the manager's sensitivity towards the stakeholders' preferences.

A study by Strine (2010) established the importance of having corporate governance structures processes and mechanisms in a firm. The study was conducted based on a sample drawn from commercial firms using descriptive research methodology established that firms directed and managed in a way that enhances long-term shareholder value through accountability of managers, enhances financial performance. Currently financial sectors have seen the importance of having good corporate governance practices such as board evaluation and board diversity (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. The study was based on descriptive research methodology using both qualitative and quantitative data drawn from listed companies. The study measured corporate governance based on existing accountability mechanisms such as audit committee, internal audit departments and evaluation of effectiveness of company board of directors and senior management.

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 through establishing string and effective audit committees and ensuring board diversity in terms of skills and gender .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 governance mechanism and are regarded as the officers of the company by the company law (Coleman, 2008).

Enobakhare, (2010) studied the effect of board diversity on financial performance of firms using a case study of firms listed in the stock exchange and established that board diversityas a proxy for corporate governance leads to improved financial performance of firms .Board diversity is the mixture of men and women, people from different age brackets, people with different ethnic groups and racial backgrounds. 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 (De Andres *et al.,* 2005). 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. On the contrary, the other studies show the opposite result: there is no significant relationship between board diversity and financial performance (Carter *et al*., 2010; De Andres *et al.,*2005). Despite 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 (Rose, 2007).

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. The study was based on descriptive research methodology using a sample drawn from companies listed in the stock market. With reference to the relationship between gender diversity and firm financial performance, the few existing empirical studies show contrasting results. Dutta and Bose, (2006) conducted a survey of companies listed in the stock market and reported a statistically significant positive relationship between both the presence and the percentage of women on the board of directors and market value added (MVA) and firm value.

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 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.

2.3.4 Cash Management and Financial Health of NGOs

Pandey (2004) established that good cash management practices such as controlling cash flows into and out of the business, cash flows within the business, and cash balances held by a business at a point in time improves firms' financial performance. Efficient cash management involves the determination of the optimal cash to hold by considering the trade-off between the opportunity cost of holding too much cash and the trading cost of holding too little (Ross, 2008).

In addition, as stressed by (Atrill, 2006), there is need for careful planning and monitoring of cash flows over time to determine the optimal cash to hold. Kwame (2007) conducted a survey on effect of cash controls on financial performance of business entities and established that the setting up of a cash balance policy that indicates cash controls such as cash reconciliations and cash flow analysis ensures prudent cash budgeting and investment of surplus cash which leads to maximization of value of a firm.

Dong and TaySu (2010) also attempted to investigate the relationship existing between profitability, the cash conversion cycle and its components for listed firms in Vietnam stock market. Using a descriptive cross sectional design, their findings showed a strong negative relationship between profitability, measured through gross operating profit, and the cash conversion cycle and all of its components. This means that as the cash conversion cycle increases, it will lead to declining of profitability of a firm. Therefore, the managers can create a positive value for the shareholders by handling the adequate cash conversion cycle and keeping each different component to an optimum level.

Ross (2008) studied cash management in corporate organizations using descriptive research methodology and established that by reducing, the time cash is tied up in the operating cycle improves a projects returns and market value which furthers the significance of efficient cash management practices in improving business financial performance. The study recommended that surplus cash should be invested in stocks and bonds. Cash management comprises the actual measures undertaken by a company in order to “maximize liquidity and control cash flows, and maximize the value of funds while minimizing the costs of funds” (Caviezel, 2007).

Although much has been written about nonprofit endowments, from their existence and function to their consequences Given that cash is costly to hold (e.g., it earns little or no interest), the manager of an efficient nonprofit should hold cash to the point where its marginal cost equal its benefits (Fisman *et al.,* 2005). Early works on cash holdings such as Keynes (1934) or Baumol (1952) and more recently Baum *et al.* (2008) take this inventory approach, where firms minimize the cost of holding cash by investing surplus cash in other strategic business units that generate revenue.

Bowman (2007) explores the role that investment income plays in creating organizational slack (excess resources). He finds that the financial health of NGOs is an important determinant on their propensity to accumulate investment income. Insolvent NGOs tend to accumulate it and, at the same time, spend more on administration expenses.

Core *et al.* (2006) conclude that agency problems are the most likely explanation for the increasing size of surplus cash in NGOs. They find that surplus cash and CEO pay are negatively correlated with the efficiency of the NGOs program services. Fisman and Hubbard (2005) test a model of NGO governance based on two assumptions: organizations wish to hold precautionary savings to smooth expenditures, but managers have no trouble diverting these funds to derive private benefits. Their study emphasizes the need for NGOs to be monitored by some other entity such as the government to provide oversight over cash management.

2.3.5 Government Policy and Financial Health of NGOs

Governments influence NGOs financial health through regulatory and tax compliance requirements. In general, compliance means conforming to a specification or policy, standard or law that has been clearly defined. Non-prudential rules such as the screening out of unsuitable owners/managers or requiring transparent reporting and disclosure in NGOs tend to be easier to administer because governments do not have to take responsibility for the financial soundness of the organization (Sinha, 2009). Non-Governmental Organizations (NGOs) are registered by the NGO Coordination Board and governed by the NGO Coordination Act of 1990 (Act No. 19, Laws of Kenya) and it's Regulations of 1992. The Act makes it mandatory for NGOs to file annual returns to the NGOs Co-ordination Board within three months after the end of the financial year. A delay in filing the returns attract huge penalties. The returns are also accompanied by filing fee. (NGO Board, 2010).

The Act will be effectively replaced by the Public Benefit Organizations (PBO) Act, 2013, as soon as the Cabinet Secretary for Devolution officially announces the PBO Act's commencement date (Kisinga, 2014).The Miscellaneous Amendment Bill of 2013, published on October 30, 2013, included, among several provisions, an amendment to the Public Benefit Organization Act of 2012 that made it mandatory for NGOs to comply with the Income Tax Act (Kenya Gazette Supplement Number 146, 2013). NGOs are expected to self-regulate their activities without any interference from either the regulator or the government as stipulated under part IV of the Act (NGO Board, 2009). NGOs are also required to comply with other sectorial laws and policies. For instance NGOs are required to pay land rates fee to County Governments on an annual basis.

NGOs are corporate bodies and are expected to be tax complaint. According to the political legitimacy theory, tax compliance is influenced by the extent that citizens trust their government (Tayler, 2006). The Government of Kenya grants tax exemptions to NGOs on project facilities and funds received from various donors. This is meant to support NGOs since they play a complementary role in delivering goods and services to the public. During the financial year 2009/2010, a total of KES 8,466,841 in terms of Tax exemptions and rates payable was granted to various organizations (NGO Board, 2010). Desai and Yetman (2006) conducted a study on whether stronger government legal and reporting requirements can replace the monitoring owners typically in companies limited by shares. They established that state laws and government regulation is correlated with value of a firm.

2.3.6 Financial Health of NGOs

Typically, three ratios are used to measure a nonprofit organization's donative and operational efficiency. Nonprofit financial statements aggregate all expenses into program services (Budget burn out ratio for programme expenses), fundraising and Working capital ratio. (Charity, 2006). The first ratio, known as the program service ratio, is program service expenses divided by total expenses. Because program service expenses are those directly related to the nonprofit's primary charitable output (as opposed to either administrative or fundraising expenses), this ratio measures a nonprofit's operating effectiveness. The second ratio, known as the fundraising ratio, is fundraising expenses divided by donations revenues and captures a nonprofit's fundraising efficiency. Working capital ratio is the ratio of Current sets to current liabilities and measures the ability of a firm to pay off its current liabilities with its current assets. Donors use these ratios to determine which charities are "worthy" of receiving donations and a growing body of empirical research finds evidence consistent with donors responding to information contained in these ratios (Zimmermann *et al.,* 2006).

2.4 Empirical Review of Studies and their Findings

2.4.1 Funding Mechanisms and Financial Health

Bowman (2007) explores the role that investment income plays in creating organizational slack (excess resources). He finds that the financial health of an NGO is an important determinant on their propensity to accumulate investment income. Insolvent NGOs tend to accumulate it and, at the same time, spend more on administration expenses. One of the measures of slack is liquidity, measured as the current ratio. The study measured financial health using current ratio only. While current ratio is considered an important measure of financial health, the study has limitations because financial health is a multidimensional and should be measured by other parameters such as fund raising efficiency and budget burn out/ programme service ratios. Further, the study is silent on whether there is need for government to develop regulations and policy for efficient funding mechanisms in NGOs.

2.4.2 Budgetary Process and Financial Health

Diamond and Khemani (2006) studied accounting systems among businesses in the developing countries, focusing on Africa deduced that budget execution and accounting processes were either manual or supported by very old and inadequately maintained software applications and hardware. He found that this had damaging effects on their functioning due to the consequent lack of reliable and timely revenue and expenditure data for budget planning, monitoring, expenditure control, and reporting negatively impacting budget management. Further, the study found that there was poorly controlled commitment of resources. This meant that the nature of the computerization of accounting affected the budgeting process. The study findings were however limited in the context of commercial entities and not NGOs. Further, the study did not look at other important environmental factors such as government regulations and whether or not they had an intervening effect on the effect of budgetary process on financial health of organizations.

A study conducted by Chidi and Shadare (2011) in Nigeria focusing on challenges confronting human capital development in SMEs in Nigeria found that budgeting among SMEs faced challenges by the businesses not taking ownership or not being accountable, there being a lack of cooperation and/or participation and a lack of understanding of the budgeting process or what's required. This was compounded by the inability to meet, deadlines, padding their budgets/providing unrealistic numbers and sheer ignorance of the importance of budgeting by the business owners. The study was however conducted based on data collected from listed companies in Nigeria .The legal and business environment under which organizations operate in Nigeria is different from that under which NGOs operate. Further operations in companies are guided by the company's act while NGOs are guided by the NGOs Co-ordination Act.

Yang (2010) studied effect of budgeting on financial performance of organizations using survey research technique and established that, if administered wisely, budgeting drives management planning, provides best framework for judging financial performance The study focused on profit making organization using profitability ratios as measures of success. These findings may not be applicable to NGOs since financial health of NGOs is not measured by profitability ratios but by efficiency in fundraising and management of assets and effectiveness in utilization of program budgets.

2.4.3 Corporate Governance and Financial Health

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.

Enobakhare, (2010) studied the effect of board diversity on financial performance of firms using a case study of firms listed in the stock market and established that board diversityas a proxy for corporate governance leads to improved financial performance of firms . However, study was based on a case study of firms listed in the stock market and is therefore not representative of all corporate organizations especially NGOs.

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. 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. The sample of the study was selected from listed firms in Nigeria. This means that un-listed organizations such as NGOs were not represented in the sample.

2.4.4 Cash Management and Financial Health

Dong and Tay Su (2010) also investigated the relationship existing between profitability, the cash conversion cycle and its components for listed firms in Vietnam stock market using a descriptive cross sectional design. Their findings showed a strong negative relationship between profitability, measured through gross operating profit, and the cash conversion cycle and all of its components. Implying that managers can create a positive value for the shareholders by handling the adequate cash conversion cycle and keeping each different component to an optimum level. However the context of the study was limited to firms listed in the Vietnam stock market which is not a representative sample of businesses organizations and also it excludes study on NGOs especially in health sector in Kenya.

Atrill (2006) studied cash management in business and established that there was need for monitoring cash flow reports to determine optimal cash level. The study does not however cover importance of monitoring cash flow reports in NGOs and whether such monitoring of cash flows is a determinant of financial health in NGOs.Core, *et al.,* (2006) studied effect of surplus cash in organizations concluded that agency problems are the most likely explanation for the increasing size of surplus cash in NGOs. They found that surplus cash and CEO pay were negatively correlated with the efficiency of the NGOs program services. The study was not comprehensive because it did not include other measures of financial health such as working capital ratio and fund raising ratios.

2.5 Critique of Past Studies

Diamond and Khemani (2006) studied accounting systems among businesses in the developing countries. He focused mainly on effect of budgeting processes on financial performance of commercial profit making firms. He did not however consider effect of other variables such as corporate governance and financial sustainability on financial performance. Chidi and Shadara (2011) studied effect of budgetary process on financial performance. However, the areas of focus were in SMEs and the State Corporations Sectors. The findings of the study cannot therefore be applied in NGOs.

Further, the sample selection by previous researchers such as Atrill (2006) were based on limited companies listed in the stock exchange. These companies operate under the Company's act and are regulated by Capital Market Authorities. NGOs operate under the NGOs Co-ordination Act. It's therefore imperative that findings of these studies may not reflect financial health of NGOs in Kenya especially those operating in health sector. Since the legal and business environment under which organizations operate companies operate is different from that under which NGOs operate. These studies also emphasized on use of profitability ratios in measuring financial health of organization leaving a gap in knowledge on how not for profit making organizations such as NGOs can measure their financial health.

This study took a departure from past studies by focusing on NGOs and incorporates several factors affecting financial health of NGOs. There is also concentration of factors affecting financial performance of listed companies in developed countries leaving a gap of literature on factors affecting financial healthof NGOs in Africa and Kenya specifically. This literature gap is addressed by this comprehensive study.

2.6 Research Gaps

From the foregoing review of relevant literature, it is evident that research in the area of factors affecting financial healthin NGOs in the context of the variables considered in this study has not been done in a comprehensive approach**.** Studies by Diamond and Khemani (2006) and Chidi and Shadare (2011) concentrated on a few variables of financial performance of profit making organizations rather than nonprofit making entities. Also, none of the samples selected were obtained from NGOs in health sector in Kenya.

Samples selected by researchers such as Atrill (2006) were based on Companies regulated by Capital Markets Authority and ignored those NGOs regulated under the NGOs Co-ordination Act. This means that there exists a gap in knowledge on how government policy through legislations such as NGOs Co-ordination Act, Income Tax Act and Local government laws and regulation affects financial health of NGOs in health sector.

This study focused on factors affecting financial health of NGOs in health sector in Kenya .The determinants considered were funding mechanisms, corporate governance, cash management and budgetary process. The study also looked at intervening effect of government policy through laws and regulations such as NGOs Act and income tax act on financial health of NGOs in health sector in Kenya.

Financial health was measured in terms of 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. Unlike other previous studies, the study was conducted using government policy as an intervening variable. This makes the study unique and more comprehensive.

2.7 Summary

This chapter has provided four theories that will inform the study. This includes the agency theory that explains corporate governance , stake holder theory that explains funding mechanisms ,priority based budgeting theory and resource dependency theory that relates to cash management practices The chapter then provides a conceptual framework that explains the relationship between various variables and finally reviews work done by other scholars in the areas of funding mechanisms and financial health ,budgetary process and financial health , corporate governance and financial health and cash management .

All the literature reviewed indicates that previous researchers only concentrated on a few variables of financial health of profit making organizations rather than nonprofit making entities. From survey of relevant literature, it has been found that there are few studies specific to health sector in Kenya on the factors affecting financial health in NGOs and they omitted intervening variables. This study filled these pertinent gaps in literature by studying the factors affecting financial health of NGOs in health sector in Kenya using government policy as an intervening variable.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This Chapter gives the methodology which will be used in the study. It also provides information on research design, target population, sampling frame, sampling techniques and sample size, data collection instruments , pilot survey and data collection and analysis.

3.2 Research Design

The study adopted a survey research design. Survey research design applies both qualitative and quantitative approaches of research. According to Mugenda and Mugenda (2003) surveys enable researchers to obtain data about practices, situations or views at one point in time through questionnaires and interviews. The technique also seeks to obtain information that describes existing phenomena.

3.3 Target Population

According to the Kenya NGOs Board register, as at 28 February 2015 there were 16,844 NGOs registered to operate in the health sector. This study targeted the 16,844 NGOs with emphasis on those that have been in existence for at least 5 years period to allow for sufficient data to analyze trends. 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, 2008).

3.4 Sampling Frame

The Sampling frame was derived from the NGOs register and consists of 16,844 NGOs registered to operate in health sector by the NGOs Co-ordination Board as at 28 February 2015.

3.5 Sample and Sampling Technique

3.5.1 Sampling Technique

The study used stratified random sampling technique which gave each item in the population an equal probability of being selected thereby eliminating biasness. The study grouped the population into 47 County Governments as per the Kenyan Constitution, 2010.Stratification was necessary since the NGOs Co-ordination Board classifies NGOs according to County of operation. County of operation therefore formed the strata. The strata sizes were as provided by the NGOs Co-ordination Board as shown in appendix 2.

3.5.2 Sampling Size

This study adopted a sample of 384 NGOs operating in health sector selected from the 47 Counties in Kenya. The sample size was arrived at using the following formulae by Mugenda and Mugenda, 2003 for computing sample size for larger sample:

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

Saunders *et al.* (2007) suggested 95 per cent confidence intervals with error of margin of 5 per cent. The research was therefore conducted at 95% confidence level, 0.5 standard deviation, and a margin of error (confidence interval) of +/- 5%. From Z tables, the corresponding Z score is 1.96.

$$\text{Necessary sample size} = \frac{(1.96)^2 \times 0.5 \times (1-0.5}{(0.05)^2} = 384$$

Therefore 384 Managers from NGOs were interviewed out of 16,844NGOs registered to operate in the health sector in Kenya. NGOs were arranged in respective counties of operation. Each County was proportionately represented as shown in **Appendix 2.**

3.6 Data Collection Instruments

The study employed both structured and unstructured questionnaires as instruments for data collection. Unstructured questions allowed the respondents to give opinion and recommendations of improving financial health of NGOs in Kenya to allow future exploratory studies on the same. The questionnaires were preferred as the most suitable instruments for the data collection because they allow researchers reach many respondents within limited time (Mugenda & Mugenda, 2003) .The questionnaires were used to collect primary data from respondents while secondary data was reviewed from books, journals, audited financial statements of NGOs and internet for development of this thesis. Secondary data on development / program costs, fund raising costs, current assets and current liabilities were collected from audited financial statements of NGOs and were used to compute ratios for measuring financial health of NGOs. The questionnaires were administered to Managers of the 384 selected NGOs.

3.6.1 Validity of Instruments

In this study, the research instruments were given to supervisors who scrutinized the questions in the tool to assess their appropriateness in addressing key issues of 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. The relevance of the instrument was tested through face validity which refers to the degree to which statements and questions on the instrument adequately represented the characteristics being measured. This was done through consultation with peer groups and supervisors giving an objective judgment. The instrument was reviewed by subject matter experts in financial management of NGOs to ensure content validity.

3.6.2 Reliability of Instruments

Mugenda and Mugenda (2003) observed that reliability is a measure of degree to which a research will yield consistent results after repeated trials. Reliability is if the analyst measures the same variable several times, and the results are approximately the same (Rabianski, 2003).The reliability of the questionnaire was tested using the Cronbach's alpha correlation coefficient with the aid of Statistical Package for Social Sciences (SPSS) software.

3.7 Pilot Study

Baker (2003) notes that a pilot study is often used to pre-test or try out a research instrument and that a sample size of 10-20% of the sample size for the actual study is a reasonable number of participants to consider enrolling to a pilot. The study conducted a pilot study in thirty eight NGOs in Nairobi County. The pilot was conducted one month prior to the actual study. The pilot data collected was analyzed to determine how much time is taken on each questionnaire and decide whether the instruments should be revised for length. The pilot also tested data for relevance, interpretability and usefulness in addressing the study objectives. Finally it drew responses from the interviewees on the design and content of the instruments, and suggestions for more efficient and practical ways of administering them. Organizations sampled for the pilot testing were not eligible for the main sample of the study.

Cronbach's alpha was used to test the reliability of the questionnaire. The Cronbach's alpha results were ranging between 0.730 and 0.910and therefore the construct were acceptable as valid and reliable (Nachimias & Nachimias, 2006).The relevance of the instrument was tested through face validity which refers to the degree to which statements and questions on the instrument adequately represented the characteristics being measured. This was done through consultation with peer groups and supervisors giving an objective judgment. Their views were evaluated and incorporated to enhance content and construct validity of the questionnaire. The instrument was reviewed by subject matter experts in financial management of NGOs to ensure content validity.

3.8 Data Collection Procedure

Data was collected using interview guides and self-administered questionnaires. Interview guides were used in cases where the respondents were available for interview while mail questionnaires were used in cases where NGOs were far away areas that the researcher could not reach easily. Respondents who had difficulty in filling questionnaires were interviewed and the researcher made notes. Data was collected by the researcher with assistance of research assistants .The team was conscious that the interviewees use words and phrases that highlight issues that are of importance or of interest to the study**.** Secondary data was collected from audited financial statements of NGOs. It included development / program costs, fund raising costs, current assets and current liabilities. The data was necessary to enable computation of ratios to measure financial health of NGOs.

3.9 Data Processing, Analysis and Presentation

Both qualitative and quantitative data was collected for the study. Data analysis involved editing, coding, tabulation and classification. Data was analyzed using Statistical Package for Social Sciences software (SPSS) to establish statistical relationships between variables and developed multi regression model showing relationship between variables. Descriptive statistics was used to summarize the behavior of variables in the study. The operationalization of variables for the study is shown in Table 3.1.

Factor and Principle Component Analysis was conducted on the independent variables and the results indicated Cronbach alpha coefficients ranging between 0.730 and 0.90 as detailed in appendix iv. Therefore the constructs were acceptable as valid (Nachimias & Nachimias, 2006). Besides using frequencies and descriptive analysis, the study used multiple linear regression analysis to investigate overall statistical relationships between variables. Intervening effect of Government policy on financial health of NGOs was tested using partial correlation analysis and applying Howell criteria for testing intervening effects of variables (Howell, 2013).

The multiple regression model adopted by the study was as follows:

$FH = \beta0 + \beta1X1 + \beta2X2 + \beta3X3 + \beta4X4 + \varepsilon$

Where:

FH= Financial health of NGOs in health sector

$\beta0$= Models constant and$\beta1$ to $\beta5$are the model's coefficients.

X1= Funding Mechanisms

X2= Budgetary process

X3=Corporate governance

X4=Cash management

ε = Error term

The intervening effect of government policy on each of the four independent variables on financial health of NGOs was tested using Howell criteria .The criteria provides that the following conditions must be satisfied for there to exist an intervening effect of a variable:

i. Independent variable (X) must be correlated with dependent variable (Y);
ii. Independent variable (X) must be correlated with intervening variable (M);
iii. Intervening variable (M) must be correlated with dependent variable (Y), holding constant any direct effect of X on Y;
iv. When the effect of M on Y is removed, X is no longer correlated with Y (Complete mediation) or the correlation between X and Y is reduced (partial mediation)

The study tested each of these four criteria separately for intervening effect on each of the four independent variable on financial health of NGOs in the health sector. The independent variables were fundraising mechanisms, budgetary process, corporate governance and cash management.

Funding mechanisms was computed as a weighted average of amount of self-generated income, income diversification (number of donors) and financial reporting measured by frequency of review of financial reports. Budgetary process was measured as a weighted average of number of budget planning meetings, costs incurred on developing budgetary information systems and costs incurred on budget trainings /skills competency. Corporate governance was determined as a weighted average of number of audit committee meetings, frequency of board evaluations and board diversity in terms of number of youth, women and disabled represented in the board of directors. Cash management was determined as a weighted average of number of cash flow reports, proportion of cash invested and frequency of cash reconciliations.

Before using multi regression model, the various diagnostic tests for use of multi linear regression model were computed using SPSS version 21.This was necessary to assess whether the collected data violated key assumptions of regression modeling because any assumptions violated could distort the results. The diagnostic tests included multicollinearity, normality, linearity, hetersokesdicity and homogeneity. Factor and principle component analysis was done to ascertain suitability of the variables.

Hypothesis testing was done at 5% significance level (α = .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 $H_{0.}$Findings were presented using frequency tables, means and standard deviations.

Table 3.1: Variable operationalization framework

	Variable Name	Nature of variable	Variable indicators	measurement	Data collection method	Type of scale	Type of analysis	Level of analysis
1	Funding mechanisms	Independent	Own income generated	Amount of revenue internally generated	Questionnaire for primary data Secondary data	Ordinal for primary data and ratio for secondary data	Qualitative and Quantitative	Frequencies Descriptive analysis Inferential analysis
			Income diversification	No of donors per annum				
			Sound financial administration	No of financial reports reviewed by Board per annum				
2	Budgetary process	Independent	Planning	No of meetings per year	Questionnaire for primary data Secondary data	Ordinal for primary data and ratio for secondary data	Qualitative and Quantitative	Frequencies Descriptive analysis Inferential analysis
			Budgetary Information Systems (BIS)	Amount spent on budgetary system in place				

			Skills Competency	No of annual trainings on budgeting held				
3	Corporate governance	Independent	Audit committee	Number of audit committee meetings	Questionnaire for primary data Secondary data	Ordinal for primary data and ratio for secondary data	Qualitative and Quantitative	Frequencies Descriptive analysis Inferential analysis
			Board evaluation	No of Board evaluations				
			Board diversity	No of youth, women and disabled in the Board				
4	Cash Management	Independent	Cash flows	Annual no of Cash flows reports reviewed by management	Questionnaire for primary data Secondary data	Ordinal for primary data and ratio for secondary data	Qualitative and Quantitative	Frequencies Descriptive analysis Inferential analysis
			Cash Investments	Amount of cash invested in a year				
			Cash Controls	No of annual Cash account reconciliations				

5	Government policy	Intervening	Taxation	Amount paid as taxes and penalties to KRA	Questionnaire for primary data Secondary data	Ordinal for primary data and ratio for secondary data	Qualitative and Quantitative	Frequencies Descriptive analysis Inferential analysis
			NGOs Regulations	Amounts paid to NGO Board as fees and penalties				
			Local Government Regulations	Amount paid as rates per year				
6	Financial health	Dependent	Budget burn out rates on program expenses	Annual rate as per audited financial statements	Secondary data	Ordinal for primary data and ratio for secondary data	Qualitative and Quantitative	Frequencies Descriptive analysis Inferential analysis
			Fund raising ratio	Annual ratio				
			Working Capital ratio	Annual ratio				

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the study findings which were analyzed, interpreted and presented in line with the study objectives. The response rate, validity and reliability tests of instruments are provided followed by descriptive and inferential analysis for the study variables. The study findings are presented in line with the five study objectives. These are funding mechanism, budget process, corporate governance, cash management practices and government policy.

4.2 Response Rate

Primary data was collected using a questionnaire while a self-constructed data collection sheet was used to collect secondary data. Three hundred and eighty four (384) questionnaires were issued to managers from 384 NGOs operating in the health sector in Kenya. Two hundred and twenty two (222) questionnaires were returned representing a 58% response rate. The response rate was considered adequate given the recommendations by Saunders *et al*., (2007) who suggested a 30-40% response**.**

4.2.1 Test of Instrument

The main tool of data collection used was a questionnaire. A pilot test was conducted in 38 NGOs operating in Nairobi County. The questionnaire was validated by discussing it with supervisors and their views were evaluated and incorporated to enhance content and construct validity of the questionnaire. The instrument was reviewed and tested for reliability using Cronbach's alpha test. Nachmias and Nachmias (2006) observe that a Cronbach's alpha test confirms the reliability and consistency of a data collection instrument. The results of the test are summarized in table 4.1 and detailed in appendix

4. The results indicate that the questionnaire instrument consistently returned high scores ranging from a minimum of 0.720 and to a maximum of 0.955 (average of 0.840) which is highly acceptable since Cronbach's alpha coefficient of over 0.7 qualifies an instrument as reliable and consistent (Nachmias & Nachmias, 2006; Kothari, 2004; Sekaran, 2006)

Table 4.1: Reliability Tests using Cronbach's Alpha Coefficients

Variable /indicator	Number of items (N)	Cronbach's Alpha
Fund raising mechanisms		
Self-Generated Incomes	5	0.930
Diversification of donors	5	0.946
Financial reporting	5	0.920
Budgetary process		
Budgetary information systems	5	0.955
Budgetary planning	5	0.935
Budgetary skills competency	5	0.934
Corporate Governance		
Audit Committee	5	0.810
Board Evaluation	5	0.880
Board diversity	5	0.840
Cash Management		
Cash flows	5	0.791
Investments	5	0.778
Cash reconciliations	5	0.801
Government Policy		
Fee to NGO Board	5	0.730
Fee to KRA	5	0.726
Fee to Local Government	5	0.728
Financial Performance Indicators	30	0.897

A. Descriptive Results

4.4 Sample Demographics

4.3.1 Level of Education

The study sought to determine the Education characteristics of employees of NGOs in the health sector. The respondents were Chief Executive Officers/Managers of NGOs in the health sector. The results are presented in Table 4.2.The findings show that majority (56.3%), of the respondents indicated they had attained Master's degree followed by Bachelor's degree 61 (27.5%) and then Diploma 28 (12.6%). Nonetheless only 8(3.6%) had attained PhD. It can therefore be concluded that majority of employees of NGOs in the health sector in Kenya hold Masters Degrees.

Even though many scholars (Senior & Flemming, 2006; Letting, 2009; Mulube, 2009) have indicated that leadership is not based on level of education, there is need to have employees with high qualifications in all levels of management. Kidombo (2007) and Letting (2009) concur that unique education characteristics is key to effective organization financial health. The findings of the study are in support of these scholars since the percentage of respondents with at least a Masters' Degree was 56% showing a high level of education.

Table 4.2: Level of Education

Level of Education	Frequency	Percent
PhDs	8	3.6
Masters	125	56.3
Bachelors' degree	61	27.5
Diploma	28	12.6
Total	**222**	**100.0**

4.3.2 Age

The results as presented in Table 4.3indicates that majority (37.8%) of the respondents were aged between 40-49 years followed by 30-39 years (35.6%). This age group is regarded as the most productive age group. This means that the project and grants managers involved in this study were in a position to energetically develop proper funding mechanisms, develop effective budgetary processes and put in place corporate governance structures to enhance financial health of NGOs. The results also indicate few employees were in the old age of 50-59 years. This indicates proper succession management in NGOs in the health sector in Kenya to ensure sustainable strategies for enhancing financial health. On the other hand, only few (2.7%) respondents were above sixty years which is in line with many organizations' workforce which is mainly aged below sixty years due to the periodic employee realignments which normally witness exit of older employees through either voluntary exit or employer initiated early retirement.

Table 4.3: Distribution by Age in Years

Age (Years)	Frequency	Percentage
20-29	18	8.1
30-39	79	35.6
40-49	84	37.8
50-59	35	15.8
60 and Above	6	2.7
Total	222	100.0

4.3.3 Gender

The results as presented in Table 4.4 indicate that 57.7% of the respondents were male while 42.3% were female. The study therefore concluded that most managers of NGOs in health sector are male.

Robinson and Pearce (2004) have singled out gender as one of the cultural issues that can affect strategy implementation and financial health of organizations. Similarly, Kidombo (2007), Wambui (2006) and Mintzberg (2004) highlight the need to involve both genders for effective performance of organizations.

Table 4.4: Distribution by Gender

Gender	Frequency	Percentage
Male	128	57.7
Female	94	42.30
Total	**222**	**100**

4.3.4 Years of Experience

Respondents were asked to indicate the years of experience in the organization and the results were as indicated in Table 4.5.The results indicate that most (51.8%) of the respondents had worked in the organization for between 5 -10 years, 38.3% had worked for less than 5 years while 9.9% had worked for over 10 years. It can therefore be concluded that majority of employees in NGOs work for between 5- 10 years. This could be associated to the fact that most NGOs implement short term projects leading to employee short stint in their organizations thereby resulting in deteriorating financial health of NGOs.

Table 4.5: Years of Experience

Years of Experience	Frequency	Percentage
Btw 1-5	85	38.3
Btw 5-10	115	51.8
Over 10	22	9.9
Total	222	100.0

4.4 Results and Discussion on Study Objectives

This section presents descriptive statistics on the findings and discussion in the order of the five specific objectives of the study as enumerated earlier. Descriptive statistics were used to describe the phenomena under investigations. Descriptive statistics results have been presented by use of frequencies tables, pie charts and graphs.

4.4.1 Funding Mechanisms and Financial Health of NGOs in Health Sector

The first objective of the study was to determine the influence that funding mechanisms have on financial health of NGOs in health sector in Kenya. The indicators for this objective were income generation, income diversification and financial reporting. These indicators were measured by amounts of internally generated incomes, number of donors and number of reviewed financial reports respectively.

Results on figure 4.1 show responses on statements regarding the effects of internally generated income on financial performance of NGOs in health sector. The study sought to establish whether NGOs generate incomes internally in addition to incomes received from donors. The results indicate that sixty seven percent (67%) of the respondents agreed that they did not generate incomes internally while thirty three (33 %) indicated they did. The study concluded that most NGOs in the health sector rely on donor funds since they do not generate incomes internally. These results corroborate with findings by Non Profit Finance Fund (2009) whose results indicate that NGOs are hard pressed to sustain themselves and raise sufficient incomes to adequately address their financial goals. Wing *et al.* (2008) also confirmed these findings in his study which indicated that NGOs in different field of service exhibit substantially different mixes of income. Moor (2005) also indicated that NGOs revenue falls within three broad categories which include self-generated income, public and private funding. The results however disagree with the findings by Barr *et al.,* (2005) who in his study of local NGOs in Uganda established that only a third (33%) of NGOs had internally generated incomes. He further observed that NGOs that had generated internally indicated stable financially health since they reported huge programme service costs and minimal fund raising costs.

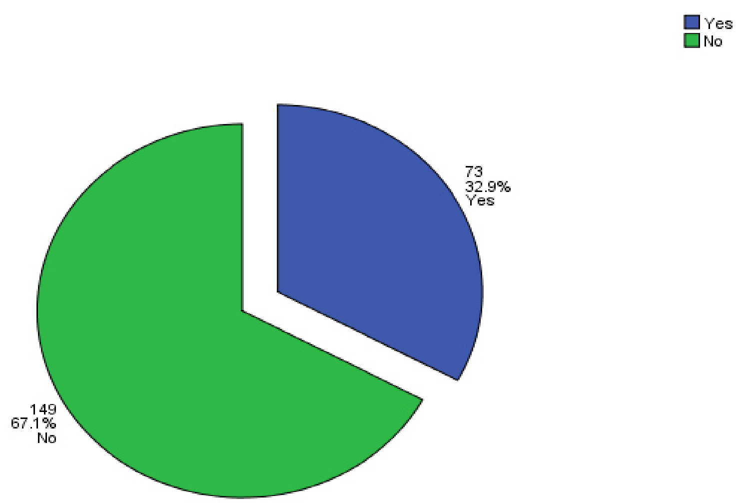


Figure 4.1: Internally Generated Incomes and Financial Health

NB. Percentage (%) indicates the proportion of respondents who indicated that they either generate incomes internally (Yes) or not (No).

For those NGOs that generated income internally, the study sought to establish the amounts generated in the past five years (2010-2014). The results as tabulated in Table 4.6 indicate that during the study period, most NGOs (44) generated internal revenues of below Kshs 1 million while very few of them generated internal revenue of over Kshs 20 million. This finding is in agreement with observations by Barr *et al*., (2005) who found out that NGOs generated only a small proportion of their revenues internally. It can therefore be concluded most NGOs in health sector in Kenya generate small amount of incomes internally and this could pose a risk of deteriorating financial health.

Table 4.6: Amount in Kshs of Internally Generated Incomes

Amount (Kshs)	2010	2011	2012	2013	2014	Mean
Below 1 million	45	42	51	43	39	44
1-5 million	15	18	11	8	12	12
6-10 million	0	13	1	9	0	5
11-15 million	12	0	10	0	13	7
16-20 million	1	0	0	12	0	3
Over 20 million	0	0	0	1	9	2
Total	73	73	73	73	73	73

The study also sought to establish the level of income diversification in NGOs. This was measured by the number of donors per year. The results are tabulated in Table 4.7.The results indicate that most (107) of the NGOs in the health sector had between 2-4 donors per year while none of the NGOs had over 10 donors. These findings corroborate with observations by Fernand (2006) who established that search for external funding was necessary for survival and development of NGOs. Lotman (2007) also established that NGOs in Cameroon were principally funded externally. It can therefore be concluded that NGOs in the health sector have diversified donor funding as strategy of improving their financial health.

Table 4.7: Number of Donors who Funded the Organization

Number of donors	2010	2011	2012	2013	2014	Mean
0-1	32	30	15	16	13	21
2-4	122	109	102	113	87	107
5-7	62	75	99	56	82	75
8-10	6	8	6	37	40	19
Over 10	0	0	0	0	0	0
Total	**222**	**222**	**222**	**222**	**222**	**222**

The study further sought to establish the frequency of review of financial reports of NGOs in the Health Sector. The results in Table 4.8 indicate that majority of respondents (48%) review financial reports three times in a year while few of them (22%) review them only once in a year. These findings corroborate with those of Ahmed and colleagues who argued that that financial reporting is concerned with the conventional, technical, formal, economic and top-down accounting reports that are geared towards satisfying donors and other stakeholders (Ahmed *et al.,* 2011). Review of financial reports also ensures efficient allocation of resources based on past performance and gives assurance to donors about the efficient utilization or otherwise of their funds expended towards improvement of financial health. It also enables management of organizations to develop appropriate funding mechanism to sustain organizations financial health (Unerman & O'Dwyer, 2010).

Table 4.8: Frequency of Review of Financial Reports

No of reviews	Frequency	Percentage
Once	50	22.50
Twice	65	29.30
Three times	107	48.20
Total	222	100.0

Financial health of NGOs was measured using ratios. Secondary data on program costs, fundraising costs, current assets and current liabilities was collected from financial statements of NGOs for a period of 5 years and used by the researcher to calculate program/budget burn out ratios , fund raising ratio and current ratios respectively. Results in table 4.9 shows the program/budget burn out ratios, fund raising ratios and current ratios reflecting financial health of NGOs. Charity, 2006 observed that programme service ratio of 0.6 (at least 60% of budgets spend on direct programme cost) and fund raising ratio of 0.1 (not more than 10% of programme cost is spend on fundraising) is considered adequate for a financially stable NGO.

Table 4.9: Ratios on Financial Health of NGOs Computed from Secondary Data

	Period /year					
Ratio	**1**	**2**	**3**	**4**	**5**	**Mean /average**
Programme Service Ratio	0.64	0.69	0.51	0.58	0.68	0.62
Fund Raising Ratio	0.20	0.17	0.23	0.150	0.18	0.18
Current Ratio	2.32	1.63	2.04	1.49	2.20	1.93

4.4.2 Budgetary Process and Financial Health of NGOs in Health Sector

The second objective of the study was to establish the influence of budgetary process on financial health of NGOs in health sector. The indicators for this objective were budget planning, budgetary information systems and budgetary skills competency. These indicators were measured by number of budget planning meetings held in a year, annual expenditures on budgetary information system and number of annual trainings on budgeting respectively.

Results on figure 4.2 show responses on statements regarding the effects of budgetary planning on financial performance of NGOs in health sector. The study sought to establish whether NGOs in health sector conduct annual budget planning meetings. The results indicate that Ninety percent (90%) of the respondents agreed that they held annual budget planning meetings while ten percent (10 %) indicated they did not. The study concluded that most NGOs in the health sector hold annual budgetary planning meetings. This finding agree with findings by Horngern *et al.,* (2008) who argued that if administered wisely, budgeting drives management planning, provides best framework for judging performance and promotes effective communication and coordination among various segments of business organizations which in turn improves financial health of NGOs. Similar observations were made by Chapman (2006) and Yang (2010).It can therefore be concluded that NGOs in the health sector held budget planning meetings as a mechanism of improving their financial health.

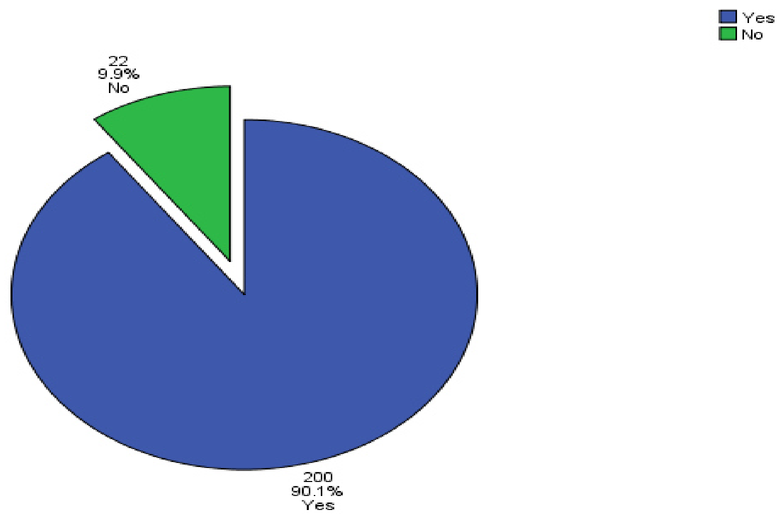


Figure 4.2: Annual Budgetary Planning Meetings

NB. Percentage (%) indicates the proportion of respondents who indicated that they conducted budget planning meetings (Yes) or not (No).

For those NGOs that held annual budget planning meetings, the study sought to establish the number of annual budget planning meetings in the past five years (2010-2014) and the results are tabulated in Table 4.10 .The results indicate that majority (44%) of respondents held between 5-7 budgetary planning meetings in a year while only 1% held over ten budgetary planning meetings in a year. This finding corroborate with studies conducted by Hilton *et al.,* (2009) which established that most people will perform better and make greater attempts to achieve a goal if they have been consulted in setting the goal. In fact, in today's dynamic business world, budget planning is critical in assessing the financial health of many organizations because it ensures the efficient utilization of resources entrusted (Zadek *et al.,* 2013).

The findings also proved that NGOs have various planning horizons which were in consensus with what other scholars observed that for financial health to effectively occur, a budget planning horizon must be set (Awino, 2007; Judge & Robinson, 2008).

The study therefore established that NGOs conduct frequent annual budget planning meetings as a way of improving their financial health.

Table 4.10: Number of Budget Planning Meetings Per Year

Number of meetings	0-1	2-4	5-7	10 and above	Total
Frequency	30	79	90	1	200
Per cent	15	40	44	1	100

Table 4.11 tabulates results on budgetary information systems in NGOs in health sector.The results indicate that most (55%) of NGOs in the health sector have computerized budget information systems while only 45% were operating manual budgetary systems. This diverges from the observation by Diamond & Kehemani (2006) who studied accounting systems among businesses in Africa and found out that budget execution and accounting processes were either manual or supported by very old and inadequately maintained software applications and hardware. The study therefore established that NGOs in the health sector developed computerized budgetary information system as a way of improving their financial health.

Table 4.11: Budgetary Information Systems

Budgetary system	Manual	Computerised	Total
Frequency	100	122	222
Per cent	45	55	100

For those NGOs that had computerized budget systems, the study sought to establish amounts spent annually on the computerized budget information system in the past five years (2010-2014) and the results are tabulated in Table 4.12. The result indicate that on average most (85) of NGOs in health sector in Kenya spent less than 1 million on computerization of the budget information system. These findings are in agreement with observations by Alin *et al.,* (2006) who argued that financial health is achieved by designing systems and procedures to suit the specific needs of an organization. Unerman and O'Dwyer (2010) also explain that NGO accountability mechanisms through budget information systems seek to ensure effective utilization of aid-donated funds for the benefit of all, especially those living in the developing world in order to enhance financial health. The study therefore established that NGOs in health sector incur expenditures to computerize budget information system in order to improve financial health.

Table 4.12: Annual Expenditures in Ksh son Budget Information Systems

Expenditure (Kshs)	**2010**	**2011**	**2012**	**2013**	**2014**	**Mean**
Below 1 million	69	76	71	76	68	85
1-3 million	53	36	41	32	38	23
4-6 million	0	10	10	14	16	13
Over 6 million	0	0	0	0	0	1
Total	**122**	**122**	**122**	**122**	**122**	**122**

The results on budgetary skills competency are tabulated in Table 4.13. The results indicate that most (65%) of NGOs in the health sector held between 1-3 trainings while only 5% did not hold any training. This finding corroborate with a study by Obokoh (2008) who observed that during favorable economic conditions, many organizations embrace training and development than during unfavorable economic conditions.

Table 4.13: Number of Budget Trainings Attended Per Year

No of trainings	Frequency	Percentage
0	12	5
1-3	144	65
4-6	66	30
Total	222	100.0

4.4.3 Corporate Governance and Financial Health of NGOs in Health Sector

The third objective of the study was to establish the influence of corporate governance on financial health of NGOs in the health sector in Kenya. The indicators for this objective were audit committee, board evaluation and board diversity. These indicators were measured by number of audit committee meetings, frequency of Board evaluation per annum and number of women, disabled and youth represented in the board of directors of NGOs.

The results in figure 4.3 indicate that most (56%) of NGOs in the health sector had independent audit committees in place. The audit committees provide oversight over the management to ensure accountability for purposes of financial health of NGOs. These findings are in agreement with observations by Hendrickse (2008) who established that financial management stipulates that there should be internal controls or checks and balances in place with the object of safeguarding the organization's assets, and also to manage risk. There ought also to be an audit committee or auditor that to assist in ensuring the quality and reliability of financial information employed. Ahmed *et al.,* (2012) also found out that indeed, several NGO accountability mechanisms exist including, among others, upward accountability, downward accountability, holistic accountability and identity accountability. The study therefore established that NGOs in health sector in Kenya had put in place audit and risk committee to provide oversight over organization resources in order to enhance financial health.

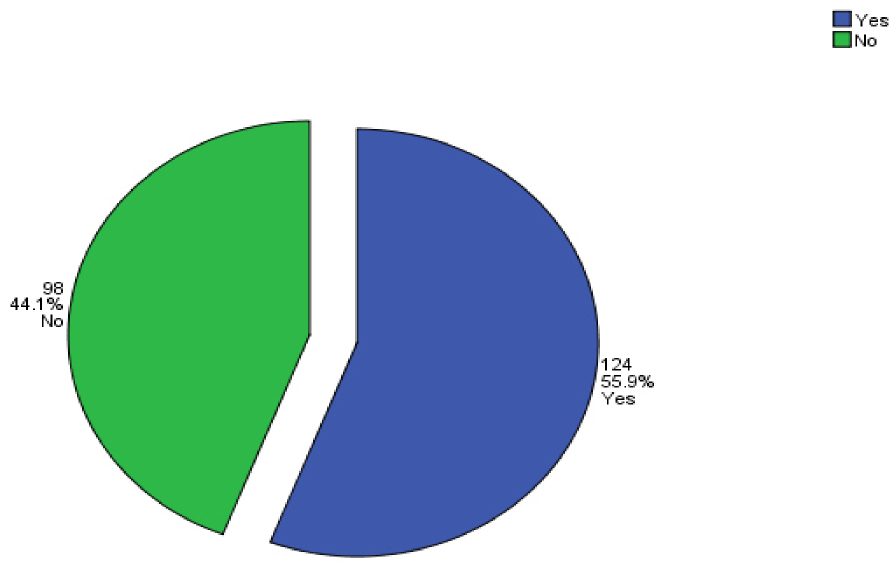


Figure 4.3: Existence of Audit Committees

NB. Percentage (%) indicates the proportion of respondents who indicated that they had audit committees in place (Yes) or not (No).

The results in Table 4.14indicate that most (109) of the NGOs in the health sector held between 2-4 audit committee meetings per year. These findings corroborate with recommendations on best practices in managing corporate organizations issued by Capital Markets Authority in 2012 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 three basic roles of board of directors that includes monitoring role, advisory role and resource provision role. The study therefore established that NGOs in health sector improve their financial health through holding audit committee meetings to provide oversight of organization resources.

Table 4.14: Number of Meetings held by Audit Committee Per Year

Number of meetings	2010	2011	2012	2013	2014	Mean
0-1	7	14	9	8	5	9
2-4	117	100	115	106	109	109
5-7	0	10	0	10	10	6
8-10	0	0	0	0	0	0
Total	**124**	**124**	**124**	**124**	**124**	**124**

The study also established that most (67%) of the respondents had a performance evaluation system for the board of directors as shown in figure 4.4. 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 (2005) 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.

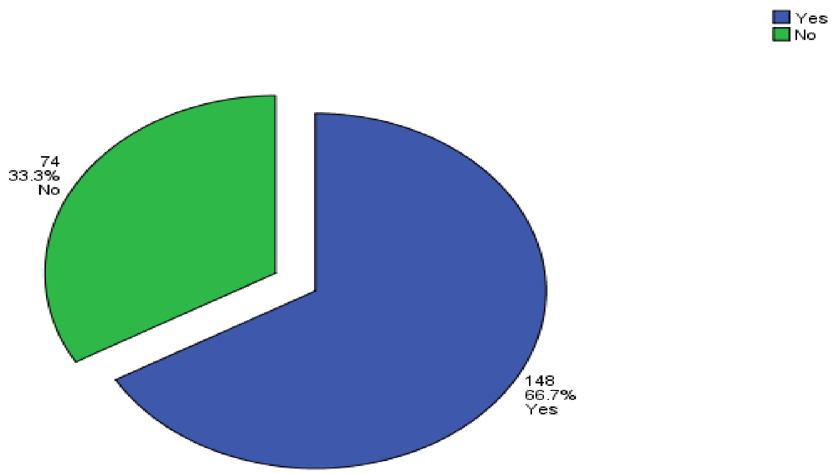


Figure 4.4: Board Evaluation

The results also indicated that that most (124) of NGOs in the health sector evaluated board of directors between 2-4 times in a year as shown in Table 4.15.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. Ahmed *et al.,* (2012) also found out that indeed, several NGO accountability mechanisms exist including, among others, upward accountability, downward accountability, holistic accountability and identity accountability. The study therefore established that NGOs in health sector in Kenya had put in place board evaluation mechanisms to enhance financial health.

Table 4.15: Frequency of Board Evaluation

Frequency	2010	2011	2012	2013	2014	Mean
0-1	28	21	18	0	0	13
2-4	106	120	115	138	141	124
5-7	9	2	10	0	2	5
8-10	0	0	0	5	0	1
Total	**143**	**143**	**143**	**143**	**143**	**143**

On board diversity, the study established that most (120) NGOs indicated that they had two (2) women in their board of directors as shown in Table 4.16. 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 (2006) 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.

Table 4.16: Number of Women Represented in the Board

Number	2010	2011	2012	2013	2014	Mean
1	53	21	41	23	21	32
2	104	113	121	148	119	120
3	60	71	60	51	67	62
4	5	17	0	0	15	8
Total	**222**	**222**	**222**	**222**	**222**	**222**

The results in Table 4.17 also indicate that most (95) NGOs in the health sector had two (2) representatives' of people with disability 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 demonstrate values of probity, self-regulatory, justice, service, co-operation, prudence respect.

Table 4.17: Representation of Disabled to the Board

Number	2010	2011	2012	2013	2014	Mean
1	30	52	61	42	38	44
2	86	115	91	100	84	95
3	87	33	53	44	75	58
4	19	22	17	36	25	25
Total	**222**	**222**	**222**	**222**	**222**	**222**

Table 4.18 further indicates that most (91) NGOs in the health sector had three (3) representatives of 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 and respect.

Table 4.18: Representation of Youth to the Board

Number	2010	2011	2012	2013	2014	Mean
1	33	35	31	42	4	36
2	85	73	111	75	73	83
3	93	109	62	84	106	91
4	11	5	18	21	3	12
Total	**222**	**222**	**222**	**222**	**222**	**222**

4.4.4 Cash Management and Financial Health of NGOs in Health Sector

The fourth objective of the study was to establish the influence of cash management on financial health of NGOs in the health sector in Kenya. The indicators for this objective were cash flows, cash investments and cash controls. These indicators were measured by number of cash flow reports, amount of cash investments and frequency of cash reconciliations.

The results on cash management policy are indicated in figure 4.5.The results indicate that majority (74%) of the respondents had a cash management policy in place while only 26 % did not have a cash management policy in place. The study therefore concluded that most NGOs in the health sector in Kenya have a cash management policy in place. The pronouncement is at variance with findings by Kwame (2007) who established that small firms rarely pay attention to setting up a cash balance policy but simply consider cash- balance as the result of differences in cash inflows and outflows without any guidelines. However, the finding is consistent with the finding by Caviel (2007) who established that organizations that had a cash management policy level recorded better financial health than those that did not have a cash management policy in place. NGOs in the health sector in Kenya had therefore put in place a cash management policy as an intervention towards improvement of financial health.

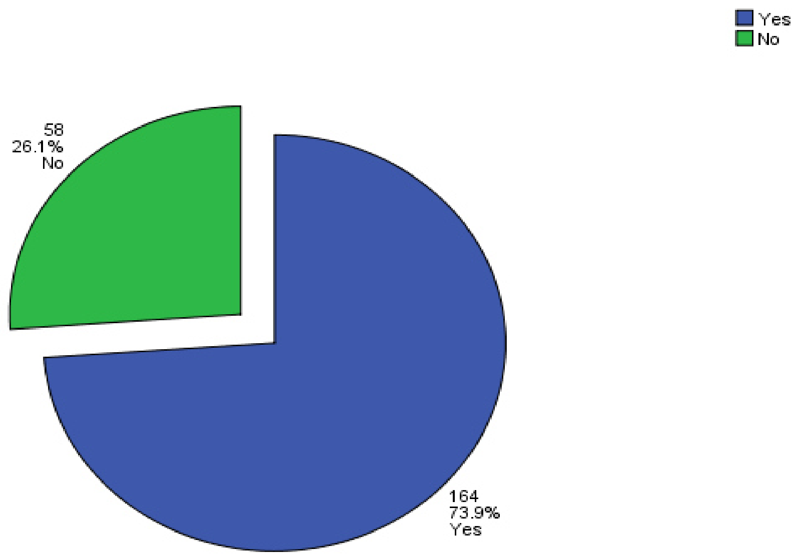


Figure 4.5: Cash Management Policy

The results also indicate that majority (54%) of the respondents reported that they prepared between 2-4 cash flow reports per year while very few of them (7%) prepared more than 4 cash flow reports per year as tabulated in Table 4.19. The results further indicate that only a small percentage (16%) of the respondents did not prepare any cash flow reports in a year. It can therefore be concluded that most NGOs in the health sector in Kenya prepare cash flow reports for management review. This could be explained by the increasing accountability requirements by donors who demand frequent progress reports from NGOs as a precondition for further disbursement of funds .These results corroborate with findings by Atrill (2006) who indicated that there is need for careful planning and monitoring of cash flows over time to determine the optimal cash to hold. Dong and Tay Su (2010) also established a strong negative relationship between the cash management and financial health of organizations.

Table 4.19: Frequency of Preparation of Cash Flow Reports

Number of Cash flows per year	Frequency	Percent
0	36	16
1-2	51	23
2-4	119	54
More than 4	16	7
Total	222	100

Responses on the influence of cash controls on financial health of NGOs in the health sector in Kenya are presented in Table 4.20. The results indicate that most (125) of the respondents prepared cash reconciliations twice in a year. The finding is in agreement with Gitman (2009) who observed that key elements of cash management are cash reconciliations, administration and internal control. The results also indicate that very few respondents prepare 4 reconciliations in a year. The results depicts the lack of adequate cash controls in most NGOs in Kenya that has resulted in poor book keeping and inadequate standard operating procedures to guide the process of cash reconciliations.

These findings concur with a study by Mpabanga, (2005) who observed that the NGO sector in India was largely in the form of what could be termed as an ‘unorganized sector’, with a preponderance of small outfits that have been floated by either individuals or small groups of people. The NGOs were generally founded by people passionate about a ‘cause’, which often results in an organizational infrastructure that is focused on operations rather than efficiencies and management processes.

Table 4.20: Frequency of Cash Reconciliations

Frequency	2010	2011	2012	2013	2014	Mean
1	71	56	60	48	56	58
2	120	129	116	124	136	125
3	31	30	40	38	26	33
4	0	7	6	12	4	6
Total	**222**	**222**	**222**	**222**	**222**	**222**

B. Inferential Statistics

For the purpose of this study, inferential statistics was used to make inferences from our data to more general conditions. This included the t-test, Analysis of Variance (ANOVA) and regression analysis. Inferential statistical results are presented in the order of the objectives stated in chapter one.

4.5 Diagnostic Test for Use of Regression Analysis

Prior to subjecting data to inferential statistical analysis, the study conducted various diagnostic tests for use of multi linear regression model to assess whether the collected data violated some key assumptions of regression models because any assumption violations can result in distorted and biased research results. These were normality test, autocorrelation tests, multicollinearity tests, linearity and homoscedasticity and heteroscedasticity tests.

Testing of normality of financial health (Dependent Variable) in this study was done by using histogram outlined in figure 4.6.The figure indicates that higher percentage of the data is contained within the normal curve of the histogram. The results are approximately normally distributed and therefore eligible to be subjected to data analysis such as; t- test, ANOVA, and regression (Gujarati, 2003).Many data analysis methods that is; t- test, ANOVA, and linear regression depend on the assumption that data were sampled from a Gaussian distribution (Indiana, 2011). The best way to evaluate how far data are from Gaussian is to look at a graph and see if the distribution deviates grossly from a bell-shaped normal distribution (Graph Pad, 2011).

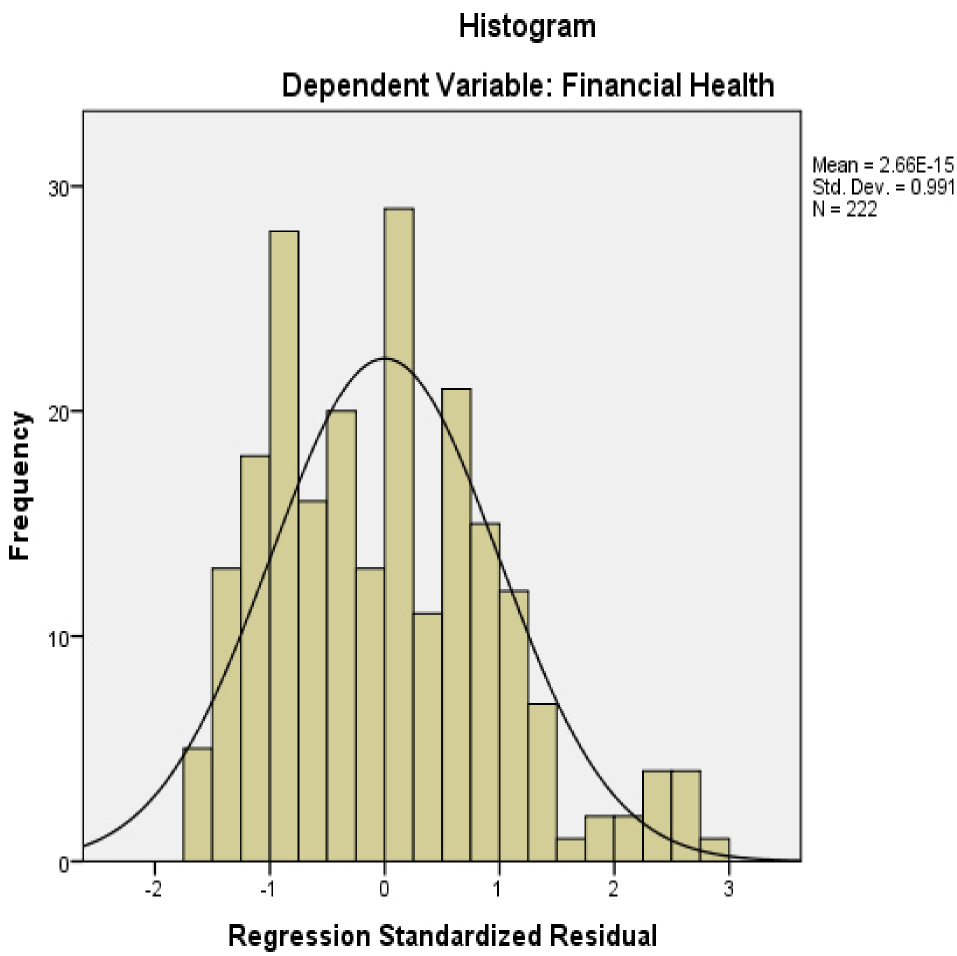


Figure 4.6: Histogram for Normal Distribution of Data of Financial Health

Autocorrelation refers to the correlation between data values at different times. Autocorrelation was tested by use of Durbin-Watson test. SPSS was used to compute the Durbin-Watson value (d) and results presented in Table 4.21.produced a value of d=2.20. The results indicated a Durbin-Watson (d) value of 2.20 implying absence of autocorrelation since the Durbin-Watson value lay within the critical range of 1.5< d< 2.5. The model therefore satisfied autocorrelation test and therefore data was t good for multiregression modeling. (Baum & Christopher, 2006).

Table 4.21: Durbin-Watson Test for Independence of Observations

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.097	0.009	-0.009	0.501939237014	2.220

Multicollinearity is a problem that occurs with regression analysis when there is high correlation of at least one independent variable with a combination of the other independent variables. Multicollinearity was tested by inspection of tolerance and Variance Inflation Factors (VIF) values. Collinearity statistics were computed by use of SPSS and the results produced tolerance and VIF values as indicated in Table 4.22. The results indicate that Collinearity statistics for all variables produced tolerance values > 0.1 and VIF < 10. The model therefore satisfied multicollinearity test Cooper and Schindler (2008).

Table 4.22: Collinearity Statistics

Variable	Collinearity statistics Tolerance	Variance Inflation Factor (VIF)
Funding mechanisms	0.534	1.874
Budgetary process	0.602	1.662
Corporate governance	0.593	1.687
Cash management	0.709	1.411

Multi regression modeling assumes that data is homoscedastic. Data is described as homoscedastic if all random variables have the same finite variance. The complementary notion is called heteroscedasticity which refers to a situation where all random variables do not have the same finite variance. Serious violations in homoscedasticity (assuming a distribution of data is homoscedastic when in reality it is heteroscedastic may result in overestimating the goodness of fit (Hamisici *et al.,* 2007). The study investigated homoscedasticity and heteroscedasticity conditions by use of a scatter plot and the results are presented in figure 4.7.

The results in figure 4.7 indicate that as the regression standardized predicted values of the dependent variable increased, the variance of the regression standardized residual values stayed constants. From the scatter plot, the regression standardized residual valuesare contained within -2 and 2 ranges. It shows randomly distributed data and therefore the condition of homoscedasticity was met implying absence of heteroscedasticity condition (Indiana, 2011).

Multi regression modeling requires data to be linear. Linearity is the property of a mathematical relationship or function which means that it can be graphically represented as a straight line (Stewart & James, 2008).The figure indicates that data on financial health exhibited a linear relationship and therefore satisfied the linearity condition.

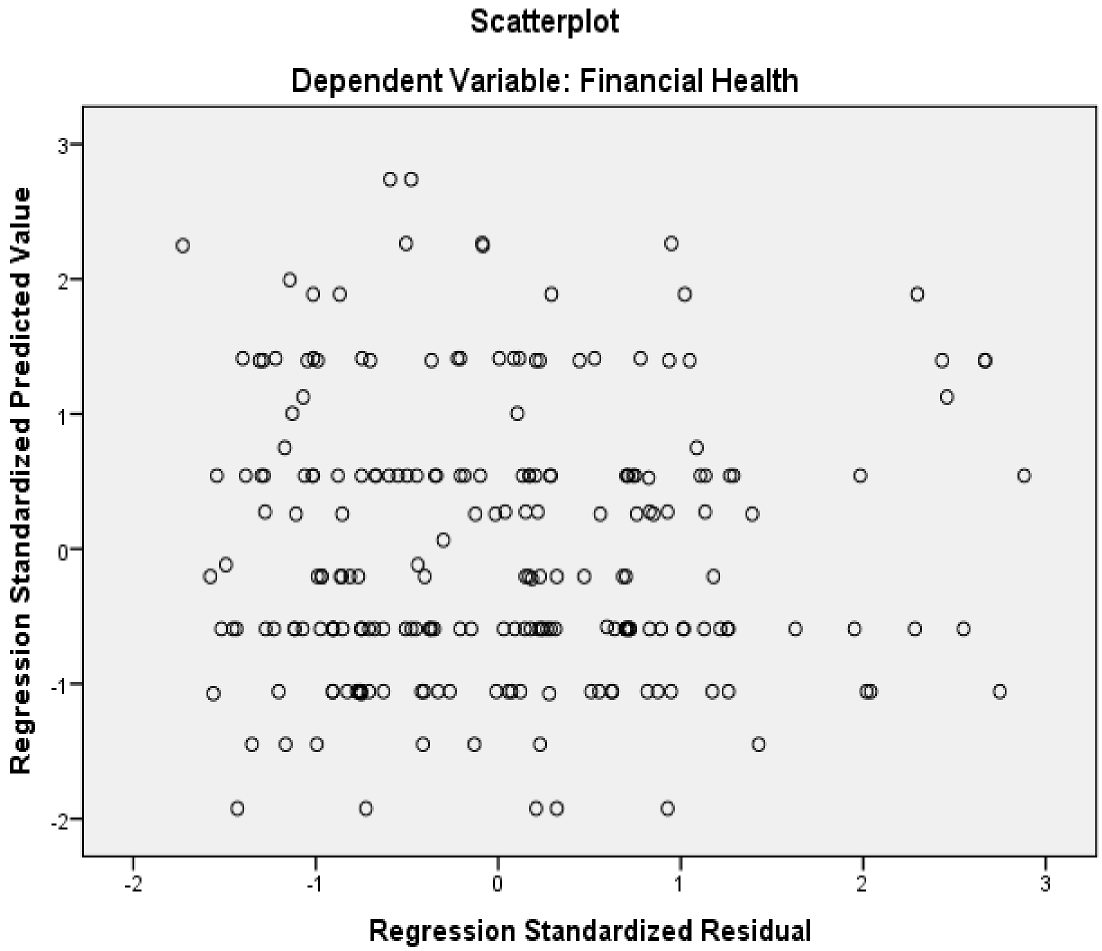


Figure 4.7: Scatter Plot of Data for Financial Health

Since the various diagnostic tests for use of multi linear regression model produced favorable results indicating that the data did not violate key assumptions of regression models, the results were then subjected to inferential analysis.

4.6 Inferential Results

4.6.1 Correlation Results

Correlation coefficients were computed using SPSS and the results presented in Table 4.23.The results indicate that all the variables are highly significant and all of them are positively correlated with correlation coefficients of 0.378 (funding mechanisms), 0.419 (Budgetary process), 0.342 (Corporate governance) and 0.384 (Cash management).The positive linear correlation coefficient of 0.378 between funding mechanisms and financial health implies that improved funding mechanisms leads to increased financial health of NGOs in the health sector. These findings concur with studies by Unerman and O'Dwyer, 2010 who established that organizations that had diversified funding mechanism recorded better financial health than those without diversified funding mechanisms.

The positive linear correlation of 0.419 between budgetary process and financial health implied that improved budgetary process leads to increased financial health of NGOs in the health sector. The results are in agreement with findings by Diamond and Khemani (2006) who established that inadequate budgetary management leads to poor financial health. Chidi and Shadire (2011) also argued that ignorance in the budgeting process was a major determinant of poor performance in SMEs.

The results also established a positive linear correlation of 0.342 between corporate governance and financial health. This implies that good corporate governance leads to increased financial health of NGOs in the health sector. This finding corroborate with studies by Kock *et al.,* (2011) who argued that organizations that embrace corporate governance had a superior level of financial health. Chen (2008) also established that multiple directorship lead to improved financial health.

The results further established a positive linear correlation of 0.384 between cash management and financial health. This implies that better cash management leads to increased financial health of NGOs in the health sector. The findings are in line with arguments by Kwame (2007) which established that good cash management increases financial health of organizations. Similar observations were made by Kotut (2003) who established that cash forecasting improves financial health of organizations.

From table 4.23, the ranking of the independent variables with relation to their contribution to financial health are; budgetary process has the strongest correlation coefficient (0.419), followed by cash management (0.384), funding mechanisms (0.378) while corporate governance has the least correlation coefficient of 0.342.The findings show that budgetary process appears as the most important factor influencing financial health of NGOs in health sector in Kenya. Most governmental and not-for profit organization, regardless of size, categories, complexity or sector, relies heavily on budgets and budgetary systems to achieve strategic goals (Raghunandan, 2012). These results are also in agreement with studies by Silva (2012) who established that organizational performance is positively significant correlated with budgetary process of the company (r = 0.866, p= .000).

Table 4.23: Correlation Results

Study Variable		Financial health	Funding mechanisms	Budgetary process	Corporate Governance	Cash Management
Financial health	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	222				
*Funding Mechanisms	Pearson Correlation	0.378	1			
	Sig. (2-tailed)	0.000				
	N	222	222			
*Budgetary process	Pearson Correlation	0.419	0.464	1		
	Sig. (2-tailed)	0.000	0.000			
	N	222	222	222		
*Corporate Governance	Pearson Correlation	0.342	0.015	0.088	1	
	Sig. (2-tailed)	0.000	0.828	0.192		
	N	222	222	222	222	
*Cash Management	Pearson Correlation	0.384	0.318	0.642	0.022	1
	Sig. (2-tailed)	0.000	0.000	0.000	0.747	

4.6.2 Regression Results

The study adopted the multiple regression model of the following form:

$FH = \beta0 + \beta1X1 + \beta2X2 + \beta3X3 + \beta4X4 + \varepsilon$

Where:

FH= Financial health of NGOs in health sector; $\beta0$= Models constant and $\beta1$ to $\beta5$are the model's coefficients; X1= Funding mechanisms; X2= Budgetary process;X3=Corporate governance; X4=Cash management and ε = Error term

The results of the analysis of variance (ANOVA) are presented in Table 4.24. The ANOVA results indicated that the model of financial health with funding mechanisms, budgetary process, corporate governance and cash management was significant ($p<0.05$) and explained the variance in financial health among NGOs in health sector in Kenya.

Table 4.24: ANOVA for Regression Coefficients

Indicator	Sum of Squares	df	Mean Square	F	Sig.
Regression	1931.405	4	482.851	651.904	0.000
Residual	160.727	217	0.741		
Total	2092.132	222			

Table 4.25 shows the regression model in measuring the influence of funding mechanisms, budgetary process, corporate governance and cash management on financial health of NGOs in health sector in Kenya. The overall correlation coefficient (R) is a strong positive correlation of 0.961 .The coefficient of determination (R Square) indicates that funding mechanisms, budgetary process, corporate governance and cash management in the regression model can explain 92.3% of the variations in financial

health of NGOs in health sector in Kenya holding other factors constant. It therefore implied that a combined unit increase in funding mechanisms, budgetary process, corporate governance and cash management results in 92.3% increase in financial health of NGOs in health sector in Kenya and vice versa holding other factors constant.

Table 4.25: Regression Model Summary

Indicator	**Coefficient**
R	0.961
R Square	0.923
Adjusted R Square	0.922
Std. Error of the Estimate	0.8606265

Table 4.26 shows the regression coefficients of funding mechanisms, budgetary process, corporate governance, cash management and financial health. The results indicate positive Beta coefficients and p values of less than 0.05. This implies that funding mechanisms, budgetary process, corporate governance and cash management are significant in explaining financial health of NGOs in health sector in Kenya.

Table 4.26: Regression Coefficients/ANOVA of Independent Variables and Financial Health

	Un-standardized Coefficients		Standardized Coefficients		
Study variable	**B**	**Std. Error**	**Beta**	**t**	**Sig.**
Funding mechanisms(FM)	0.060	0.014	0.178	4.299	0.000
Budgetary process (BP)	0.088	0.039	0.143	2.285	0.023
Corporate Governance (CG)	0.243	0.019	0.558	13.052	0.000
Cash management (CM)	0.011	0.004	0.131	2.967	0.003

From Table 4.26 above, the study developed the following multi-linear regression model

FH = 0.06 FM+ 0.088 BP + 0.243 CG + 0.011 CM, Where FH is the financial health.

From the regression equation above, a unit increase of funding mechanism (Number of donors, review of financial reports and income generating activity) will result to six percent increase in financial health of NGOs in health sector holding other factors constant , a unit increase in budgetary process through budget planning meeting , budget trainings and budget information system will result to 8.8 percent increase in financial health of NGOs in the health sector holding other factors constant, a unit increase in corporate governance through audit committee meetings ,Board evaluation and diversity will result to a 24 percent increase in financial health of NGOs in health sector holding other factors constant and a unit increase cash management through investment of surplus cash and cash reconciliations will result to 1.1 percent increase in financial health of NGOs in the health sector holding other factors constant.

4.6.3 Hypothesis Testing

Hypothesis 1 (H_{01}): Funding mechanisms has no effect on financial health of NGOs in Health Sector in Kenya

This hypothesis intended to test whether funding mechanisms had an influence on financial health or not. In order to test this hypothesis, Analysis of Variance (ANOVA) and the regression coefficient were considered. The results are summarized in Table 4.26. The findings indicate that the P-value was 0.000 which is less than 0.05. This implies that we reject the null hypothesis that funding mechanism had no effect on financial health of NGOs in the health sector in Kenya. This implies that funding mechanisms is significant in explaining financial health of NGOs in health sector in Kenya. This leads us to conclude that funding mechanisms has a positive influence on financial health of NGOs in Kenya.

These findings concur with studies by Unerman and O'Dwyer, 2010 who established that organizations that had diversified funding mechanism recorded better financial health than those without diversified funding mechanisms. The results are also in agreement with findings by Bowman (2007) who established that financial health of an organization is an important determinant of their propensity to accumulate investment income and therefore increases performance.

Hypothesis 2 (H_{02}): Budgetary process has no effect on financial health of NGOs in Health Sector in Kenya

This hypothesis intended to test whether budgetary process had an influence on financial health or not. In order to test this hypothesis, Analysis of Variance (ANOVA) and regression coefficient were considered. The results in Table 4.26 indicated that the P-value was 0.023 which is less than 0.05. This implies that we reject the null hypothesis that budgetary process has no effect on financial performance of NGOs in the health sector in Kenya.

This result agrees with research findings by Gachithi (2010) who observed that budgets are a strong tool of planning for the future. Scarlett (2008) also argue that budgetary controls refer to the principles, procedures and practices of achieving given objectives through budgets. The budgetary control system helps in fixing the goals for the organization as a whole and concerted efforts made for its achievements. Jowell, 2009 also argued that a budget is also a tool of control that will guide the management of an organization as they implement their activities. Suberu (2010) further observed that for any organization to perform creditably, budget and budgeting should facilitate effective utilization of available funds, improve decision making, provide a bench mark to measure and control performance, increase general communication and analysis within the organization and establish understanding between managers about goals and objectives. Ashok (2009) also noted that budget as management tools can be used as performance measures among employees.

Hypothesis 3 (H_{03}): Corporate governance has no effect on financial health of NGOs in Health Sector in Kenya

This hypothesis intended to test whether corporate governance had an influence on financial health or not. In order to test this hypothesis, Analysis of variance (ANOVA) and regression coefficient were considered. ANOVA was done to statistically qualify the relationship between corporate governance and financial health and the results presented in Table 4.26.

The P-value was 0.000 which was less than 0.05. This is the coefficient that is used to test hypothesis and the significance of the independent variables. The level of significance for this study is 0.05 and therefore if the p value is less than 0.05 we reject the null hypothesis and fail to reject if the p value is greater than 0.05.

The results also indicate a p-value of 0.000 which is less than 0.05. This implies that we reject the null hypothesis that corporate governance has no effect on financial health of NGOs in the health sector in Kenya. This shows that the corporate governance included in the model has an overall high significance in explaining the financial performance of NGOs in health sector 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. Good Corporate Governance also serves a motivator for employees which tremendously benefit any organization, as happy workers will more likely produce more, thus enhancing the firm's financial performance, and staying loyal to the organization (OECD, 2005). Bebchuk, Cohen and Ferrell (2004) indicated that well-governed firms have higher firm performance.

Hypothesis 4 (H_{04}): Cash Management has no effect on financial health of NGOs in Health Sector in Kenya

This hypothesis intended to test whether cash management had an influence on financial health or not. In order to test this hypothesis, the Analysis of Variance (ANOVA) and the regression coefficient was considered.ANOVA was done to statistically qualify the relationship between cash management and financial health and the results presented in Table 4.26. The results indicate the P-value of 0.030 which is less than 0.05. This implies that we reject the null hypothesis that cash management have no effect on financial health of NGOs in the health sector in Kenya. This finding diverges from studies by Ondiek *et al.,* (2013) which established that there was no significant relationship between cash management technique and performance of SMEs. It however agrees with studies by Kotut (2003) which established that cash management practices have a positive effect on financial performance of firms. The results also corroborate with findings by Atrill, (2006), who established that there is need for careful planning and monitoring of cash flows over time to determine the optimal cash to hold and (Kwame, 2007) who established that the setting up of a cash balance policy ensures prudent cash budgeting and investment of surplus cash.

4.7 Summary of Hypothesis Results

Table 4.27 indicates the results of the hypotheses, the variables that were tested, the results of the hypotheses and the explanation of the results.

Table 4.27: Overall Results of Hypothesis Testing

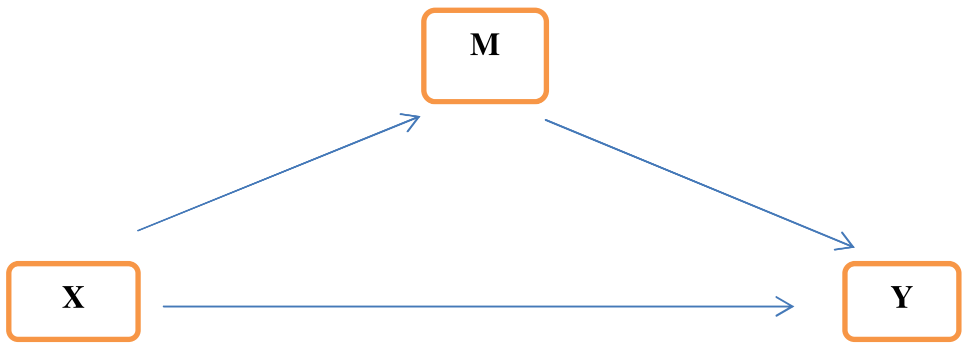
Hypothesis number	**Variable**	**Hypothesis results**	**Explanation**
H_{01}	Funding mechanisms (FM)	Rejected	FM significantly and positively influence financial health of NGOs in health sector in Kenya
H_{02}	Budgetary process (BP)	Rejected	BP significantly and positively influence financial health of NGOs in health sector in Kenya
H_{03}	Corporate governance (CG)	Rejected	CG significantly and positively influence financial health of NGOs in health sector in Kenya
H_{04}	Cash management (CM)	Rejected	CM significantly and positively influence financial health of NGOs in health sector in Kenya

4.8 Statistical Tests for Intervening / Mediating Effect of Government Policy on Financial Health

Intervening /mediating effect occurs when some independent variable (X) is correlated with some dependent variable (Y) not because it exerts some direct effect upon the dependent variable, but because it causes changes in an intervening or mediating variable (M), and then the mediating variable cause's changes in the dependent variable (MacKinnon *et al.,* 2002).

The above relationship is demonstrated in the figure below:

Intervening variable (Government policy)



Independent variables: **Dependent variable** (financial health)

Funding mechanisms

Budgetary process

Corporate Governance

Cash Management

Figure 4.8: Intervening /Mediation Model Adopted from MacKinnon *et al*., (2002)

The study adopted a criteria developed by Howell (2013) for establishing mediation/ intervening effect of Government policy on financial performance. Howell developed the following steps for establishing intervening effect:

i. Independent variable (X) must be correlated with dependent variable (Y);

ii. Independent variable (X) must be correlated with intervening variable (M);

iii. Intervening variable (M) must be correlated with dependent variable (Y), holding constant any direct effect of X on Y;

iv. When the effect of M on Y is removed, X is no longer correlated with Y (Complete mediation) or the correlation between X and Y is reduced (partial mediation)

The study tested each of these four criteria separately for intervening effect on each of the four independent variable on financial health of NGOs in the health sector. The independent variables are funding mechanisms, budgetary process, corporate governance and cash management.

4.8.1 Intervention of Government Policy on the Effect of Funding Mechanism on Financial Health of NGOs in Health Sector in Kenya

The results of zero order correlation between funding mechanism and financial health and financial mechanism and Government policy are presented in Table 4.28. Zero order correlation means no variable is controlled. These are intended to test Howells criteria I & II as discussed in **4.8.** The results indicate a significant positive linear correlation between funding mechanisms and financial health ($r=0.378$, $p=0.000 <0.05$). The results also display a significant negative linear correlation between Government policy and funding mechanisms (r -0.182, $p=0.007 < 0.05$). The result therefore satisfies Howells criteria I and II.

Table 4.28: Zero Order Correlation Analysis –Funding Mechanisms

Study variable	Funding mechanisms	P Value	Comment
Financial health	0.378	0.000	Zero order correlation
Government policy	-0.182	0.007	Zero order correlation

N/B Zero order correlation means no variable is controlled

The results of partial correlation between Government policy and financial health holding constant any direct effect of funding mechanisms on financial health are presented in Table 4.29. These are intended to test Howells criteria iii as discussed in **4.8**.The results indicate insignificant negative linear correlation between Government policy and financial health (r= -0.020, p=0.767 > 0.05). The result therefore satisfies Howells criteria iii.

Table 4.29: Partial Correlation Analysis - Effect of Funding Mechanisms Controlled

Study variable	Financial health	P Value	Comment
Government policy	-0.020	0.767	Partial correlation – effect of funding mechanisms on financial health controlled

Table 4.30 presents the results of partial correlation between funding mechanism and financial health holding constant any direct effect of Government policy on financial health. These are intended to test Howells criteria iv as discussed in 4.8 .The results indicate a significant positive linear correlation between funding mechanism and financial health (r= -0.370, p=0.000 < 0.05). It further shows that the correlation between funding mechanisms and financial health has reduced from 0.378 as earlier shown in Table 4.28 to 0.370 According to Howells criteria iv, this describes partial intervention of Government policy on the effect of funding mechanisms on financial health of NGOs in the health sector.

Since all the four criteria for establishing mediation / intervening effect of Government policy on the influence of funding mechanisms on financial health have been satisfied, the study concluded that Government policy has a partial intervening effect on the influence of funding mechanisms on financial health.

This finding corroborate with previous studies that underlined that government, policies have an impact on SMEs activities, linkages and networking in order to enhance cooperation and utilizing resources (Brimble *et al.,* 2002) . Tambunan, (2005) also observed that in addition to registration under the NGOs Act, NGOs are still subject to other legislative requirements such as immigration Act and Finance Act.

Table 4.30: Partial Correlation Analysis - Effect of Government Policy Controlled

Study variable	Financial health	P Value	Comment
Funding mechanisms	0.370	0.000	Partial correlation – effect of Government policy on financial health controlled

4.8.2 Intervention of Government Policy on the Effect of Budgetary Process on Financial Health of NGOs in Health Sector in Kenya

The results of zero order correlation between budgetary process and financial health and budgetary process and Government policy are presented in Table 4.31. Zero order correlation means no variable has been controlled. These are intended to test Howells criteria I & II as discussed in 4.8. The results indicate a significant positive linear correlation between budgetary process and financial health ($r=0.419$, $p=0.000<0.05$). The results also display a significant negative linear correlation between Government policy and budgetary process ($r =0.203$, $p=0.002 < 0.05$). The result therefore satisfies Howells criteria I and II.

Table 4.31: Zero Order Correlation Analysis - Budgetary Process

Study variable	Budgetary process	P Value	Comment
Financial health	0.419	0.000	Zero order correlation
Government policy	-0.203	0.002	Zero order correlation

The results of correlation between Government policy and financial health holding constant any direct effect of budgetary process on financial health are presented in Table 4.32. These are intended to test Howells criteria iii as discussed in 4.8. The results indicate insignificant negative linear correlation between Government policy and financial health (r=-0.003, p=0.969 > 0.05). The result therefore satisfies Howells criteria iii.

Table 4.32: Partial Correlation Analysis - Effect of Budgetary Process Controlled

Study variable	Financial health	P Value	Comment
Government policy	-0.003	0.969	Partial correlation – effect of budgetary process on financial health controlled

Table 4.33 presents the results of partial correlation between budgetary process and financial health holding constant any direct effect of Government policy on financial health. These are intended to test Howells criteria iv as discussed in 4.8. The results indicate a significant positive linear correlation between budgetary process and financial health (r= 0.411, p=0.000<0.05). It further shows that the correlation between budgetary

process and financial health has reduced from 0.419 as earlier shown in Table 4.31 to 0.411. This indicates partial intervention according to Howells criteria IV.

Since all the four criteria for establishing mediation/ intervening effect of Government policy on the effect of budgetary process on financial health have been satisfied, the study concluded that Government policy has a partial intervening effect on the influence of budgetary process on financial health. This finding is supported by theoretical and empirical studies (Opara, 2010; MohdShariff & Peou, 2008) that have shown government policy that seems to be more consistent in influencing the financial performance of the SMEs. In developed and developing countries, government policies that provide support are a critical factor for SMEs growth (Nguyen *et al.,* 2009).

Table 4.33: Partial Correlation Analysis – Effect of Government Policy Controlled

Study variable	Financial health	P Value	Comment
Budgetary process	0.411	0.000	Partial correlation – effect of Government policy on financial health controlled

4.8.3 Intervention of Government Policy on the Effect of Corporate Governance on Financial Health of NGOs in Health Sector in Kenya

The results of zero order correlation between corporate governance and financial health and corporate governance and Government policy are presented in Table 4.34. These are intended to test Howells criteria I & II as discussed in 4.8. The results indicate a significant positive linear correlation between corporate governance and financial health (r=0.419, p=0.000 <0.05). The results also display insignificant positive linear correlation between Government policy and corporate governance (r=0.002, p=0.97>0.05). The result therefore satisfies Howells criteria I and II.

Table 4.34: Zero Order Correlation Analysis - Corporate Governance

Study variable	Corporate governance	P Value	Comment
Financial health	0.342	0.000	Zero order correlation
Government policy	0.002	0.97	Zero order correlation

The results of partial correlation between Government policy and financial health holding constant any direct effect of corporate governance on financial health are presented in Table 4.35. These are intended to test Howells criteria iii as discussed in 4.8. The results indicate insignificant negative linear correlation between Government policy and financial health (r=-0.94, p=0.166 > 0.05). The result therefore satisfies Howells criteria iii.

Table 4.35: Partial Correlation Analysis - Effect of Corporate Governance Controlled

Study variable	Financial health	P Value	Comment
Government policy	-0.94	0.166	Partial correlation – effect of corporate governance on financial health controlled

Table 4.36 presents the results of partial correlation between corporate governance and financial health holding constant any direct effect of Government policy on financial health. These are intended to test Howells criteria iv as discussed in 4.8. The results indicate a significant positive linear correlation between corporate governance and financial health (r= 0.343, p=0.000 < 0.05).It further shows that the correlation between corporate governance and financial health has increased from 0.342 as earlier shown in Table 4.34 to 0.343 The result does not therefore satisfies Howells criteria iv.

Since the fourth criteria for establishing mediation / intervening effect of Government policy on the effect of corporate governance on financial health has not been satisfied, the study concluded that Government policy has no intervening effect on the influence of corporate governance on financial health. This finding diverges from previous studies that established that the nature and scope of government policies have a direct impact on a company's financial health (Borges *et al*., 2009).

Table 4.36: Partial correlation analysis - effect of Government policy controlled

Study variable	Financial health	P Value	Comment
Corporate governance	0.343	0.000	Partial correlation – effect of Government policy on financial health controlled

4.8.4 Intervention of Government Policy on the Effect of Cash Management on Financial Health of NGOs in Health Sector in Kenya

The results of zero order correlation between cash management and financial health and cash management practices and Government policy are presented in Table 4.37. These are intended to test Howells criteria I & II as discussed in 4.8. The results indicate a significant positive linear correlation between cash management and financial health ($r=0.497$, $p=0.000 < 0.05$). The results also display a significant negative linear correlation between Government policy and cash management ($r - 0.203$, $p=0.002 < 0.05$). The result therefore satisfies Howells criteria I and II.

Table 4.37: Zero order correlation analysis - Cash management

Study variable	Cash management	P Value	Comment
Financial health	0.497	0.000	Zero order correlation
Cash management	-0.203	0.002	Zero order correlation

The results of partial correlation between Government policy and financial health holding constant any direct effect of cash management on financial health are presented in Table 4.38. These are intended to test Howells criteria iii as discussed in 4.8. The results indicate insignificant negative linear correlation between Government policy and financial health (r= -0.010, p=0.877 > 0.05). The result therefore satisfies Howells criteria iii.

Table 4.38: Partial correlation analysis - effect of cash management controlled

Study variable	Financial health	P Value	Comment
Government policy	-0.010	0.877	Partial correlation – effect of cash management on financial health controlled

Table 4.39 presents the results of partial correlation between cash management and financial health holding constant any direct effect of Government policy on financial health. These are intended to test Howells criteria iv as discussed in 4.8. The results indicate a significant positive linear correlation between corporate governance and financial health (r= 0.376, p=0.000 < 0.05). It further shows that the correlation between

cash management and financial health has reduced from 0.497 as earlier shown in table 4.37to 0.376. The result therefore satisfies Howells criteria iv.

Since all the four criteria for establishing mediation / intervening effect of Government policy on the effect of cash management on financial health have been satisfied, the study concluded that Government policy has a partial intervening effect on the influence of cash management on financial health.

Table 4.39: Partial Correlation Analysis — Effect of Government Policy Controlled

Study variable	Financial health	P Value	Comment
Cash management	0.376	0.000	Partial correlation – effect of Government policy on financial health controlled

4.9 Secondary Data Section

Data was collected from financial statements of NGOs and used to determine financial health. These data related to programme costs, total expenditures, total donations, fundraising costs, current assets and current liabilities .Financial health was determined as an average of three ratios. These were programme service ratio, fundraising ratio and current ratios. Programme service ratio was computed as a ratio of programme costs divided by total expenditures, fund raising ratio as a ratio of fund raising costs divided by total donations while current ratio was computed as a ratio of current assets divided by current liabilities. The following formula was used to compute financial health:

FH= ($\frac{(PSR+FRR+CR)1}{3}$

Where:

FH= Financial health of NGOs in Health Sector

PSR= Programme Service Ratio (Programme costs / Total Cost)

FRR= Fund Raising Ratio (Fund Raising Costs / Total Donations)

CR= Current Ratio (Current Assets / Current liabilities)

Table 4.40 presents the results on financial health of NGOs. The results indicate that NGOs reported the best (1.04) financial health in year 2010 followed by year 2014 (1.02) while year 2011 disclosed the weakest financial health.

Table 4.40: Financial health of NGOs

	Period /year					
Ratio	**2010**	**2011**	**2012**	**2013**	**2014**	**Mean /average**
Programme Service Ratio (PSR)	0.64	0.69	0.51	0.58	0.68	0.62
Fund Raising Ratio (FRR)	0.20	0.17	0.23	0.150	0.18	0.18
Current Ratio (CR)	2.32	1.63	2.04	1.49	2.20	1.93
Financial Health (FH)	1.04	0.83	0.92	0.74	1.02	0.91

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the research findings and discusses the broader implications of the findings for theory, practice, policy and further research in the NGOs in Kenya. The study sought to investigate the factors affecting financial health of NGOs in health sector in Kenya. Specifically, the study looked at effects of funding mechanisms, budgetary process, corporate governance, cash management and government policy on financial health of NGOs in health sector in Kenya. Tests were carried out using simple regression analysis, multiple regression analysis, correlation analysis and stepwise regression analysis. The tests were done at 5% significance level. The evaluation focused on the hypotheses derived from the objectives of the study.

This chapter summarizes the findings of the study and the statistical analysis. The presentation is organized around specific objectives and research hypothesis to assess the results by evaluating and interpreting them. The conclusions are in tandem with the specific objectives and research hypothesis. The recommendations refer to suggestions for further study or proposal for change. Each recommendation relates to each conclusion.

5.2 Summary of Major Findings

Before the actual final data collection, a pilot study was conducted where the content validity and reliability of the questionnaires were tested. The validity was enhanced through discussion of the questionnaire contents with managers of NGOs and peers.A sample was drawn using a stratified random sampling technique. Statistical inferences were validly made from samples that are large enough of the population. The health sector was selected due to the importance of the sector in economic growth and reduction of poverty as reflected in the Millennium Development Goals (MDGs). Three out of eight MDGs refer directly to health. Further, World Bank reports observed that high levels of corruption had degraded health systems in Kenya and other developing countries.

The study sample had 384 questionnaires distributed and 222 were duly completed and returned for analysis. This represented a response rate of 58% .The independent variables were tested for multicollinearity, which is the combined relationship towards dependent variable. Statistical Package for Social Sciences (SPSS) version 21 was used the statistical tool for analysis. Data was analyzed and presented using descriptive and inferential statistics. Scatter plots and graphs were used to establish if linear regression relationship existed after which statistical analysis was made for every variable. This led to the findings in sections 5.2.1 to 5.2.5.

5.2.1 Effect of Funding Mechanisms on Financial Health of NGOs in Health Sector in Kenya

The first objective of the study was to set to establish the influence of funding mechanisms on financial health of NGOs in health sector in Kenya. The findings revealed that funding mechanisms has a significant positive influence on financial health of NGOs in Kenya. ($r = 0.378$, $p= 0.000 <0.05$). The influence of funding mechanisms on financial health is also statistically significant and hence the null hypothesis was rejected. This means that the influence is not by chance.

5.2.2 Effect of Budgetary Process on Health of NGOs in Health Sector in Kenya

The second objective of the study sought to establish the effect of budgetary process on financial health of NGOs in health sector in Kenya. Results revealed that budgetary process had positive influence on financial health of NGOs in health sector in Kenya ($r= 0.419$, $p<0.00$). The test for significance also showed that the influence was statistically significant and hence the null hypothesis was rejected. This means that good budgetary process through budgetary trainings, computerization and planning improves financial health.

5.2.3 Effect of Corporate Governance on Financial Health of NGOs in Health Sector in Kenya

The third objective of the study was to establish the influence of corporate governance on financial health of NGOs in health sector in Kenya. The results showed that corporate governance had a significant positive influence on financial health of NGOs in health sector in Kenya ($r=0.342$, $p < 0.000$). The significance test showed that influence of corporate governance on financial health was statistically significant and hence the null hypothesis was rejected. The NGOs Co-ordination Board has been piling pressure on NGOs in Kenya to improve corporate governance through board diversity, audit committees and regular board evaluations.

5.2.4 Effect of Cash Management on Financial Health of NGOs in Health Sector in Kenya

The fourth objective sought to establish the influence of cash management on financial health of NGOs in health sector in Kenya. Findings showed a positive relationship between cash management practices and financial health ($r= 0.384$, $p< 000$). This finding is further supported by regression results which showed that cash management practices have a statistically significant influence on the financial performance of NGOs in health sector in Kenya and therefore the null hypothesis was rejected. NGOs in Kenya use various cash management practices such as cash reconciliations and cash controls to manage their liquidity.

5.2.5 Intervening Effect of Government Policy on Financial Health of NGOs in Health Sector in Kenya

The fifth objective of the study sought to establish the intervening influence of government policy on financial health of NGOs in health sector in Kenya. The intervening effect was tested using partial correlation analysis and applying the Howell criteria for testing the intervening effect of variables (Howell, 2013). The findings revealed that Government policy had an intervening effect on the influence of funding mechanisms, budgetary process and cash management on financial health. The highest intervening effect was noted on budgetary process (r= 0.4 11), followed by cash management (r= 0.376) and finally funding mechanisms (r= 0.370.). The study however established that government policy had no intervening effect on the influence of corporate governance on financial health of NGOs in health sector.

5.3 Conclusion

The following conclusions were made on the factors influencing financial health of NGOs in health sector in Kenya. Financial mechanisms had a positive influence on financial health. NGOs which were financially health had diversified funding mechanisms. The study also established that majority of NGOs in health sector had more than two donors and reviewed there financial reports three times a year.

The study established that there exist a positive linear correlation between budgetary process and financial health. NGOs that had put in place effective budgetary management systems such as budget planning, budget information systems and budget skills competency were found to have better financial health than those that had not put in place such measures. Majority of NGOs indicated that they held budget planning meetings, had computerized budgetary systems and trained there staff on budget skills competency.

It was also found that good corporate governance practices improve financial health of NGOs in health sector in Kenya. Majority of NGOs had established independent audit committees, established a performance evaluation system for board of directors and had at least two women represented in the board of directors

The study further established that proper cash management through cash controls and cash reconciliations improves financial performance of NGOs in health sector. Majority of the NGOs in health sector were found to have cash management policy and indicated that they prepared between 2-4 cash flow reports per annum.

The findings also revealed that Government policy had an intervention on the influence of funding mechanisms, budgetary process and cash management practices on financial health. The highest intervening effect was noted on budgetary process while the least effect was noted on funding mechanisms. The study however established that government policy had no intervening effect on the influence of corporate governance on financial health of NGOs in health sector.

5.4 Recommendations

5.4.1 Recommendations for Practice

The recommendations are based on the findings on the objectives of the study.

NGOs should put in place appropriate funding mechanisms such as self-generated incomes, diversification of donors and sound financial administration practices. This increases revenue stability, reduces financial risks and hedges NGOs against the loss of any single source of revenue while enabling the growth of revenue portfolio over time. Such funding mechanisms increases financial health.

NGOs should embrace budgetary planning initiatives that encourage participative decision making on budgetary matters. They should also computerize there budgetary processes to ensure accuracy and reliability of budget information. Further, NGOs should conduct frequent trainings on its staff on issues relating to budgeting.

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.

Incentives should be given to those NGOs which recruit more youth, women and disabled in their board of directors. The code of conduct should also provide guidelines and mandatory requirements for independent appraisal of board of directors of NGOs.

The Board of Directors of NGOs should develop cash management policies that clearly outline cash controls and cash reconciliation procedures. Donors should only finance NGOs that have put in place such measures as this will mitigate against the risk of cash frauds and encourage prudence in cash management.

The government through the NGOs Co-ordination Board and professional bodies such as Institute of Certified Public Accountants of Kenya (ICPAK) should develop guidelines and regulations that provide framework for funding mechanisms, budgeting process and cash management in NGOs.

5.4.2 Recommendations for Further Study

While the objectives were 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, the theoretical framework of the study was based on agency theory, dependency theory, stakeholder and priority based budgeting theories. It is proposed that further studies be conducted based on other theoretical frameworks.

The study adopted a survey research design based on stratified random sampling techniques. It is recommended that further studies be conducted based other research designs and sampling techniques such as simple random sampling. Data was collected from a sample of 384 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.

5.5 Contribution of the Study to Existing Knowledge

The study investigated factors affecting financial health of NGOs based on a sample collected from NGOs operating in health sector in Kenya. Unlike previous studies which focused on use of profitability ratios to measure financial health of organizations, the study used program service ratio, financial and current ratios to measure financial health of NGOs in health sector in Kenya. Further, unlike previous studies this thesis investigated the combined effect of funding mechanisms, budgetary process, corporate governance and cash management on financial health. It further, investigated the intervening effect of Government policy on the influence of each of the four independent variables on financial health of NGOs.

The study established that funding mechanisms, budgetary process, corporate governance and cash management had an effect on financial health of NGOs. Budgetary process was found to have the highest influence followed by cash management practice then funding mechanism while corporate governance was found to have the least effect. The study also found out that Government policy had an intervening effect on the influence if budgetary process, cash management and funding mechanisms on financial health of NGOs in the health sector while there was no intervening effect on the influence of corporate governance on financial health. It therefore implies that Government should regulate budgetary process, funding mechanisms and cash management in order to improve financial health of NGOs in the health sector. However, the Government should not intervene on corporate governance matters in NGOs but instead allow for self-regulation mechanisms to address corporate governance matters in NGOs in the health sector.

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APPENDICES

Appendix 1: Letter of Introduction

Sammy Kimunguyi
P.O Box 22065-00100,
Nairobi

Mobile Phone: 0720910492

Email: skimunguyi@yahoo.com

To whom it may concern,

Ref: Data Collection

My name is Sammy Kimunguyi and I am a Doctor of Philosophy (PhD) student in Business Administration at the Jomo Kenyatta University of Agriculture and Technology (JKUAT) department of Commerce and Economic studies. I am currently working on my graduate thesis "Factors affecting financial health of Non-Governmental Organizations (NGOs) in the health sector in Kenya."

Your participation in this exercise will help me in learning factors affecting financial performance of NGOs in the health sector in Kenya.

I want to assure you that all information you give will be kept confidential. Your name will not be recorded on any document related to this study.

Thank you for agreeing to participate in this research.

Yours faithfully,

Sammy Kimunguyi

Reg. number: HD433-C003-3779/2013

PhD, student, JKUAT

Appendix 2: Sample Size

S/no	Name of County	No. of NGOs registered in Health Sector as per NGO Board register	Proportion (%)	Sample Size	Questionnaires returned
1	Baringo	427	2.5	10	8
2	Bomet	182	1.1	4	3
3	Bungoma	500	3.0	12	10
4	Busia	493	3.0	12	10
5	Elgeyo /Marakwet	384	2.3	9	7
6	Garissa	20	0	0	0
7	Homa bay	490	3.0	12	9
8	Isiolo	206	1.2	5	3
9	Kajiado	353	2.1	8	5
10	Kakamega	904	5.4	21	15
11	Kericho	230	1.4	5	3
12	Kiambu	542	3.2	12	9
13	Kilifi	429	2.5	10	5
14	Kirinyaga	201	1.2	5	3
15	Kisii	448	2.7	10	7
16	Kisumu	609	3.6	14	8
17	Kitui	457	2.7	10	6
18	Kwale	227	1.4	5	3
19	Laikipia	221	1.3	5	0
20	Lamu	178	1.1	4	2
21	Machakos	352	2.1	8	4

S/no	Name of County	No. of NGOs registered in Health Sector as per NGO Board register	Proportion (%)	Sample Size	Questionnaires returned
22	Makueni	241	1.4	5	3
23	Mandera	234	1.4	5	1
24	Marsabit	180	1.1	4	2
25	Meru	612	3.6	14	2
26	Migori	675	4.0	15	6
27	Mombasa	310	1.8	7	3
28	Muranga	237	1.4	5	3
29	Nairobi	838	5.0	19	12
30	Nakuru	399	2.4	9	4
31	Nandi	214	1.3	5	3
32	Narok	440	2.6	10	5
33	Nyamira	211	1.3	5	2
34	Nyandarua	208	1.2	5	3
35	Nyeri	438	2.6	10	5
36	Samburu	209	1.2	5	2
37	Siaya	512	3.0	12	10
38	Taita /Taveta	206	1.2	5	4
39	Tana river	194	1.1	4	3
40	Taraka /Nithi	175	1.0	4	4
41	Trans-Nzoia	234	1.4	5	3
42	Turkana	258	1.5	6	4
43	UasinGishu	306	1.8	7	4
44	Vihiga	256	1.5	6	4
45	Wajir	802	4.8	17	0

S/no	Name of County	No. of NGOs registered in Health Sector as per NGO Board register	Proportion (%)	Sample Size	Questionnaires returned
46	Embu	380	2.3	9	7
47	West pokot	222	1.3	5	3
		16,844	100	384	222

Appendix 3: Questionnaire for Ceos / Managers of Ngos

Instructions:

Please fill in the questionnaire as requested .Any response given shall not be used to victimize or intimidate an individual rather it will be used for academic purpose only.

SECTION ONE

GENERAL INFORMATION

1) What is your highest Level of education?

PhD [ ] Masters [ ] Bachelor's degree [ ] Diploma [ ] Certificate and below

2) Please indicate your age bracket.

[ ] 20-29 years [ ] 30-39 years [ ] 40-49years [ ] 50-59 years [ ] 60 and over years

3) What is your gender? Male [ ] female [ ]

4) Which department do you work in this organization?

[ ] Accounting and Finance [ ] Audit [ ] Executive [ ] Operations [ ] Others (Specify) ……

5) How long have you worked for this organization?

[ ] less than 1 year [ ] Btw 1-5 years [ ] Btw 5-10 years [ ] Over 10 years

SECTION TWO

Funding Mechanisms

Self-Generation Income

6). Other than donor funding, does your organization generate any other revenue internally?

Yes [ ] No [ ]

7) If yes, Please indicate the amount of internally generated revenues for the past 5 years by ticking as appropriate in the table below:

Year	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
2010	Below 1 million	1-5million	6-10 million	11-15million	16-20 million	20 million and above
2011	Below 1 million	1-5million	6-10 million	11-15million	16-20 million	20 million and above
2012	Below 1 million	1-5million	6-10 million	11-15million	16-20 million	20 million and above
2013	Below 1 million	1-5million	6-10 million	11-15million	16-20 million	20 million and above
2014	Below 1 million	1-5million	6-10 million	11-15million	16-20 million	20 million and above

Diversification of donors

8). Please indicate the number of donors who funded your organization in the past 5 years as detailed below:

	Year	No of donors	No of donors	No of donors	No of donors	No of donors
1	2010	0-1	2-4	5-7	8-10	10 and over
2	2011	0-1	2-4	5-7	8-10	10 and over
3	2012	0-1	2-4	5-7	8-10	10 and over
4	2013	0-1	2-4	5-7	8-10	10 and over
5	2014	0-1	2-4	5-7	8-10	10 and over

9) How much of your total revenue did your organization receive from the following sources in the last five years .Please indicate as appropriate in the table below:

	Year	self-generated income Kshs	Government support Kshs	Other donors Kshs
1	2010			
2	2011			
3	2012			
4	2013			
5	2014			

Financial reporting

10) How frequent does your organization Board review revenue reports per year?

Once [ ] Twice [ ] Three times [ ] Four times [ ] more than 4 times [ ]

BUDGETARY PROCESS

Budget planning

11) a) Does your organization conduct annual budgetary planning?

Yes [ ] No [ ]

b) If yes, how many budget planning sessions does your organization hold in a year?

0-1	2-4	5-7	8-10	10 and over

Budgetary information system

12) a) Please tick as appropriate:

1- The Organization budgetary process is manual (not computerized)

2-The organization budgetary process is computerized

22) If yes, Indicate the estimated amount spent by your organization in computerization of budget process

Year				
2010	Below 1 million	1- 3million	4-6 million	Over 6 million
2011	Below 1 million	1- 3million	4-6 million	Over 6 million
2012	Below 1 million	1- 3million	4-6 million	Over 6 million
2013	Below 1 million	1- 3million	4-6 million	Over 6 million
2014	Below 1 million	1- 3million	4-6 million	Over 6 million

Budgetary skills competency

13) Indicate the number of trainings per year attended by your organization staff.

0	1-3	4-6	More than 6

CORPORATE GOVERNANCE

Audit Committee

14) Does your organization have an independent audit committee?

Yes [ ]   No [ ]

15). Indicate the number of meetings held by the committee per year in the last 5 years?

	Year					
1	2010	0-1	2-4	5-7	8-10	10 and over
2	2011	0-1	2-4	5-7	8-10	10 and over
3	2012	0-1	2-4	5-7	8-10	10 and over
4	2013	0-1	2-4	5-7	8-10	10 and over
5	2014	0-1	2-4	5-7	8-10	10 and over

Board evaluation

16) Does your organization have a performance evaluation system for the board of directors?

Yes [ ]   No [ ]

17). Indicate the frequency of evaluation of board of directors per year over the last 5 years

	Year	Number of Evaluations per year				
1	2010	0-1	2-4	5-7	8-10	10 and over
2	2011	0-1	2-4	5-7	8-10	10 and over
3	2012	0-1	2-4	5-7	8-10	10 and over
4	2013	0-1	2-4	5-7	8-10	10 and over
5	2014	0-1	2-4	5-7	8-10	10 and over

Board diversity

18) Indicate the number of women, disabled and youth represented in your board of directors in the past 5 years as detailed below:

Year	2010	2011	2012	2013	2014
Women					
Disabled					
Youth					

CASH MANAGEMENT

Cash flows

19). Does your organization have a cash management policy?

Yes [ ]   No [ ]

20). How frequent does your organization prepare cash flow reports to the management in a year?

0	1-2	2-4	More than 4

Cash investments

21).a) Indicate the amount of cash invested in the past 5 years

Year	2010	2011	2012	2013	2014
Amount (Kshs)					

Cash controls/reconciliations

22. Indicate the frequency of Cash reconciliations in your organization for the past 5 years.

Year	2010	2011	2012	2013	2014
Number					

GOVERNMENT POLICY

Fees and penalties to NGO Board and KRA (NGO Act, Income Tax Act and Local Government Laws)

23) Indicate the amounts in Kshs. Spent on fees and penalties to NGO Co-ordination Board, KRA and rates paid to local Government/County Governments over the past 5 years:

Year	2010	2011	2012	2013	2014
NGO Board (NGOs Act ,1990)					
KRA (Incomes Tax Act)					
local Government/County Governments					

FINANCIAL HEALTH OF NGOs IN HEALTH SECTOR

24) Please, provide information as follows:

Indicator and Measurement	**2010**	**2011**	**2012**	**2013**	**2014**
Total expenditure (TE)					
Programme costs (PC)					
Programme Service Ratio/Budget burn out Ratio (PSR) computed as , PC/TE					
Total donations (TD)					
Fund raising cost (FRC)					
Fund Raising Ratio (FRR) computed as, FRC/TD					
Current Asset (CA)					
Current Liabilities(CL)					
Current Ratio (CR) computed as CA/CL					
FINANCIAL HEALTH = (PSR+FRR+CR)/3					

25) Give any two ways of improving financial health of NGOs in the health sector in Kenya

……………………………………………………………………………………………
……………………………………………………………………………………………

Thank you for taking time to respond to the questions

Appendix 4: Reliability and Factor Analysis Component Matrix

1. Funding Mechanisms

1a) **Income Generation**

Component Matrix[a]

	Component
	1
Amount of internally generated revenues, Year 2011	.977
Amount of internally generated revenues, Year 2010	.949
Amount of internally generated revenues, Year 2012	.936
Amount of internally generated revenues, Year 2013	.920
Amount of internally generated revenues, Year 2014	.871

Reliability Statistics

Cronbach's Alpha	N of Items
.930	5

1-b) Diversification of donors

Component Matrix[a]

	Component
	1
Number of donors who funded your organization, Year 2012	.927
Number of donors who funded your organization, Year 2011	.926
Number of donors who funded your organization, Year 2013	.921
Number of donors who funded your organization, Year 2010	.907
Number of donors who funded your organization, Year 2014	.877

Reliability Statistics

Cronbach's Alpha	N of Items
.946	5

1-c) Financial Reporting

Component Matrix[a]

	Component
	1
Frequency of review of revenue reports, Year 2012	.940
Frequency of review of revenue reports, Year 2011	.910
Frequency of review of revenue reports, Year 2013	.930
Frequency of review of revenue reports, Year 2010	.923
Frequency of review of revenue reports, Year 2014	.890

Reliability Statistics

Cronbach's Alpha	N of Items
.920	5

BUDGETARY PROCESS

1-a) Budget Information System

Component Matrix[a]

	Component
	1
Amount spent by the organization in computerization of budget process, Year 2011	.963
Amount spent by the organization in computerization of budget process, Year 2014	.952
Amount spent by the organization in computerization of budget process, Year 2012	.949
Amount spent by the organization in computerization of budget process, Year 2010	.897
Amount spent by the organization in computerization of budget process, Year 2013	.880

Reliability Statistics

Cronbach's Alpha	N of Items
.955	5

1-b) Budget Skills Competency

Component Matrix[a]

	Component
	1
Number of budget trainings , Year 2011	.927
Number of budget trainings , Year 2014	.930
Number of budget trainings , Year 2012	.910
Number of budget trainings , Year 2010	.960
Number of budget trainings , Year 2013	.941

Reliability Statistics

Cronbach's Alpha	N of Items
.934	5

1-c) Budget planning

Component Matrix[a]

	Component
	1
Number of budget planning meetings held , Year 2011	.920
Number of budget planning meetings held , Year 2014	.895
Number of budget planning meetings held , Year 2012	.940
Number of budget planning meetings held , Year 2010	.926
Number of budget planning meetings held , Year 2013	.915

Reliability Statistics

Cronbach's Alpha	N of Items
.910	5

2. CORPORATE GOVERNANCE

3-a) Audit Committee

Component Matrix[a]

	Component
	1
Number of meetings held by the committee per year, Year 2010	.941
Number of meetings held by the committee per year, Year 2012	.940
Number of meetings held by the committee per year, Year 2011	.843
Number of meetings held by the committee per year, Year 2013	.829
Number of meetings held by the committee per year, Year 2014	.854

Reliability Statistics

Cronbach's Alpha	N of Items
.810	5

3-b) Board Evaluation

Component Matrix[a]

	Component
	1
The frequency of evaluation of board of directors per year, Year 2011	.857
The frequency of evaluation of board of directors per year, Year 2012	.857
The frequency of evaluation of board of directors per year, Year 2013	.708
The frequency of evaluation of board of directors per year, Year 2014	.708
The frequency of evaluation of board of directors per year, Year 2010	.430

Reliability Statistics

Cronbach's Alpha	N of Items
.880	5

3-**c) Board Diversity**

Component Matrix[a]

	Component
	1
Number of women represented in the board, Year 2013	.836
Number of women represented in the board, Year 2014	.808
Number of women represented in the board, Year 2012	.715
Number of women represented in the board, Year 2010	.580
Number of women represented in the board, Year 2011	.665

Reliability Statistics

Cronbach's Alpha	N of Items
.840	5

CASH MANAGEMENT

4-a) Cash flows

	Component
	1
Frequency of cash flow reporting in your organization ,Year 2012	.847
Frequency of cash flow reportingin your organization, Year 2013	.806
Frequency of cash flow reportingin your organization ,Year 2011	.788
Frequency cash flow reportingin your organization, Year 2014	.647
Frequency of cash flow reportingin your organization ,Year 2010	.576

Reliability Statistics

Cronbach's Alpha	N of Items
.791	5

4-b) Cash reconciliations

	Component
	1
Number of cash reconciliations in your organization ,Year 2012	.821
Number of cash reconciliations in your organization, Year 2013	.891
Number of cash reconciliations in your organization ,Year 2011	.810
Number of cash reconciliations in your organization, Year 2014	.695
Number of cash reconciliations in your organization ,Year 2010	.790

Reliability Statistics

Cronbach's Alpha	N of Items
.801	5

4-b) Cash investments

	Component
	1
Amount of cash invested in your organization ,Year 2012	.860
Amount of cash invested in your organization Year 2013	.892
Amount of cash invested in your organization, Year 2011	.710
Amount of cash invested in your organization, Year 2014	.730
Amount of cash invested in your organization,Year 2010	.692

Reliability Statistics

Cronbach's Alpha	N of Items
.778	5

3. **GOVERNMENT POLICY**

5-a) Fee to NGO Board

Component Matrix[a]

	Component
	1
Fees and penalty to NGO Board, Year 2010	.907
Fees and penalty to NGO Board, Year 2011	.790
Fees and penalty to NGO Board, Year 2013	.673
Fees and penalty to NGO Board, Year 2012	.610
Fees and penalty to NGO Board, Year 2014	.580

Reliability Statistics

Cronbach's Alpha	N of Items
.730	5

5-b) Fee to KRA

Component Matrix[a]

	Component
	1
Fees and penalty to KRA, Year 2014	.845
Fees and penalty to KRA, Year 2013	.698
Fees and penalty to KRA, Year 2010	.567
Fees and penalty to KRA, Year 2011	.535
Fees and penalty to KRA, Year 2012	.557

Reliability Statistics

Cronbach's Alpha[a]	N of Items
.726	5

5-c) Fee to Local Government

Component Matrix[a]

	Component
	1
Fees and penalty to Local/ County government, Year 2010	.911
Fees and penalty to Local/ County government, Year 2013	.698
Fees and penalty to Local/ County government, Year 2011	.641
Fees and penalty to Local/ County government, Year 2012	.628
Fees and penalty to Local/ County government, Year 2014	.525

Reliability Statistics

Cronbach's Alpha	N of Items
.728	5

Financial health (Dependent Variable)

Component Matrix

	Component
	1
Financial health indicators, Year 2014	.723
Financial health indicators, Year 2010	.693
Financial health indicators, Year 2011	.675
Financial health indicators, Year 2014	.675
Financial health indicators, Year 2013	.669
Financial health indicators, Year 2012	.668
Financial health indicators, Year 2011	.648
Financial health indicators, Year 2010	.647
Financial health indicators, Year 2011	.646
Financial health indicators, Year 2010	.642
Financial health indicators, Year 2013	.639
Financial health indicators, Year 2012	.636
Financial health indicators, Year 2012	.608
Financial health indicators, Year 2011	.608
Financial health indicators, Year 2010	.578
Financial health indicators, Year 2014	.550
Financial health indicators, Year 2012	.549
Financial health indicators, Year 2012	.518
Financial health indicators, Year 2014	.512
Financial health indicators, Year 2012	.506
Financial health indicators, Year 2014	.486
Financial health indicators, Year 2013	.449
Financial health indicators, Year 2014	.593
Financial health indicators, Year 2013	.679
Financial health indicators, Year 2011	.536
Financial health indicators, Year 2011	.428
Financial health indicators, Year 2010	.587
Financial health indicators, Year 2010	.443
Financial health indicators, Year 2013	.442
Financial health indicators, Year 2013	.441

Extraction Method: Principal Component Analysis.

a. 1 components extracted.

Reliability Statistics

Cronbach's Alpha	N of Items
.897	30