# INFLUENCE OF GOVERNING BODY STRUCTURE ON FINANCIAL SUSTAINABILITY OF NGOS IN THE ADVOCACY SECTOR IN KENYA

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## ABSTRACT

Purpose: The study sought to examine the influence of governing body structure on the financial sustainability of NGOs in the advocacy sector in Kenya.

Methodology: The study utilised a mixed-methods research approach and adopted a cross-sectional survey design. The study's target population was 11,176 NGOs in the advocacy sector in Kenya, using a sample size of 384 NGOs, based on the Taro Yamane formula. 305 responses were received and analysed. Research instruments included questionnaires, checklists used to triangulate responses from questionnaires and score sheets used to collate data on the dependent variable. Diagnostic tests were conducted for normality, heteroscedasticity, autocorrelation and multicollinearity. Qualitative data was analysed and presented in narrative statements, while inferential statistics were analysed using the Pearson correlation coefficient and linear regression analysis used to test hypotheses.

Findings: From the descriptive statistics, professional diversification of board members was highly agreed upon by respondents as having an influence on financial sustainability of NGOs in the advocacy sector in Kenya while board members diversification by age was the least agreed upon item. The study found a positive significant correlation between governing body structure and financial sustainability. Correlational analysis revealed positive and significant relationships between the governing body structure and financial sustainability (0.789). For the ANOVA, governing body structure, was found to have a value of F-statistic of ($F(1,303) = 556.942$, and the p-value was found to be 0.000 which is less than the critical value of 0.05. The regression coefficients implied that governing body structure had a positive effect on financial sustainability ($\beta = 0.489$, $t = 23.600$, p-value=0.000). The regression results also found that governing body structure explained a substantial amount of variation ((R2 of 0.648) in financial sustainability of NGOs in the advocacy sector in Kenya. The study rejected the null hypothesis and concluded that governing body structure has significant influence on the financial sustainability of NGOs in the advocacy sector in Kenya

Recommendations: Managers in NGOs in the advocacy sector should develop systems that promote the governing body structure by ensuring that the number of members of the governing body are neither too few nor too many to impede deliberations during meetings. Members should also hold regular meetings, the membership of the governing body should be diversified in terms of expertise and the governing body should be independent of management. Further, CEOs should not play the dual role of also being the Chair of the governing body.


**Keywords:** Governing body structure, Financial Sustainability of NGOs, Advocacy Sector.

## INTRODUCTION

The 2030 Agenda with the 17 Sustainable Developments Goals (SDG) is the newest plan of action adopted by the United Nations to make the way for achieving global sustainability. The Agenda is a tool to put in place strategic actions and shared efforts between countries to confront the global challenges of modern societies such as poverty, hunger and social inequalities, among other problems that lead to a stalemate on the improvement of quality of life and the environment (Blanco-Portela et al, 2018). Across, the world diverse Non-Governmental Organisations (NGOs) have been established to complement government efforts in provision of service utilities and critical services in diverse sectors ( Gul & Morande, 2023). In this context, NGOs play a key role as agents of change to transform the world since their actions on building more equitable, fairer, and sustainable communities in their areas of operation can be taken as an exemplary reference for the society.

Financial sustainability is a buzzword in the NGO sector due to prevailing donor fatigue. Economic recession across the globe has dramatically influenced trends in donations, especially from individuals, as most citizens in developed economies have less disposable income to donate to non-profit organisations at the levels they could in previous years. In a survey of 800 non-profits at the end of 2018, 75 percent of non-profits reported feeling the effects of the downturn, with 52 percent already experiencing cuts in funding (Renz, 2019). As a result, the nature of funding poses financial viability challenges for NGOs. In particular, Kenyan NGOs have faced serious challenges in the recent past which threaten their long term financial sustainability.

The overall sustainability index for the Kenyan NGO sector is a weighted average of three interrelated dimensions: organisational capacity, financial sustainability and, collaboration and networking. However, the two dimensions of organisational capacity and collaboration and networking cannot be in existence without financial sustainability. The index as a tool allows users to assess the political and economic developments that influence the viability of the NGO sector in a country over time (NGO Coordination Board report, FY 2021/22). NGOs failure to sustain their work arise from various inadequacies and majorly, the lack of financial resources (Mohamed, & Makori, (2022). Whittington, Regnér, Angwin, Johnson and Scholes (2020), categorise sustainability of organisations into three main groups including financial sustainability, organisation sustainability and sustainability in service provision. However, financial sustainability is the foundation on which the other categories of sustainability are built. This study therefore focused on the financial sustainability of NGOs in the advocacy sector in Kenya rather than the other types of sustainability. Financial sustainability evaluates an organisation's ability to survive turbulence in their operating environment (Boyes-Watson & Bortcosh, 2022).

### Statement of the Problem

Financial sustainability is a challenge that most NGOs must address (Diaz & Rees, 2020) since the capacity of NGOs to provide consistent and quality services to beneficiaries is based on their ability to achieve financial sustainability (Nanthagopan *et al*., 2019). The financial

sustainability index for the NGO sector during the financial year 2020/21 stood at 53% where financial sustainability was rated at 38%. Out of a total of 12,162 NGOs that had been registered by the Board since its inception, only 9,794 NGOs were active in 2021, representing 80% of the registered NGOs in the country. Financial sustainability can be measured based on the amount of funds received from donors, proportion of own-generated income, portion of unrestricted funds received from donors, portion of expenses catered for by donors and, the surpluses made and retained by the organisation over the years. During FY 2020/21 about 84% of funds received from NGOs were from external sources while only 16% was from local resources. Self-generated income stood at 3.8%. The over dependency on external funding by NGOs and the fact that few NGOs have established income generating activities means that the sector is largely financially unsustainable. (Annual NGO sector report, FY 2020/21). During a crisis such as the global health pandemic of 2020, NGOs manage organisational needs with limited financial resources, as confirmed by a 57% decrease in donations to NGOs during the pandemic (Kim & Mason, 2020). The cumulative funding received from international donors by Kenyan NGOs accounted for 95% of total donations to non-profits in Kenya for years. However, the rate of donations has plummeted to roughly 70 per cent in recent years thereby leading to closure of NGO programmes and total disruption of beneficiary support services by key non-profits (National Council of NGOs, 2021). Further, the recent decision by the Trump administration to close USAID operations and reduce USG funding to developing countries is expected to greatly affect the financial sustainability of NGOs in Kenya.

### Objective of the Study

The objective of the study was:

To determine the influence of governing body structure on the financial sustainability of NGOs in the advocacy sector in Kenya.

### Research Hypothesis

**$H_{01:}$** Governing body structure does not have significant influence on the financial sustainability of NGOs in the advocacy sector in Kenya.

## LITERATURE REVIEW

### Theoretical Review

The principal agent theory, also known as the agency theory, is attributed to Jensen and Meckling. The theory is mainly used to understand the roles of principals and agents in an organisation and has therefore been used to explain governing body structure aspects in an organisation. Organisations often have two parties acting in diverse operational aspects, that is, the principal and agent (Bonney & Bonney, 2015). The principal is a party in an organisation that has the authority over another party (the agent) and as such delegates functions to be undertaken by the agent on behalf of the principal (McDermott, Moote & Danks, 2011). The assumption of the principal while delegating the functions is that the agent executes them without self-interest but at the interest of the principal.

However, despite the objectivity of the agency relationship in an organisation challenges often referred to as agency problems occur thus undermining the objectivity of the principal-agent relationship (Jahera, 2017). These agency challenges include information asymmetry challenges and moral hazard challenges which refer to the ability of the agent to pursue self-interest while taking advantage of the principal. Information asymmetry challenges refer to differences in knowledge and facts held about the delegated tasks between agents and principals, where the agent usually has more knowledge compared to the principal. With a view to addressing the agency challenges, principals /organisations may design governing body structures that ensure oversight over management operations.

In the context of the NGOs a principal-agent relationship occurs between donors, beneficiaries and other stakeholders on the one hand, and the management of the NGOs on the other. Donors donate funds with an expectation that the funds would be used prudently by the NGO management (the agents). Beneficiaries also expect funds received from donors to be used for the common good. The donors further expect the NGO management to create mechanisms and programmes for financial self-sustenance beyond their donations. However, agency challenges may occur due to the fact that most of the donors and beneficiaries are often not privy to the everyday running of NGOs. This information asymmetry may lead to moral hazard challenges when NGO management divert the NGO funds for their own use at the expense of donors and beneficiaries. Governing body structure is one of the aspects that have been utilised to address agency challenges in diverse organisations (Mawudor, 2016).The agency theory has however, received criticism in diverse dimensions. The notion that governing body structure alone could be sufficient to address agency problems has been critiqued (Almeida & Dalmacio, 2015). The arising issues have been that the manner in which governing body structure is operationalised and the expertise of the key decision makers in the governing body structure as well as their level of independence may influence efficiency (Mcdermott et. al, 2011). The agency theory is thus suitable for this study in the context that the researcher sought to examine the diverse ways in which governing body structure including board size, independence, diversity, frequency of board meetings and CEO duality, may address agency challenges hence leading to financial sustainability.

## Conceptual Framework

This study was guided by the following conceptual framework that shows a diagrammatic representation of the relationship between governing body structure (independent variable) and financial sustainability of NGOs (dependent variable).

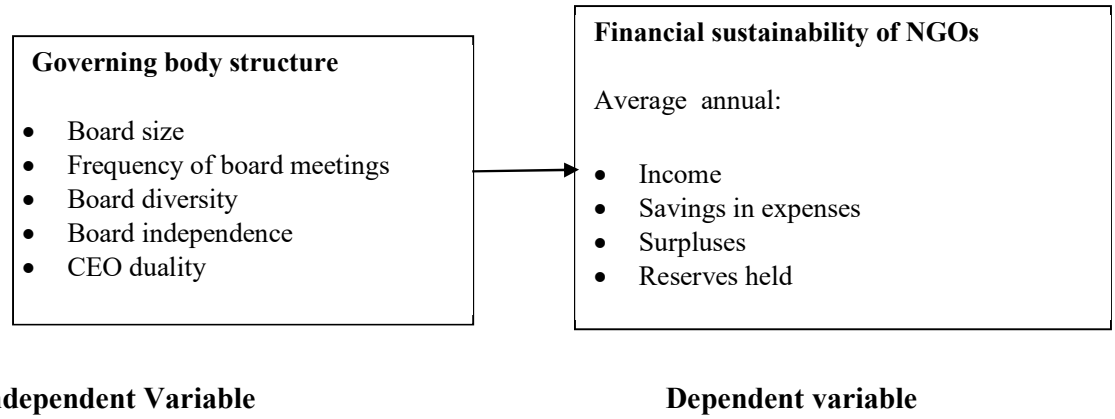


***Fig 1: Conceptual framework***

## Governing Body Structure

Governance and sustainability are fundamental to the continued operation of any corporation (Khlif, Karoui, & Ingley, 2022). Governing body structure is a strategy conceived from within an entity, central to which are the board and the management structure (Dănescu et al, 2021). The word "governance" comes from a Latin word, governare, which implies "rule over, be responsible for." Governance is a process that grants power to a legitimate body inside a system (e.g., organisation, institution, community, or society) to make decisions (e.g., strategic, managerial, administrative) through consensual structures (e.g., board, committee, department, unit) and principles to conduct the operations and activities that meet the expectations (e.g., goal, objectives) of constituencies (e.g., members, clients, communities (Francois, 2015). Governing body structure is the domain of the Board, as opposed to an organisation's management team such as the CEO and other C-suite executives. A healthy governing body structure requires formal and clear separation of duties between management and the board. It also requires a healthy working relationship between the CEO and the Board. Similarly, having at least some independent directors (implying arms-length operations from the company) generally lends itself well to objectivity and conflict resolution when it comes to strategic and executive considerations that are important to an organisation's business. (Peterdy, 2022).

Francois (2015), asserts that governing bodies do not exist without a structure or mechanisms in place. In the context of non-profit organisations the structures include the assembly of members, board members or committees. There are expectations that such a structure exerts the granted power in the best interest of an organisation. The exercise of power occurs mainly in the form of decisions that can positively or negatively affect a group of people who are basically the constituents of an organisation, for example, governing body structure has been shown to increase transparency in financial reporting. Multiple studies that examine the influence of governing body structure on financial performance or the influence of compliance with governing body structure codes on financial performance, through the "apply or explain" principle show that the existence of effective governing body structure positively influences financial performance (Dănescu *et. al,* 2021). Largely, literature reveals that self-perpetuating

and self-appointing boards govern most non-profit organisations (Odhiambo & Njuguna, 2021).

A review by Naciti, Cesaroni & Pulejo (2022), suggests that governing body structure and sustainability literature is evolving from a conceptual approach to rather more strategic and practical studies, while its theoretical roots can be traced back to a number of foundational studies in stakeholder theory, agency theory and socio-political theories of voluntary disclosure. Disli, Yilmaz and Mohamed (2022) conducted a study on board characteristics and sustainability performance: empirical evidence from emerging markets; and found that smaller, gender diverse and independent boards that convene frequently achieved better sustainability performance. The authors documented a positive relationship between board gender diversity and sustainability performance across a broad spectrum of sustainability indicators. The authors also found evidence that board independence had a positive impact on two sustainability performance measures, i.e., environmental and governance performance. Although board size was not found to influence aggregate sustainability measures (Environmental, Social, and Governance (ESG) score, ESG controversies, and ESG combined score), the authors found a negative relation between board size and governance performance. Finally, board activity seemed only relevant in explaining ESG controversies, i.e., other things being equal, frequently held board meetings significantly reduced sustainability issues (ESG controversies).

In addition, some of the studies conducted on governing body structure and organisational results revealed a significant impact (Rahim, & Aisyah (2025); Taskirmaz & Bal, 2015; Mbu-Ogar, 2017; Naciti, 2019). However, other studies revealed mixed results (Mowliid, 2017; Kariuki, 2017; Rotich, 2017; Dănescu et. al, 2021; Puni & Anlesinga, 2020) while the relationship in others was found to be insignificant (Okoye & Adedago, 2017; Luyima, 2015). For the mixed and inconclusive studies, some of the governing body structure parameters were found to have a positive and significant effect, others had a negative and significant effect, while others had an insignificant effect.

The governing body structure parameters that were considered in the study include size of board, independence, diversity of members, frequency of board meetings and CEO duality. This is because the structure of board, the decision-making processes on which it is based, as well as the way in which board members continuously improve the structure have a major influence over the quality of organisational performance (Dănescu et. al, 2021). The size of the board has been extensively researched with respect to its impact on organisational results. Scholars argue that a governing body should always be big enough to accommodate critical perspectives skills, and, yet be small enough to permit active engagement of all members as well as the smooth running of meetings.

Some studies have shown that entities with more directors can attract important resources easily and reduce the exposure to inherent risks (Aluchna & Kuszewski, 2020). In this situation, the coordination and the communication in decision making is more difficult to achieve, which in turn affects the achievement of objectives of the entity and stakeholders. The relationship

between the size of the board and coordination results in a potential opportunity cost. Thus, even though coordination is more difficult in the case of an organisation with more board members the experience, diversity and expertise facilitate improvement of financial performance by entities.

Some research reached a conclusion that the optimal number of board members is between seven and eight. This however, depends on a series of factors specific to each entity, such as the industry of operation. Generally, credit institutions tend to have more board members than productive entities (Siminica, Cristea, Sichigea, Noja, & Anghel, 2019). Previous research yielded different results concerning the impact that board size has on the performance of an entity, for example, while Lloret (2016), identified a positive relationship between board size and performance the results obtained by Bebchuk & Weisbach (2010), were not conclusive.

It is critical for board members to meet for sufficient number of times in a given year to enable them to keep abreast of the happenings of the organisation. Neither the NGO Coordination Act (1990), nor the PBO Act (2013), prescribe the number of times that a board should meet. In this study the main measure of interest of board members was the number and frequency of meetings that were held by the board in a given time period. Good practice requires boards to hold meetings at least quarterly. However, frequency of board meetings has contrary views; an active board with more meetings can be interpreted or viewed as inefficient, while others believe that more board meetings enable directors to supervise the company better (Zhou, Simnett, & Green, 2017). By having more meetings, the board can debate, analyse, and decide on a broad range of topics. Very few meetings could imply that the board lacks interest in the happenings in the organisation while on the other side; too many meetings would indicate trouble in the organisation (Lasisi, 2017).

La Porta and Schleifer (2015), avers that board diversity is not only limited to gender diversity but also relates to diversity in occupation, age, religion, and professional expertise. Boards should comprise an appropriate mix of directors that have relevant competence, knowledge, and industry experience to bring diverse perspectives and make objective decisions (IFA, 2017). Board diversity should facilitate preferential access to outside and broader social networks, additional resources, and build new business relationships (Alipour, Ghanbari, Jamshidinavid, & Taherabadi, 2019). Additionally, multiple directorships of members increase directors' exposure to diverse strategic and governance issues. Board diversity is closely related to board composition, and can refer to gender, age, nationality, cultural background, and educational attainment (IFA, 2017). Regarding gender, it is considered that men and women have different moral reasoning, women using more care reasoning and protective attitudes. Nevertheless, to influence the group behaviour, a minority must reach a critical number of 3 persons, with regard to women's presence on the board. The presence of women directors on boards positively impacts the integration of various reports, whether mandatory or voluntary (Fuente, García-Sanchez, & Lozano, 2017).

Also important on a board are individuals who have requisite experience in handling sustainability matters. Organisations with members who have experience in sustainability

matters are well placed to engage in sustainability above and beyond that of their peers. Such expertise can be acquired from past roles on-the-job, past membership on board committees or exposure to sustainability challenges as participants in other non-profit or community organisations. As organisational sustainability initiatives become more embedded, management have to re-evaluate the role governing body structure so as to monitor all characteristics of firm behaviour that affects the whole society (Walls & Berrone, 2016).

The independence of the board with respect to presence of non- executive members is also a crucial governing body structure mechanism. A non-executive or independent member of board is defined as a person who does not have executive responsibilities and who is not affiliated with the entity. Theoretically, independent members are objective in the process of monitoring managers and thus ensure better protection of stakeholder interests. The supporters of this theory have proven that a higher number of non-executive members improve the relationship between the investment opportunities of an entity and its performance (Dănescu *et.al,* 2021). A board with high proportion of autonomous directors is expected to have more significant policies in place, including policies on ensuring independence of the board and management.

There are several perspectives on the relationship between the board chair – CEO duality and the performance of an entity. The CEO is the individual who provides top management of an entity. Many researchers have stipulated that a combination of board chair and CEO positions is not optimal for the leadership structure of an organisation. They argue that through CEO duality, the concentration of the decision authority independence is limited and efficiency in monitoring management is reduced (Ullah, 2016; Ahmad, Sadiqa, & Khan, 2021; & Akbar, 2015). On the other hand, a study conducted by Chen, Chen & Lien, (2020), shows that the duality of the CEO/ board chair does not result in distress. Some studies emphasise that in circumstances where one person holds the two positions, the organisation has a unitary and stronger leadership. In addition, the elimination of the potential CEO–board chair conflict helps avoid the confusion generated when an organisation is publicly represented by two persons that might have different perspectives. Other research however, show no significant relationship from this perspective. (Chen *et. al,* 2020). Based on the above, there was need to examine more carefully how the different board structure parameters; board size, diversity, independence, frequency of meetings held, and CEO duality; coordinate organisation activities to determine sustainability outcomes.

## Financial sustainability

Financial sustainability may be influenced by the effectiveness of the governing body within a non-profit organisation, which in turn is influenced by the governing body structure. A non-profit organisation can achieve financial sustainability based on its ability to govern, lead and manage itself in a manner that can consistently gather public support, create its own metabolism to manage and resolve conflicts, take decisive corrective actions on mistakes and anticipate and neutralize systemic crises (Francois, 2015).

## RESEARCH METHODOLOGY

This study utilised a mixed methods research approach and adopted cross-sectional survey design. The study focused on NGOs in the advocacy sector, where 11,176 NGOs in the advocacy sector were the unit of analysis. Of the 11,176 NGOs, 55.4%, 35.9%, and 8.7% were local, national and international NGOs respectively. The sample size of 384 NGOs was obtained using the Taro Yamane formula (Yamane, 1967). The targeted sample size based on the strata was as follows for the purposes of collecting data:

***Table 1: Stratified sample selection***

| Type of NGO | Percentage | Number of NGOs targeted |
|---|---|---|
| Local NGOs | 55.4% | 213 |
| National NGOs | 35.9% | 139 |
| International NGOs | 8.7% | 32 |
| **Total** | **100%** | **384** |

The unit of observation was the senior management staff of NGOs including Chief Executive Officers, Heads of Finance and Heads of Programmes. This is because senior members of the management team are involved in establishing governing body structures that were the subject of this study. In addition, senior management interact with the governing body and hence have a good understanding of the governing body structure of their organisation. One senior management team member was targeted per NGO and thus the unit of observation was 11,176 respondents or NGOs.

The researcher collected data from primary sources using a questionnaire which was administered online via google forms. The responses were automatically updated onto a google spreadsheet which served to summarise the responses. A pilot study was conducted one month prior to the actual study. The data collected during the pilot study was analysed to assess how much time it would take on each questionnaire, and the clarity of the questions and hence inform the decision on whether the instrument required to be revised. The researcher determined the internal consistency of Likert scale items using Cronbach's Alpha (Lee Cronbach's in 1951) at a score of between zero and one, with 0.7 being generally accepted as a sign of acceptable reliability. The results of the reliability tests are depicted in table 2 below.

*Table 2: Reliability Tests*

| Latent Variables | Cronbach's Alpha | Cronbach's Alpha Based on Standardized Items | No. of Items | Status |
|---|---|---|---|---|
| Governing body structure | 0.749 | 0.756 | 8 | Accepted |
| Financial sustainability | 0.795 | 0.798 | 8 | Accepted |

The above table indicates that the variables under study had Cronbach's alpha coefficient greater than the 0.7 threshold thus confirming the reliability of the instrument.

To triangulate the information received from the questionnaires, the researcher purposively selected NGOs in the advocacy sector in Nairobi and Kajiado counties physically, on phone or through online platforms and assessed their willingness to provide the requisite information, based on proximity of the two counties to the researcher's residence. The questionnaire was shared with those who were willing to respond, after which interviews were conducted by going through the questionnaire. A checklist was then prepared by the researcher to compare the responses from the interview with those on the questionnaires. Secondary data was received in the form of audited financial statements for the last five years and the averages of income, expenses, surpluses and reserves were re-computed. The secondary data was mainly shared through e-mail. A checklist was then prepared by the researcher to compare the re-computed results with those indicated in the questionnaires.

## Factor Analysis

Factor analysis was utilised to measure the external validity of questionnaire. As part of qualitative analysis thematic content from open-ended sections of the questionnaire was studied, coded and key themes of the study objectives transcribed. Texts were drawn from the coded data, similar ideas put together, and the generalised meanings extracted and stated in a narrative way, as expressed by the study participants. This extracted general meaning was corroborated with quantitative findings.

## Diagnostic tests

This study tested for normality, linearity, multicollinearity and heteroscedasticity using SPSS version 25 software. Normality is critical in determining the shape of distribution, and, assists to forecast the scores of the dependent variable (Gujarati, 2021). Linearity test was conducted to establish whether each of the independent variables (predictors) exhibited a linear relationship with the dependent variable. This hypothesised linear relationship can be checked by a scatter diagram between the predictor variables and the dependent variable (Sisay, 2021). The study also conducted tests for multicollinearity, which is referred to as the adverse situation in which the correlation amongst the independent or predictor variables is significant (Gujarati, 2021). In a bid to test for multicollinearity, the Variance Inflation Factor (VIF) was utilised. If there were no two independent variables that are found to be correlated, all VIFs were expected to be 1. On the other hand, if the VIF for one variable is about or greater than 5, the study would conclude that there was multicollinearity related with the specific variable. In such a case, one

of the variables would be required to be omitted from the regression model (Cohen, Cohen, West & Aiken, 2013). Heteroscedasticity refers to a position where the variance of dependent variable is varied across data, contrary to the situation where Ordinary Least Squares (OLS) assumes that $V(\varepsilon j)=\sigma 2$ for all j, that is, variance of error term is expected to be constant (homoscedasticity). Heteroscedasticity can complicate analysis since various methods in regression analysis are dependent on the assumption of equal variance across data.

## Operationalization of variables

The explanatory (Xp) and explained (Y) variables were operationalized through observable variables, and their relationships examined within the operational framework (Dole, Cameron and Abbott-Smith (2025) as below.

***Table 3: Operationalisation of variables***

| Category | Variable | Operationalisation /Indicator | Measurement |
|---|---|---|---|
| Independent variables | Governing body structure | Size | • Number of governing body members |
| | | Frequency of meetings | • Number of meetings held by the governing body per year<br>• Number of active members who regularly attend governing body meetings |
| | | Diversity | • Differences in gender, age, qualifications, experience |
| | | Independence | • Presence of non-executive members |
| | | CEO duality | • If CEO is also Chair of the governing body |
| Dependent Variable | Financial sustainability | Income | • Average annual funding from donors<br>• Average annual funding from own generated income<br>• Average increase in available annual income<br>• Average annual unrestricted income/ core funding |
| | | Expenses | • Average annual savings in project expenses<br>• Average annual savings in administrative expenses |
| | | Surpluses | • Average annual surpluses |
| | | Reserves | • Average annual reserves held |

For the dependent variable, the questionnaire collected quantitative data with respect to the average income, expenses, surpluses and reserves over the last five years. The researcher computed the proportions of own generated income and unrestricted income to assess the flexibility of the board in decision making with respect to funds received. The researcher also reviewed whether annual income had been increasing over the years. For purposes of expenses, the researcher reviewed the savings in project expenses as well as overhead costs. Average surpluses provided information on whether the NGOs obtained funds which could be used to strengthen institutional capacity which could be used to ensure financial sustainability. Further, surpluses which were retained as reserves were expected to result in financial sustainability as opposed to instances where such surpluses would be refunded back to donors. Scores were generated for the results obtained for each of the parameters to facilitate the determination of a final score for each of the respondents with respect to the level of financial sustainability.

## RESEARCH FINDINGS

### Response rate

The self-administered questionnaire was shared as a google form through digital platforms patronised by NGO stakeholders in the advocacy sector in various parts of the country. 305 questionnaires were filled by the respondents translating to a response rate of 79.4%.

### Triangulation results

Due to the travelling restrictions during the Covid-19 pandemic, the researcher was only able to physically visit 23 NGOs in the advocacy sector with Nairobi and Kajiado counties to conduct interviews and confirm the results obtained from the questionnaires. The researcher also conducted 16 interviews through various online platforms. As a result, information for a total of 39 questionnaires was analysed. The researcher observed that the information in the questionnaires was in accordance with the results of interviews and re-computations of average incomes, expenses, surpluses and reserves in 38 out of the 39 instances were also confirmed as correct. Though not representative of the sample, the triangulation of information on the questionnaire with the interviews and review of secondary information provided comfort on the accuracy of the data received for analysis.

### Descriptive Analysis of the Study Variables

The results of the descriptive studies on governing body structure and financial sustainability are depicted in tables 4 and 5 below.

***Table 4: Governing body structure and financial sustainability of NGOs in the Advocacy sector in Kenya***

| | Governing body structure<br>Cronbach alpha = 0.749 | Not at all<br>% | Little extent<br>% | Moderate extent<br>% | Great extent<br>% | Very great extent<br>% | Mean | Std. Deviation |
|---|---|---|---|---|---|---|---|---|
| i) | The governing body has at least five members to facilitate efficient decision making, given the size and operations of organisation | 32.11 | 25.61 | 18.71 | 11.51 | 12.11 | 2.46 | 1.362 |
| ii) | The majority of board members are active and attend at least three board meetings in a year | 34.41 | 48.51 | 13.41 | 2.01 | 1.61% | 1.88 | 0.832 |
| iii) | The governing body meets at least four times in a year | 39.31 | 28.21 | 17.71 | 8.91 | 5.91 | 2.14 | 1.201 |
| iv) | The board members do not get involved in the day to day operations of the organisation | 48.21 | 35.41 | 9.51 | 5.61 | 1.31 | 1.76 | 0.930 |
| v) | Board members are from diverse ethnic backgrounds | 31.11 | 44.61 | 11.81 | 7.51 | 4.91 | 2.10 | 1.080 |
| vi) | Board members are diverse in terms of age | 54.81 | 34.41 | 5.91 | 3.91 | 1.01 | 1.62 | 0.843 |
| vii) | Board members are from diverse professional backgrounds | 38.41 | 27.21 | 3.31 | 8.91 | 22.31 | 2.50 | 1.594 |
| viii) | The CEO is also the Chair of the Board | 31.51 | 46.21 | 11.51 | 7.51 | 3.31 | 2.05 | 1.013 |
| **Composite mean and standard deviation** | | | | | | | **2.14** | **1.09** |

The average score for this variable was found to be 2.14 with standard deviation of 1.09. This means that on average the NGOs sampled had weak governing body structures.

***Table 5: Financial sustainability***

| **Financial sustainability** Cronbach alpha = 0.795 | **Less than 5 million (KES) %** | **5 – 10 million (KES) %** | **11 – 15 million (KES) %** | **16 – 20 Million (KES) %** | **Over 20 Million (KES) %** | **Mean** | **Std. Deviation** |
|---|---|---|---|---|---|---|---|
| i. Average annual funding from donors over the last five years | 20.31 | 24.31 | 18.41 | 18.41 | 18.71 | 2.87 | 1.444 |
| ii. Average annual funding from own generated income over the last five years | 34.81 | 48.21 | 12.11 | 0 | 4.91 | 1.74 | 0.857 |
| iii. Average increase in available annual income over the last five years | 41.61 | 29.21 | 13.11 | 4.61 | 11.51 | 2.21 | 1.121 |
| iv. Average annual unrestricted donor income/ core funding over the last five years | 40.01 | 45.61 | 7.51 | 2.01 | 4.91 | 1.78 | 0.926 |
| v. Average annual project expenses over the last five years | 37.71 | 45.61 | 11.11 | 2.61 | 3.01 | 1.79 | 0.939 |

| **Financial sustainability** Cronbach alpha = 0.795 | **Less than 5 million (KES) %** | **5 – 10 million (KES) %** | **11 – 15 million (KES) %** | **16 – 20 Million (KES) %** | **Over 20 Million (KES) %** | **Mean** | **Std. Deviation** |
|---|---|---|---|---|---|---|---|
| vi. Average annual administrative expenses over the last five years | 38.41 | 49.21 | 6.91 | 1.31 | 4.31 | 1.70 | 0.873 |
| vii. Average annual surpluses in the last five years | 51.51 | 33.41 | 8.51 | 2.31 | 4.31 | 1.90 | 0.889 |
| viii. Average annual reserves held in the last five years | 33.41 | 32.51 | 16.11 | 4.61 | 13.41 | 2.24 | 1.175 |
| **Composite mean and standard deviation** | | | | | | **2.03** | **1.03** |

The average score for the dependent variable was 2.03 with standard deviation of 1.03. This means that the sampled NGOs had challenges with financial sustainability. These findings are in line with earlier studies by scholars such as Mawudor (2016), who noted that the NGO sector in Kenya faces a major problem with regard to financial sustainability.

## Factor analysis

In this study, factor analysis was performed to reduce and summarize data set items into controllable factors without losing the original information. Exploratory factor analysis (EFA) was employed in the study because of its ability to explore the data to identify the acceptable and relevant set of factors which can be analyzed together (Kulzy & Fricker, 2015; Velayutham, Aldridge & Afari, 2013).

### a) Governing Body Structure Communalities

The research sought to apply communalities as a suitable measure in predicting the value of the variables related to governing body structure on the financial sustainability of NGOs in the advocacy sector in Kenya. Communalities specifically tell what proportion of the particular variable is the result of either the Principal Component or a mere correlation between each

particular variable and the individual factor. It can also be noted as the $h^2$ which is the sum of squared factor loadings. It is a clear definition of the common variances that normally range between 0.0 and 1. Values that which are closer to one (1) suggest that the factors extracted explain the variance of an individual item. According to Field, (2013) as the communalities become low, the sample size importance steadily increases. Therefore, if the variable is actually high, the extracted factors account for a bigger proportion of the variance of the variable. If the communalities are not found to be high, then the sample size has to compensate for this. Table 6 presents the results on the sum of squared multiple correlation coefficient between the constructs and the factor.

***Table 6: Communalities for Governing Body Structure***

| Opinion statement | Initial | Extraction |
|---|---|---|
| i) The governing body has at least five members to facilitate efficient decision making given size and operations of organisation | 1.000 | 0.752 |
| ii) The majority of board members are active and attend at least three board meetings in a year | 1.000 | 0.550 |
| iii) The governing board meets at least four times in a year | 1.000 | 0.759 |
| iv) The board members do not get involved in the day to day decisions of the organisation | 1.000 | 0.539 |
| v) Board members are from diverse ethnic backgrounds | 1.000 | 0.525 |
| vi) Board members are diverse in terms of age | 1.000 | 0.380 |
| vii) Board members are from diverse professional backgrounds | 1.000 | 0.748 |
| viii) The CEO is also the Chair of the Board | 1.000 | 0.554 |

Extraction Method: Principal Component Analysis.

Since the extracted values were high all the variables were retained during the final data analysis. The highest value is 0.759 and the lowest is 0.380 which is more than the minimum acceptable value of 0.30. These values also show that the reliability of these constructs was very high.

**b) Governing Body Structure Total Variance Explained**

Explained variance is used in research to measure the inconsistency and discrepancy between the model and the actual data. It is part of the model's total variance that is explained by the different factors which are essentially present and are not caused by the error variance. The higher percentage of explained variance indicates a strong strength of association. In essence, the percentage of the variance column gives the ratio that is expressed as a percentage of the

variance accounted for by each component to the total variance among all the variables. This therefore implies that better predictions can be made (Yong & Pearce, 2013).

***Table 7: Total Variance Explained***

| Component | Initial Eigenvalues | | | Extraction Sums of Squared Loadings | | | Rotation Sums of Squared Loadings | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 3.050 | 38.125 | 38.125 | 3.050 | 38.125 | 38.125 | 2.518 | 31.471 | 31.471 |
| 2 | 1.759 | 21.982 | 60.107 | 1.759 | 21.982 | 60.107 | 2.291 | 28.636 | 60.107 |
| 3 | 0.844 | 10.553 | 70.660 | | | | | | |
| 4 | 0.746 | 9.321 | 79.981 | | | | | | |
| 5 | 0.646 | 8.070 | 88.051 | | | | | | |
| 6 | 0.384 | 4.806 | 92.858 | | | | | | |
| 7 | 0.292 | 3.645 | 96.502 | | | | | | |
| 8 | 0.280 | 3.498 | 100.000 | | | | | | |

Extraction Method: Principal Component Analysis.

The high factor loading scores showed that all the items explained financial sustainability of NGOs. The EFA extracted 2 factors with Eigen values of 3.050 and 1.759 which were above the accepted value of 1 and cumulative extracted variance of 60.107%. This is confirmed by the scree plot below and thus, none of the eight items was dropped (Yong & Pearce, 2013).

**c) Governing Body Structure Scree Plot**

A scree plot is a simple line segment that shows a single fraction of the total variance in the whole data. In the factor analysis or principal analysis context, a sharp drop in the plot implies that the subsequent factors can be ignored. This plot is used in research to determine the exact number of factors that can be retained in an exploratory factor or principal components to keep as displayed in the Figure 2 below.


*Fig 2: Scree plot for Governing Body Structure*

Figure 2 presents the results of the number of factors extracted from the factor analysis process. The first component always has the highest total variance while the last component has the least variance. Component 2 has the largest drop reflected through the elbow joint. The graph shows that there are eight factors but only two are above the threshold value of one.

**d) Governing Body Structure Principal Component Analysis**

The principal component analysis was used to extract the maximum variance and put them into the first factor. After that, it removed that particular variance which is explained by the first factor to use it to extract another maximum variance for the second factor and the process continued up to the last factor.

*Table 8: Rotated Component Matrixa*

| Opinion statement | Component | |
|---|---|---|
| | 1 | 2 |
| Board members are from diverse professional backgrounds | 0.864 | |
| The governing body has at least five members to facilitate efficient decision making given size and operations of organisation | 0.856 | 0.143 |
| The governing board meets at least four times in a year | 0.855 | 0.167 |
| The majority of board members are active and attend at least 3 board meetings in a year | | 0.741 |
| The CEO is also the Chair of the Board | 0.231 | 0.708 |
| Board members are from diverse ethnic backgrounds | -0.185 | 0.701 |

| Opinion statement | Component | |
|---|---|---|
| | 1 | 2 |
| The board members do not get involved in the day to day decisions of the organisation | 0.355 | 0.643 |
| Board members are diverse in terms of professional expertise | 0.303 | 0.537 |

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 3 iterations.

From table 8 principal component analysis with varimax rotation was conducted to identify the underlying factors of all the research constructs relating to governing body structure. Factor loadings were generated for all the items to assess construct validity (Huang & Van Der Veen, 2018). The results depicted that factor loadings of all items used to measure governing body structure were all above the minimum recommended value of 0.50 (Hair *et. al*., 2014). Further, the high factor loading scores showed that all the items explained governing body structure.

## Diagnostic Test Results

The following tests of assumptions of the study variables were conducted to ascertain whether regression analysis was suitable.

## Normality Tests

Normality tests are conducted in order to establish whether study variables as well as the residuals exhibited normal distribution as theorised in the assumptions of the classical regression model. The Kolmogorov-Smirnov and Shapiro-Wilk tests were used in analysing normality of the distribution of the independent variables and the findings presented in Table 4.9.

***Table 9: Normality tests***

| Variable | Kolmogorov-Smirnov[a] | | | Shapiro-Wilk | | |
|---|---|---|---|---|---|---|
| | Statistic | df | Sig. | Statistic | df | Sig. |
| Governing body structure | 0.075 | 305 | 0.000 | 0.975 | 305 | 0.000 |
| Financial Sustainability | 0.152 | 305 | 0.000 | 0.925 | 305 | 0.000 |

a. Lilliefors Significance Correction

As Table 4.9 depicts, the reported p-values for the Kolmogorov-Smirnov and Shapiro-Wilk test statistics are far less than the recommended 5% level of significance ($p < .05$); this implied that the assumption of normality of the distribution of the variables was not violated. In other words, the variables were normally distributed, thus satisfying the requirements of normality of the distribution.

The histogram of the residuals of the linear regression model was plotted and presented in Figure 3.

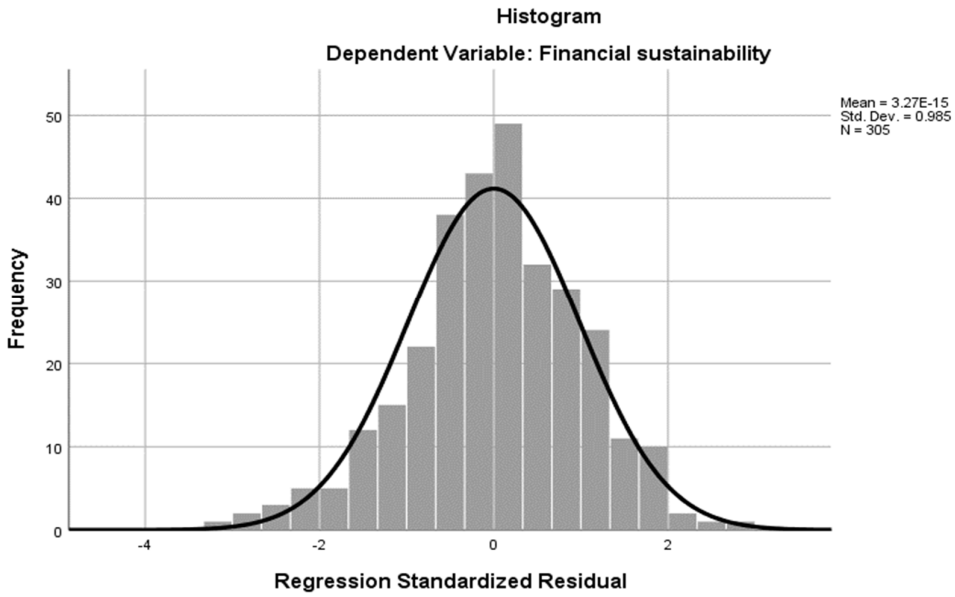


***Fig 4.3: Histogram of the Residuals***

The distribution of the residuals as exhibited in the histogram above suggests that a large portion of the data points were lined in accordance with the normal distribution Gaussian curve (bell-shaped curve). This implied normality of the distribution of the residuals of the regression model; thus, satisfying the condition of normality as per the assumptions of the linear regression model. Furthermore, normality of the residuals was checked using P-P plots as presented in Figure 4.

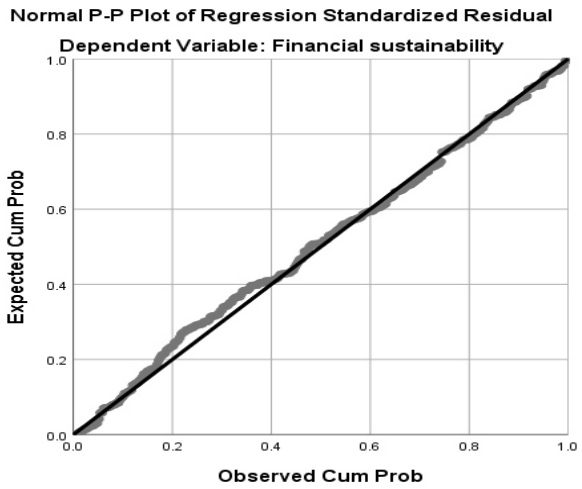


***Fig 4: P-P plot of the Residuals***

The P-P plot indicate that most of the data points were distributed along the fitted reference line which is indicative of normality of the distribution of the residuals. This is in tandem with the suggestions by Nguyen, Sugai, Nguele and Sreu (2021), who posited that data points in P-P plots should not deviate significantly from the reference line. In summary, all the normality tests performed on the independent variable and the residuals of the regression model confirmed normality of the distribution, suggesting that the requirement of normality for the regression model was not violated.

## Linearity Test Results

Linearity test was conducted to establish whether the independent variables (predictors) exhibited a linear relationship with the dependent variable. This hypothesised linear relationship can be checked by a scatter diagram between the predictor variables and the dependent variable (Sisay, 2021). As such, the scatter diagram for governing body structure versus the dependent variable were presented in Figure 5 below.

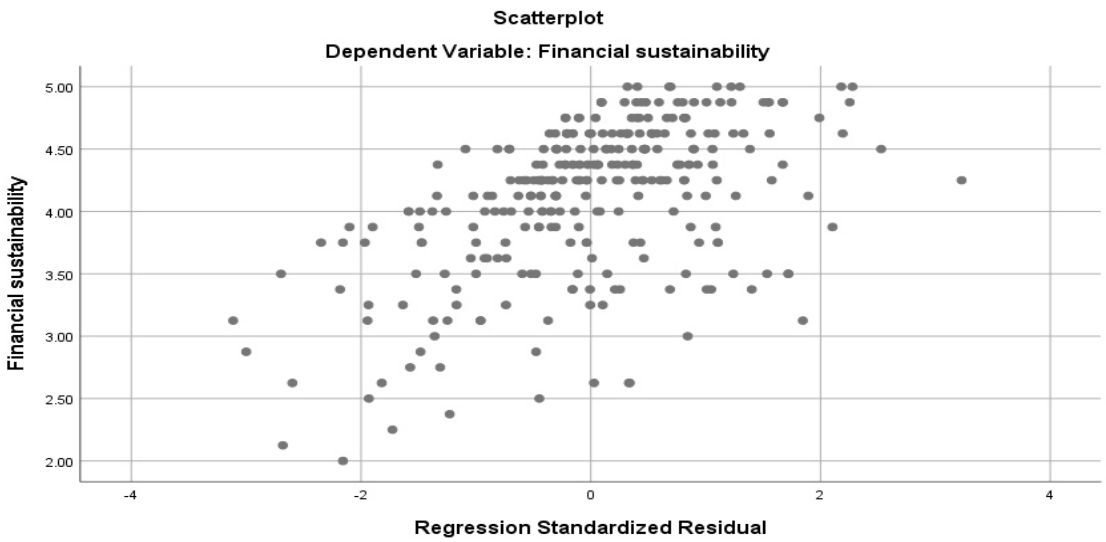


*Fig 5: Scatter plot for governing body structure and financial sustainability*

As Fig 5 above depict, majority of the data points tend to be bundled together forming a linear pattern in the positive direction, suggesting an element of linearity in the relationship between the independent variables and the dependent variable. The implication of this kind of relationship was that the assumption of linearity of the relationship between the independent variables on the dependent variable was not violated; which implied that the model was fit to describe the relationship between the independent variables and the dependent variable.

## Multicollinearity Test Results

The purpose of conducting multicollinearity test is to ascertain the existence of significant intercorrelations amongst the independent variables of a regression model. Variance inflation Factor (VIF) is used in measuring multicollinearity where a threshold of VIF <5 suggests absence of multicollinearity (Li, Cong, Xie, Wang & Wang, 2022). Obaid and Ali (2022), on the other hand recommend that a VIF ≤10, or a tolerance ≥ 0.1 as a threshold to simplify absence of multicollinearity. The results of multicollinearity tests were presented in Table 10.

*Table 10: Multicollinearity results*

| | Collinearity statistics | |
|---|---|---|
| **Variables** | **Tolerance** | **VIF < 10** |
| Governing body structure | 0.573 | 1.745 |
| Donor Policies | 0.689 | 1.451 |

Multicollinearity test results yielded VIF values between 1 and 2. This was an indication of absence of multicollinearity in the predictors of the regression model. This implied that the multicollinearity assumption was not violated, which improves the predictive performance of the regression model.

## Heteroskedasticity Test Results

Heteroskedasticity checks for non-uniformity of variance of the residuals of the regression model. Heteroscedasticity means unequal scatter in the context of residual or error term. This is actually a systematic change in the spread of the residuals over the range of measured values. This is a problem because ordinary least squares regression has an assumption that all residuals are drawn from a population with constant variation which is homoskedasticity. The results of the heteroskedasticity test results are exhibited under Table 11 below.

*Table 11: Heteroskedasticity*

| Modified Breusch-Pagan Test for Heteroskedasticity[a] | | |
|---|---|---|
| Chi-Square | df | Sig. |
| 2.123 | 1 | 0.145 |

a. Dependent variable: Financial Sustainability

Table 11 above presents the results on the heteroskedasticity test of the model one of the independent variable. In the test for heteroskedasticity the findings reveal that the computed statistic of Chi-square ($\chi^2 = 2.123$, $p = 0.145$). From the results all the regression coefficients were not significant. This indicates that there is no heteroskedasticity.

## Regression Analysis

### Simple Linear Regression of Governing Body Structure on Financial Sustainability

**Null hypothesis**: There is no statistically significant relationship between governing body structure and financial sustainability of NGOs in the advocacy sector in Kenya.

The objective of the study was to evaluate the effect of governing body structure and financial sustainability of NGOs in the advocacy sector in Kenya. The relationship was determined using simple linear regression analysis in order to establish the strength of the relationship. The results in Table 12 indicate that the overall model was a good fit since the variable; governing body structure, were found to have a value of F-statistic of ($F(1,303) = 556.942$, and the p-value was found to be 0.000 which is less than the critical value of 0.05. Therefore, the model is statistically significant, implying that governing body structure has a significant effect on financial sustainability.

***Table 12: Analysis of Variance for governing body structure***

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 72.000 | 1 | 72.000 | 556.942 | .000[b] |
| | Residual | 39.171 | 303 | 0.129 | | |
| | Total | 111.171 | 304 | | | |

b. Predictors: (Constant), Governing Body Structure

The study further computed the coefficient's estimates for the regression model fitted. Table 13 below shows that governing body structure had a positive effect on financial sustainability ($\beta$ =0. 489, t= 23.600, p-value=0.000). The p-value of the coefficient estimated was less than 0.000 at 0.05 level of significance. This implied that the effect of governing body structure on financial sustainability was statistically significant. The equation formulated by the results of the model was given by;

$Y = 4.124 + 0.489X_1 + \varepsilon$

This model showed that increasing governing body structure practice by one unit would in turn improve financial sustainability by 0.489 units.

***Table 13: Regression coefficients for governing body structure***

| Model | | Coefficients | | t | Sig. |
|---|---|---|---|---|---|
| | | B | Std. Error | | |
| 1 | (Constant) | 4.124 | 0.021 | 200.295 | 0.000 |
| | Governing body structure | 0.489 | 0.021 | 23.600 | 0.000 |

a. Dependent Variable: Financial sustainability

The results of the goodness of fit of the model are summarised in Table 14 below.

*Table 14: Model summary for governing body structure*

| R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|
| .805[a] | 0.648 | 0.646 | 0.35955 |

a. Predictors: (Constant), Governing Body Structure

As Table 14 depicts, $R^2 = 0.648$, which means that the influence of governing body structure accounted for approximately 64.8% of variation in the dependent variable (explained variation), while 35.2 % were explained by other factors (unexplained variation). Thus, the model was fit to predict financial sustainability of NGOs using governing body structure as an independent variable.

The above findings are in line with the principal-agent theory which postulates that NGOs should design governing body structures that ensure oversight over management operations, since various stakeholders are not privy to the day to day operations of organisations. The findings are in line with studies by Rahim, & Aisyah (2025); Disli, Yilmaz & Mohamed (2022); Mbu-ogar, (2017); and Naciti, (2019), who asserted that governing body structure has a significant relation with organisational results. Since the NGOs surveyed in the current study had poor governing body structures, they also had challenges with financial sustainability.

**$H_{01:}$** *Governing body structure does not have significant influence on the financial sustainability of NGOs in the advocacy sector in Kenya*

The decision rule was to reject the null hypothesis since p-value < .05, indicating that governing body structure significantly influenced the financial sustainability of the NGOs at 5% level of confidence. From the model, the t-statistic for this variable was found to have a p-value of 0.000. With the p-value of 0.000 being less than 0.05, the null hypothesis was rejected and the alternative hypothesis accepted; and a conclusion drawn that there was indeed a significant relationship between governing body structure and financial sustainability of NGOs in the advocacy sector in Kenya.

## SUMMARY, CONCLUSION AND RECOMMENDATIONS

### Summary of Major Findings

Governing body structure was measured using eight statements which had been found to be valid after the pilot test. These statements were also found to have a high reliability based on their Cronbach's Alpha value. The descriptive results for governing body structure indicated that respondents were in agreement that proper structures had not been instituted in their NGOs since the average mean for the statements was below average mean score. The statement which recorded the highest mean was 'Board members are from diverse professional backgrounds' while the one with the lowest mean was 'Board members are diverse in terms of age." Generally the respondents felt that governing bodies were not well structured with respect to size, frequency of meetings, diversity, independence and CEO duality. In the analysis of correlation between governing body structure and financial sustainability a high positive

correlation was established. The results confirmed that an increase in the governing body structure would lead to an increase in financial sustainability of NGOs in the advocacy sector in Kenya. The results from regression analysis showed that governing body structure explained a substantial amount of variance in financial sustainability of NGOs in the advocacy sector in Kenya. The findings indicated that the governing body structure is positively associated with financial sustainability in the sample taken. This study therefore did not accept the null hypothesis on the relationship between governing body structure and financial sustainability of NGOs in the advocacy sector in Kenya.

## Conclusions

Based on the results of the descriptive analysis, most of the respondents reported having weak governing body structures and also low financial sustainability. This implies that the establishment of proper structures to enhancement management oversight could result in development of sound policies that support long term financial sustainability of an organisation. The inferential analysis support the findings by revealing a positive and significant influence based on the tests of significance. The research therefore concluded that governing body structure had a positive and significant relationship with financial sustainability of NGOs in the advocacy sector in Kenya based on the sample taken for this study.

## Recommendations for Policy and Action

The managers in NGOs should develop systems that promote the structure of the governing body structure by ensuring that the number of members of the governing body are neither too few nor too many to impede deliberations during meetings. The governing body should also hold regular meetings so as to provide adequate oversight over management. Further, the composition of the members should reflect diversity in gender, age and professional expertise. Additionally, the roles of the governing body and those of management should be clearly outlined to ensure proper segregation of duties. Moreover, the CEO should not play the role of both CEO of the organisation as well as the Chair of the Board to ensure that there is no conflict of interest.

## Contribution to Theory and Literature

Most of the studies conducted in Kenya on the NGO sector have mainly explored the factors that affect financial sustainability of NGOs in Kenya, without seeking to find out how the factors influence financial sustainability. Further, not many studies have focused on NGOs in the advocacy sector in Kenya, with respect to the influence of governing body structure on financial sustainability. This study therefore comprises one of the few studies that have been carried out on the influence of governing body structure on financial sustainability of NGOs in Kenya, and specifically in the advocacy sector.

In addition, the study is pegged on the theory of principal-agent theory and therefore adds to existing literature by confirming the applicability of the theory to practices relating to governing body structure. This study therefore provides a unique theoretical contribution by extending the authenticity of the agency theory in the field of organisation behaviour.

## Limitations of the study

The study was conducted using a self-administered questionnaire shared as a google form to digital platforms patronised by NGO stakeholders in the advocacy sector. In self-reporting it is very easy for respondents to give false information about the data being sought, especially in such a study where members of senior management were reporting on the practices within their organisations. In many cases, self-report measures are not very reliable as they suffer from the problem of a social desirability effect on participants who may choose to give an ideal response instead of the truth, and hence reporting falsely.

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