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CORPORATE GOVERNANCE PRACTICES AND FINANCIAL SUSTAINABILITY OF NON-PROFIT ORGANIZATIONS IN NAIROBI COUNTY KENYA

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ABSTRACT

The research main objective was to determine corporate governance effect on financial sustainability of NPOs in Nairobi County, Kenya. It was hypothesized that board independence, gender diversity, audit committee size and board meetings do not affect financial sustainability of NPOs in Nairobi County Kenya. A descriptive research design was used. A sample size of 93 from 1252 active NPOs was determined using Yamane formula. Secondary data obtained and Random effects panel regression model adopted. Findings showed that corporate governance practices had a positive and statistically significant effect on the financial sustainability of NPOs in Nairobi County, Kenya. The study recommended that NPOs in Nairobi County, Kenya enhance corporate governance practices on board independence, gender diversity, audit committee size and number of board meetings due to their positive effect on financial sustainability of NPOs in Nairobi, Kenya.

Keywords: Corporate Governance Practices, Board Independence, Gender Diversity, Audit Committee, Board Meetings, Financial Sustainability

1.0 INTRODUCTION

Non-Governmental Organizations (NGOs) carryout an enormous task of communal development operation in various nations of the globe (Lewis & Kanji, 2017). According to Wright (2018), the utilities offered by these institutions are very important as they emphasis on an unaddressed need by the government as well as private sectors. Financial sustainability is a recurring subject when analyzing the effectiveness of non-governmental organizations (Shivairo & Were, 2017). An NGO bears the risk of not achieving its goals and of closing down since it is unable to sustain operations if sustained funding is not prioritized (Kristin, 2016). Corporate governance is recently widely regarded as a sound method for ensuring a company's long-term sustainability (Kishore, 2018). Corporate governance that is sound enhances financial sustainability and creates long term trust between shareholders and other stakeholders (Price, 2018). Corporate governance as per Naimah and Hamidah (2017) refers to system developed to oversee and guide a company in accordance to the good governance principles of independence, responsibility, transparency, and fairness.

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The corporate governance key objective is to ensure economic efficiency, sustainable growth, and financial stability. Making it possible for a business to access capital over the long term, while also considering the interests of owners and stakeholders who contribute to an organization's long-term success are accountable via fair treatment, like improved returns and service quality accordingly (OECD, 2020). The elements that require a board to be in charge of the company and its resulting outcomes, allowing for better performance and transparency, are known as good governance practices. Further, Todorovic (2018) established that entities that embrace effective corporate practices are associated with benefits of increased profitability, enhanced credibility, and competitiveness as well as effective management of stakeholders' relationships.

In this research, corporate governance practices considered are bored independence, gender diversity, and board audit committee size and board meetings as they have not received much attention in previous literature In NGOs sector. In addition, Reddy, Locke, Scrimgeour, and Gunasekarage (2019) discovered the percentage of outside board members is simply the inverse of the capital expenditure contribution (a proxy for sustainability). Logically women are prone to diversity ability to deal with more critical situations (Martin & Roper, 2018). The vast percentage of prior studies concur that audit committees are essential to performance (Iyer & Samociuk, 2016). Boards of directors usually meet on a pre-planned schedule to attend to different organizational challenges and issues (Hickman & Silva 2018).

Financial sustainability is to the capability that any organization attains its objectives and achieve the needs of all stakeholders (Aguilar & Hansen, 2018). According to Renz (2019), the success of the programs that the nongovernmental organizations support depends entirely on the financial sustainability which plays a principal role in the performance of its programs. The most fundamental resources for nonprofit organizations are financial resources (Lin & Wang, 2018). Healthy financial management and great financial accountability are essential for NGOs to maintain sustainability (Nturibi, 2016). The financial position and strength of any organization has been equated to the organization's financial sustainability (Anthony & Young, 2018).

1.1 Statement of the Problem

Financial sustainability has proved to be the biggest challenge according to 41% of NGOs as reported on the National Validation Survey of NGOs and carried out by the NGO Co-ordination Board. In recent years, international involvement in the work of NGO's and donor funding has drastically reduced with donations being withdrawn (Jones & Mucha 2014). Withdrawal of donor financing has led to financial unsustainability of NGOs (Muriungi, Waithaka, Were & Muriuki, 2017). In Kenya though, 70% of all NGOs fail prior to six years of operation (NGO Council, 2018). The NGO sector financial performance of 2018 annual report highlighted weak institutional management, lack of financial transparency and accountability among the concerned organizations. The report indicated that in the year 2017 only 9% of total funds were raised through revenue generating activities. This is an indication that in the event the donors withdraw their funds, NGOs may not be able to follow their goals (NGO Board, 2018).

According to Sustainability, a watchdog organization in Uganda, accountability and transparency are the wanting issues in several NGOs. Kemei and Mweberi (2017) attribute the

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collapse and failure of NGOs to poor governance structures. NGOs serve a critical role in addressing social and economic challenges in Kenya, and financial sustainability is essential (Jones & Mucha 2014). Understanding the relationship between governance structures and financial sustainability can help NGOs improve their operations and ensure their financial sustainability, allowing them to continue their important work. There has been several studies on corporate governance practices and financial performance yet there is scant literature on corporate governance practices and financial sustainability on the nonprofit sector. More specifically on the combination of the selected variables (board independence, board meetings, board diversity and audit committee characteristics) and therefore the need to investigate how corporate governance influence financial sustainability Nonprofit Organizations in Nairobi County, Kenya.

The active NGOs operating in Nairobi County, Kenya accounts for more than 10% of all the active NGOs operating in the forty-seven counties in Kenya and this selection of Nairobi County provided a chance for a more representative sample. Therefore, this research looked into examining the effect of corporate governance practices on Kenyan NGOs' financial sustainability in Nairobi County.

1.2 Objectives of the Study

The general intention of the study was to determine corporate governance practices effect on financial sustainability of nonprofit organizations in Nairobi County, Kenya.

1. Determine board independence effect on financial sustainability of nonprofit organizations Nairobi County, Kenya.
2. Establish gender diversity effect on financial sustainability of nonprofit organizations in Nairobi County, Kenya.
3. Establish board audit committee characteristics effect on financial sustainability of nonprofit organizations Nairobi County, Kenya.
4. Determine board meetings effect on financial sustainability of nonprofit organizations Nairobi County, Kenya.

1.3 Hypothesis of the Study

This study addressed the research hypotheses below:

i. H01: The board independence has no significant effect on financial sustainability of nonprofit organizations in Kenya
ii. H02: Gender diversity has no significant effect on financial sustainability of nonprofit organizations in Kenya
iii. H03: The board audit committee characteristics has no significant effect on financial sustainability of nonprofit organizations in Kenya
iv. H04: There is no significant effect of board meetings on financial sustainability of nonprofit organizations in Kenya.

2.0 LITERATURE REVIEW

2.1 Upper Echelons Theory

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Upper Echelons Theory (UET) by Hambrick and Mason (1984) was put forward and has been used appropriately by scholars to examine the effects of TMT – top management team in terms of composition, processes, and organizational outcomes. It also checks the influence of CEOs characteristics to an organizations company and strategy. Further, the UET was enriched through including moderators of the influence of management using the power and discretion perspectives (Hambrick 2007). An update on the Upper Echelons Theory by Academy of Management Review (2007) poised that the central premise of the theory is on how the experiences, personalities and values of the executives largely influences their interpretations of the circumstances that they face, and this eventually affects their choices (Hambrick 2007).

Abatecola and Cristofaro (2020) places their argument on the emerging psychological and cognitive moderators of the theory's variables and thus the centrality of dominant coalitions is now known to affect the decision-making process and eventually the strategic choices. Ramos (2015) posits that psychological bias affects the decision makers from acting in total rationality. He further argued that the corporate acquisitions are not solely influenced by personal characteristics of managers but the individualism of the cultures of the country which hosts the organizations. Zhu and Chen (2015) on the other hand defends psychological bias stating that traits such as overconfidence and the application of heuristics to make decisions lead to choices that prove different from rational expectations (Kahneman 2011). The nonprofit sector continues to professionalize yet much is still desired on the gains on the organization in terms of performance and how that is linked with the characteristics of the executives of the nonprofit institutions. In a study where the characteristics of the top management was linked to various aspects of performance of a nonprofit institution, it was concluded that there was not a link found between the financial performance of the nonprofits and the executives career characteristics (Kuenzi & Stewart 2017). In the context of this study UET examples emphases on executive decision-making roles played by the managers but which is subject to psychological biases which affects rationality.

2.2. Resource Dependency Theory

Resource Dependency Theory (RDT) by Jeffrey Pfeffer and Gerald Salancik (1978) provides a basis for linkage of organizations and the outside resources which provides a framework to explain the connection while looking at environment, organization, and organizational decisions. Nienhüser (2008) opines that the environment provides a source of uncertainty, constraint, and contingency. Power and control distribution inside and outside the organization is as important as understanding the context of the behavior of an organization (Pfeffer and Salancik 2003). The Board of directors role is key to providing a mechanism for handling critical environmental uncertainties of an organization as held in a study that network governance or environmental linkages provides a chance to reduce transaction costs that are linked to environmental interdependency (Williamson 1985)

RDT has been used to assert that Board of Directors have the influence minimizing firm's dependence or gaining resources (Pfeffer 1972b). In earlier studies that looked at the board characteristics such as board size, board composition and other such perspectives with an interest to see the board's ability in providing critical resources to the organization, the RDT was used (Pfeffer 1972b). Matching resources to the needs of an organization ensures better

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performance and its sustainability as indicated from a meta-analysis result (Dalton, Daily, Johnson and Ellstrand 1999).

Further study opined that directors provide to organizations four benefits and one of those is the preferential access to resources (Pfeffer and Salancik 1978). Organizations that attract influential and powerful members of the community to the Board of directors stand a better chance to attract critical resources needed by the organization hence sustainability of those organizations (Provan 1980). Another study showed that resource-rich outside directors place the organization at a positive influence position while the resource-poor outside directors do not. This explains the importance of board independence as a board characteristic to ensure sustainability of the Organizations (Peng 2004).

Daily (1996) opines that RDT has been used to support studies that review the perspectives of the board when an organization is on a decline trend. Directors have role to play as resources providers with proper governance should organizations face distressed situations (Cameron, Kim & Whetten 1987). RDT supports the diversified appointment of director's helps to explain how the Board of Directors as composed by linking external resources to the organization provides an opportunity to overwhelm uncertainties that lead to unsustainability of the organizations (Hillman, Cannella Jr & Paetzols, 2000).

2.3 Empirical Review

Miruka (2020) sought to pursue how corporate governance affected financial performance of Kenyan banks and the results research showed that an independent board outcome in honest discussion of appropriate matters affects performance in a positive way. Afzalur (2019) examined whether the firms' economic performance is influenced by the board independence amid the listed firms in Bangladesh and the conclusion was that board independence does not positively influence the firm's economic performance. Bird, Huang and Lu (2017) estimated a causal type of relationship existing between board independence and the variability of firm performance with the help of the 2003 NYSE and NASDAQ listing rules and requirements for board independence. The conclusion was that the CEO's power is weakened by the increased board independence. Andren (2016) uses the oil price crash of the autumn and winter of 2014 as a natural experiment to examine how board classification, board independence, and inside ownership affect US oil-company performance and board independence seemed to have no effect on company performance.

Ouni, Mansour and Arfaoui (2020) carried a survey using Canadian firms to check the effects of gender diversity on the executive committee and the board of directors on financial performance, the study proved that turnover's gender diversity has an impact on businesses' financial success. Rono (2019) sought to verify how board gender diversity affects the Kenya's bank's business performance. The findings showed that the board gender diversity and business performance had a strong and significant relationship. Ibrahim, Ouma and Koshal (2019) examined the gender diversity effects on the financial performance of Kenya's insurance firms and results showed that gender diversity affects significantly and positively the financial performance of Kenyan insurance firms. Karamahmutoğlu and Kuzey (2016) investigated the performance of listed Turkish companies in relation to board gender diversity. The study

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indicated that presence of female directors had a positive relation on financial performance of firms.

Chou and Buchdadi (2020) studied the performance of Indonesian banks in connection to the effects of audit committee characteristics. The research concluded that, the reliability of the committees' supervision position was highly determined by the attendance levels. It also revealed an enhanced financial reporting as a result of frequency of meetings and the audit committee agenda relevance. Yameen, Farhan, and Tabash (2019) investigated the firms' performance featuring the Indian tourism sector with regard to effects of corporate governance practices. Findings showed the composition and diligence of audit committee possess a positive effect on the Indian hotels' performance as measured by accounting proxies. Mwangi (2018) used the Non-Commercial State Corporations in Kenya to examine the audit committee characteristics impact on the quality of financial reporting. The study concluded that audit committee meetings and the quality of financial reporting were statistically and significantly related. Bananuka, Nkundabanyanga, Nalukenge, and Kaawaase (2018) inspected the Statutory Corporations in Uganda for the following: internal audit function, audit committee effectiveness and accountability. According to the study the internal audit function has significant contribution towards the accountability of statutory corporations. Ogega, Kibati, and Koima (2017) determined how risk based internal audit influences the financial sustainability of NGO. The study identified the auditor competency being of great significance to the financial sustainability. Ouna (2014) investigated the way corporate governance practices impacts the efficiencies of local agricultural NGOs in Nairobi County. It was advised that comparable research be conducted in other NGOs not engaged in agriculture to determine the contribution of corporate governance practices to efficiency promotion in all Kenyan registered NGOs, both local and foreign.

Araoye and Olatunji (2019) sought how performance of Nigerian listed insurance companies affected by board activism. The conclusions depicted that the board meeting and the firms' performance had insignificant and negative relationship. The Regulatory authority was recommended that skill and experience of directors at board meeting are key to good performance. Qadorah and Fadzil (2018) based their research on the listed companies in Jordan with the aim of identifying the effects of the interior corporate governance operation in relation to the attributes of board of directors such as: board independence together with the regularity of board meetings on the administration of an organization. The research showed that the frequency of board meetings possesses an insignificant influence on the performance of industrial Jordanian firms, this was contrary to the expectation.

Eluyela et al. (2018) tested how the board meeting regularity influences the production of Nigerian deposit money banks. The study outcomes showed a positive relationship linking board meeting frequency to the performance of a firm. Though, the conclusions also indicated that size of the board was positive and insignificant while the size of the firm was vice versa. Hanh, Ting, Kweh and Hoanh (2018) investigate the impact of board meeting regularity to the economic well-being of a listed firm during a financial year. Generally, the quality of board meetings results to positive contribution on financial performance. Al-Daoud, Saidin and Abidin (2016) investigate the effects of board meeting frequency on performance of firm using the listed firms on the Amman Stock Exchange from industry and service sectors from year

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2009-2013. The results indicated that lagged dependent variable is crucial in explaining the relationship, which further indicates the appropriateness of the estimation models in the study.

3.0 RESEARCH METHODOLOGY

A descriptive research design was adopted as it enabled the employment quantitative aspects of analysis to determine how corporate governance practices affect financial sustainability of Nonprofit Organizations in Nairobi County Kenya. This target population comprised of all the 1252 active NGOs in Nairobi County as of December 2020 and thus the sampling frame (NGO Co-ordination Board, 2021). Yamane formula (1967) was used to arrive at the population sample of 93 nonprofit organizations. Secondary data was obtained from Annual Returns and Financial statement for the period 2018 to 2022. Panel modelling used to determine the effect of corporate governance practices on financial sustainability of nonprofit organizations in Nairobi County, Kenya. The regression model below was used:

$$Yit = \alpha + \beta\ 1X1it + \beta\ 2X2it + \beta\ 3X3it + \beta\ 4X4it + \varepsilon$$

4.0 FINDINGS AND DISCUSSIONS

4.1 Descriptive Statistics for NPOs in Nairobi County, Kenya

From Table 1, the average ORR for NPOs in Nairobi County is 2.9482 indicating that the NPOs could cover their operating costs for a period of 2.9482 months before receiving fresh funding. The minimum of 2.09 and a maximum of 4.013 shows that some organizations can cover 2.09 months while other could cover up to 4 months of operating expenses before obtaining fresh funding to ensure continuity of activities. The standard deviation for ORR was 0.4256 with between values of 0.2509 and within value of 0.3447 which indicated less variation in the dataset. Board independence variable had a mean score of 0.8627, standard deviation of 0.0903 with a minimum of 0.3300 and a maximum of 1.0000 which indicated less variation in the clustering of data around the mean. Gender diversity variable had a mean score of 0.5118 with a minimum of 0.3440 and a maximum of 0.8651. The standard deviation was 0.0741 which indicated small variation in the observation of dispersion around the mean. Audit committee size variable had a mean score of 3.7740, with a minimum of 2.0 members and a maximum of 7.0 members in the constitution of the Audit committee. The standard deviation of 0.7993 which indicated small variation in the observations. Finally, the board meeting variable had a mean score of 5.8753 with a minimum of 4.0000 and a maximum of 14.0000. The standard deviation value of 2.4822 indicated a variation in the dispersion of the board meetings data concentration from the mean.

Table 1: Descriptive Statistics

Variable		Mean	Std. Dev.	Min	Max	Observations
ORR	Overall	2.9482	0.4256	2.0900	4.0130	N = 385
	Between		0.2509	2.5080	3.4980	n = 77
	Within		0.3447	1.8774	4.0072	T = 5
Board Independence	Overall	0.8627	0.0903	0.3300	1.0000	N = 385

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	Between		0.0635	0.6678	0.9490	n =	77
	Within		0.0645	0.3787	1.1175	T =	5
Gender diversity	Overall	0.5118	0.0741	0.3440	0.8651	N =	385
	Between		0.0445	0.4000	0.6187	n =	77
	Within		0.0594	0.3198	0.8399	T =	5
Audit Committee size	Overall	3.7740	0.7993	2.0000	7.0000	N =	385
	Between		0.6556	2.0000	5.0000	n =	77
	Within		0.4621	1.3740	6,3740	T =	5
Board Meetings	Overall	5.8753	2.4822	4.0000	14.000	N =	385
	Between		1.9767	4.0000	11.400	n =	77
	Within		1.5149	2.4753	14.075	T =	5

4.2 Trend Analysis

There was a depiction of downward movement of the operating reserve ratio for some of the institutions against the dependent variables under study as shown in Figure 1. Some institutions depicted an upward movement while other institutions did not show movement variations in the variables with time. From observing the ORR curve in the graph, a decline as well as improvement in the financial sustainability of some of the NGOs was depicted.

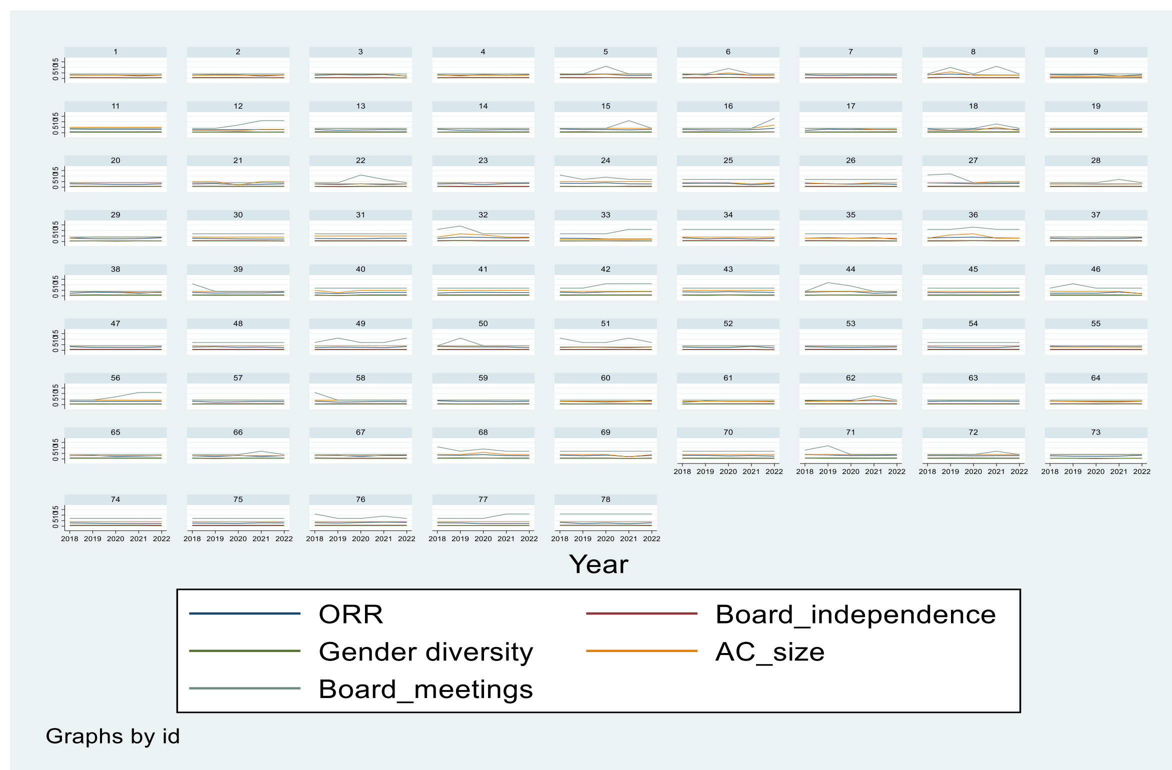

Figure 1: Combined graph trend analysis

4.3 Lagrange Multiplier Effect

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The Lagrange Multiplier Test was carried out to test for panel effect on the data and results presented in table 2. The findings provided a variance of 0.1811275 for the ORR and a standard deviation of 0.4255907. The usual error term had a variance of 0.1133 and a standard deviation of 0.3366 while the random effects term had a variance of 0.0329 and a standard deviation of 0.1815. The chi-square value was 34.17. The probability > chibar2 = 0.0000 thus the conclusion that the random effects were significant and allowed he employment of the Random Effects Model.

Table 2: Breusch and Pagan Lagrangian multiplier test for random effects

Variable	Var	Standard Deviation
ORR	0.1811275	0.4255907
e	0.1132782	0.3365683
u	0.0329383	0.1814892

4.4 Normality Test

This was tested using the Jarque-Bera normality test and from the results in table 3, Chi-square test statistic for ORR was 2.947 with a p-value of 0.2291 which is a P-Value that is greater than 0.05 and therefore the conclusion that the error term was normally distributed.

Table 3: Jarque-Bera test for Normality

Variable	Chi2	Prob>Chi2
ORR	2.947	0.2291
Board independence	512.4	5.e-112
Gender diversity	584.7	1.e-127
AC Size	57.92	2.7e-13
Board Meetings	81.33	2.2e-18

4.5 Multicollinearity Test

From Table 4, the independent variables Audit Committee size, Board meetings, gender diversity and board independence had VIF of 1.15, 1.14, 1.10, and 1.06 respectively and thus the conclusion that there were no coleniarities amongst the audit committee, board meetings, gender diversity and board indendence in financial sustainability of nonprofit institutions in Nairobi County, Kenya as measured by the ORR.

Table 4: Variance Inflation Factor

Variable	VIF	1/VIF
Audit Committee Size	1.15	0.867432
Board Meetings	1.14	0.875411
Gender diversity	1.10	0.908696

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Board Independence	1.06	0.940920

4.4 Heteroskedasticity

The modified WALD test for groupwise heteroskedasticity in fixed effect regression model was adopted in testing for uniformity in error term. The findings provided a chi-square value of 4605.26 for the 77 institutions with a prob>chi2= 0.0000 as indicated in figure 2. With a P-value of less than 0.05 thus the conclusion that there was heteroskedasticity.

```
. xttest3

Modified Wald test for groupwise heteroskedasticity
in fixed effect regression model

H0: sigma(i)^2 = sigma^2 for all i

chi2 (77)  =    4605.26
Prob>chi2 =      0.0000
```

Figure 2: Modified Wald test for groupwise heteroskedasticity

4.6 Autocorrelation

Wooldridge test for autocorrelation was deployed to find out whether there was correlation in the error terms in the regression model over time or they were dependent. The finding indicated a probability value of 0.6287 which is greater than a P-value of 0.05 and thus the conclusion that there was first order serial correlations as indicated in figure 3.

```
. xtserial orr board_independence genderdiversity ac_size board_meetings

Wooldridge test for autocorrelation in panel data
H0: no first order autocorrelation
    F(  1,      76) =      0.236
           Prob > F =      0.6287
```

Figure 3: Wooldridge test for autocorrelation

4.7 Hausman Test

The Hausman test was used to guide on the preferred estimation model. The results presented in table 5 indicated a Chi-square of 5.83 and P>Chi2 = 0.2124, and thus it was appropriate to adopt the random effects model in estimating the effect of corporate governance practices on the financial sustainability of nonprofit organizations in Nairobi County, Kenya.

Table 5: Hausman Test – Random effects

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International Journal of Social Sciences and Management Review

Volume: 06, Issue: 05 September - October 2023

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Variable	(b) Fixed	(B) Random	(b-B) Difference	Sqrt(diag(V_b-V_B) S.E.
Board Independence	1.0764	1.0675	0.0089	0.1487
Gender diversity	1.2088	1.3323	-0.1225	0.1816
Audit Committee size	0.1620	0.1105	0.0515	0.0290
Board Meetings	0.0272	0.0197	0.0076	0.0082
Chi2(4) = 5.83				
Prob>Chi2=0.2124				

4.8 Correlation Analysis

Correlation analysis was performed to establish the strength of the effect of board independence, gender diversity, audit committee size and board meetings on the financial sustainability through the operating reserve ratio of the nonprofit institutions in Nairobi County and the results presented in table 6. Correlation results indicated that board independence had a positive and significant effect statistically on the ORR of the nonprofit institutions (rho=0.2896, P-Value<0.050. Secondly, Gender diversity had a positive and significant effect statistically on the operating reserve ratio also had a positive and significant effect statistically on the ORR of the nonprofit institutions in Nairobi County (rho=0.3094, P-Value<0.05). Thirdly, the Audit committee size had a positive and statistically significant effect on the ORR of nonprofit institutions in Nairobi County (rho=0.2855, P-value<0.05). Lastly, the board meetings result a positive and statistically significant effect on the ORR for nonprofit institutions in Nairobi County (rho=0.1972, P-Value<0.05). These findings agreed with a study in listed firms in Bangladesh by Afzalur (2019) while they disagreed with the finding from the results of a study by Andren (2016).

Table 6: Correlation Analysis

	ORR	Board Independence	Gender Diversity	Gender Diversity	Gender Diversity
ORR	1.0000				
	385				
Board Independence	0.2896	1.0000			
	0.0000				
	385	385			
Gender Diversity	0.3094	0.1153	1.0000		
	0.0000	0.0236			
	385	385	385	1.0000	
Gender Diversity	0.2855	0.2124	0.1966		
	0.0000	0.0000	0.0001		
	385	385	385	385	1.0000
Gender Diversity	0.1972	-0.008	0.2567	0.2732	
	0.0001	0.8758	0.0000	0.0000	

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	385	385	385	385	385

4.9 Random Effects Regression Analysis

The main purpose of the study was on corporate governance practices and financial sustainability of nonprofit organisations in Nairobi County, Kenya. The results presented in table 7 showed that 20.13% of financial sustainability of nonprofit organizations in Nairobi County was affected by board independence, board gender diversity, audit committee and board meetings given by the overall R-sq value of 0.2013. The difference in percentage represented the other factors that affect financial sustainability of nonprofit institutions in Nairobi County other than the independent variables in the current study. The chi-square value of 106.63 and a P-Value of 0.0000 which deemed the random effect model statistically significant and fit for examining and explaining the relationship that the research sought to study which was to determine corporate governance effect on financial sustainability of NGOs in Nairobi County, Kenya, the financial sustainability being measure by the operating reserve ratio.

The first hypothesis in the current study stated that the board independence had no significant effect on financial sustainability of nonprofit organizations in Nairobi County Kenya. The result from this study shows that there is a positive and significant effect of board independence on the financial sustainability of nonprofit organisations in Nairobi County Kenya as indicated by $\beta=1.0675$, P-Value<0.05. the implication of this result is that a unit increase in Board independence increases the financial sustainability by 1.0675 while holding gender diversity, audit committee size and board meetings constant.

The second hypothesis was that gender diversity had no significant effect on financial sustainability of nonprofit organizations in Nairobi County Kenya. The results from the study of ($\beta=1.3313$, P-Value<0.05) indicated that there was a positive and significant effect of gender diversity on financial sustainability of nonprofit organisations in Nairobi County Kenya. This imply that for every unit change in gender diversity, there is a positive change of 1.3313 in the financial suitability while holding constant board independence, audit committee size and board meetings.

The third hypothesis stated that the board audit committee characteristics had no significant effect on financial sustainability of nonprofit organizations in Nairobi County Kenya. The results of ($\beta=0.1105$, P-Value<0.05) depicted a positive and significant effect of audit committee characteristics on the financial sustainability of nonprofit organisations in Nairobi County Kenya signifying that a unit change in the audit committee size leads to 0.1105 change in the financial sustainability of nonprofit organisations in Nairobi County Kenya while holding constant board independence, gender diversity and board meetings.

The last hypothesis of the current study stated that there was no significant effect of board meetings on financial sustainability of nonprofit organizations in Nairobi County Kenya. Results of ($\beta=0.0197$, P-Value<0.05) indicated that number of board meetings had a positive and significant effect on financial sustainability of nonprofit organizations in Nairobi County Kenya. The results imply that a unit change of number of board meetings leads to 0.0197 change in the financial sustainability of nonprofit organizations in Nairobi County Kenya while

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holding constant board independence, gender diversity and audit committee size. The findings of the current study results in the model as provided.

Financial Sustainability = 0.8130 + 1.0675*Board Independence + 1.3313*Gender Diversity + 0.1105*Audit Committee size +0.0197*Board Meetings + Error Term (ε)

$Y_{it} = 0.8130 + 1.0675X_{1it} + 1.3313X_{2it} + 0.1105X_{3it} + 0.0197X_{4it} + \varepsilon$

In the model fitted as shown in table 7, the board independence, gender diversity, audit committee size and board meetings were all found to be significant with a p value of less than 0.05 for all the variables. The fitted model had an overall R-Squared value of 20.13% which implied a lower predictive power. All the variables had significance statistically and thus none was dropped in the estimation model.

Table 7: Random Effects Regression Analysis

Variable	Coef.	Robust Std. Err	z	P>|z|	[95% Conf	Interval]
Board Independence	1.0675	0.2341	4.5600	0.0000	0.6086	1.5264
Gender diversity	1.3313	0.2831	4.7000	0.0000	0.7764	1.8861
A Committee size	0.1105	0.0300	3.6800	0.0000	0.0516	0.1694
Board Meetings	0.0197	0.0094	2.0900	0.0370	0.0012	0.0819
Cons	0.8130	0.2278	3.5700	0.0000	0.3666	1.2595
Sigma_u	0.1815					
Sigma_e	0.3366					
rho	0.2253					
Chi2	106.63					
Prob>Chi2	0.0000					
R-sq	0.2013					

The first objective of the study was to determine board independence effect on financial sustainability of nonprofit organizations in Nairobi County, Kenya. The null hypothesis H01: The board independence has no significant effect on financial sustainability of nonprofit organizations in Kenya was tested and from the results of the regression model, board independence had a coefficient value of β=1.0675, P-Value<0.05 as presented in table 7. The implication of this result is that a unit increase in Board independence increases the financial sustainability by 1.0675 while holding gender diversity, audit committee size and board meetings constant. Board independence had a statistically significant effect on financial sustainability of nonprofit institutions in Nairobi, Kenya since the p value is < 0.05 (β=1.0675, P-Value<0.05). The null hypothesis was rejected, and the alternative was adopted.

The second objective of the study was to establish gender diversity effect on financial sustainability of NGOs in Nairobi County, Kenya. The null hypothesis H02: Gender diversity has no significant effect on financial sustainability of nonprofit organizations in Kenya. Gender diversity had a positive and statistically significant effect on financial sustainability of nonprofit institutions in Nairobi with a coefficient value of 1.3313 with a p value < 0.05,

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(β=1.3313, P-Value<0.05). The result indicated that holding constant all other variables under the study, a single unit change in the gender diversity of the board is likely to have a positive effect on financial sustainability of nonprofit institutions in Nairobi County, Kenya.

The third objective of the study was to establish board audit committee characteristics effect on financial sustainability of NGOs Nairobi County, Kenya. The null hypothesis of H03: The board audit committee characteristics has no significant effect on financial sustainability of nonprofit organizations in Kenya was rejected and the alternate accepted (β=0.1105, P-Value<0.05). The fourth objective of the study was to determine board meetings effect on financial sustainability of NGOs Nairobi County, Kenya. The null hypothesis was tested H04: There is no significant effect of board meetings on financial sustainability of nonprofit organizations in Kenya was rejected and the alternate accepted (β=0.0197, P-Value<0.05).

5.0 DISCUSSION OF THE STUDY FINDINGS

5.1 Board Independence and Financial Sustainability

The first objective of the study was to determine board independence effect on financial sustainability of nonprofit organizations in Nairobi County, Kenya. Using the ORR to measure financial sustainability, the result from this study showed a positive and significant effect of board independence on the financial sustainability of nonprofit organisations in Nairobi County Kenya. From the random effects regression model that was used to examine the statistical significance of this result, the null hypothesis H01: The board independence has no significant effect on financial sustainability of nonprofit organizations in Kenya was tested and from the results of the regression model, board independence had a coefficient value of β=1.0675, P-Value<0.05 as presented in table 7. The implication of this result is that a unit increase in Board independence increases the financial sustainability by 1.0675 while holding gender diversity, audit committee size and board meetings constant. The results from the random effects regression indicated that board independence had a statistically significant effect on financial sustainability of nonprofit institutions in Nairobi, Kenya since the p value is < 0.05 (β=1.0675, P-Value<0.05). The results showed that holding constant all other variables under the study, a single unit change in the board independence is likely to affect positively the financial sustainability of nonprofit institutions in Nairobi County, Kenya. The null hypothesis was rejected, and the alternative adopted.

The findings agree with Miruka (2020) who sought to pursue how corporate governance affected financial performance of Kenyan banks and the results of the study showed that an independent board outcome in honest discussion of appropriate matters affects performance in a positive way. The results of the study by Afzalur (2019) that examined whether the firms' economic performance is influenced by the board independence does not agree with the findings of this study since it concluded that, board independence does not positively influence the firm's economic performance.

Upper Echelons Theory (UET) by Hambrick and Mason (1984) was appropriate to examine the effects of TMT – top management team in terms of composition, processes, and organizational outcomes. It also checks the influence of CEOs characteristics to an organizations company and strategy. Agency theory proposes that BODs comprise of independent directors who are outsiders. The results agreed with the economic aspects of

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Agency theory that stresses on the costs and benefits arising from the association between the principals and the agent association by further suggesting that there should be separation between CEO Positions, chairman of the BOD and the government (Daily & Dalton, 1992; Balta, 2008). From the finding of this study, it is evident that board independence affects the financial sustainability of nonprofit organizations in Nairobi County, Kenya.

5.2 Gender diversity and Financial Sustainability

The second objective of the study was to establish gender diversity effect on financial sustainability of NPOs in Nairobi County, Kenya. ORR was used to measure financial sustainability against the independent variable gender diversity. The null hypothesis H02: Gender diversity has no significant effect on financial sustainability of nonprofit organizations in Kenya was tested and the results from the random effects model indicated that gender diversity had a positive and statistically significant effect on financial sustainability of nonprofit institutions in Nairobi. The gender diversity had coefficient value of 1.3313 with a p value < 0.05, ($\beta=1.3313$, P-Value<0.05). The result indicated that holding constant all other variables under the study, a single unit change in the gender diversity of the board is likely to have a positive effect on financial sustainability of nonprofit institutions in Nairobi County, Kenya.

The results were consistent with the theory of hegemony hinging on the class hegemony. In constituting its board, it follows that the directors being elite, will then hire other directors of the similar caliber as them (Fahr 2010) and that is the case if the board member composition is diversified gender wise. Since class hegemony further to have two aspects; class of positive hegemony and class of negative hegemony. On class of negative hegemony, directors with unethical and corrupt set of character would attract their like which then would have negative influence on the organization as was expatiated from the Sri Lankan viewpoint. (Mendis 2012). Again, the theory of hegemony was criticized on the basis that it was based on western culture, yet the current study is based in Kenya, Africa.

The results concur with the empirical evidence from the findings of a study by Ouni, Mansour and Arfaoui (2020) that proved that turnover's gender diversity has an impact on businesses' financial success and accounts for the 53% difference. Brahma, Nwafor and Boateng (2020) also agrees that the connection linking gender diversity and firm performance is positive and significant. In Kenya, a study by Ibrahim, Ouma and Koshal (2019). Agreed that gender diversity affects significantly and positively the financial performance of Kenyan insurance firms. From the results of the previous studies and the current study, it is important that gender diversity in the constitution of the board be observed carefully as it contributes positively and statistically significantly to the financial sustainability of the nonprofit institutions.

5.3 Board Audit Committee Characteristics and Financial Sustainability

The third objective of the study was to establish board audit committee characteristics effect on financial sustainability of NGOs Nairobi County, Kenya. The study adopted the third null hypothesis of H03: The board audit committee characteristics has no significant effect on financial sustainability of nonprofit organizations in Kenya. The results from the random effects model indicated that audit committee size had a statistically significant effect on financial sustainability of nonprofit institutions in Nairobi, Kenya ($\beta=0.1105$, P-Value<0.05).

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Volume: 06, Issue: 05 September - October 2023

ISSN 2582-0176

The result indicated that holding constant all other variables under the study, a single unit change in the audit committee size is likely to have a positive effect on financial sustainability of nonprofit institutions in Nairobi County, Kenya.

The theory on stewardship theory fundamentally holds that directors should engage as stewards and not interested in nurturing personal economic interests and act in a method that results to organizational utility reasonably than personal welfare (Tippett, 2011). The theory helped to describe the directors' commitment to due diligence in the audit committee variable. The audit committee engaging under the stewardship theory principles would engage as stewards and ensure that concerns of fairness, equality, and apprehension for interests of other matters and be trusted to do a decent, professional job, out of the commitment to company aims since they take superiority over personal interest (Basuioc, 2015). A disadvantage of this principle may be the element that bigger operation cost expense would be experienced due to the additional investment with time for principals in linking stewards in solving difficulties, combined decisions, and conversation (Van-Slyke, 2007). This theory has been condemned on ground that it allows managers carte blanche especially in using their will (Blair & Stout 2001).

Emperically, there were studies that concurred with the finding for this variable. Ouna (2014) investigated the way corporate governance practices impacts the efficiencies of local agricultural NGOs in Nairobi County. Ogega, Kibati, and Koima (2017) determined how risk based internal audit influences the financial sustainability of NGO. Safeguarding all assets of non-governmental organization, improve consistency of the accounting data, enhance operational efficiencies, improve agreement with applicable laws or contractual obligations and achieve all needs of stakeholders. The study concluded that audit committee meetings and the quality of financial reporting were statistically and significantly related. Bananuka, Nkundabanyanga, Nalukenge, and Kaawaase (2018) inspected the Statutory Corporations in Uganda for the following: internal audit function, audit committee effectiveness and accountability. the outcomes of this research indicated that audit committee effectiveness has significantly contributed to the improving accountability, despite the absence of the internal audit function.

5.4 Board Meetings and Financial Sustainability

The fourth objective of the study was to determine board meetings effect on financial sustainability of NGOs Nairobi County, Kenya. The null hypothesis was tested H04: There is no significant effect of board meetings on financial sustainability of nonprofit organizations in Kenya. The results from the random effects model indicated that board meetings had a statistically significant effect on financial sustainability of nonprofit institutions in Nairobi, Kenya ($\beta=0.0197$, P-Value<0.05). The result indicated that holding constant all other variables under the study, a single unit change in the number of board meetings is likely to have a positive effect on financial sustainability of nonprofit institutions in Nairobi County, Kenya. The null hypothesis was rejected, and the alternative adopted. The governance practices in the nonprofit organizations from this study finding could have increased number of board meetings in their respective organization since an increase in the board meeting frequency leads to a positive and significant effect on the financial sustainability of those organizations in Nairobi County, Kenya.

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The stakeholder theory placed a focus on decision-making and contended that the welfare of all stakeholders has intrinsic value and that no one's interests should be assumed to dictate those of others (Abdullah & Valentine, 2009). The stakeholder theory puts into considerations broader group of components other than concentrating shareholders (Mallin, 2007). That stakeholder philosophers propose that directors in institutions have a system of relations to work for like providers, workers, and trade partners (Abdullah & Valentine, 2009). Donaldson and Preston (1995) contended that the theory emphases on executive decision making, and welfares of all investors have inherent value, and no interest is presumed to overlook others.

This is in conformance with the study by Eluyela et al. (2018) who tested how the board meeting regularity influences the production of Nigerian deposit money banks. The study outcomes showed a positive relationship linking board meeting frequency to the performance of a firm. Another study that supports the finding of this study was conducted by Al-Daoud, Saidin and Abidin (2016) who investigated the effects of board meeting frequency on performance of firm using the listed firms on the Amman Stock Exchange from industry and service sectors. The research detected that the frequency of corporate board meetings and firm performance has a positive relationship.

6.0 SUMMARY, CONCLUSION, AND RECOMMENDATION

The first specific objective of the study was to determine board independence effect on financial sustainability of NGOs Nairobi County, Kenya. The results from the random effects regression model indicated that board independence had a positive effect on financial sustainability of nonprofit institutions in Nairobi, Kenya. The results led to the conclusion that board independence contributed positively to the financial sustainability of nonprofit institutions in Nairobi County, Kenya.

From the second specific objective of the study which was to establish gender diversity effect on financial sustainability of NGOs in Nairobi County, Kenya, the results from the random effects regression model indicated a positive effect of gender diversity on financial sustainability of nonprofit institutions in Nairobi, Kenya. From the result it was concluded that gender diversity of the board is likely to have a positive effect on financial sustainability of nonprofit institutions in Nairobi County, Kenya.

In the third specific objective, the study was to establish board audit committee size effect on financial sustainability of NGOs Nairobi County, Kenya. The results from the random effects regression model indicated that audit committee size had a positive effect on financial sustainability of nonprofit institutions in Nairobi, Kenya. It was concluded that the audit committee size is likely to have a positive effect on financial sustainability of nonprofit institutions in Nairobi County, Kenya.

The fourth specific objective of the study was to determine board meetings effect on financial sustainability of NGOs Nairobi County, Kenya. The results from the random effects regression model indicated that board meetings had a positive effect on financial sustainability of nonprofit institutions in Nairobi, Kenya. It was concluded that the number of board meetings held is likely to have a positive effect on financial sustainability of nonprofit institutions in Nairobi County, Kenya. The results from the regression model indicated that board independence, gender diversity, audit committee size and board meetings had a positive effect

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Volume: 06, Issue: 05 September - October 2023

ISSN 2582-0176

on financial sustainability of nonprofit institutions in Nairobi, Kenya and thus the conclusion that corporate governance practices contributed positively to the financial sustainability of nonprofit institutions in Nairobi County, Kenya

7.0 RECOMMENDATIONS

The study recommends that nonprofit institutions in Nairobi County, Kenya enhance the number of board meetings corporate governance practice to ensure financial sustainability of the institutions. The management of nonprofit institutions in Nairobi County would also benefit from this study by implementing corporate governance practices that ensure financial sustainability of their institutions. The study therefore recommends that nonprofit institutions in Nairobi County, Kenya enhance and protect board independence, gender diversity, audit committee size and board meetings as part of good corporate governance practice to ensure financial sustainability of the institutions.

This study recommends that policy makers in the NGO sector which includes the NGO's coordination's Board and The National Council of NGOs in Kenya, the NGOs coordination's board whose mission is to regulate, facilitate, develop capacity, and provide policy advice to the PBO sector utilize the results from this study in answering questions on NPOs Funding and sector sustainability while putting in place regulations on good corporate governance practices to ensure financial sustainability of NPOs in Nairobi County since all the four corporate governance practices had a positive and significant effect on financial sustainability.

The National Council of NGOs in Kenya which is a body incorporated under the Non-Governmental Organization Act 1990 and given the mandate to be the official voice of the civil society in Kenya would benefit from this study in their agenda toward good corporate governance practices in the NGO's sector towards ensuring sustainability. This study recommends that based in its findings, that the policy makers in the NGO sector provide policy advice to the PBO sector could benefit from this study in answering questions on NGO Funding and sector sustainability while putting in place regulations on good corporate governance practices to ensure financial sustainability of NGOs in Nairobi County.

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