CORPORATE GOVERNANCE AND PERFORMANCE OF COMMUNITY-BASED ORGANIZATIONS IN NAIROBI CITY COUNTY IN KENYA

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ABSTRACT

Community-Based Organizations (CBOs) in Nairobi City County are facing poor financial performance due to decreased donor financing. The weak management systems and mishandling of cash increase the severity of the financial challenges in the CBOs. This study examined the effect of corporate governance on financial performances of community-based organizations operating in Kibera Sub County, Nairobi Kenya. The primary aim of this study is to evaluate the influence of corporate governance on the financial performance of Community-Based Organizations (CBOs). Specifically, it investigates how the audit committee, directors' compensation, and the quality of external audits affect the financial outcomes of these organizations. The research is grounded in stakeholder theory, agency theory, and stewardship theory. Employing a descriptive research design, the study focused on a population of 11 CBOs to achieve its objectives. A census sampling technique was applied to select these organizations operating in Kibera Sub-County, Nairobi, Kenya. Data was collected from secondary sources by analyzing the financial statements and audit reports of the CBOs. Descriptive statistics and correlation analysis were utilized to interpret the data, while a balanced panel data model was employed to describe the collected information. Several diagnostic tests, including those for autocorrelation, multicollinearity, normality, heteroscedasticity, and the Hausman test, were conducted. Ethical considerations such as confidentiality and informed consent were also prioritized in the study. The findings indicated that managerial ownership has a positive yet insignificant impact on the financial performance of CBOs; directors' remuneration similarly shows a positive but insignificant effect. Conversely, the board structure demonstrated a positive and significant influence on the financial performance of CBOs in Kibera. The audit committee was found to have a positive but insignificant effect, while the quality of external audits significantly and positively impacted the financial performance of these organizations. The research recommends that policymakers should focus on strengthening the governance framework related to board structure. This can be achieved by establishing clear guidelines that promote optimal board size and composition, ensuring a balance between executive and non-executive members, and fostering diversity in skills and experience.

Keywords: Corporate Governance, Community-Based Organizations, Performance, Kenya.

INTRODUCTION

Nowadays, performance financially is an effective factor that affects the firm's ability to thrive and succeed in the environment of business. The establishment of a thriving business entity is a great aspiration to many people since it creates job opportunities, improves living standards and it contributes to economic growth (Gatauwa, 2014). The financial performance determines the ability of the company to fund important operations such as paying salaries to employees and paying different bills such as water and electricity. Proper financial performance increases the firm's ability to thrive in the industry while poor financial performance makes the organization struggle to meet its financial obligations, which can lead to failure (Mwendwa, Gatauwa, & Mungai, 2024). There is evidence of some organizations that have failed due to poor financial performance (Gatauwa, 2022). An excellent example of such a firms is the Enron Corporation. Based in Houston, Texas, Enron Corporation was an energy, commodities, and Services firm. The company experienced a financial scandal that was discovered in 2001, demonstrating that the firm was using accounting loopholes to hide huge amounts of bad debts and inflate its earnings. This shows that the firm was experiencing poor financial performance, which led to its bankruptcy. Another example of a firm that experienced poor financial performance is Lehman Brothers. Lehman Brothers was a New York City based firm dealing with international financial services. Like the Enron scandal, Lehman Brothers used accounting loopholes to hide their debts and loans. A huge amount of loans is a significant indicator that the organization was experiencing poor financial performance. Poor financial performance led to the bankruptcy and subsequent failure of the Lehman Brothers (Gatauwa, 2020).

Financial performance has grown in importance in Kenya, as in other countries. As it gives the stakeholder an overall snapshot of the firm's economic health and the effectiveness of its organizational governance. The firm's financial performance is impacted by multiple aspects, including corporate governance (Mbuthia, & Gatauwa, 2022). CBOs is an organization in Kenya, which started as self-help organizations in the 1960s to promote grassroots development by getting people together the Harambee spirit. In Kibera Sub County and the entire Nairobi City County in Kenya, the number of CBOs has grown significantly, and according to information by the National Bureau of Statistics of Kenya in 2018, there were over 19,000 registered community-based organizations in Nairobi County (Ochieng, 2017). They frequently function as locally based non-profit organizations and are vital as they work to close the social gap concerning the "haves" and the "have-nots." Trends show that CBOs' financial performance in Nairobi City County has been declining. Service firms listed in the Nairobi Securities Exchange have been experiencing poor and declining performance despite their contribution to economic development. The performance's decline comes as a consequence of poor management, and incompetent corporate governance. Therefore, this paper seeks to examine the effect of corporate governance and financial performance of kibera community-based organizations in Nairobi city county Kenya. This paper is divided into five main sections namely; introduction, empirical review, research methodology, findings and conclusion.

LITERATURE REVIEW

Theoretical Review

This paper is underpinned by three theories: the stakeholder theory, the agency theory, and stewardship theory. The stakeholder theoretical was developed by Freeman (1984). The core premise of stakeholder theory is that organizations achieve true success only when they provide value to the majority of their stakeholders. The proponents argue that the stakeholder theory motivates employees, increases customer satisfaction, and promote productivity. The theory also faces significant critics from its opponents. According to Indeed (2023), the opponents of the stakeholder theory argue that it is impossible to meet the interests of all stakeholders simultaneously and it ignores the needs of key business stakeholders, which affects the firm's progression over time. The stakeholder theory supports most of the concepts in my study project. This is because the audit committee, directors' board, and managers are among the significant stakeholders of the firm (Freeman, 1984). Analyzing this theory helped in understanding how the operation of these stakeholders affects the CBOs' financial performance.

Jensen and Meckling (1976) put forth the agency theory. The theoretical framework asserts that the organization is characterized by a relationship between the principal (economic resources owners) and the management members who are the agents and oversee the utilization of these resources on behalf of the principals. The theoretical framework assumes that both parties are rational and seek to maximize their wealth. As a result, self-interested agents may exploit the relationship and act against the firm's owners' interests (Adams, 1996). The main strengths of this theory include enhancing the interaction between the agents and principals, motivating agents, and reducing conflicts in the organization. However, even with monitoring and bonding costs in place, the residual loss may still occur due to the misalignment of interests and acting against the firm's owners' interests (Adams, 1996). According to the theory, the managers are the agents and oversee the utilization of these resources on behalf of the principals. The board and directors and the audit committee are among the management team of organizations (Adams, 1996). Assessing the operation of these agents helped in understanding how they influence the financial performance of CBOs.

The steward theory was introduced by Davis and Donaldson (1989). The stewardship theory assumes that the top management, as stewards, emphasizes promoting the stakeholder's interests. This theory acknowledges that structures are crucial because they give stewards maximum control and empower the, which facilitates building of trust and ultimately minimizing monitoring costs. The theory enhances stewardship behavior, which has a motivational effect on the people in the workplace. However, the stewardship theory faces significant criticism from its opponents. The opponents argue that managers may exploit their position and may not always act as good stewards (Daily et al, 2003). The stewardship theory underpins some of the concepts of my study. The board of directors is among the stewards that affect the firm's performance. The theoretical framework also argues that structure is important in the firm's success (Fama, 1980).

Empirical Review

There is a substantive body of literature on the relationship between corporate governance and firm performance. For instance, Berke-Berga, Dovladbekova, and Abula (2017) ascertained the interdependence of financial performance on managerial ownership of corporations listed in the stock exchange of the Baltic States. Tobin's Q and return on assets (ROA) was adopted to assess the performance financially and managerial ownership was noted to be positively associated with ROA, while a negligible impact was found on Tobin's Q. The firms in the Baltic States were the focus of this study, which may not be applicable to this study which concentrated on community-based organizations in Kenya. However, Saidu and Gidado (2018) probed managerial ownership independence in Nigerian listed manufacturing firms' performance using a non-survey method to gather data from secondary sources. Correlation analysis and OLS regression were utilized to evaluate data from 10 selected firms, and financial performance was observed to be affected negatively but substantially by managerial ownership. Nonetheless, Ibrahim, Ouma, and Koshal (2019) evaluated the nexus concerning audit committees and the insurance firms' performance in the Kenyan market. It adopted a descriptive research design and the nexus between the study variables was found to be directly significant.

Alouch, Mwangi, kaijage, and Ogutu (2020) scrutinized the dependence of financial performance on the board structure of Nairobi Securities Exchange-listed firms. Panel regression was utilized with a random effects model and board structure revealed a non-negligible effect on performance. It indicates that the occupational expertise and gender diversity have substantial impact on return on investment of the involved firms. This study differed from the previous in terms of context, the ongoing emphasized on community-based organizations. Also, Ashari and Krismiaji (2020) assessed how the performances of manufacturing firms in Indonesia are impacted by the audit committee from 2016 and 2017. A considerable impact was observed on these firm's financial performance. The study took only Indonesian Manufacturing firms which is unapplicable to this study context. Similarly, Ahmed, Bahamman, and Abdulkarim (2020) examines the impact of the involvement concerning the remuneration offered to the directors and the performance of insurance firms listed in the Nigerian market between 2012 and 2017. This study's finding is that there is a relationship that is positive exist between directors' remuneration and how the firms perform financially.

Bekiaris (2021) investigated board structures' influence on the performance of systemic banks in Greece empirically using data from 2008-2018. Board structure was found to exert a crucial and positive influence on financial performance. The study concluded that diversity effect on performance was ambiguous, since the female director's effect was positive; but there was a negative effect of foreign directors. Additionally, Nzuki and Njoka (2021) reviewed the association of performance of firms in Kenya with managerial ownership using a casual research design, the source of data was audited statements from 60 listed firms. Panel regression was employed; the regression analysis yielded a negligible association of managerial ownership with financial performance. While investigating the effect of audit committee's on the performance of quoted

non–financial Nigerian firms. Junaidu and Kabiru (2022) found a considerable linkage concerning the performance financially and audit committee.

This study aimed to bridge a significant gap that is not covered by the existing sources on the topic. The main gap covered was assessing the corporate governance effect on the performance of CBOs financially. Most of the existing studies evaluated corporate governance effect on performance of firms financially in other industries such as insurance and manufacturing. There are limited sources that assess the relationship of these variables in CBOs creating a significant gap that was addressed by this study. The other gap that was addressed by this study was geographical. Most of the existing articles assess the link concerning organizational governance and financial productivity of firms outside Kenya, at the global and regional level. There are limited number of existing studies about Nairobi County, and specifically Kibera Sub County, presenting a significant gap that was addressed by this study.

RESEARCH METHODOLOGY

A descriptive design was utilized in the research, since it sought to investigate corporate governance and financial performance of community-based organizations in Kenya. It involves the description of population's all elements and facilitates for estimation of specific attributes within the population. The study's information was obtainable entirely from secondary sources. The researcher reviewed the annual financial reports of 11 CBOs operating in Kenya from 2017 to 2022, which was available in the CBOs annual reports. The target population for this study is 11 CBOs from Kibera sub-county, Nairobi Kenya which are regulated by the Ministry of Gender and Social Development. The application of this panel data helped in understanding how the explanatory factors affect the performance of the CBOs financially. The model is as follows;

$FPit = \beta0 + \beta1AC1t + \beta2MO2t + \beta3BS3t + \beta4DR4t + \beta5EQ5t + \varepsilon it$

Where

FP= Financial Performance

$\beta0$ - Constant

AC= Audit Committee

MO= Managerial Ownership

BS= Board Structure

DR= Directors Remuneration

EQ= External Audit Quality

$\beta1 – \beta4$= Regression coefficients

εit= Error term

DATA ANALYSIS

Data Description

This explored the collected information to extract key outcomes and engage in a thorough examination of the findings. It also outlined the data analysis methods used, explaining how the data was processed for meaningful interpretation. Furthermore, the analytical framework was

aligned with the study's objectives, resulting in specific outcomes that were compared with findings from previous research.

Summary Statistics

Descriptive analysis is essential in data exploration by providing a comprehensive overview of the key characteristics of the information under study. This involves calculating various measures of statistics—such as means, standard deviations, and ranges—that reveal the central tendencies and variability within the data. The recorded outcomes are in Table 4.1.

Table 4.1: Descriptive Results

Variable	Obs	Mean	Std. Dev.	Min	Max
Financial Performance	55	.7272727	.1880254	.3	1.1
Managerial Ownership	55	.2725455	.0731366	.15	.5
Directors Remuneration	55	88181.82	22118.44	50000	150000
Board Structure	55	.952781	.1672941	.60206	1.230449
Audit Committee	55	4.1	.7169896	2.5	5.5
External Audit Quality	55	2.074545	.404703	1.2	2.9

Source: Study Data (2024)

The mean financial performance score of 0.7273, with a deviation of 0.1880 on standard were revealed signifying a relatively strong financial standing among the organizations studied. The least and highest scores (0.3 and 1.1) suggest variability in financial health, which could be attributed to differing governance practices or external economic factors. This variability emphasizes the need for robust governance frameworks to enhance financial stability and performance across the board. Managerial ownership of had 0.2725 as mean and a deviation of 0.0731 on standard as unfolded, the data suggests that a significant portion of ownership is held by managers. This ownership structure fosters a sense of accountability and alignment of interests between management and stakeholders, potentially enhancing organizational performance. However, the range (0.15 to 0.5) indicates that there may be organizations with lower managerial stakes, which could lead to misalignment of interests and poorer performance outcomes.

The average directors' remuneration of KSh 88,181.82, with a standard deviation of KSh 22,118.44 was unveiled reflecting a compensation structure that attracts competent individuals to governance roles. However, the remuneration range (KSh 50,000 to KSh 150,000) raises questions about equity and the justification of pay scales in relation to performance. High remuneration without corresponding performance improvements could lead to stakeholder dissatisfaction and questions about governance effectiveness. The board structure's score of 0.9528 mean, with a deviation of 0.1673 on standard were equally discovered, suggesting that most organizations have well-defined governance structures. A strong board structure is crucial for effective oversight and strategic direction, which are essential for enhancing organizational performance. The range (0.6021 to 1.2304) indicates that while many organizations are well-structured, some may lack the necessary governance frameworks to ensure accountability and performance.

The average score of 4.1 for the audit committee had 0.7170 as deviations from the standard were disclosed pointing to the presence of active oversight mechanisms. This is vital for ensuring financial reporting accountability and transparency in operational practices. However, the range of 2.5 to 5.5 suggests variability in the effectiveness and engagement of audit committees, which

could significantly impact organizational performance. The mean score for external audit quality is 2.0745, with a standard of 0.4047 deviations, demonstrating a moderate level of external audit scrutiny. The range (1.2 to 2.9) suggests that while some organizations benefit from high-quality audits, others may experience less rigorous oversight. High-quality audits are essential for enhancing stakeholder confidence and ensuring that organizations are held accountable for their financial practices.

Correlation Results

Analysis correlation is a statistical technique employed to evaluate the linkage of two factors' strength and direction. It measures how variations in one variable correspond to variations in another, offering insights into whether they change in tandem (positive correlation) or in opposing directions (negative correlation). The outcome regarding the connection is recorded in table 4.2.

Table 4.2: Correlation Results

	Financial Performance	Managerial Ownership	Directors remuneration	Board Structure	Audit Committee	External Audit Quality
Financial Performance	1.0000					
Managerial Ownership	0.9079*	1.0000				
Directors remuneration	0.8626*	0.9525*	1.0000			
Board Structure	0.9701*	0.8475*	0.7741*	1.0000		
Audit Committee	0.9300*	0.9468*	0.9348*	0.8604*	1.0000	
External Audit Quality	0.9462*	0.9382*	0.9226*	0.8744*	0.9841*	1.0000

Source: Study Data (2024)

The outcome disclosed that the correlation concerning managerial ownership and performance financially is notably strong (0.9079) and positive. This suggests that when those in management have a stake in the organization, their vested interest likely drives them to decide on that which positively affect the organization's financial outcomes. The findings disaligned with Ahmed, Bahamman, and Abdulkarim (2020) but agrees with Ruparelia & Njuguna (2016) attributing such to the contextual variance. The positive correlation (0.8626) between directors' remuneration and financial performance is significant indicating that adequately compensating directors can be a motivating factor, leading to better oversight and decision-making, which, in turn, enhances the financial health of the CBOs. The outcome agrees with Saidu and Gidado (2018) with the outcome at variance with Berke-Berga, Dovladbekova, and Abula (2017) and Nzuki and Njoka (2021) which could be linked to the uniqueness of the contextual frame in which the studies were conducted.

The board structure correlation with performance is exceptionally high (0.9701) and positive, highlighting that a well-organized and diverse board is crucial for the success of these organizations. A robust board structure likely brings a variety of perspectives and expertise, which can contribute to more informed and effective governance. The outcome corroborates Bekiaris

(2021), and Alouch, Mwangi, kaijage, and Ogutu (2020). With a correlation of 0.9300, the presence and effectiveness of an audit committee are shown to be strongly linked to financial performance positively. This suggests that audit committees play a vital role in maintaining transparency and accountability, which are key components of sound financial management. The outcome is regular with Ashari and Krismiaji (2020); Junaidu and Kabiru (2022) and Ibrahim, Ouma, and Koshal (2019). External audit quality and financially performed CBOs (0.9462) positively significant further emphasizes the importance of rigorous external oversight. High-quality audits ensure that financial statements are accurate and reliable, boosting stakeholders' confidence and potentially leading to better financial outcomes. The findings agree with Iliemena and Okolocha (2019) and Muchugia (2018) while the outcome disagrees with Elewa and El-Haddad (2019) with the variation linked to the contextual variation.

Diagnostic Test Results

In regression analysis, diagnostic tests are essential for assumptions verification that support the model and for ensuring the reliability of its results. These tests are crucial for ascertaining the model's adequacy and robustness, examining factors such as the normality of residuals, the presence of multicollinearity, heteroskedasticity, and autocorrelation. Each of these factors can significantly influence the accuracy of regression coefficients and the validity of the statistical inferences drawn.

Autocorrelation Test Results

Serial correlation occurs when residuals are correlated across different observations, undermining the assumption of independence and leading to biased and inefficient estimates. To detect this issue, the Breusch-Godfrey test is frequently utilized to identify residuals linkage. The findings from this test are shown in Table 4.3.

Table 4.3: Breusch-Godfrey test Results

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	12.59195	Prob. F(2,47)	0.0000
Obs*R-squared	19.18869	Prob. Chi-Square(2)	0.0001

Source: Study Data (2024)

The outcome disclosed 12.59 as statistical value corresponding to 0.0000 p-value. This result suggests a strong rejection of the hypothesis of null, which posits residuals linkage non-existence. The extremely low p-values (both for the F-statistic and the Chi-Squared statistic) indicate that the residuals are indeed serially correlated, meaning that past residuals influence current residuals. The problem may result in inaccurate estimates and skewed standard errors, which can compromise the reliability of any conclusions regarding the link concerning corporate governance practices and the performance of CBOs. However, the robustness of these estimates and standard errors was performed to ensure that such conclusion is valid. Newey and West (1987) proposed that robust estimation adjusts the covariance matrix of the estimators to provide robust standard errors that account for serial correlation thus promoting the adoption of robust standard estimation for the study.

Multicollinearity Test Results

Multicollinearity arises when the regressors in a model exhibit a strong association with one another, which can undermine the accuracy of coefficient estimates and compromise the overall

reliability of the results. To address this potential problem, the researcher used Variance Inflation Factor (VIF) analysis. The analysis outcomes are detailed in Table 4.4.

Table 4.4: VIF Results

Variable	VIF	1/VIF
Managerial Ownership	7.68	0.056562
Directors Remuneration	3.93	0.071792
Board Structure	5.61	0.178109
Audit Committee	8.23	0.026154
External Audit Quality	6.38	0.027488
Mean VIF	6.37	

Source: Study Data (2024)

Pegging the threshold of the VIF at 10, all the factors employed in the study revealed VIF values less compared to the threshold as validated by mean value of 6.37. The mean VIF of 6.37 indicates a moderate level of multicollinearity across the variables, which is below the commonly accepted threshold of 10. This suggests that while there are correlations among the governance variables, they are not excessively high, allowing for a more reliable analysis of their individual impacts on organizational performance.

Normality Test Results

The normality assumption is indispensable for making valid statistical inferences and accurately estimating regression coefficients. The Shapiro-Wilk test is employed to determine if a sample is drawn from a population that follows a normal distribution. This test is fundamental in many statistical analyses, including regression modeling. The test results shown in Table 4.5, confirmed that the distribution of various variables is normal.

Table 4.5: Shapiro-Wilk Test Results

Variable	Obs	W	V	Z	Prob>z
Financial Performance	55	0.99366	0.321	-2.435	0.99254
Managerial Ownership	55	0.96565	1.742	1.190	0.11694
Directors Remuneration	55	0.96285	1.884	1.359	0.08715
Board Structure	55	0.95808	2.126	1.617	0.05292
Audit Committee	55	0.99273	0.369	-2.140	0.98381
External Audit Quality	55	0.99451	0.278	-2.743	0.99696

Source: Study Data (2024)

With a W statistics lower than 1 and Prob>z values of above 0.05, all the information appears to be distributed normally. The test results suggest that all the variables related to corporate governance and community-based organizations (CBO) performance in Kibera follow a normal distribution. This allows for the use of parametric statistical tests, such as analysis of regression, to evaluate the relationships concerning these factors and organizational outcomes.

Heteroscedasticity Test Results

Heteroskedasticity arises when the variance of the errors varies across different levels of the regressors. This can lead to inefficient estimates and distorted statistical inferences, ultimately compromising the reliability of the analysis. While the regression coefficients might still be unbiased, the standard errors may become biased, affecting hypothesis testing and the reliability of

confidence intervals. To evaluate this issue, the Breusch-Pagan test was used, with the results detailed in Table 4.6.

Table 4.6: Breusch-Pagan test Results

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
Ho: Constant variance
Variables: fitted values of Financial Performance
chi2(1) = 0.19
Prob > chi2 = 0.6635

Source: Study Data (2024)

The test produced a chi-square statistic of 0.19 along with a p-value of 0.6635. This elevated p-value suggests that the study did not reject the null hypothesis. The evidence does not support the existence of heteroskedasticity in the fitted values of CBOs financial performance studied. The failure suggests that the financial performance data of the CBOs in Kibera exhibits constant variance. This is a positive outcome for the analysis, as it implies that the model utilized to assess corporate governance impact on performance financially is likely to yield reliable estimates. When the residuals are homoscedastic, it means that the variability in financial performance is consistent across different levels of the predictor variables, allowing for more accurate interpretations of the relationships being studied.

Stationarity Test Results

In time series analysis, stationarity is an essential property, indicating that a variable's statistical characteristics, such as its mean and variance, remain stable over time. Non-stationary data can lead to unreliable results and distorted relationships. The Fisher-Type test results, depicted in Table 4.7, confirmed outcome of the factors stationarity.

Table 4.7: Fisher-Type Test Results

Variable	Statistic	P-value	Comment
Financial Performance	82.9742	0.0000	Stationary
Managerial Ownership	86.2939	0.0000	Stationary
Directors Remuneration	32.0569	0.0000	Stationary
Board Structure	577.5108	0.0000	Stationary
Audit Committee	62.1319	0.0000	Stationary
External Audit Quality	96.2872	0.0000	Stationary

Source: Study Data (2024)

The values of prob 0.0000 for all factors designate strong evidence against the null hypothesis, confirming that these variables are stationary. This means that the characteristics of these governance aspects do not change over time, providing a solid foundation for analyzing their impact on CBOs' performance. The stationarity of these variables suggests that the governance practices within Kibera's CBOs are stable and consistent. This stability is fundamental for CBOs aiming to build trust and maintain accountability within their communities.

Model Specification Results

Model specification involves choosing the right model framework and variables to effectively capture the linkage relating the explained and regressors within panel dataset. The Hausman test plays a crucial role in determining if the unique errors are linked with the model's regressors, which

in turn guides the decision between using fixed effects or random effects estimation techniques. The outputs are accessible in Table 4.8.

Table 4.8: Hausman Test Results

	(b) Fixed	(B) Random	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E
Managerial Ownership	.1283103	.3054849	-.1771747	.
Directors Remuneration	5.12e-07	-2.39e-08	5.36e-07	.
Board Structure	.447034	.6192134	-.1721793	.0407171
Audit Committee	.0581004	-.0643306	.122431	.0306464
External Audit Quality	.2359616	.3114842	-.0755226	.0153365
Chi (4)	15.01			
Prob>chi2	0.0047			

Source: Study Data (2024)

Deducing from the outcome displayed in Table 4.8, 15.01 was unveiled as the statistic corresponding to 0.0047. The results clearly indicate that the fixed effects model is more appropriate for analyzing the relationship concerning corporate governance and CBO performance in Kibera. This means that the unobserved heterogeneity among the organizations, such as their unique histories, cultures, or management styles, is likely to be correlated with the governance variables. By using the fixed effects model, the study controlled for these unobserved factors and obtains more reliable estimates of the effects of governance on performance.

Regression Results

Regression analysis allows for measuring how independent variables, such as managerial ownership, directors' remuneration, board structure, audit committee and external audit quality, affects CBOs performance in Kibera financially. The outcomes are presented in Table 4.9.

Table 4.9: Regression Results

Financial Performance	Coef.	Robust Std. Err.	Z	P>z	[95% Conf.	Interval]
Managerial Ownership	.1283103	.1417201	0.91	0.387	-.1874618	.4440823
Directors Remuneration	5.12e-07	3.24e-07	1.58	0.145	-2.10e-07	1.23e-06
Board Structure	.447034	.0903408	4.95	0.001	.2457423	.6483258
Audit Committee	.0581004	.0597383	0.97	0.354	-.0750047	.1912056
External Audit Quality	.2359616	.0414937	5.69	0.000	.143508	.3284152
_cons	-.5065239	.0831415	-6.09	0.000	-.6917747	-.3212731
R-Square	0.9608					
F (5,10)	8720.77					
Prob > F	0.0000					

Source: Study Data (2024)

The constant intercept revealed is -0.5065. The negative intercept indicates that without the governance variables influence, the performance of these organizations would be significantly lower. This highlights the critical role that governance plays in enabling CBOs to thrive. The output unveiled in the study also noted an R-Squared of 0.9608. This high value designates that 96% of the changeability in financial performance is explained by the governance factors. This signifies a strong linkage relating corporate governance practices with CBOs performance. The high variation in CBO performance that is linked to the governance components is further affirmed by an F p-

value of 0.0000 implying that the governance factors put together significantly explains the performance of these CBOs.

Managerial ownership unfolded estimated parameter of 0.12 which lings with 0.387 as its p-value. The positive coefficient suggests that higher managerial ownership could be associated with better financial performance; however, the high p-value indicates that this linkage is not significant. This implies that increasing managers' ownership would amount to increase in performance approximately by 0.12%. The outcome manifested 5.12 as directors' remuneration coefficient which arrived at 0.145 p-value. The effect of directors' remuneration on performance is positive but insignificant implying that increasing the directors' remuneration would lead to 5.12% improvement in performance.

Board structure made known the 0.44 as estimated parameter exposing a p-value of 0.001. The strong positive coefficient and low p-value indicate a significant and positive connection relating board structure to financial performance. By implication, increasing the structure of the board would lead to improvement in the CBOs performance by 0.44%. Audit committee demonstrated 0.05 as the parameter estimated which is accompanied by 0.354 p-value. The outcome suggests that any surge in audit committee would result to performance increase by 0.05% of the CBOs. The audit committee's influence appears to be minimal and statistically insignificant, indicating that merely having an audit committee does not guarantee improved financial outcomes. External audit quality brought to light 0.23 as coefficient exposing 0.000 as the corresponding p-value. This variable shows a significant positive relationship with financial performance, suggesting that high-quality external audits are crucial for enhancing accountability and transparency.

4.6 Hypothesis Testing and Discussion of Findings

The hypothesis testing conducted to evaluate corporate governance variables effect on community-based organizations (CBOs) performance in Kibera, Nairobi. This systematically reviewed the results obtained and their implications in the context of the governance practices observed within these organizations. Through this analysis, the study not only confirm or refute our initial hypotheses but also explore the data, offering perspectives into the effectiveness of governance structures and practices in enhancing the operational success of CBOs in Kibera.

Managerial ownership has no significant effect on CBOs Financial Performance

In determining managerial ownership effect on CBOs financial performance in Kibera, Kenya, hypothetically, managerial ownership insignificantly affects performance of the CBOs financially. The outcome of the investigation upheld the null hypothesis noting that ownership of management positively affects performance of the CBOs financially in a manner that is insignificant. This result suggests that the proportion of shares owned by managers insignificantly impact the financial performance of these organizations. The outcome could be accredited to the small percentage owned by managers who lack the incentive to work diligently to improve financial performance. Their ownership stake may be too low to motivate them to make decisions that prioritize the organization's financial well-being over their own personal interests. The findings align with Al-

Ahad, Rahman, and Hamid (2018) established a positive effect of an insignificant nature on performance. Ahmed, Bahamman, and Abdulkarim (2020) further disclosed positive existence between directors' remuneration and how the firms perform financially insignificantly. The outcome is at variance with Ruparelia & Njuguna (2016) who uncovered a significant effect of ownership of management on the productivity of Kenyan financial service financially. The significance variance recorded in the studies could be attributed to the measurement of utilized in the studies as well as the regulatory effect within the studies unique context thus resulting in differential outcomes of the studies.

Directors remuneration has no significant effect on CBOs Financial Performance

In evaluating directors remuneration effect on CBOs performance financially in Kibera, Nairobi County, Kenya, and the proposed hypothetical statement noted that directors' remuneration insignificantly affects performance financially. Outcome demonstrated exposed that directors' remuneration insignificantly affects CBOs financial performance positively thereby leading to the null retention of the hypothesis. This result denotes that the compensation paid to directors does not significantly impact the performance of these organizations financially. Attributable to the outcome could be that as community-based organizations, CBOs in Kibera may have a broader mandate that goes beyond just financial performance. Directors may focus more on social impact, community development, and service delivery rather than optimizing financial metrics. Their compensation may not be directly linked to financial KPIs thus leading to insignificant effect on the performance. The outcome agrees with Berke-Berga, Dovladbekova, and Abula (2017) who unveiled insignificant effect of managerial ownership on financial performance. Likewise, Nzuki and Njoka (2021) provided that a negligible association of managerial ownership with financial performance. However, the outcome disagrees with Saidu and Gidado (2018) who disclosed that financial performance is affected significantly by managerial ownership. The differing outcomes could be linked to the contextual as well as measurements of the factors utilized in the studies which are unique to the context of the firms studied.

Board Structure has no significant effect on CBOs Financial Performance

Board structure effect was investigated on the performance of CBOs in Kibera financially observing a null hypothesis that provide an insignificant effect on the CBOs performance financially. Nonetheless, the hypothesis was refuted due to the outcome which unveiled effect of significant on the CBOs performance positively. This alludes that the composition and organization of the board perform a crucial task in ascertaining the financial outcomes of these entities. Linking the outcome could be due to the effective board structures which often involve a clear separation of roles between the board and management. This separation prevents conflicts of interest and ensures that directors focus on strategic oversight rather than day-to-day operations. Such clarity leads to better financial performance as the board hold management accountable for financial outcomes without being entangled in operational details. The outcome corroborates with Bekiaris (2021) who uncovered that board structure exerted a crucial and positive effect on performance financially. Alouch, Mwangi, kaijage, and Ogutu (2020) revealed that board structure significantly affect performance.

Audit Committee has no significant effect on CBOs Financial Performance

The effectiveness of audit committee was ascertained on the financial performance of Kibera CBOs in Nairobi County, Kenya. The hypothetical proposition outlined is that audit committee insignificantly affects performance of the CBOs financially. The demonstrated outcome upheld the hypothesis noting an insignificant effect of audit committee on the CBOs performance positively and financially. This implies that the presence and functioning of an audit committee do not substantially influence the financial outcomes of these organizations. The outcome could be accredited to the fact that CBOs often operate with limited resources and may not have members on their audit committees with the necessary financial expertise or experience. This lack of expertise can hinder the committee's ability to provide effective oversight and guidance, resulting in minimal influence on financial performance. The outcome is inconsistent with Ashari and Krismiaji (2020) who uncovered a substantial effect on firm’s performance. Similarly, Junaidu and Kabiru (2022) demonstrated a considerable link concerning the performance and audit committee. Furthermore, Ibrahim, Ouma, and Koshal (2019) exposed a directly significant effect of audit committee on firms’ performance. The contextual differences could be attributed to the outcomes variance of the studies.

External Audit Quality has no significant effect on CBOs Financial Performance

External audit quality effect on the Kibera CBOs performance financially was analyzed within the hypothetical postulation that external audit quality insignificantly affects CBOs performance financially. The assessment of this hypothesis brought forth the significantly positive effect on the CBOs performance financially. The outcome highlights the important role that external audits play in shaping the financial outcomes of these organizations. The findings may be due to the high-quality external audits which enhance the credibility and trustworthiness of CBOs' financial reporting. When stakeholders, such as donors and community members, have confidence in the accuracy and reliability of financial information, they are more likely to provide funding and support, leading to improved performance financially. The outcome is coherent with Iliemena and Okolocha (2019) who demonstrated a considerable external audit quality effect on the performance of the organization financially. Muchugia (2018) unveiled a substantial influence of external audit quality on performance. However, the outcome disagrees with Elewa and El-Haddad (2019) who detected that external audit quality insignificantly affected non-financial firms’ performance. The diverse outcomes could be attributed to the unique factors surrounding the contextual areas where these studies were performed as well as the methodology utilized in the studies.

5 Conclusion

Majorly, the survey examined how corporate governance influences the CBOs performance financially in Kibera, Nairobi County, Kenya. The study specifically sought to understand how different corporate governance aspects —such as managerial ownership, directors’ remuneration, board structure, audit committee and external audit quality—affects the CBOs performance financially.

Managerial Ownership and CBOs Financial Performance

As per managerial ownership effect on CBOs performance financially in Kibera, the exhibited outcomes noted that managerial ownership significantly affect performance financially positively. The conclusion drawn is that while positive correlation exists concerning managerial ownership and the performance of CBOs financially in Kibera, this relationship is insignificant. This alludes that growing the percentage of shares owned by managers does not necessarily lead to improved financial outcomes for these organizations.

Directors Remuneration and CBOs Financial Performance

Reference to directors remuneration effect on the performance of Kibera community-based organization financially, the outcome unraveled exposed that directors remuneration insignificantly affect performance financially positive for these organizations. Conclusively, the directors' remuneration does not play a chief task in the determination of performance of the CBOs financially. This suggests that increasing compensation for directors does not necessarily lead to improved financial outcomes for these organizations. Therefore, the effectiveness of directors' remuneration in driving financial performance may be inclined by background factors such as organizational culture, resource constraints, and stakeholder priorities.

Board Structure and CBOs Financial Performance

With the focus on board structure effect on the CBOs performance in Kibera financially, the outcome uncovered that board structure has positively affected in a significant manner on the financial performed CBOs in Kibera. The conclusion observed that factors such as the diversity of board members, the division of roles concerning management and the board, and the frequency of board meetings contribute to enhanced financial performance. This underscores the critical role that effective governance plays in enhancing organizational outcomes. This significant relationship indicates that well-structured boards—characterized by appropriate composition, independence, and active engagement—are instrumental in driving the financial success of CBOs.

Audit Committee and CBOs Financial Performance

The effect of audit committee on the CBOs performance in Kibera financially, Nairobi City County was conducted. The outcome demonstrates significantly positive effect on the CBOs performance financially. Conclusion arrived is that although the presence and characteristics of the audit committee may contribute positively to financial outcomes, they do not have a strong enough impact to be considered meaningful within the context of this study. This hints that additional variables may be more pivotal in shaping the financial outcomes for these entities.

External Audit Quality and CBOs Financial Performance

Considering external audit quality effect on the CBOs that performed financially in Kibera, and the output noted that external audit quality has significant effect of a positive nature on the CBOs financial performance. The conclusion drawn is that high-quality external audits are decisive for enhancing the financial outcomes of these organizations. The significance of this relationship

implies that improvements in audit quality lead to better financial management, increased transparency, and greater accountability within CBOs.

The research recommends that policymakers should focus on strengthening the governance framework related to board structure. This can be achieved by establishing clear guidelines that promote optimal board size and composition, ensuring a balance concerning executive and non-executive members, and fostering diversity in skills and experience. Additionally, regulatory bodies should mandate regular training for board members on corporate governance best practices to improve their effectiveness in oversight and strategic decision-making.

Regulators should also enforce strict penalties for CBOs that fail to comply with audit quality standards or misrepresent their financial information. This will create a culture of accountability and transparency within the CBO sector, ultimately enhancing the credibility of financial reporting and improving overall financial performance. Furthermore, policymakers should allocate resources to provide training and capacity-building programs for CBO leaders and financial managers, equipping them with the necessary skills to effectively oversee and participate in the audit process.

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