

**CORPORATE GOVERNANCE STRUCTURES AND THE PERFORMANCE OF  
HIV/AIDS NON GOVERNMENTAL ORGANIZATIONS IN NAIROBI, KENYA**

**BY**

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**A RESEARCH PROJECT REPORT SUBMITTED IN PARTIAL FULFILLMENT  
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**NOVEMBER, 2011**

**DECLARATION**

This research proposal is my original work and has not been presented for the award of a degree in any other university.

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**REG. NO: D61/70321/2009**

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

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## DEDICATION

This Research Project is dedicated to all those who have walked the journey of academics with me; my family, friends and colleagues

## **ACKNOWLEDGEMENT**

I have been enabled by the Almighty God to go through the preparation of this. I am indebted to thank Him for having given me the strength and resources to come this far.

My gratitude and appreciation go to my supervisor Dr. Vincent Machuki for his dedicated and invaluable advice, support, and constructive criticism throughout the study that enabled me complete this project.

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## **ABSTRACT**

This paper seeks to examine the relationship between CG structures of owners/stakeholders, board establishment and functions, management and legal and regulatory framework and organizational performance measures of meeting organizational mission and objectives, meeting the needs of stakeholders and complying with the law and industry rules and regulations of a sample of 121 nongovernmental organizations implementing HIV/AIDS interventions in Nairobi, Kenya. A survey questionnaire was developed based on the two objectives of the study; it had statements describing significant CG structures and performance measures. It was administered both electronically and physically to the sample population and followed up.

Using data collected through the completed questionnaires, the results of statistical analysis indicate a positive and significant relationship between corporate governance structures and the performance of the sampled organizations. The results show consistency with other empirical studies. From the findings, the study recommended that policy enactment to support funding strategies to reduce donor dependency, tax exemptions and enhancement of NGO board feedback mechanisms will improve CG which has been determined to significantly affect performance in a positive manner.

## **ABBREVIATIONS AND ACRONYMS**

AIDS	Acquired Immune Deficiency Syndrome
CG	Corporate Governance
HIV	Human Immune Deficiency Virus
KANCO	Kenya AIDS NGO's Consortium
MANGO	Management Accounting for NGO's
NGO	Non-Governmental Organization
OECD	Organization of Economic Cooperation and Development

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## **CHAPTER ONE: INTRODUCTION**

In this chapter, the concepts of corporate governance, governance structures and their impact on organizational performance are introduced. The conceptual and theoretical issues on corporate governance and organizational performance are also discussed. The research problem, objectives and significance of the study will be stated.

### **1.1 Background of the Study**

Business entities pursue economic activities to fulfill the objectives of shareholder wealth maximization. Business growth requires capital which businesses source from outsiders-Banks, debt holders. Chandler (1977) claimed that increasing capital needs associated with growth of enterprise leads to separation of ownership and control and to dispersal of ownership. Family owners cede control to professional managers as businesses grow. Further growth causes complexity, reducing owners' internal control and the need for cheaper funds from a variety of sources. The concern for all stakeholders' interests then takes center stage. These issues border on the subject of corporate governance (CG).

Corporate governance received close attention after the entry of professional managers who wielded power over investors' resources (King Commission, 2002). Further, inconsistent accounting practices allowed managers to disclose only minimum financial information to shareholders, boards of directors engaged themselves as vendors to reap unfair profits and manipulated shareholders into approving unworthy investments and compromised auditors at meetings. Ineffective boards, whose incompetence and lack of

commitment to values as well as obscurity given to minority shareholders required intervention of governments through corporate governance principles and rules.

### **1.1.1 Corporate Governance**

The Cadbury committee (1992) defined CG as a system by which companies are directed and controlled. A broader view of CG is given by the Organization for Economic Cooperation and Development – OECD (2004) which defines it as involving a set of relationships in a company; that between its management, board, shareholders and other stakeholders. It provides the structure for setting and attaining company objectives and monitoring and measuring performance. The King Commission on corporate governance (2002) in South Africa advocated for an integrated approach to good governance, in the interest of a wide range of stakeholders having regard to the fundamental principles of good financial, social, ethical and environmental practice. The Kenya Private Sector Governance Trust (1999) defined governance as the manner in which power is exercised in the management of economic and social resources for sustainable human development.

The common feature in CG is that organizations are entrusted with investors' resources, earmarked for certain outcomes. The investors are interested not only in the outcomes achieved, but also in the processes used by those in positions of power to achieve them. The law gives organizations the mandate to carry out business transactions but also protect investors, rules come from different sources, including the constitution, enacted laws, ratified international conventions and laws, professional bodies, stock exchange regulations and accounting standards. (Shleifer, Vishny, Porta & Lopez-de-Silanes,

2000). Organizations must thus develop, implement, monitor and revise internal processes, policies and procedures that enable it to achieve the goals of maximum returns to its shareholders and also meet compliance requirements bestowed on it.

Good corporate governance is applicable to all organizations; for profit, private, public, not for profit or small, medium and large to ensure that organizational goals and mission are realized through good stewardship of resources. Onyango (2009) acknowledged that organizations operate in complex and dynamic business environments that require complex, but flexible, governance regulation reflecting the uniqueness of each situation arising from specific factors such as legal and financial systems, culture, corporate ownership structures and economic conditions. No single set of governance rules fits all firms and situations, governance should be understood in different contexts.

In for profit organizations, shareholders incur agency costs (Jensen and Meckling, 1976) including monitoring, bonding and residual losses to control activities of managers. Agency contracts provide for performance related financial rewards to encourage managers to act in the interests of shareholders. Kingoro and Bujra (2009) discovered that members' assembly is "rarely functional" in nonprofits, and boards are mainly comprised of family and friends. Donors and the government also incur costs to ensure good governance and performance. Tools used to enforce accountability include performance assessment, evaluation, reporting requirements, laws and self-regulation.

## **1.1.2 Corporate Governance Structures**

A governance structure is important for the realization of an organization's mission and accountability to its stakeholders, it specifies the distribution of rights and responsibilities among different participants in the corporation including the board, managers, shareholders and other stakeholders, and the rules and procedures for making decisions on corporate affairs. Governance provides the structure through which the company objectives are set, the means of attaining those objectives and monitoring performance. Corporations must have a governing body accountable to owners or shareholders in for profits and the public for nonprofits (OECD, 2004).

Majority shareholders can significantly influence corporate behavior causing individual shareholders to be concerned about obtaining fair treatment from controlling shareholders and management. Creditors finance business operations and also monitor corporate performance as external stakeholders. Employees and other stakeholders play an important role in contributing to the long-term success and performance of the corporation, while governments establish the overall institutional and legal framework (acts of parliament, constitution, ratified international conventions and laws, professional bodies' codes) for corporate governance.

Good practice demands a separation of roles between board and management to enhance oversight and supervision (Kingoro and Bujra, 2009). The articles and memorandum of association, local laws, or industry professional standards set minimum requirements for board recruitment; qualification, composition, and operations, conduct of meetings,



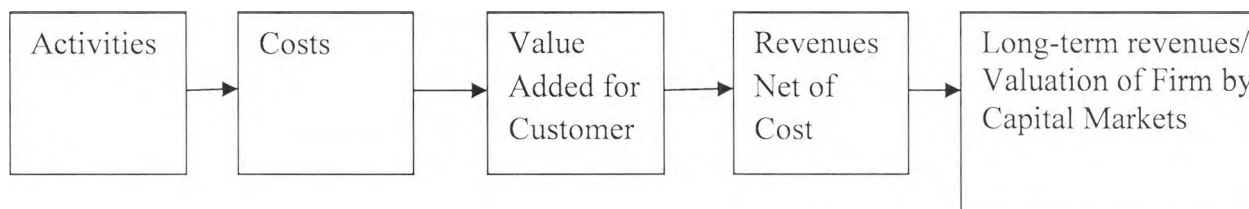
independence, decision making, and board committees. The management team should be competent enough to steer the organization towards its intended goal, the executive director should maintain a good relationship with the board chairman to avoid conflict.

### **1.1.3 Organizational Performance**

In strategic management, business performance, also financial performance is considered as a subset of organizational effectiveness (Venkatraman and Ramanujam, 1986). Organizational effectiveness is related to achievement of intended outcomes while organizational performance is the use of outcome based financial indicators to reflect the fulfillment of the economic goals of the firm. However, analyses made by using only financial measures may lead to misleading conclusions; a broader conceptualization would include measures of operational performance such as market share, new product development or quality which may lead to an improvement in financial performance.

The performance of an organization originates in what the firm does, in its activities or routines. These activities give rise to costs, but they also generate revenues in excess of costs to the extent that the products and services add value for customers (Meyer, 2002). Performance measurement is thus necessary to improve the performance of an organization to enable it to better serve its customers, employees, owners, and stakeholders by posting improved results. Good governance provides a firm basis for setting performance measures and an enabling environment to facilitate superior performance; it thus lowers the risk of poor performance.

**Figure I.1: The performance chain of the firm**



Source: Meyer, 2002 p10.

The varied nature of organizational activities contributes to the varied way in which performance is measured. Further, it is not clear from published research that organizational purpose can be portrayed as unitary element or that the multiple purposes are reliably consistent (March and Sutton, 1997). Different measures are applied in different sectors. Business firms use profits, sales, market share, productivity, debt ratios, and stock prices. Hospitals use cost recovery, mortality and morbidity rates, board certification of physicians, and occupancy rates. Universities use research productivity and prestige of faculties, test scores of students, rankings by popular magazines, and win/loss records of football teams. Executives in the same sector are evaluated by comparing these measures and decisions of resource allocation follow similar logic.

### **1.1.4 Non-Governmental Organizations in Kenya**

In Kenya, the term nongovernmental organization (NGO) is used to refer to civil society organizations established for the public benefit, and registered by the NGO bureau under the NGO Coordination Act No 19 of 1990. The act defines an NGO as a private voluntary grouping individuals or associations, not operated for profit or for other commercial purposes but which have organized themselves nationally or internationally

for the benefit of the public at large and for the promotion of social welfare, development, charity or research in the areas inclusive of, but not restricted to, health, relief, agriculture, education, industry, and the supply of amenities and services.

According to Kingoro and Bujra (2009) the Kenyan government played a major role in development providing social services to its citizens both during the colonial and the post-independence periods in Africa. This manifested in the high percentages of money allocated to development expenditures in the 60s and 70s. Reduced state funding for social programs after introduction of structural adjustment programs in the 1990's, created fertile grounds for the proliferation and growth of NGO's in Kenya. The government was perceived as unable to provide public services, and donors diverted funds to nonprofits. Kenya had about 5,929 registered NGO's in 2008 (NGO bureau, 2009). The bureau categorizes NGO's based on scope (national and international) and by sectors (including humanitarian relief, democracy, water and sanitation, water, youth, gender, HIV/AIDS, environment, human rights and governance.

### **1.1.5 HIV/AIDS Non-Governmental Organizations in Kenya**

In Kenya, HIV/AIDS NGO's are community based, faith based and international organizations (incorporated or registered under the companies act cap. 486, the societies act Cap. 108, the trustees act cap. 167 and NGOs coordination regulations of 1992 of the Laws of Kenya) formed to implement activities that aim to mitigate the economic and social impact of HIV/AIDS. Globally, 3.34 million were living with HIV in 2009 (United Nations AIDS, 2010). The HIV prevalence in Kenya

stood at 6.3%, translating to about 1.5 million adults and children, with new infections estimated at 160,000.

The government, through the National AIDS Control Council-NACC (Kenya National HIV/AIDS Strategic Plan 2009–2013 targets to reduce new infections by at least 50%, deaths by 25%, related morbidity and social economic impact), provides the national framework for HIV/AIDS policy development and service delivery. The National AIDS/STI Control Program- NASCOP coordinates the health sector response, leads technical working groups to develop service guidelines, protocols and implementation of systems set out by the strategy. Major partners include Global Fund, USAID, European Union, World Bank, Bill and Melinda Gates Foundation, Clinton Foundation and UNAIDS.

Kingoro and Bujra (2009), in their study on the contribution of non-state actors to development in Kenya, analyzed governance in NGO's including HIV/AIDS NGO's. Members do not have a voice and the spirit of volunteerism is diminished, boards are rarely held to account and founders wield too much power over boards, founders and volunteers resist diversity and inclusiveness of the governing body. Some have no clear separation of roles between board and management, blurring the governance line, and leading to conflict. They withhold crucial information such as funding timelines from employees or beneficiaries.

## 1.2 Statement of Problem

According to the OECD (2004) CG provides the structure for setting and attaining company objectives and monitoring and measuring performance. The board sets a framework of rules and practices by which it ensures transparency in a company's relationship with its all stakeholders defined as debt holders, customers, managers, employees, the government and society. The framework comprises contracts between the organizations and its stakeholders defining distribution of rights, responsibilities and benefits, procedures for resolving conflict regarding the relationships in the organization and a system for checks and balances to exercise control and enforce accountability.

Governance issues arising from the conduct of business of HIV/AIDS organizations have arisen, many boards have been accused of being ineffective due to conflict of interests; the founder member is treated as owner rather than servant of the board (Kenya NGO Coordination Board, 2001). Lack of distinct governance roles, effective supervision of staff, and board remuneration has also been raised. Plagued with governance problems, NGO's perform below the expectations of government and donors; the beneficiaries will question their mandate in the community, the regulatory bodies and government will deregister the organizations causing donors to pull out funding. The NGO bureau deregistered 1,252 NGO's in 2010.

A number of studies have been done in the NGO sector in Kenya (Kingoro and Bujra, 2009; Kameri-Mbote, 2000) as well as on the issue of CG (Keitany, 2009; Naibo, 2006; Nyaga, 2007; Gustavson, Kimani and Ouma, 2005). These studies focused on

contribution of non state actors to development and regulatory framework for NGO's and CG structures in corporate and public sectors. The researcher did not find documentary evidence of studies on CG structures and performance of HIV/AIDS NGO's in Nairobi, Kenya. The researcher studied CG structures in the context of HIV/NGO's in Nairobi, Kenya to fill this gap. The study sought to address the question: What is the relationship between CG structures and performance of HIV NGO's in Nairobi, Kenya?

### **1.3 Objectives of the Study**

This research study aimed to;

- i) Establish existing CG structures in HIV/AIDS NGO's in Nairobi, Kenya
- ii) Determine the effect of the CG structures on the NGO's performance

### **1.4 Value of the study**

This study sought insights into CG structures of HIV/AIDS NGO's in Nairobi, Kenya and how these structures affect their performance. It will contribute to the existing body of knowledge on NGO CG and performance in Kenya, justifiable by the gaps in studies on governance structures in HIV NGO's in the Kenyan context. Donors are interested in good governance to safeguard funding and programs. Beneficiaries and communities have an interest in how organizations they entrust with healthcare are governed and need assurance on the continuum of care, achievable only through sustainability of the NGO's.

Theories of CG as examined in this paper were tested during this study to determine whether they are applicable in whole within the context of the study. The practice of CG as supported by empirical studies was also examined to compare different contexts within

which CG can be applied or adapted to suit different situations with success. This study highlighted practical challenges faced by HIV/AIDS NGO's in implementing programs and projects that meet all their stakeholders' needs as well as their mission as independent entities.

This study will be of value to academicians and consultants providing services to NGO's in the areas of governance and performance, and will provide specific knowledge on governance with respect to HIV/AIDS NGO's to enhance both theory and practice. Best practices from NGO's will be modeled across the nonprofit and for profit sectors. The regulatory and policy framework for NGO's in Kenya is dynamic; rules should evolve as the sector changes before attaining maturity. Corporate governance structures that succeeded in the context of this study may be used to influence changes in policy.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter provided a focused review of theoretical and empirical discussions on CG structures and organizational performance and the relationship existing between the two concepts. Relevant empirical studies on CG structures and organizational performance were analyzed and research gaps identified.

### **2.2 Theoretical Underpinnings**

According to Mallin (2010) CG is a universal concept which though fairly recent in usage, is based on older theories underlying its development. These theories explain the nature of relationships in CG, and how these relationships can be managed within internally generated policies and externally imposed rules and regulations to achieve the intended performance goals and objectives.

Jensen and Meckling (1976) viewed an organization in regard to the relationship between the principal (owners), who delegate decision making power to an agent (managers). Conflicts arise when managers pursue activities that are detrimental to the interests of shareholders. Under this theory, managers should only be concerned with shareholders interests when making decisions. Managers are also presumed to be inclined to make decisions that increase their influence and power, ignoring the interests of the shareholders. Owners incur agency costs such as bonus payment; audits to monitor managers, these costs reduce the value of the firm since the shareholders have to write near perfect contracts to monitor the actions of managers.



Aldrich and Pfeffer (1976) advanced the view that organizations are not able to internally generate all the resources or functions required to maintain themselves, they must therefore develop relationships with elements in the outside environment to obtain the required resources and services. Internal systems that satisfy the demands of both internal and external resource providers must therefore be put in place, organizations are therefore active participants capable of change or adaptation to shifts in environment dynamics.

Resources give organizations power, which changes relationships by prioritizing shareholders interests, working towards increasing their value and revising compensation practices to improve performance and share price. New tactics are employed to manage dependence through better investor relations.

Stakeholder theory (Freeman, 1984) proposes that companies should serve the interests of a number of groups; not only that of shareholders. This approach is broad; it articulates management policies and attends to diverse stakeholders. Organizations should acknowledge their legal and moral obligations to all legitimate stakeholders; equity holders who need returns, employees who need safety and job security, customers who deserve quality and fairly priced products, creditors who need assurance that their obligations will be met, suppliers who need payment regularly and in a timely manner, regulatory bodies who enforce laws and the community who care not only for products but organizations which are also socially responsible.

Stewardship theory (Donaldson and Davis 1994) argued that managers diligently apply resources to achieve higher profits and maximum shareholders returns. It argues that managers are not only self interested but are also capable of positive actions; they have a need for achievement and internal satisfaction, and will improve their performance in their role as stewards of organizational resources to meet these needs. The Managers' motives are aligned with the interest and objectives of stakeholder groups in the organization; they protect shareholder interest and make decisions that maximize the value of their investment and to desist from substituting collective stakeholder interests with individual self-serving interests.

## **2.3 Corporate Governance**

Mallin (2010) in her book, "Corporate Governance" acknowledges the evolving nature of CG and its core purpose of restoring investor confidence in capital markets in the wake of publicized corporate failures (Enron, 2001; Parmalat, 2003; HIH, 2001; Barings Bank, 1995). The questions about why corporate failures occurred, preventing future similar occurrences and restoring investor confidence are all linked to CG, which focuses on transparency and disclosure, control and accountability and appropriate board structures. Investors and governments have instituted reforms to improve internal controls, integrity and honesty of directors, auditors' due diligence and strong investor participation.

Five of the main features of effective CG are discussed as; helping to ensure adequate and appropriate controls to safeguard assets, checking powers and influence of dominant individuals, defining the relationship between the company management, the board of

directors, shareholders, and other stakeholders, aiming to ensure that the company is managed in the best interests of the shareholders and other stakeholders, and trying to encourage both transparency and accountability, which investors are increasingly looking for in both corporate management and corporate performance.

## **2.4 Corporate Governance Structures**

Corporate governance structures exist in an organization to set the vision and direction and secure necessary resources, monitor activities to ensure they are working towards the vision, and ensure the organization is accountable in using resources, report to stakeholders and meet legal requirements. The basis for CG is the law; these are assigned based on type of organization (Kingoro and Bujra, 2009).

Shareholders or owners of an organization are individuals who have residual rights of control to make decisions in all cases where contracts are silent and legal rules do not exist (Speckbacher, 2008). In for profits, equity holders have this right. In non profits, residual rights are equivalent to the right to interpret the mission, set objectives and strategy and make all management decisions, nonprofits need to define a homogenous stakeholder group that needs more protection and assign them residual rights to ensure effectiveness in decision making and controlling.

Organizations must determine the appropriate board size and skills mix to provide efficient leadership and improve firm performance (Kajola, 2008). Some boards are unprofessionally recruited, not oriented into their roles nor do they carry out their duties

with dedication. They are influenced by close family ties with founders, often acting as a “rubber stamp” for a founder member who governs (Tandon, 2002). No term limits exist for members and some “employ” themselves as managers or delegate to managers to draft strategies, implement and evaluate performance. Most boards rarely meet or if they do, take the meetings as informal sessions where no records are kept.

Management accounting for NGO's- MANGO in the United Kingdom, offers resources for effective management of NGO's. Senior management teams should ensure resources match activities and are used efficiently for the benefit of beneficiaries and support staff and other managers to attain congruence between finance and program functions and support all other stakeholders. Success lies in accurately translating board policies and putting in place functional structures to support implementation. Competence and conflict management between the management team and the board should be a priority.

Statutory laws, rules and regulations set basic standards for CG. The growth in complexity and numbers of NGO's has caused legal and regulatory challenges for governments; a trend has emerged of self regulation to address specific gaps. Gugerty (2008) examined this practice in Kenya. The NGO bureau rules require all NGOs to join the Kenya NGO council and to abide by the provisions of its code on industry regulation upon registration. NGO's in Kenya can be registered through the ministry of cultural affairs, the attorney general's office (under societies act, companies act, trusts act) and the NGO coordination act. Other laws that NGO's must comply with include immigration act, labor laws, and income tax laws.

## **2.5 Organizational Performance**

The Oxford English dictionary defines performance as “the action of performing or something performed... the carrying out of a command, duty, purpose, promise, e.t.c”. This definition implies that performance is for the past as well as for the present; it can be observed and measured. In economics, performance involves an element of anticipation represented by the “magnitude of cash flows still to come” (Meyer, 2002). Conflict arises because firms set targets and reviews accomplishments based on the dictionary definition while the economic definition is used when driving measures of shareholder value. To bridge this gap, economic performance must be inferred from measurable indicators, both financial and non-financial, of accomplishments or functioning.

Performance measurement should be viewed in a broader sense than the balanced score card, since measuring performance is difficult, it is not a single construct and the “choice of measures is often arbitrary” implying that not one measure has been proven to be better than others. According to Zimmerman (2004), nonprofits can apply the balanced score card albeit with modifications beyond the four perspectives; revenue and funding, resource allocation, donors and board members, product and service recipients, internal operations and staff development but they should use only relevant measures.

## **2.6 Corporate Governance and Performance**

In his foreword to the global corporate governance forum –GCGF publication on CG and development (2003), Sir Adrian Cadbury asserts the generally accepted view that there is a link at the level of the firm between good governance and good performance. In for

profit organizations, poor governance, causes outside investors to withhold funds or buy shares therefore firms rely only on internal capital to finance ongoing operations and expansion. Overall economic performance would suffer because business opportunities would be missed and temporary financial problems at individual firms would spread quickly to stakeholders.

In nonprofits, good governance is equally important not just externally but also internally (Tandon, 2002). It ensures that programmes follow the requirements of the NGO's mission; promotes a performance orientation and accountability and requires that the values, statutes and norms of socially concerned civic institutions are articulated, practiced and promoted. A well-governed organization therefore has a better likelihood of good performance than a poorly governed one, the two concepts interrelate: Good performance is likely to facilitate good governance and vice versa. Good governance adds value by improving the performance of firms through efficiency in areas such as management, asset allocation and labor policies (GCGF, 2003).

## **2.7 Empirical Studies**

Keitany (2009) did a descriptive survey study on CG structures and practices in occupational retirement benefit schemes in Kenya. The boards were found to comprise of 6-12 members and adopted quarterly meetings. They followed governance best practices on board composition, representation, responsibility, performance assessment and record of meetings. A major drawback was the lack of criteria for term limits for most schemes.

Naibo (2006) surveyed 42 insurance companies in Kenya with a focus on CG structures and practices in underwriting. The boards have upwards of 7 members, with adequate mix of skills, frequency of meetings but with less instances of performance evaluation for directors. The companies did not adopt succession planning, audit committees existed but these met irregularly implying low effectiveness in their oversight role.

Nyaga (2007) in his study on CG structures and performance of manufacturing firms listed in the Nairobi Stock Exchange reviewed board composition, meetings, insider equity holding and executive compensation. He found a linear relationship between CG structures and performances, adoption of some CG structures were critical for the success of manufacturing firms.

Gustavson, Kimani and Ouma (2005) did an analysis of the Anglo-American model of corporate governance and its understanding in sub-Saharan Africa. The main obstacles to the implementation of good governance in Kenya was identified to be non-separation of the roles of managers and the board, inappropriate board composition and characteristics, lack of training on corporate governance as well as weak legal and regulatory systems.

Kingoro and Bujra (2009) examined the complementary role of NGO's in development in Kenya and the extent to which they contribute to improved welfare of citizens. No proportional relationship was found between the increase in number of NGO's and the widening gap between rich and the poor, only a marginal improvement in welfare was noted.

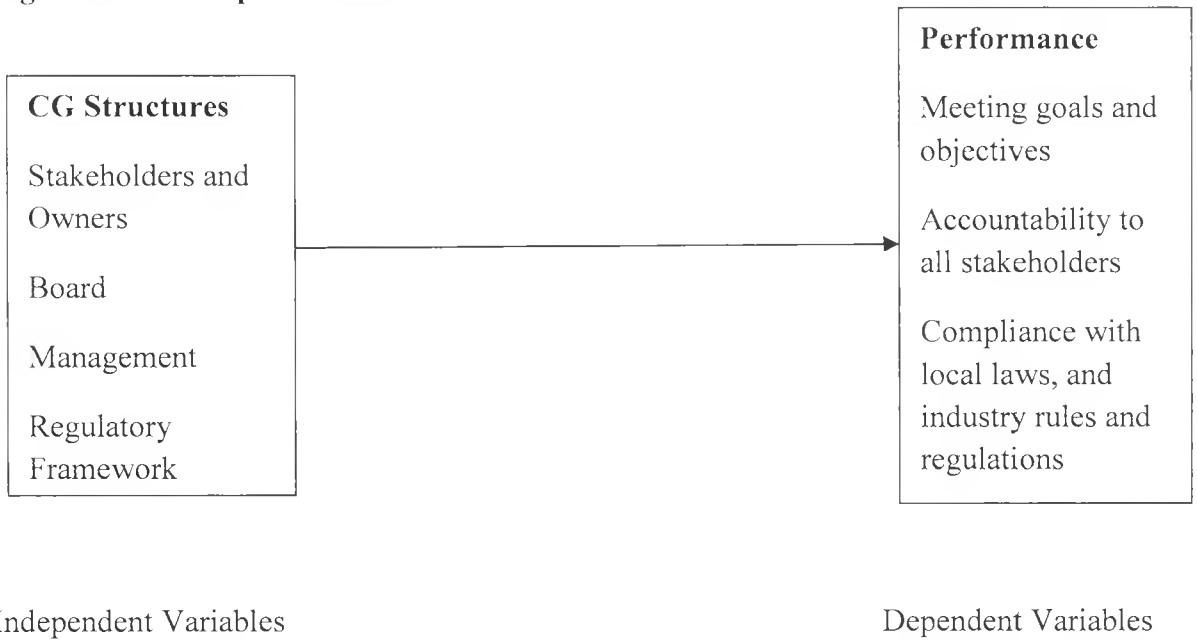
Kameri-Mbote (2000) reviewed the regulatory framework impacting on the ability of NGO's, donors and development agencies to encourage the growth and development of independent and legitimate civic organizations. The findings demonstrated a lack of coordination between government departments specifically due to several registration mechanisms for NGO's and compelling reasons were found for encouraging NGO growth in Kenya. Structures were proposed to permit, encourage and regulate existence of aid organizations in Kenya.

## **2.8 Conceptual Framework**

According to Mallin (2010) businesses need to attract outside funds to grow and expand their operations, and providers of these funds require assurance of a sound financial position, investors rely on audited financial reports and disclosures for assurance. A sound organization will have CG structures that set clear mission and goals as well as implementation and monitoring systems to guide performance; meeting objectives, being accountable to all their stakeholders and complying the law and industry rules and regulations . Tandon (2002) identified organizational performance as being related to the measurement of whether or not set goals and objectives have been met. The relationship between CG structures and performance can be presented in a conceptual model.



**Figure 2.1: Conceptual Model**



## **CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY**

### **3.1 Introduction**

In this chapter, the study design and sampling techniques to be applied on the study population were identified and a description provided of how data was collected and analyzed. The researcher identified sources of information for this study and has attached a list of appendices; reference materials used in formulating this research proposal.

### **3.2 Research Design**

This study was carried out through a cross sectional descriptive survey. According to Cooper and Schindler (2003), a study design is descriptive when it is concerned with why and how a variable produces change in another, and cross sectional if it is done at only one point in time or over a short period, collecting of data pertaining to the variables in a population or sample is done at a point in time. This design was appropriate for the study to determine the existing CG structures in HIV/NGO's in the duration of study and their effect on performance. The design has the ability to allow for data collection, analysis and reporting within the prescribed duration for academic purposes. Similar studies have successfully used this design (Keitany, 2009; Naibo 2006; Nyaga, 2007).

### **3.3 Population of Study**

The population for this study was all organizations registered as NGO's in Kenya. These organizations are registered with the NGO board under the NGO coordination act of 1990 and its regulations of 1992. The NGO Board has a membership of 5,929 NGO's (NGO Coordination Board, 2009), these organizations implement programs including human

rights, health, education, water, humanitarian, capacity building, rehabilitation, democracy, employment creation, minorities, micro-finance and environment protection.

### **3.4 Sampling Technique**

A total of 1,010 HIV/AIDS NGO's registered with NGO board are affiliated to the Kenya AIDS NGO's Consortium- KANCO (KANCO, 2010). This study targeted a sample of 121 HIV/AIDS NGO's implementing HIV prevention, care and treatment interventions in Nairobi, Kenya. This sample was selected using the non probability sampling method of purposive (judgmental) sampling; this technique involves picking a sample that conforms to a set criterion (Cooper and Schindler, 2003). Consequently, the criterion for selecting the sample was registration as an HIV/AIDS NGO. Therefore registered NGO's that implement HIV/AIDS interventions in Nairobi, Kenya were approached to provide data for the study.

### **3.5 Data Collection**

The researcher collected primary data which is largely quantitative; it was collected using semi-structured questionnaires administered to program managers. This questionnaire was designed along the study objectives. Part A obtained bio-data for the organizations; including nature of NGO, sources of funding and intervention areas. Part B focused on CG structures; including existence and functions of board, members' assembly and stakeholders, management, laws and regulations and part C focused on performance of the NGO's; data on how the NGO's measures their performance and their success in meeting those measures.

### 3.6 Data Analysis

To achieve the objective of establishing the existing CG structures in HIV/AIDS NGO's in Nairobi, Kenya and determining their effect on performance, descriptive and inferential statistical tools were used. These include measures of central tendency and variability, as well as regression analysis to test correlation. To achieve the objective of establishing CG structures, the mean and standard deviation was used. To meet the objective of determining the effect of the CG structures on the NGO's performance, the relationship between the independent variables, corporate governance structures and the dependent variables, performance was tested using regression analysis under the multiple regression equation;  $Y = A + B_1X_1 + B_2X_2 + B_3X_3$

Where; Y is the variable being predicted (performance);

A is the y-intercept (where performance is zero);

X1, X2, X3 are the predictor variables in the equation (CG structures), and

B1, B2, B3, are the regression coefficients.

## **CHAPTER FOUR: FINDINGS AND DISCUSSIONS**

### **4.1 Introduction**

This chapter presents the analysis of data collected from the completed survey questionnaires. The questionnaire was developed along the study objectives of determining the existing CG structures in the respondent organizations and their effect on performance. The target population was HIV/AIDS NGO's implementing activities in Nairobi Kenya and registered with the Kenya AIDS NGO's Consortium (KANCO). A total of 121 NGO's were sampled for the study; 63 were determined to be actively implementing HIV/AIDS interventions in Nairobi and approached to provide data for the study. The researcher obtained 40 completed questionnaires representing a 63.5% response rate.

### **4.2 Organizational Bio-data**

This section comprised of questions which helped determine the background information of the respondents. This information was important for the study to obtain a profile and age which have been considered as factors that influence management structures and successful project execution. Those considered important for this study were; Name of the NGO, year of registration, nature of NGO, and sources of project funding, HIV/AIDS intervention area and registration body.

#### **4.2.1 Year of registration**

The year of registration was used to determine the age of the NGO's which was considered important because experienced organizations are believed to have grown to

appreciate the importance of having management structures which are critical for performance. The respondents were asked to state the year in which their NGO was registered. The findings indicated that 26 (65%) of the NGO's were registered between 2001-2010, 8 (20%) between 1991-2000, 2 (5%) between 1981-1990 and the residual 2 (5%) were registered between 1960-1970 and did not indicate the year in which their NGO's were registered (table 4.1).

**Table 4.1: Year of registration**

<b>Year</b>	<b>Frequency</b>	<b>Percentage</b>
1960-1970	1	2.5
1971-1980	0	0
1981-1990	2	5.0
1991-2000	8	20.0
2001-2010	26	65.0
Non response	1	2.5
<b>Total</b>	<b>40</b>	<b>100</b>

**Source:** Research Data, (2011)

#### **4.2.2 Nature of NGO**

The nature of the NGO's was used to determine how the organizations were constituted; this influences the practice of management including governance. The NGO's were asked to indicate whether they were local, foreign branch of local, trust or NGO company. The findings indicate that 31 (77.5) NGO's are local, 4 (10%) are NGO Companies, 1 (7.5%) each are local branches of foreign NGO's and trust respectively while 3 (7.5%) did not indicate the nature of their NGOs (table 4.2).

**Table 4.2: Nature of NGO**

Nature of NGO	Frequency	Percentage (%)
Local	31	77.5
Local Branch of foreign NGO	1	2.5
Trust	1	2.5
NGO Company	4	10.0
Non response	3	7.5
Total	40	100.0

**Source:** Research Data, (2011)

### 4.2.3 Sources of Project Funding

The sources of project funding was used to determine how the organizations raised funds for project activities, a mix of both restricted and unrestricted short and long term funding are important in achieving sustainability. The respondents were asked to indicate whether they received funds from a category of donors; private, corporate, other local NGO's, international NGO's, Kenya or foreign government. The findings indicate that the NGO's have multiple sources of funding; 25 (62.5%) received funds from international NGOs, 20 (50%) and 9 (22.5%) from the Kenyan and foreign governments respectively, 13 (32.5%) were funded privately, 11 (27.5%) were funded by other local NGOs while 5 (12.5%) were funded by corporate organizations (table 4.3).

**Table 4.3: Sources of Project Funding**

Source of Funding	Frequency	Percentage (%)
Private	13	32.5
Corporate	5	12.5
Other Local NGOs	11	27.5
International NGOs	25	62.5
Kenya government	20	50.0
Foreign government	9	22.5

**Source:** Research Data, (2011)

#### 4.2.4 HIV/AIDS Intervention Area

The HIV/AIDS intervention area was used to determine the spectrum of interventions offered, comprehensive services have leveraged increasingly dwindling funds. The respondents were asked to indicate if they implemented care and treatment, abstinence and behavior change, other prevention, anti retroviral therapy, orphans and vulnerable children, tuberculosis, counseling and testing and laboratory and blood safety interventions. The findings indicate that the NGO's implemented multiple HIV/AIDS interventions; 32 out of 40 (80%) implemented other prevention programmes, 28 out of 40 (70%) orphans and vulnerable children, 27 out of 40(67.5%) abstinence and behavior change, 20 out of 40 (50%) HIV counseling and testing while the residual indicated intervention areas at different proportions as in table 4.4.

**Table 4.4: HIV/AIDS Intervention Area**

<b>Intervention Area</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Care and Treatment	15	37.5
Abstinence and Behavior Change	27	67.5
Other Prevention Programmes	32	80.0
Anti-Retroviral Therapy	1	2.5
Orphans and Vulnerable Children	28	70.0
Tuberculosis	6	15.0
Counseling and Testing	20	50.0
Lab and Blood Safety	1	2.5

**Source:** Research Data, (2011)

#### 4.2.5 Registration body

The registration body was to determine the regulatory framework and oversight regimes, coordination works well within one body. The respondents were asked to state whether they were registered with the NGO board, company registry, or society's registrar. The findings indicate that 27 (67.5%) are registered with the NGOs Board, 5 (12.5%) with the



Society’s Registrar, 3 (7.5%) with the Ministry of Gender and Social Services, 1 (2.5%) each with Company Registry and under an Act of Parliament respectively and 3(7.5%) did not respond to the question (table 4.5).

**Table 4.5: Registration body**

<b>Registration body</b>	<b>Frequency</b>	<b>Percentage (%)</b>
NGO Board	27	67.5
Company Registry	1	2.5
Society Registrar	5	12.5
Ministry of Gender and Social Services	3	7.5
Act of Parliament	1	2.5
Non response	3	7.5
Total	40	100.0

**Source:** Research Data, (2011)

### **4.3 Governance Structures**

This section was based on objective one of the study which was to determine the existing CG structures in the sampled population. The study appreciated the varying practice and nature of CG structures across different organizations and contexts; the significant CG structures identified and used were owners/stakeholders, management board establishment and functions and regulatory framework. The respondents were required to rate the extent to which various aspects on CG structures applied to their organizations. The statements were measured on a five point Likert-Type scale ranging from 1 being “strongly disagree” to 5 being “strongly agree”.

### 4.3.1 Owners/ Stakeholders

The measurement scale consisted of statements on 6 aspects of ownership/stake holding in the organizations: Provision for annual meeting by governance documents, ratification of decisions, beneficiaries joining as members of the organizations, involvement of donors in decision making, members' involvement in decision making and beneficiaries' involvement in decision making. Respondents were asked to indicate to what extent the statements applied in their organizations.

**Table 4.6: Owners/Stakeholders**

Aspect	N	Mean	Std. Deviation
The governance documents provide for an annual meeting	38	4.39	1.15
The annual meeting is held annually to ratify decisions	38	4.08	1.17
Beneficiaries have joined the organization as members	39	3.44	1.45
The organization involves donors in decision making	40	3.63	1.31
The organization involves members in decision making	39	4.12	.99
The organization involves beneficiaries in decision making	40	4.00	1.09

**Source:** Research Data, (2011)

The findings indicate that majority of the respondent organizations; provided for an annual meeting within their governance documents (mean score of 4.39 and standard deviation of 1.15), held annual meetings to ratify decisions ( mean 4.08 and standard deviation 1.12),

have beneficiaries who joined as members ( mean 3.44 and standard deviation 1.44), involved donors in decision making (mean 3.63 and standard deviation 1.31), involved members in decision making ( mean 4.18 and standard deviation 0.99) and involved beneficiaries in decision making ( mean 4.00 and standard deviation 1.09). Based on the mean score for each item indicated in Table 4.6, the respondents from the organizations under study indicated that the interests of owners/ stakeholders were considered in the governance system.

### **4.3.2 Board establishment and functions**

The measurement scale consisted statements on 14 aspects of board establishment and functions in the organizations: Specifications for board members by board policy, right board size and composition, influence on decision making by founder members, roles specification, existence of board committees to advice on specific functions, development of mission, policies and plans, compensation of board members on time commitment, adherence to time limits, board members assuming roles of staff, authority delegation, interaction with staff, review of performance programs, board members engagement with the organizations and kinship/friendship programs among board members. Respondents were asked to indicate to what extent the statements applied in their organizations.

**Table 4.7: Board establishment and functions**

Aspect	N	Mean	Std. Deviation
The board policy specifies expectations of board members	39	4.20	1.08
The board size and composition are right for the organization	40	4.28	1.01
Board decisions are influenced by founder members	40	2.70	1.16
The role of the board are clearly defined and separate from those of staff	40	4.38	.93
Board committees exist to advice on specific functional areas	40	3.88	1.18
The board leads development of mission, policies and plans	39	3.95	1.12
Board members are compensated for their commitment	40	2.85	1.33
Term limit for board membership is adhered to	40	3.63	1.25
The board members rarely assume roles of staff	40	3.75	1.35
The board delegates sufficient authority to program manager to lead staff and implement organization mission	40	4.20	1.04
Board members do not directly interact with staff to influence their behavior except by going through the program manager	40	3.43	1.39
The board regularly reviews program performance	37	3.57	1.30
Board members engage in financial transactions with the organization	40	2.80	1.54
Kinship or friendship relations exist among board members	40	2.48	1.40

**Source:** Research Data, (2011)

The findings indicate the clear definition of board roles and distinction from staff functions having the highest mean and lowest standard deviation (4.38 and 0.93) indicating majority of NGO's have adequately defined board roles while kinship/friendship relations existing among board members was low, recording the lowest mean score (2.48) and a high standard deviation of 1.40. Statements 1, 2, 5, 6, 8, 9, 10 and 12 had mean scores ranging between 3.57 and 4.23 and standard deviation of 1.01 and 1.35 implying that the board establishment and functions influenced CG. Statements 3, 7, 11, 13 and 14 had mean scores ranging between 2.48 and 3.43 and standard deviation of between 1.16 and 1.54 indicating that in some firms the respective items did not influence CG in those organizations.

### **4.3.3 Management**

The measurement scale consisted of statements on 6 aspects of the management function in the organizations: Detailed job description for programs manager, annual formal performance evaluation for the programs manager, open recruitment for all positions, boards' support in implementation of policies and procedures, handling of queries from beneficiaries and existence of formal structures for conflict management. Respondents were asked to indicate the extent to which the statements applied in their organizations.

**Table 4.8: Management**

<b>Aspect</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
The program manager has a detailed job description	40	4.38	.95
The program manager undergoes a formal performance evaluation at least annually	40	4.05	.93
Recruitment for all positions are open and fairly done	40	4.18	1.03
The Board supports the programme manager in the implementation of policies and procedures	40	3.93	1.12
The managers handle queries from beneficiaries and other stakeholders accurately and in a timely manner	40	4.23	.70
There is a formal structure for conflict management and the program manager has a cordial relationship with the board	40	3.88	.97

**Source:** Research Data, (2011)

The findings indicate mean scores for all statements ranging between 3.88 and 4.38 and standard deviation of between .70 and 1.12, implying the central role of management in supporting CG structures in the organizations under study.

#### **4.3.4 Regulatory framework**

The measurement scale consisted of statements on 5 aspects of legal and regulatory requirements for NGO's: Authority body's information of important changes, activities and operations within listed areas, filing of annual returns to relevant authority, processing of tax

exemptions and obtaining work permits without violating the allowed threshold. Respondents were asked to indicate to what extent the items applied in their organizations.

**Table 4.9: Regulatory framework**

Aspects	N	Mean	Std. Deviation
The relevant authority is informed of important changes such as name, bank accounts, constitution, financial year, bank signatories, postal and physical address, board membership	40	5.73	8.05
The organization operates only in the area listed in their application	40	4.23	1.14
The organization files annual returns to the relevant authority, including audit report if necessary	40	4.33	.97
Tax exemption is processed for donations and expenditure	39	2.97	1.55
The organization obtain work permits when necessary and does not violate allowed threshold of three at any time	39	3.59	1.43

**Source:** Research Data, (2011)

The findings indicate all statements except for 5 and 6 had mean scores of between 4.23 and 5.73 and standard deviation of between 0.97 and 8.05 indicating that the individual items on regulatory framework largely influenced CG in the organizations. Statements 5 and 6 had mean scores of 2.97 and 3.59 and standard deviation of 1.55 and 1.43 respectively. These results indicated that the particular items largely influence CG in their various organizations.

## **4.4 Organizational Performance**

This section was based on objective two of the study which was to establish the effect of CG structures on the performance of the organizations sampled during the study. The study appreciated the differences in performance measurement in different entities; the significant organizational performance measures identified and used were meeting organizational mission and objectives, meeting the interests of stakeholders and complying with the law and rules and regulations. The respondents were required to rate the extent to which various aspects of organizational performance were important to their organizations and their success at meeting these measures. The statements were measured on a five point Likert-Type scale ranging from 1 being “Poor” to 5 being “Exceptional”.

### **4.4.1 Meeting organizations mission and objectives**

The measurement scale consisted of statements on 4 aspects of meeting organizational mission and objectives for the NGO’s: Projects alignment to organization mission and objectives, achievement of project targets within set timelines, attraction of adequate resources to support activities and functional monitoring and evaluation system for project activities. Respondents were asked to indicate the importance and extent to which their organizations had achieved success in meeting the measures.



**Table 4.10: Meeting Organizations Mission and Objectives**

Aspects	N	Mean	Std. Deviation
Projects are aligned to organization's mission and objectives	39	4.15	.81
Projects targets are achieved within set deadlines	39	3.95	.83
Adequate resources are attracted to support activities	38	2.89	1.20
Functional monitoring and evaluation and evaluation system for project activities	38	3.63	.97

**Source:** Research Data, (2011)

The findings of the study indicate that all statements except item 3 had mean scores of between 3.63 and 4.15 and standard deviation of between .81 and .97 indicating that the individual items on meeting organizations objectives were successful in attaining CG in their organizations. Statement 3 had a mean score of 2.89 and a standard deviation of 1.20 implying that most organizations had not allocated adequate resources that attracted support activities.

#### **4.4.2 Meeting Needs of stakeholders**

The measurement scale consisted of statements on 4 aspects of meeting the needs of organizational stakeholders for the NGO's: Projects alignment to donor and beneficiary needs, generation and sharing of progress reports with stakeholders on a regular basis and existence of documented systems, policies and procedures to guide operations. Respondents were asked to indicate the importance and extent to which their organizations had achieved success in meeting the measures.

**Table 4.11: Meeting Needs of Stakeholders**

Aspects	N	Mean	Std. Deviation
Projects are aligned to needs of donors	37	3.11	1.35
Projects are aligned to needs of beneficiaries	39	4.10	1.02
Generation and sharing of progress reports with stakeholders on a regular basis	39	4.00	.79
Existence of documented systems, policies and procedures to guide operations	39	3.92	.84

**Source:** Research Data, (2011)

The findings of the study indicate that all statements except item 1 had mean scores of between 3.92 and 4.10 and standard deviation of between .79 and 1.02 indicating that the individual items on meeting needs of stakeholders were successful in attaining CG in their organizations. Item 1 had mean of 3.12 and a standard deviation of 1.35 implying that most organizations had not aligned their projects to needs of donors.

#### **4.4.3 Compliance with the law and industry rules and regulations**

The measurement scale consisted of statements on 4 aspects of compliance with the law and industry rules and regulations for the NGO's: Annual filing of final returns including audits, adherence to national guidelines, notification of relevant authorities of changes in address, board, name and constitution, and processing tax exemptions arising from their nonprofit status. Respondents were asked to indicate the importance and extent to which their organizations had achieved success in meeting the measures.

**Table 4.12: Compliance with the Law and Industry Rules and Regulations**

Aspects	N	Mean	Std. Deviation
Annual filing of final returns including audits	39	4.31	1.06
Adherence to national guidelines for service delivery	37	4.11	.91
Notifying relevant authorities of changes in addresses, board, name, constitution	39	4.31	.80
Processing tax exemption arising from nonprofit status	35	2.43	1.24

**Source:** Research Data, (2011)

The findings of the study indicate that all statements except item 4 had mean scores of between 4.11 and 4.31 and standard deviation of between .80 and 1.06 indicating that the individual items on organizations compliance with law and industry rules and regulations had influenced CG in their organizations. Item 4 had mean of 2.43 and a standard deviation of 1.24 implying that most organizations had not complied with processing tax exemptions arising from nonprofit operations.

#### **4.5 Corporate Governance Structures and Performance**

The research study aimed to establish the effect of CG structures on the performance of HIV/AIDS NGOs in Nairobi, Kenya. The research findings indicated that there was a very strong positive relationship ( $R= 0.9846$ ) between the variables. The study also revealed that 97% of performance in HIV/AIDS NGOs can be explained by the corporate governance structures in place. From this study it is evident that at 95% confidence level,

the variables produce statistically significant values for this study hence can be relied on to explain performance of HIV/AIDS NGOs in Nairobi County ( table 4.15 and 4.14).

**Table 4.13: CG Structures and Performance Model**

Model	R	R Square	Std. Error of the Estimate
1	0.9846(a)	0.97	0.005

a Predictors: (Constant), Compliance index, Objectives index, Stakeholders index

**Table 4.14: CG Structures and Performance**

Model	N	R	R Sq	F	Sig
Meeting mission and objectives	40	.50	.25	2.85	.04
Meeting stakeholder needs	40	.61	.37	4.98	.01
Compliance with the law and industry rules and regulations	40	.55	.31	3.76	.01

**Source:** Research Data, (2011)

In meeting organizational mission and objectives and compliance with the law and industry rules and regulations, the findings indicated a moderate relationship between the variables (R=0.50 and 0.55 respectively) and 25% and 31% of the organizations' performance can be explained by the existing governance structures. In meeting the need of the stakeholders, the findings indicated that there was a strong positive relationship (R= 0.61) between the variables and 37% of performance in HIV/AIDS NGOs can be explained by the corporate governance structures in place. It is evident that at 95% confidence level, the variables produce statistically significant values for this study hence can be relied on to explain performance of HIV/AIDS NGOs in Nairobi (table 4.13).

**Table 4.15: Independent Effect of CG Structures on Meeting mission and Objectives**

Model	Unstandardized coefficients		Standardized coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.07	.82		1.30	.20
Owners/ Stakeholders	.13	.14	.16	.95	.35
Board establishment and functions	.08	.20	.07	.40	.69
Management	.30	.23	.26	1.29	.21
Regulatory framework	.15	.13	.19	1.12	.27

**Source: Research Data 2011**

$$Y_1 = 1.07 + 0.13X_1 + 0.08X_2 + 0.30X_3 + 0.15X_4$$

The findings of the study indicate that at 95% confidence level, the independent variables together produce statistically significant values (t-values,  $p < 0.05$ , positive effect was reported ( $\beta=.16$ ,  $\beta=0.07$ ,  $\beta=0.26$  and  $\beta=0.19$ ) for CG structures; owners/stakeholders, board establishment and functions , management and regulatory framework. A 1- point increase in the independent variables will increase chances of meeting organization mission and objectives by 1.07, all the other factors remaining constant.

**Table 4.16: Independent effect of CG structures on meeting needs of stakeholders**

Model	Unstandardized coefficients		Standardized coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.86	.73		1.18	.25
Owners/ Stakeholders	.04	.12	.05	.33	.74
Board establishment and functions	.35	.18	.32	2.02	.052
Management	.42	.21	.38	2.05	.05
Regulatory framework	-.02	.12	-.03	-.16	.87

**Source:** Research Data, (2011)

$$Y_2 = 0.86 + 0.04X_1 + 0.35X_2 + 0.42X_3 - 0.02X_4$$

From this study it was evident that at 95% confidence level, the independent variables together produce statistically significant values for this study (high t-values,  $p < 0.05$ ). Positive effect was reported for owners/ stakeholders, board establishment and functions, and management CG structures respectively ( $\beta = .05$ ,  $\beta = .32$  and  $\beta = .38$ ). However negative effect was reported for regulatory framework ( $\beta = -.03$ ). A 1- point increase in the variables will cause an increase of .86 when all other factors are held constant.

**Table 4.17: Independent effect of CG structures on compliance with the law and industry rules and regulations**

Model	Unstandardized coefficients		Standardized coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.76	.89		.85	.40
Owners/ Stakeholders	.01	.15	.01	.05	.96
Board establishment and functions	.07	.21	.06	.34	.74
Management	.59	.25	.45	2.36	.02
Regulatory framework	.10	.14	.12	.72	.48

**Source:** Research Data, (2011)

$$Y_3 = 0.759 + 0.007X_1 + 0.072X_2 + 0.591X_3 + 0.102X_4$$

From this study it was evident that at 95% confidence level, the variables together produce statistically non significant values for this study (high t-values,  $p < 0.05$ ). Positive effect was reported for all the independent variables ( $\beta = .01$ ,  $\beta = .06$ ,  $\beta = .45$  and  $\beta = .12$ ) for owners/stakeholders, board establishment, management and regulatory framework corporate organization structures respectively. A 1- point increase in the independent variables will cause an increase of 0.76 in compliance with regulatory framework when all other factors are held constant.

## 4.6 Discussions

The research study was conceptualized along two research objectives; to determine existing CG structures implementing HIV/AIDS interventions in Nairobi, Kenya and to test their effect on the performance of those organizations. This was a survey type of

study carried out through structured questionnaire method; the sample was drawn from the membership of the Kenya AIDS NGO's Consortium. The research was guided by theory and empirical studies in the areas of CG, NGO's and organizational performance; these were tested using the statistical data analysis.

The main source of project funding for the respondents is international NGO's and the Kenya government through donor aid, project financing is indeed dependent on foreign donors raising the ever present question of whether sustainability can be attained; one major component is generation of unrestricted funding for overhead costs including systems strengthening which donors are reluctant to fund directly. The attempt to harmonize regulation and oversight of NGO's has attained a good level of success, 67.5 % of the respondents' organizations are registered with the NGO coordination board.

The findings of the study have provided evidence that founders do not wield much power over board members contrary to a study by Kingoro and Bujra (2009) and also that the involvement of donors in decision making in the sample was low. Tandon (2002) concluded that board members of nonprofits have close family ties with founders, often acting as a "rubber stamp" for a founder member who governs. The findings of this study have negated this assertion; the respondents indicated that kinship or friendship ties were at a low level. Majority respondents also indicated that board members' engaging in financial transactions with the organization was not a common occurrence.

The separation of roles between board and management has been emphasized as being one major weakness of NGO's in Kenya (Kenya NGO Coordination Board, 2001; Kingoro and Bujra, 2009). The findings of this study have indicated clear distinction of



roles and the significance of sound management processes such as developing detailed job descriptions, conducting performance evaluations, open and fair recruitment and formalizing conflict management procedures to harmonize the working relationship between the board and management.

Implementing organizations have also involved more beneficiaries than donors in decision making; NGO's have been accused of being overly donor-centric instead of being beneficiary-centric. Donors have incurred costs to ensure good governance and performance (Kingoro and Bujra, 2009), the study findings have indicated that donors are less involved in decision making which may lead to conclusions that their efforts are leaning more towards capacity building and empowerment.

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter provides a summary of the research study based on the objectives, draws conclusions from the statistical data analysis conducted. The researcher then presents the main limitations of the study, and recommendations both for the research as well as for the policy and practice.

### **5.2 Summary**

The response rate of the survey was 63.5%. The aim of the research was to establish existing CG structures and their effect on performance of HIV/AIDS NGOs in Nairobi Kenya, why the findings were the way they were and if they were consistent with or contrary to the previous empirical findings. The discussions and presentations were guided by the objectives of the study which were stated as: To establish existing CG structures in HIV/AIDS NGO's in Nairobi, Kenya and to determine the effect of the CG structures on the NGO's performance.

The findings of the study have indicated that the respondents concurred that their organizations had adopted the various owners/stakeholders aspects as CG structures. Further, board establishment and functions greatly influenced the establishment of CG to a great extent with board role separation, board policy specifications, board size and composition and delegation of authority scoring high values. The significant management aspects had influenced CG with the program managers' job description, formal

performance evaluation, program manager implementation, and handling of queries by the program manager scoring high.

It was a generic opinion that the regulatory framework of organizations had contributed to instilling good CG in the organizations under study with operations in the listed areas only, information of relevant authorities of major changes and filing of annual returns to the relevant authorities recoding high scores in rank order, there was awareness of consequences of noncompliance. The findings indicated that respondents' organizations had aligned projects to their missions and, achieved targets within set deadlines, allocated adequate resources to support activities and put in place functional monitoring and evaluation systems for project activities as measures to meet missions and objectives. Further, the legal and regulatory framework was adequately complied with except processing of tax exemptions arising from nonprofit status.

### **5.3 Conclusion for Policy and Practice**

The effect of CG structures of the performance of HIV/AIDS NGO's was the main focus of this study; the findings have led to a conclusion that CG is important and responsible for a high level percentage ( 97%) of good performance achieved by organizations but individual CG structures acting on their own do not lead to improvement in performance. Organizations should work towards achieving and maintaining good governance structures if performance levels are to remain consistent.

Despite there being a mechanism for tax exemption for nonprofit making organizations, there has been a reluctance to file single exemptions for programs funded by donors, this

has been confirmed by this study with tax exemption for donations and expenditure scoring the lowest mean amongst the regulatory framework statement. The NGO board should implement a system whereby nonprofits have a tax exemptions processing desk at the board's offices to coordinate with the Kenya revenue authority and include their exemptions in the annual filing.

To achieve sustainability, structural interventions must be put in place to address weaknesses that confine NGO's to rely entirely in donor aid thus risking their going concern status. One area where the NGO board with the support of government can enact laws is on the requirement that all NGO's file their fundraising strategy as well as a strategic plan which should be evaluated, reviewed and updated. The endless cycle of writing and following up on proposals should be replaced by donors approaching NGO's to assist them reach grassroots with their interventions.

## **5.4 Recommendations**

The NGO board has made progress in ensuring compliance with the NGO act; the respondents understood and complied with its requirements. The boards' capacity building in governance has attained success, represented by the findings indicating good board functioning and reduced founder member influence. However, there is need for a feedback mechanism on annual reports filed; the respondents make assumptions that their reporting is adequate without getting a review and comments. Perhaps the NGO board should engage a financial management agency to oversee this.

One weakness highlighted by the study is the inability of the organizations to process tax exemptions. Donor funds are taxpayer money which should not be subject to further

taxation. The Kenya government has a provision for processing exemptions but the filing should be done for individual purchases, no blanket exemption is available. It is a recommendation that all donors make taxation an unallowable cost for all projects if a mechanism to exempt is available; this is normally preceded by the signing of a memorandum between governments.

Donor dependency has been a concern especially because it affects the sustainability of projects beyond the approved project cycles. Most donors provide short term funding and re-compete awarded projects after a predetermined period. Among the respondents, only one NGO founder had established a business venture, carrying general supplies business but adding the component of support to charitable activities when soliciting for business. This is a unique and creative way of generating unrestricted funds; it can be adopted or adapted by other nonprofit organizations

## **5.5 Limitations of the Study**

The researcher encountered quite a number of challenges related to the research and most particularly during the process of data collection. Due to inadequate resources, the researcher conducted this research under constraints of finances and therefore collected data from the Nairobi only in this study. Time allocated for the study was insufficient while holding a full time job and studying part time. The researcher utilized technology to distribute and collect the data, lack of face to face interactions with all respondents resulted in the researcher not being able to interrogate responses.

The study sampled 121 organizations registered with KANCO but could not reach all of them, only 63 were determined to be actively implementing. The larger sample could

have enhanced the data pool and influenced the outcome; the difference was nearly 50%. Communication with the respondents was a challenge since most contact details were out dated which made tracking down the sample population difficult.

Some respondents were biased while giving information due to reasons such as privacy and busy schedules at their work place. HIV/AIDS interventions involve fieldwork in sometimes remote locations; the researcher could not verify whether the program managers targeted completed the questionnaires. Respondents were also interested in whether participating in the survey had a benefit to their organizations, requesting the researcher to assist in resource mobilization.

## **5.6 Suggestions for Future Research**

Arising from this study, the following directions for future research in strategic management were recommended as follows: First, this study focused on HIV/AIDS NGOs in Nairobi, generalizations may not extend to other NGO's outside Nairobi who don't implement HIV/AIDS interventions. It is therefore, recommended that a broad based study covering all regions in the country be done to find out the role of CG structures in enhancing the performance of NGOs.

Second, it is important to carry out a similar study in government parastatals in order to find out the role of CG in promoting performance in parastatals. The government has adopted governance improvement measures with the enactment of the new constitution. Finally, it is also suggested that future research should focus on the ability of NGO's to develop a pool of unrestricted funding by adopting fundraising strategies to enhance their ability to attract funds for project implementation as well as to meet overhead costs.

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# APPENDICES

## APPENDIX 1 QUESTIONNAIRE

Questionnaire Number			
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Survey Questionnaire	Approximate Completion Time: 30 Minutes
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### PART A: BACKGROUND INFORMATION

Name of your NGO: .....

Year of Registration: .....

Nature of NGO: .....

- Local                       Local branch of foreign NGO                       Trust  
 NGO Company                       Other, Please state.....

#### Sources of Project Funding

- Private                       Corporate                       Other local NGO's  
 International NGO's                       Kenya government                       Foreign government  
 Other sources. Please state.....

#### HIV/AIDS Intervention Area:

- Care and Treatment                       Abstinence and Behavior Change  
 Other Prevention Programmes                       Anti Retroviral Therapy  
 Orphans and Vulnerable Children                       Tuberculosis  
 Counseling and Testing                       Lab and Blood safety

#### Registration body

- NGO Board                       Company Registry                       Society's Registrar  
 Other. Please state .....

## PART B: GOVERNANCE STRUCTURES

The following are descriptive statements on corporate governance structures in your organization. To what extent does each apply in your organization? Please tick as appropriate using the key provided.

1 – Strongly disagree, 2- Disagree, 3- Neutral, 4-Agree 5- Strongly agree

### 1. OWNERS/STAKEHOLDERS

	1	2	3	4	5
The governance documents provides for an annual meeting					
The annual meeting is held annually to ratify decisions					
Beneficiaries have joined the organization as members					
The organization involves donors in decision making					
The organization involves members in decision making					
The organization involves beneficiaries in decision making					

### 2. BOARD ESTABLISHMENT AND FUNCTIONS:

	1	2	3	4	5
The board policy specifies expectations of board members					
The board size and composition are right for the organization					
Board decisions are influenced by founder members					
The roles of the board are clearly defined and separate from those of staff					
Board committees exist to advice on specific functional areas					
The board leads development of mission, policies and plans					
Board members are compensated for their time commitment					
Term limits for board membership is adhered to.					
The board members rarely assume roles of staff					
The board delegates sufficient authority to program manager to lead staff and implement organization mission.					

Board members do not directly interact with staff to influence their behavior except by going through the program manager					
The board regularly reviews program performance					
Board members engage in financial transactions with the organization					
Kinship or friendship relations exist among board members.					

### 3. MANAGEMENT

	1	2	3	4	5
The program manager has a detailed job description					
The program manager undergoes a formal performance evaluation at least annually					
Recruitment for all positions are open and fairly done					
The board supports the program manager in the implementation of policies and procedures					
The managers handle queries from beneficiaries and other stakeholders accurately and in a timely manner					
There is a formal structure for conflict management and the program manager has a cordial relationship with the board					

### 4. REGULATORY FRAMEWORK

	1	2	3	4	5
The relevant authority is informed of important changes such as name, bank accounts, constitution, financial year, bank signatories, postal and physical address, board membership					
The organization operates only in the area listed in their application					
The organization files annual returns to the relevant authority , including audit report if necessary					
Tax exemption is processed for donations and expenditure					
The organization obtain work permits when necessary and does not violate allowed threshold of three at any one time					

## PART C: ORGANIZATIONAL PERFORMANCE

Which of these measures does your organization consider important in meeting its mission and objectives

- Projects are aligned to organization's mission and objectives
- Projects' targets are achieved within set deadlines
- Adequate resources are attracted to support activities
- Functional monitoring and evaluation system for project activities

Which of these measures does your organization consider important in meeting the interests of its stakeholders

- Projects are aligned to needs of donors
- Projects are aligned to needs of beneficiaries
- Generation and sharing of progress reports with stakeholders on a regular basis
- Existence of documented systems, policies and procedures to guide operations

Which of these measures does your organization consider important in complying with the law, and industry rules and regulations

- Annual filing of financial returns including audits
- Adherence to national guidelines for service delivery
- Notifying relevant authorities of changes in addresses, board, name, constitution
- Processing tax exemptions arising from nonprofit status

How would you rate your organization's success in meeting the measures listed above? Please tick as appropriate using the key provided. **1-** Poor, **2-**Fair, **3-**Moderately good, **4-** Good and **5-**Exceptional

### A. Meeting Organization Objectives

<b>Performance Measures</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Projects are aligned to organization's mission and objectives					
Projects' targets are achieved within set deadlines					
Adequate resources are attracted to support activities					
Functional monitoring and evaluation system for project activities					

### B. Meeting Needs of Stakeholders

<b>Performance Measures</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Projects are aligned to needs of donors					
Projects are aligned to needs of beneficiaries					
Generation and sharing of progress reports with stakeholders on a regular basis					
Existence of documented systems, policies and procedures to guide operations					

### C. Complying with the law and industry rules and regulations

<b>Performance Measures</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Annual filing of financial returns including audits					
Adherence to national guidelines for service delivery					
Notifying relevant authorities of changes in addresses, board, name, constitution					
Processing tax exemptions arising from nonprofit status					

**Thank You for Your Help!**

## **APPENDIX 2 LIST OF HIV/AIDS NON GOVERNMENTAL ORGANIZATIONS IMPLEMENTING IN NAIROBI, KENYA**

- 1 AID Africa Concern
- 2 AIDS Awareness Agency
- 3 AIDS Orphans Support Organization of Kenya (AOSOK)
- 4 Apostles of Jesus AIDS Ministries
- 5 Arrow Kenya
- 6 Beacon of Hope
- 7 Bread for Children - Kenya
- 8 Center for study of adolescence
- 9 Chalbi Women Health Organization
- 10 Children Health Implementation For Life Development
- 11 Children Mercy Missions Kenya
- 12 Community Action for Health and Development
- 13 Community Health and Social Services
- 14 Community Living with AIDS
- 15 Community Aid International
- 16 Community Capacity Building Initiative
- 17 Community Integrated Support Organization
- 18 Development Support Programme Organization
- 19 Delta Self-Help Programme
- 20 Discordant Couples Organization of Kenya
- 21 Effective Relief and Development Services
- 22 Family Relief and Rehabilitation Organization
- 23 Focus on families
- 24 Foundation for Gender and Equality
- 25 Gallamoro Network
- 26 Gender Environment and Sustainable Development
- 27 Glads Community Support Services
- 28 Good Hope Kabiria
- 29 Health Management Agency
- 30 Health Rights Advocacy Forum
- 31 Highlands Community Assistance Program
- 32 Hope Africa Women Organization



- 33 Institute of Cultural Affairs Kenya
- 34 Institute for Development and Welfare Services
- 35 Integrated Development Facility
- 36 Integrated Relief & Rural Development
- 37 Jisaidie Development Network
- 38 JARA Action Youth Group
- 39 Kabiro Health Care Trust
- 40 kahawa Soweto kongo kamae
- 41 Kagira Health Education and Welfare Mission
- 42 KENAID
- 43 Kenya AIDS Orphans Rescue Organization
- 44 Kenya Association of Professional Counselors
- 45 Kenya Children Fund Trust
- 46 Kenya Entrepreneur Development Organization
- 47 Kenya Institute of Professional Counseling  
Kenya Network of Religious Leaders Living with or Personally
- 48 Affected by HIV
- 49 Kenya National Deaf HIV/AIDS Education Programme
- 50 Kenya Orphan Support Organization
- 51 Kenya Scouts Association
- 52 Kenya Sustainable Health AID NGO
- 53 Kenya Voluntary Women Rehabilitation Centre
- 54 Kenya Widows and Orphans Support Programme
- 55 Kenya Women Fellowship Association  
Kenya Youth Education and Community Development
- 56 Programme
- 57 Kenyatta University Students AIDS Control Organization
- 58 Kivuli Community Youth Organization
- 59 Lesako Development Foundation
- 60 Life Skills Promoters
- 61 Lifeline Foundation
- 62 Living Well Network
- 63 Management With Compassion
- 64 Mathare Child Development Centre
- 65 Millennium Education charitable Organization
- 66 Mother/child with AIDS Support Organization

- 67 Movement of Men Against AIDS in Kenya
- 68 Mt View Like Minded Business Self Help Group
- 69 Mwana Mwende Child Development Centre
- 70 Mwangaza Counseling Services
- 71 National AIPCA Health and Welfare Organization
- 72 Network for African Women Alliance
- 73 Network for Intergretated Community Empowerment Programme (NICE-Programme)
- 74 Network of African People Living with HIV/AIDS- East African Region
- 75 North Star Alliance
- 76 Nairobi Network of Post Test Clubs
- 77 Ongata Rongai Organization for the Needy
- 78 Operation Hope
- 79 Partners in Human Survival
- 80 Pro-Mend Kenya
- 81 Provide International
- 82 Rachel's Development Programme
- 83 Regional Communication and Development Organization
- 84 Regional Counseling and Psychosocial Organization
- 85 Reproductive Health Services
- 86 Rural Health Care
- 87 Rural-Urban HIV/AIDS Intervention Organization
- 88 Samo Development Organization
- 89 SANAA Art Promotions
- 90 Save Generations Against AIDS Kenya
- 91 Shekener Self Help Group
- 92 Sirgon Community Initiative Programme
- 93 Strategic Community Development Network- SACODEN
- 94 Teenagers + Plus
- 95 The Association of People With AIDS in Kenya
- 96 UZIMA Foundation
- 97 Kenya Organization of Clients and Civil Accident Cases Society
- 98 Ananda Marga Universal Relief Team (AMURT)
- 99 Bar Hostess Empowerment & Support Programme
- 100 Christian Mission Aid
- 101 Family Life Promotion and Services

- 102 Forum for African Women Educationalists Kenya Chapter
- 103 I Choose Life Africa
- 104 IntraHealth International Inc.
- 105 Kenya Medical Women's Association
- 106 Youth in Community Development Organization
- 107 Arid Regional Intergrated Development Agency (ARIDA)
- 108 Blind and Low Vision Aid
- 109 Bridgeway Centre Trust
- 110 Centre for Adolescent and Geriatric Outreach Services
- 111 Consolation for Orphans & Vulnerable Children
- 112 FAMILY LIFE COMMUNITY EDUCATION
- 113 HAKI SELF HELP GROUP
- 114 Kenya Alliance for Advancement of Children
- 115 Leo Community Development Network
- 116 Monsoon Youth Group
- 117 Partners For Progress- Changed to Build Africa
- 118 Potter's Clay Africa
- 119 Providence Whole Care International
- 120 Africa Health and Community Program
- 121 Victory Foundation

**Source: Kenya AIDS NGO's Consortium, 2011**