# INFLUENCE OF FINANCIAL REPORTING INSTRUMENTS ON THE FINANCIAL PERFORMANCE OF ENVIRONMENTAL CONSERVATION NGO'S AT NAIROBI CITY COUNTY IN KENYA

**MARK WAIRURI KIARIE**[1]

**DR. SAMMY KIMUNGUYI**[2]

MASTER OF BUSINESS ADMINISTRATION IN FINANCE CANDIDATE, JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY, KENYA[1]
PROJECT SUPERVISOR, JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY, KENYA[2]

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**ABSTRACT:** The general objectives of the study were to determine the influence of financial reporting instruments on the financial performance of environmental conservation NGOs at Nairobi City County, Kenya. Questionnaires as primary data collection tools and secondary data sheet for secondary data collection were used in data collection process and the data collected was analyzed using Multiple regression analysis (standard), descriptive analysis (means and standard deviations) and inferential statistics. Judgmental sampling technique was used to pick respondents due to the minimal number of employees in many NGOs and in this case only one respondent per NGO from the finance department was picked for this study. This resulted in a sample size of 15 Officers in the 15 Conservation NGOs. With the aid of SPSS (SPSS version 21.0) and Excel software, quantitative results were tabulated and presented in the form of charts, bar graphs, and narratives. The study found that financial reporting instruments disclosure had a positive and significant influence on the financial performance of environmental conservation NGO's at Nairobi City County in Kenya. Thus financial reporting instruments disclosure influence financial performance of environmental conservation NGO's at Nairobi City County in Kenya. Hence, NGOs should lean towards disclosure of financial and social and board disclosure to increase their performance. The study also found that financial reporting instruments presentation had a negative but marginally insignificant influence on financial performance of environmental conservation NGO's at Nairobi City County in Kenya. The results also showed that financial reporting instrument recognition and measurement had a positive and significant influence on financial performance of environmental conservation NGO's at Nairobi City County in Kenya.The research recommends that all NGOs should lean towards disclosure of financial and social and board disclosure to increase their performance. The NGOs should also publish financial statements frequently. The research also recommends that all NGOs should adopt financial reporting instrument recognition and measurement to increase their performance.

**Key Words**: instruments disclosure, instruments presentation, instruments recognition and measurement

## 1. INTRODUCTION

Ayom (2013) conceptualizes a Non-Governmental Organization (NGO) as an organization that is not state-funded and is not part of a government. NGO's are organizations usually self-governing and independent of governments. Their activities are non – commercial and therefore not for profit. Their primary goal is to ensure that resources are effectively and efficiently used to achieve intended objectives. By virtue of this, Non-Governmental Organizations place much importance on performance.

The term Non-governmental Organization (NGO) defines an agency that has no government control but receives aid and donations from national and international agencies to carry out poverty alleviation activities on humanitarian sectors (Perkins, 2011).Capitalism and failure of states to meet the needs of its citizens is the beginning of NGOs. NGOs have not only grown in number and capacity, but also with regard to their political influence.

The World Bank reports that projects with some degree of civil society' involvement increased from six percent in the late 1980s to over 75 percent in 2015 (World Bank Report, 2016). NGOs render welfare services and help in all such sectors of society, which aim to improve the life of the people in the community. NGOs can perform a major role because of having features for the promotion of micro-level development (Nzimakwe, 2012). NGOs are often seen as more trustworthy and credible than governments or private firms (Todaro, 2009). NGOs also provide public goods to sections of the population that might be socially excluded.

NGOs play a significant function in the world economy and social system in areas ranging from education, healthcare, disaster relief, social work and overall improvement of the human condition (Williams, 2015). They have to exercise accountability at its highest in managing their day-to-day basis (Gray *et al.,* 2016). If the private entities have to be accountable towards their shareholders, the NPOs also have to be accountable towards the public indirectly (Kilby, 2016).

Non-Governmental Organizations (NGOs) are increasingly becoming like businesses, for example, Charities (2013) in Ireland requires all charities to be formally registered and in most cases submit annual financial reports to a registrar which is similar to the requirements of the NGO co-ordination board in Kenya. From management accounting point of view, NGOs can, of course, adopt budgetary control and other performance measures as normally used in a business.

Kateeba (2000) studied the relationship between governance and quality of financial reporting instruments in NGOs in Kosovo, According to the survey done in Kosovo, the group questions dealing the Financial factor, when asked about their financial resources based on the last financial year, more than 50% of NGOs declare that foreign donors are the only or main financial sources of their projects and activities.

Alshebeil (2010) determined the role of financial reporting instruments in achieving competitive advantage for Jordanian commercial banks, and his findings were that there is a statistically significant impact for financial reporting instruments on achieving the dimensions of competitive advantage by improving the pricing process for banking services, reducing costs of banking services, increasing the speed of provided services, and increasing market share.

El- Dalabeeh (2012) aimed to identify the role of computerized accounting information systems in reducing the costs of medical services at King Abdullah University Hospital, and his findings were that computerized accounting information systems play an in important role in reducing the costs of medical services at King Abdullah University Hospital compared with non-computerized systems, which usually require bigger costs and do not contribute to reducing the costs of medical services.

Sexton *et al.* (2011) argued that the use of internet-based technology reporting could enhance the accountability and transparency of NGOs. Generally, NPOs survivals depend highly on a donation from businesses, corporations, foundations, institutions, individuals, fees and lending (Leather, 2011). As such, NGOs have to be accountable for all the funds they have obtained from diverse sources (Nasir, 2014). They also have to ensure they have executed quality programmes not to gain profit for themselves, but to channel those profit for the benefit of others (Kilby, 2016).

NGO donors must, therefore, be interested to know how the organizations they fund end up spending those finances: either for personal gain or for the attainment of intended purpose (Moxham, 2009). Studies in NGOs by Nasir (2014) argued that transparency and accountability would only be achieved if NGOs are serious in submitting their annual reports and consistent with its format and structure. A recent report from CIMA suggests that developing formal financial reporting can help NGOs to develop networks with government departments, funding agencies, other service providers and clients (CIMA, 2014). There are contradicting views on the existence of effective mechanisms for controlling and monitoring NGO's have grown phenomenally in recent years both in Numbers and size.

Shim (2011) asserts that although NGOs help in addressing a wide variety of social needs globally, the fall in operational efficiency has affected NGOs to achieve far less than its intended strategic objectives. Additionally, he was of the view that the inability of NGOs to achieve their intended objectives was primarily because of the existence of weak and ineffective internal control systems. Although implementing sound, functional and effective internal control system deter and detect errors, fraud, and theft and ensures the reliability of accounting records, Jenna (2012) contests the fact that there are the inherent limitations that affect its credibility.

Ayom (2013) observed that in spite of support from donors, most NGOs are not performing well as expected. For instance, Management Sciences for Health (MSH); a Sudanese NGO, could not account for $17,788 intended for vulnerable people of South Sudan owing to evidence of fraudulent activities. A key observation was that most of the donor funds to NGOs for project implementation lacked accountability. Ayom (2013) mentioned that a report conducted by MSH between 2001-2013 showed credible evidence of fraudulent activities particularly inflated workshop activities/expenses, forged receipts and insufficient support documentation. The report further indicated that management oversight responsibility, a key control measure was ineffectively carried out.

Charities (2013) identifies several challenges facing NGOs in Africa. Those challenges entail lack of funds, poor governance, the absence of strategic planning, poor networking, poor communications, limited capacity, development approaches, relationships with international NGOs and political interference. Charities (2013) adds that very few NGOs have strategic plans which would enable them to have ownership over their mission, values, and activities. This leaves them vulnerable to the whims of donors and makes it difficult to measure their impact over time. Many NGOs, large and small, intervene at community level without any community mapping and implement projects without due regard to ongoing community initiatives.

Although many donors view the NGOs as a better alternative to governmental agencies in getting services and assistance to those in need, especially in countries that are burdened by political favoritism and corruption (Cook, 2013), NGOs have also been involved in scandals that are a result of having less than credible governance structures. In the Eastern Economic Review (2012), the watchdog organization called Sustainability reported that accountability and transparency are issues on which several NGOs are found wanting (Annon, 2013).

As per the AIM program report for the quarter ending December 2015 that the financial reports that were produced by NGOs did not meet the quality standards set by the AIM Programme (AIM, 2015). For example, the AIM Programme required that all financial reports for the July – September 2015 quarter should have been submitted by 15 October 2005. However, by that date, only 55.14% of the expected reports had been received. It was not clear whether this situation of the poor quality of financial reports was a result of non-adherence to good governance requirements or not.

According to American Institute of Certified Public Accountants (2011), Value for Money (VfM) is the term used to assess whether or not an NGOs agency has registered a good or bad financial performance. That is, whether it has obtained the maximum benefit from the goods and services it acquires and/ or provides, within the resources available to it. VfM not only measures the cost of goods and services but also takes account of the mix of quality, cost, resource use, fitness for purpose, timeliness, and convenience to judge whether or not, when taken together, they constitute good value.

## 2. LITERATURE REVIEW

This section presents the past studies that have been conducted to explain the subject of this study. The empirical review is presented according to the following objectives of the study: to determine the influence of instruments disclosure on the financial performance of environmental conservation NGOs at Nairobi City County in Kenya, to assess the influence of instruments presentation on the financial performance of environmental conservation NGOs at Nairobi City County in Kenya, to establish the influence of instruments recognition on the financial performance of environmental conservation NGOs at Nairobi City County in Kenya and to establish the influence of financial reporting instruments measurement on the financial performance of environmental conservation NGOs at Nairobi City County in Kenya.

### 2.1 Financial Reporting Instruments' Disclosure

Gibbins, Richardson, and Waterhouse (1990) defined financial reporting instruments disclosure as any deliberate release of financial (and non-financial) information, whether qualitative or numerical, required or voluntary, or via formal or informal channels. There are different means for companies to disclose information such as annual reports, conference calls, analyst presentations, investor relations, interim reports, prospectuses, press releases, websites, etc. Although on its own is not sufficient in the capital market context, the corporate annual report is considered a very important official disclosure vehicle, (Marston & Shrives, 1991; Epstein & Palepu, 1999; Hope, 2003) since other disclosure vehicles such as conference calls and interim reports can provide more timely disclosure. In addition, there are other sources of disclosure about companies' performance including, for example, financial analysts' reports and the press

Beattie et al. (2004) classified proxies for disclosure quality provided in prior studies into subjective analysts' ratings and semi-objective approaches. The semi-objective approaches include disclosure index studies, which are characterized in their study as a partial type of content analysis, and textual analysis. Textual analyses include thematic; meaning-oriented content analysis (where the whole text is analyzed), readability studies and linguistic analysis. This approach omits a number of other proxies of disclosure employed in prior studies that cannot be classified as either subjective analyst's ratings or semi-objective approaches such as the existence of American Depository Receipts (ADR), disclosure frequency, management forecasts, attributes of analysts' forecasts and many others.

Achoki and Kule (2016) assessed the effect of voluntary disclosure on the financial performance of commercial banks in Rwanda by taking a case study of selected banks in Rwanda. This study adopted a descriptive research design. The study took a sample of 14 commercial banks in Rwanda. Census approach was used to determine the sample size. Data was collected through developing a disclosure index consisting of 47 disclosure items. Secondary data was collected using documentary information from Banks annual accounts for the period 2011 to 2015. Data were analyzed using multiple linear regression models. Results revealed that a strong relationship exists between the voluntary disclosure, firm size and financial performance.

Gatimbu and Wabwire (2016) studied the effect of community involvement disclosure (CID) on the performance of firms listed at Nairobi Securities Exchange in Kenya. Panel data was collected from annual reports and financial statements of listed companies at the Nairobi Securities Exchange. Content analysis of sampled listed companies' annual reports was undertaken to examine Community Involvement disclosure practices. A checklist of Community Involvement disclosure items and categories was developed and Community Involvement disclosure indices computed. The target population of the study was 61 listed companies. The sample size was 32 listed companies. Findings reveal that community disclosure with P-value $<0.05$ has a positive significant difference in the mean financial performance. Size and leverage have no significant moderation.

Wangari (2014) investigated the effect of voluntary disclosure on the financial performance of commercial banks in Kenya. The study adopted a descriptive research design with a study sample of 42 commercial banks in Kenya and the data was collected by developing a disclosure index consisting of 47 disclosure items. Secondary data was collected from annual reports of the 42 commercial banks for a period of 6 years from 2008 to 2013. Data were analyzed using multiple linear regression models. The study found a positive relationship between financial, forward-looking and board and social disclosure and return on equity. On the other hand, the study found a negative relationship between general & strategic disclosure and return on equity this means that a 1% increase in strategic disclosure leads to a 20.2% decrease in return on equity of a firm. The study concluded that firms should lean towards disclosure of financial and social and board disclosure to increase their performance.

### 2.2 Financial Reporting Instruments' Presentation

Lopes, Cerqueira, and Brandao (2011) analyzed whether financial statements presentation produces any impact on firm performance by use of accounting data. The researchers used the abnormal accruals methodology to evaluate accounting quality and ROA to determine firm performance. This is important because accounting information guides investment decisions (Bradshaw et al., 2004 and Verdi, 2006). For 17 European countries, findings confirm the mechanical relationship between accruals and accounting measures of performance: income increasing abnormal accruals, which mean decreasing accounting quality, will increase ROA and vice-versa. In addition, the lag effect is analyzed, as per Chan et al. (2004). The results revealed that financial statements presentation didn't have a significant impact on performance as investors and other stakeholders look deeper into logistics and not just the realized performance.

Heykala and Iswandi (2013) investigated whether the presentation of special items within the financial statements reflects the firm's underlying economic performance or opportunism. The researchers examined the presentation of recognized special items either as a separate line item on the income statement or aggregated within another line item with disclosure only in the footnotes. The study was motivated by a standard-setting interest in performance reporting and financial statement presentation, as well as prior research investigating managers' presentation choices in other contexts. The study found evidence consistent across a range of specifications that special items highlighted on the income statement are more transitory than those revealed only in the footnotes.

Mokaya (2012) researched on the effect of financial statements' presentation on the performance of microfinance institutions at Kisii region in Kenya. The descriptive research design was adopted and secondary data only was used. A sample size of 12 microfinance institutions was purposively selected for analysis based on the existent from 2010 to date. The hypothesis was tested using correlation coefficient. The findings revealed that the financial statements' presentation can positively impact on financial performance of microfinance institutions; this was supported by 92% of the respondents.

Akinyi (2011) investigated the influence of instruments presentation on the performance of banking industry in Kenya. The study used a population of all the 43 listed banks in Kenya. The research adopted descriptive research design. The study used secondary data sources. The research hypothesis was tested using chi-square (X2).The findings revealed that instruments presentation was directly and positively related to the performance of listed banks since many investors, customers and other stakeholders gained confidence through numbers which portrayed stability of these banks.

### 2.3 Financial Reporting Recognition and Measurement

It is possible to use a model to determine the expected value of future cash flows, and while the future cash flows themselves do not exist, the currently-held expectations do, and so they are in principle measurable. Barker (2011) cautions that these expected values, based upon forecasts, are 'not a measurement of wealth unless one defines wealth as a state of mind,' and an important question is therefore whether (and if so in what way) it is appropriate to base the balance sheet valuation of liabilities upon measures of expectations.

It is in this context that the market mechanism comes into play as a measurement instrument because market prices provide observable and verifiable evidence of currently-held expectations. In effect, the market transforms subjective expectations about the future into currently observable amounts. In contrast, certain other types of expectation, such as those underpinning management's forecast of the cost of performance, are not directly observable in practice, meaning that they cannot be measured and that they are subjective and nonverifiable (Nagel, 1986).

Nnamani, Onyekwelu, and Ugwu (2017) evaluate the effect of financial instruments' recognition and measurement on the financial performance of listed manufacturing firms in Nigeria. Firms used for the study were chosen from the Nigerian brewery sector. Data were sourced from the financial statements of three sampled firms. Data were analyzed using the ordinary linear regression. The study reveals that financial instruments recognition and measurement had a positive and significant effect on the financial performance of firms studied. Following the findings, the study recommends that firms in Nigeria should invest a reasonable amount of their earnings on sustainability activities while specific accounting templates are articulated by professional accounting regulating bodies to guide firms' reportage on sustainability activities. The Financial Reporting Council of Nigeria (FRC) and others alike should make sustainability reporting compulsory while adequate sanctions are spelled out and enforced on defaulting organizations to serve as a deterrent.

According to Barker (2011), forecast error is not measurement error; it is instead the difference between a current forecast and a future realization that does not yet exist. And to the extent that any given forecast is a matter of individual opinion about something that is unobservable, it is subjective and cannot be verified. Moreover, while measurement can be viewed, in the simplest case, as relating to a single, measurable amount, forecasts can be conceptualized as a probability distribution, making the perceived economic value of the asset or liability equal to expected value. The values determined by measurement and by forecasting are therefore different in nature.

Kaufman, Chapman, and Allen (2013) determined the effect of performance recognition on employee engagement and organizational performance. The study employed survey research design with a review of both primary and secondary data sources. Primary data was collected by use of focus groups while secondary data was collected from published sources. A sample of 2,415 employees in 10 countries was used. This survey solicited respondents' self-assessment of their own engagement at work, including 18 questions related to their drive and determination, relationships at work, personal standing within the company, and connection to the company. The study examined respondents' self-ratings on individual topics/questions as well as an aggregated "engagement index." Respondents whose average score is 8 or higher (57 percent) on a 0 to 10 scale are considered highly engaged. The study revealed underlying insights about the best practices that companies employ to use performance recognition to achieve these results. The study found out that recognition and measurement affected performance positively resulting in better employee engagements and more adherence to accounting principles and guidelines.

Mohamed (2015) assessed the effect of financial reporting recognition and measurement on performance. The study was based on Profit and loss sharing theory and Islam Islamic banking theory and theory of interest. The study used descriptive survey method to investigate the effect of Islamic banking product on the financial performance of commercial banks in Kenya. The population of this study comprised seven commercial banks offering Islamic banking products in Kenya. Secondary data was used in this study; specifically, the study used financial statements the data was coded using SPSS (version 21). Descriptive statistics were used to summarize the data. Pearson moment correlation was conducted to establish the linear relationship between study variables. Regression analysis was conducted to establish the nature of the relationship. The study found a positive correlation between the financial performance of IFIs and Islamic financial instruments recognition and measurement. The study concludes that all the Islamic financial instruments had a positive impact on the performance of Commercial Banks in Kenya, the quality of the assets, larger sized banks had a positive influence on the financial performance of Islamic banks in Kenya and that high levels liquidity had a negative impact on financial performance of commercial banks. The research recommends that Islamic financial institutions need to continue offering Islamic financial instruments as they were all found to positively influence the financial performance of Islamic banks.

### 2.4 Financial Performance of NGOs

NGOs are striving to gain the confidence of their donors and internally create a committed organization. Many NGOs are proactively deciding what more can they inform their stakeholders. The disclosures in the financial statements are better and if any person from anywhere in the world is able to understand the financial statements then the objective of transparency is achieved. In order to align the activities with their objectives and to meet the donor accountability NGO's need to measure and monitor performances of various groups. An NGO's performance can be measured by how well it achieves the goals it has set itself and at what efficiencies. The two principal functions of performance measurement systems are, firstly, to ensure that organizations are held accountable for their performance and actions; and secondly, to facilitate learning and improve performance. NGO's can measure their performance by such ratios as fundraising ratios that measure how much an organization has spent in fundraising activities vis a vis the amount raised. Budget burn rate ratio measures how much an organization has utilized against the annual budget. Such an integrated view would offer a comprehensive link between several units within an NGO (right from resource generation unit to program management unit). Such a comprehensive framework is highly recommended (Epstein & McFarlan, 2011).

Ouko, Nyonje, and Okeyo (2017) researched on the financial domain as a tool in measuring Non-Governmental Organizations (NGOs) performance in Kenya. The study administered 64 questionnaires to all top management of NGO's. The results revealed four components of financial domains in performance measurement. Accounting processes, audit processes, procurement and asset building, and budget flexibility and adjustment emerged as key issues of finance in performance evaluation base on variance accountability generated by principal axis factor analysis. The study concludes that financial perspective of performance measurement within NGOs would prioritize accounting, audit, procurement and asset building and budget flexibility and adjustment in that order. It recommends that NGO's and stakeholder need to consider social returns on investment as a quantitative profit equivalent measure of performance.

## 2.5 Critique of Literature and Research Gaps

It was noted from the study that majority studies have been done on the context of developed nations and very few studies on the context of developing nations thereby generating gaps on the researchers' empirical content which can be confined and generalized to developing economies. Achoki and Kule (2016) assessed the effect of voluntary disclosure on the financial performance of commercial banks in Rwanda. This study analyzed data using multiple linear regression models. Results revealed that a strong relationship exists between the voluntary disclosure, firm size and financial performance. Jeon (2015) argues that because the dependent variable is one in regression analysis, measurement error occurs. These possible errors in measurement might result in overall faults in the technique and thus making regression not a very adequate analysis tool. However, depending on the study, the model can be considered ideal in some circumstances as it shows optimal results when relationships between the independent variables and the dependent variable are almost linear.

The study also establishes the very minimal presence of literature on financial reporting instruments both on the national and international context. The existing studies have not been able to fill the current gap on the influence of financial reporting instruments on the performance of environmental conservation NGOs at Nairobi City County in Kenya. This study, therefore, sought to fill this gap

## 3. RESEARCH METHODOLOGY

A research design is a presentation of the plan, structure or strategy of the investigation, which seeks to obtain or answer various research questions. Kothari (2008) define research design as a detailed plan on how the research will be conducted. Donald (2006) observes that a research design is the structure of the research. It is the "glue" that holds all the elements in a research project together. Gall et al. (2003) define a research design as a plan for collecting and utilizing data so that the desired information can be obtained with sufficient precision. Cooper and Schindler (2008) observe that a research design is a plan and structure of investigation formed to provide answers to research questions.

This study used a descriptive research design. Mugenda and Mugenda (2008) indicated that descriptive research designs are conducted in communities to establish the extent of a range of issues such as health, nutrition, education, crime etc. They argue that in descriptive designs, variables with greater dispersion indicate disparities within the community and provide important clues regarding the issues that the investigator should focus on. Kothari (2001) observes that a descriptive research design is used when one wants to get information on the current status of a person or an object. The study described the financial reporting instruments' influence on the performance of environmental conservation NGOs in Nairobi Kenya.

Lumley (2004) defines population as a larger collection of all subjects from where a sample is drawn. It refers an entire group of individuals, events or objects having common observable characteristics (Mugenda & Mugenda, 2006). Cooper and Schindler (2008) observe that a population is the total collection of elements about which one wants to make inferences. A similar view is also expressed by Kothari (2006). The total target population of respondents was 15 environmental conservation NGOs based at Nairobi City County in Kenya. There are a total of 15 environmental conservation NGOs based at Nairobi City County in Kenya (Kenya Conservation Service Report, 2016).

A sample is a set of individuals selected from a population and is usually intended to represent the population in a research study (Neuman, 2000). The sampling frame is a list of all elements of this study from which the sample will be drawn. The sampling frame was drawn from the Kenya Conservation Service Report of 2016. According to the Kenya Conservation Service Report (2016), there are a total of 15 environmental conservation NGOs based at Nairobi City County in Kenya.

A census study was done on all the 15 environmental conservation NGOs based at Nairobi City County in Kenya. Judgmental sampling technique was used to pick respondents due to the minimal number of employees in many NGOs and in this case, only one respondent per NGO from the finance side will be picked for this study. The researcher picked respondents from the finance team as they are believed to hold the essential information with regard to financial reporting instruments and the performance of this conservation NGOs. The total sample size was thus 15 respondents.

This study collected primary data by use of semi-structured questionnaires. The use of a questionnaire is cost effective, less time consuming as compared to the use of the interview. Kothari et al. (2004) argue that data collected through the use of a well-structured questionnaire is easy to analyze. To be successful, the questionnaires were short and simple (Kothari *et al.*, 2004). Semi-structured questionnaires were used to obtain data from the respondents. Mugenda and Mugenda (2003), posit that when questions are presented in a matrix form, they are easier to complete and hence the respondents are unlikely to be put off, an advantage of structured questionnaires.

Space is also used efficiently and it is easy to compare responses given to different items. This ease of comparability is advantageous to both the researcher and the respondent. On the other hand, unstructured questionnaires are ideal for variability enhancement. The questionnaire was divided into three sections. Section A captured the general information of the respondents; section B covered the various variables i.e. the influence of financial instruments disclosure, financial instruments presentation and financial instruments recognition and measurement on the performance of conservation NGOs at Nairobi City County in Kenya. Secondary data also reinforced this study.

Data was collected by semi-structured questionnaires that will be self-administered to respondents using the drop and pick later technique. Kothari (2008) observes that collecting data through the questionnaires saves time since it is possible to collect a huge amount of information especially when the population of interest is large. The questionnaires had both open-ended and closed-ended questions.

The questionnaires were self-administered to the respondents by the researcher through the drop and pick later method. All questionnaires were accompanied by an introduction letter which explains the purpose of collecting information. A pre-test was conducted to test the validity of the research instrument. The pilot study involved distributing a few samples of the research instrument to the respondents for their response and understanding of the questions to be analyzed. The pilot test constituted 3 respondents who were 10% of the sample size as recommended by Mugenda and Mugenda (2008). Ambiguity and irrelevant information noted in the questionnaire was modified for validity purpose. The respondents were requested to respond to the clarity of the questions presented to them.

Validity is the extent to which inferences made on the basis of numerical scores are appropriate, meaningful and useful. The validity of the study was assessed depending on the purpose, population and environmental characteristic in which measurement takes place (Britt, 2006). Kothari (2004), states that validity is the most critical criterion and indicates the degree to which an instrument measures what it is supposed to measure.

Internal consistency reliability will be done after all items have been constructed (Kombo & Tromp, 2006). Cronbach alpha test was used to test for reliability of this study. In this study, if the alpha coefficient of correlation obtained is 0.7 or above, then the questionnaire was accepted as reliable to be used in the study (Boudens & Abbott, 2005). Field (2014) contended that Cronbach's alpha value that is at least 0.70 is for a reliable research instrument.

Data analysis refers to the process of ordering, structuring and giving meaning to collected data (Mugenda & Mugenda, 2010). Collected data was edited to ensure accuracy and completeness, and then items will be coded and scored. Multiple Regression Analysis (Standard), Descriptive Statistics (means and standard deviations) and inferential statistics were used to analyze data. SPSS software (version 21.0) was adopted to assist in data analysis and presentation. The study used tables and charts to present the findings. The following regression model guided the study:

$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$ Whereby;

$Y_i$= financial performance of environmental conservation NGOs at Nairobi City County in Kenya

$X_1$ = financial reporting instruments disclosure

$X_2$ = financial reporting instruments presentation

$X_3$ = reporting instruments recognition and measurement

$\beta_0$ = Intercept

$\beta_1$ To $\beta_4$ = Coefficient

$\varepsilon$ = error term

Other statistical tests were also applied in data analysis. To ascertain if two sets of data are significantly different from each other a t-test was conducted. Normality test was used to test for the normality of the dependent variable Y. The study conducted Shapiro-Wilk tests to test the normality of the dependent variable Y. In addition, Analysis of Variance (ANOVA) test was also conducted to analyze the amount of variation within each of the sample relative to the amount of variation between samples. This was considered important since it makes use of the test in terms of the sum of squares effect over sums of squares residual (Sekaran, 2008; Herbert, 2011).

Reliability of the measures was assessed with the use of Cronbach's alpha. Cronbach's alpha allows us to measure the reliability of the different categories. It consists of estimates of how much variation in scores of different variables is attributable to chance or random errors. As a general rule, a coefficient greater than or equal to 0.7 is considered acceptable and a good indication of construct reliability. To assess the scales' content validity, the researcher subjected the instrument to experts for review and advice.

Kombo and Tromp (2006) observe that data can be presented using statistical techniques, graphical techniques or a combination of both in order to come up with comprehensive conclusions. Quantitative data were presented using statistical techniques such as tables, pie charts, and bar graphs while qualitative data were presented descriptively.

## 4. DATA ANALYSIS, PRESENTATION, AND INTERPRETATION

### 4.1 Introduction

This chapter captured study results, interpretation, and presentation of the results obtained from the study. Descriptive and inferential statistics were used to analyze the study results with the view of documenting the findings.

### 4.2. Results of the Pilot Study

The study used Cronbach's alpha coefficient to test for reliability of the instrument as indicated in the table below.

**Table 4.1: Results of the Pilot Study**

| Variable | α=Alpha | Comment |
|---|---|---|
| Instruments' Disclosure | 0.843 | Reliable |
| Instruments' Presentation | 0.902 | Reliable |
| Recognition and Measurement | 0.879 | Reliable |
| Financial Performance | 0.865 | Reliable |

Table 4.1 shows the reliability results. All the statements were reliable since the cronbach alpha was above 0.7 which was used as a cut-off of reliability for the study. Therefore the internal consistency reliability of the measure was excellent. This indicates that the data was reliable since an alpha coefficient higher than 0.70 signifies that the gathered data has a relatively high internal consistency and could be generalized to reflect the respondent's opinions on the study problem.

The result shows an overall Cronbach's Alpha value of 0.872. The research instrument was therefore considered as reliable since it surpassed the minimum threshold of 0.7. Nunnly (1978) proposes 0.7 to be an acceptable reliability coefficient.

### 4.3 Response Rate

The study targeted a population size of 15 environmental conservation NGOs based at Nairobi City County in Kenya representing 15 respondents from which all filled and returned the questionnaires making a response rate of 100 %. This response rate was satisfactory to make conclusions for the study. The total response rate was above the 51 percent response threshold for questionnaire surveys in social sciences (Pinsonneault & Kraemer, 1993) and thus the use of the collected data was considered reliable for this study.

### 4.3 Reliability Statistics

### 4.3 Diagnostic Tests for use of Regression Analysis

Prior to subjecting the data to inferential statistical analysis,the study conducted various diagnostic tests for use of multilinera regression model to assess whether the collected data violeted some key assumptions of regression models.These were Normality Tests, and Multicollinearity Tests.

Given multiple regression analysis, the study used Shapiro-Wilk to test for Normality of the residuals as shown in the table below.

**Table 4.2:** ***Tests of Normality***

| Shapiro-Wilk | | |
|---|---|---|
| Statistic | Df | Sig. |
| .964 | 15 | .390 |

The P-Value is greater than 0.05, so the is no evidence of significance deviation from normality of the residuals.

**Table 4.33:** ***Tests of Multicollinearity***

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | Collinearity Statistics | |
|---|---|---|---|---|---|---|---|
| | B | Std. Error | Beta | | | Tolerance | VIF |
| (Constant) | -4.015 | 1.162 | | -3.455 | .005 | | |
| Instruments Disclosure | .580* | .211 | .473 | 2.750 | .019 | .287 | .287 |
| Instruments Presentation | -.184* | .189 | -.175 | -.974 | .351 | .255 | .255 |
| Recognition & Measurement | .892* | .182 | .922 | 4.896 | .000 | .489 | .489 |

a. Dependent Variable: Financial Performance

**significance level=0.05**

Based on the coefficients output collinearity statistics obtained VIF Values above, meaning that the VIF Value obtained is between 1 and 10 and Tolerance > 0.1, it can be concluded that there are no Multicollinearity symptoms.

## 4.4 General Information

### 4.4.1 Gender of respondents

The respondents were asked to indicate their sex to make the study gender sensitive. Their response is indicated in the table below.

**Table 4.4:** ***Gender of respondents***

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Male | 7 | 47 | 47 | 47 |
| Female | 8 | 53 | 53 | 100 |
| Total | 15 | 100 | 100 | |

The research study sought to establish the respondent’s gender distribution. From the findings above, the females were slightly above at 53% while the males at 47%.

### 4.4.2 Age bracket of respondents

To assess the response of the respondents, the respondents were requested to give their age, and the responses were as below.

**Table 4.5:** ***Age of respondents***

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Below 30 | 4 | 27 | 27 | 27 |
| 31-40 years | 7 | 47 | 47 | 73 |
| 41-50 years | 3 | 20 | 20 | 93 |
| 51-60 years | 1 | 7 | 7 | 100 |
| Total | 30 | 100 | 100 | |

Findings in the table above indicate that 27% of the respondents were below the age of 30 years, 47% were between 31-40 years, 20% were between 41-50 years, and 7% were between 51-60 years. This implies that most of the respondents were youths hence they can easily understand the financial reporting instruments.

### 4.4.3 Education information

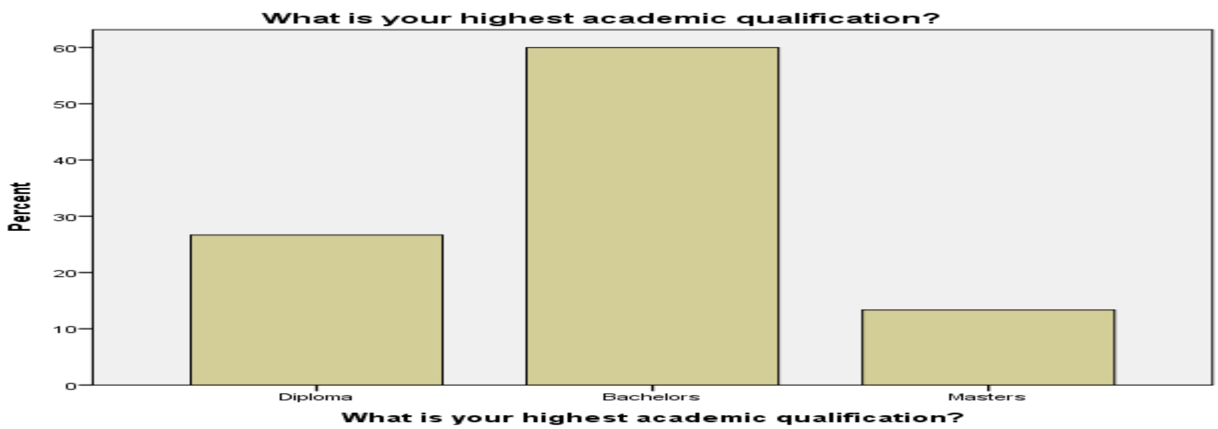
To be sure of the quality of the information given, the respondents were requested to provide their level of education, and the response is portrayed in figure 4.6:

**Table 4.6:** ***Academic qualification***

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Diploma | 4 | 27 | 27 | 27 |
| Degree | 9 | 60 | 60 | 87 |
| Masters | 2 | 13 | 13 | 100 |
| Total | 15 | 100 | 100 | |

Findings in Table 4.5 indicate that a small number of respondents were highly educated this is shown by the 13% of respondents who had masters degrees, 27% were Diploma holders, however, 60% of the respondents which is the majority were degree holders. By their education structures, the researcher might assume that they know what the organization performance is and the hindrance to effective performance.

**Figure 4.2: A bar graph showing the respondents by level of**




**education.**

**4.4.4 Duration in Employment**

As a precondition to assess the reliability of the data collected, the respondents were requested to indicate the period they have worked with the organization. Their response was as given below.

**Table 4.7:** ***Work Experience***

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Less than 1 year | 2 | 13 | 13 | 13 |
| 2-4 Years | 6 | 40 | 40 | 53 |
| 5-9 Years | 4 | 27 | 27 | 80 |
| Over 10 Years | 3 | 20 | 20 | 100 |
| Total | 15 | 100 | 100 | |

From the analysis in the table above, 13% have served the organization for less than one years, 40% between 2-4 years, 27% between 5-9 years and 20% have served the organization for over 10 years. Thus, this analysis indicates that probably they fail to embrace organizational policies as a result of low payments and lack of motivation since the majority of the respondents have only worked in the organization for less than two years.

**4.5 Descriptive Statistics**

This section consists of descriptive findings on the dependent and independent variables as used in the study. Descriptive statistics enable the description of the distribution (mean) and variation (Standard deviation) of responses of the target population as well as allowing the researcher to determine average scores on the variables used in the study. The scores in the study used a Likert-type scale where 1=strongly agree, 2=Agree, 3=Not sure, 4=Disagree and 5=strongly disagree.

### 4.5.1 Instruments Disclosure

To find out, the effectiveness of financial reporting instruments disclosure the respondents were asked their opinion on the statements below. The response observed was as follows:

**Table 4.8:** ***Statement in relation to Instruments Disclosure***

| | N | Min | Max | Mean |
|---|---|---|---|---|
| Our NGO publishes financial statements frequently | 15 | 1 | 5 | 3.20 |
| Media reports are released by our NGO periodically regarding our financial position and performance | 15 | 1 | 3 | 1.93 |
| Financial reporting instruments disclosure is a requirement by our donors | 15 | 4 | 5 | 4.73 |
| NGOs should not do frequent financial reporting instruments disclosures | 15 | 1 | 3 | 1.80 |
| Financial reporting instruments disclosure is directly and positively related to NGO performance | 15 | 2 | 5 | 3.73 |
| There is a strong relationship between financial reporting instruments disclosure and financial performance. | 15 | 2 | 5 | 3.67 |
| NGOs should lean towards disclosure of financial and social and board disclosure to increase their performance. | 15 | 4 | 5 | 4.60 |

The computed means for the statements range from 1.93 to 4.73 indicating an agreement with most of the statements, with a standard deviation ranging from 0.458 to 1.320. From the table above the majority of the respondents are strongly in agreement that financial reporting instruments disclosure is a requirement by the NGO's donors. Hence, NGOs should lean towards disclosure of financial and social and board disclosure to increase their performance. Most respondents agree that there is a strong relationship between financial reporting instruments disclosure and financial performance. They also agree that financial reporting instruments disclosure is directly and positively related to NGO performance.

### 4.5.2 Instruments Presentation

To find out, the effectiveness of financial reporting instruments presentation the respondents were asked their opinion on the statements below. The response observed was as follows:

**Table 4.9:** ***Statement in relation to Instruments Presentation***

| | N | Min | Max | Mean |
|---|---|---|---|---|
| Financial statements presentation is a requirement by our donors | 15 | 4 | 5 | 4.73 |
| Financial reports presentation is a requirement by our donors | 15 | 2 | 5 | 4.13 |
| There is a strong relationship between financial reporting instruments presentation and financial performance. | 15 | 2 | 5 | 3.67 |
| NGOs should lean towards financial reporting instruments presentation to increase their performance. | 15 | 3 | 5 | 4.33 |
| Financial reports presentation is directly and positively related to NGO performance | 15 | 2 | 5 | 3.60 |
| | 15 | | | |

The mean value for the statements on financial reporting instruments presentation ranged from 3.60 to 4.73, indicating a strong agreement with all the statements while the standard deviation ranged from .458 to 1.113 as shown in Table 4.5. From the findings majority of the respondents strongly agree that financial statements and reports presentation is a requirement by the donors and that there is a strong relationship between financial reporting instruments presentation and financial performance. Therefore the NGOs should lean towards financial reporting instruments presentation to increase their performance.

### 4.5.3 Financial Reporting Instruments recognition and measurement

To find out, the effectiveness of financial reporting instruments recognition and measurement the respondents were asked their opinion on the statements below. The response observed was as follows:

**Table 4.10:** ***Statement in relation to Instruments Recognition and Measurement***

| | N | Min | Max | Mean |
|---|---|---|---|---|
| Financial reporting instruments recognition and measurement is a requirement by our donors | 15 | 1 | 5 | 3.20 |
| It is practically right as per the accounting guidelines that every firm should do financial reporting instruments recognition and measurement | 15 | 4 | 5 | 4.73 |
| There is a strong relationship between financial reporting instruments recognition and measurement and financial performance. | 15 | 3 | 5 | 4.33 |
| NGOs should lean towards financial reporting instruments recognition and measurement to increase their performance. | 15 | 1 | 5 | 3.00 |
| Financial reporting instruments recognition and measurement is directly and positively related to NGO performance | 15 | 1 | 5 | 3.27 |
| | 15 | | | |

The mean value for the statements on financial instruments reporting recognition and measurement ranged from 3.00 to 4.73, indicating a strong agreement with all the statements while the standard deviation ranged from .458 to 1.254. From the findings majority of the respondents strongly agree that financial reporting instruments recognition and measurement is a requirement by donors hence it is practically right as per the accounting guidelines that every firm should do financial reporting instruments recognition and measurement.

### 4.6 Inferential statistics

A multiple linear regression analysis was undertaken to examine the influence of financial reporting instruments on the financial performance of environmental conservation NGO'S at Nairobi City County in Kenya

**Table 4.11:** ***Regression and Model Summary***

| Model Summary | | | | |
|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| | .842 [a] | .709 | .629 | .2473981 |
| a. Predictors: (Constant), Measurements, Instruments Disclosure, Instruments Presentation | | | | |

**Significance level=0.05**

The study found that the model explained 70.9% of the variance in the financial performance of environmental conservation NGO's at Nairobi City County in Kenya as shown by $R^{2.}$

**Table 4.12:** ***ANOVA***

| Model | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| Regression | 1.637 | 3 | .546 | 8.917 | .003 [b] |
| Residual | .673 | 11 | .061 | | |
| Total | 2.311 | 14 | | | |

**Significance level=0.05**

From the ANOVA statistics in table above, the processed data, which is the population parameters, had a significance level of 0.003 (p=0.003), which is below 0.05 an indication that, financial reporting instruments disclosure, financial reporting instruments measurements and financial instruments recognition and presentation jointly have a statistically significant effect on financial performance of environmental conservation NGO's at Nairobi City County in Kenya.The F value of 8.917 was significant at 5% confidence level.Thus the regression model used in the was significant.

**Table 4.13:** ***Coefficient***

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| (Constant) | -4.015 | 1.162 | | -3.455 | .005 |
| Instruments Disclosure | .580* | .211 | .473 | 2.750 | .019 |
| Instruments Presentation | -.184* | .189 | -.175 | -.974 | .351 |
| Recognition & Measurement | .892* | .182 | .922 | 4.896 | .000 |

a. Dependent Variable: Financial Performance

**Significance level=0.05**

Table 4.11 presents the coefficient results of the regression analysis. The results show that financial reporting instruments disclosure had a positive and significant effect on the financial performance of environmental conservation NGO's at Nairobi City County in Kenya, $p < .05$.The results also show that financial reporting instruments presentation had a negative but insignificant effect on financial performance of environmental conservation NGO's at Nairobi City County in Kenya, $p > .05$.Financial reporting instrument recognition and measurement had a positive and significant effect on financial performance of environmental conservation NGO's at Nairobi City County in Kenya, $p< .05$.From the data in the above table, the established regression equation is extracted as shown below:

$$Y_i = -4.015 + 0.580 X_1 - 0.184\, X_3 + 0.892 X_4$$

**4.7 Interpretation of the Findings**

The study sought to analyze of the influence of financial reporting instruments on the financial performance of environmental conservation NGO's at Nairobi City County in Kenya.The study found that financial reporting instruments disclosure had a positive and significant effect on the financial performance of environmental conservation NGO's at Nairobi City County in Kenya (β=-0.580, p=0.019).Thus financial reporting instruments disclosure affect financial performance of environmental conservation NGO's at Nairobi City County in Kenya.The results are consistent with the Achoki & Kule (2016) who found a strong relationship existed between the voluntary disclosure, firm size and financial performance.The study is also in agreement with the study of Wangari (2014) which found a positive relationship between financial, forward-looking board and social disclosure and return on equity.

The study also found that financial reporting instruments presentation had a negative but marginally insignificant effect on financial performance of environmental conservation NGO's at Nairobi City County in Kenya (β=-.184, p=0.351).This show that at 5% level of significance, there is a weak evidence that financial reporting instruments presentation affect the financial performance of environmental conservation NGO's at Nairobi City County in Kenya.The results are consistent with Lopes, Cerqueira and Brandao (2011) which revealed that financial statements presentation didn't have a significant impact on performance as investors and other stakeholders look deeper into logistics and not just the realized performance.

The study also examined the effect of Financial reporting instrument recognition and measurement on financial performance of environmental conservation NGO's at Nairobi City County in Kenya.The results showed that Financial reporting instrument recognition and measurement had a positive and significant effect on financial performance of environmental conservation NGO's at Nairobi City County in Kenya (β=.892, p=0.000). The results are consistent with the studies of Mohamed (2015) which found a positive correlation between financial performance of IFIs and Islamic financial instruments recognition and measurement.

## 5. SUMMARY, CONCLUSION AND RECOMMENDATIONS

**5.1 Summary of Major Findings**

The general objectives of the study were to determine the influence of financial reporting instruments on the financial performance of environmental conservation NGOs at Nairobi City County in Kenya. The specific objectives were to establish the influence of financial reporting instruments disclosure, financial reporting instruments presentation and financial reporting instruments recognition and measurement on the financial performance of environmental conservation NGOs at Nairobi City County in Kenya.

The study found that financial reporting instruments disclosure had a positive and significant influence on the financial performance of environmental conservation NGO's at Nairobi City County in Kenya.Thus financial reporting instruments disclosure influence financial performance of environmental conservation NGO's at Nairobi City County in Kenya. Majority of the respondents were strongly in agreement that financial reporting instruments disclosure is a requirement by the NGO's donors. Hence, NGOs should lean towards disclosure of financial and social and board disclosure to increase their performance. Most respondents agreed that there is a strong relationship between financial reporting instruments disclosure and financial performance. They also agree that financial reporting instruments disclosure is directly and positively related to NGO performance.

The study also found that financial reporting instruments presentation had a negative but marginally insignificant influence on financial performance of environmental conservation NGO's at Nairobi City County in Kenya. From the findings majority of the respondents strongly agree that financial statements and reports presentation is a requirement for the donors and that there is a strong relationship between financial reporting instruments presentation and financial performance. Therefore the NGOs should lean towards financial reporting instruments presentation to increase their performance.

The study also examined the influence of financial reporting instrument recognition and measurement on financial performance of environmental conservation NGO's at Nairobi City County in Kenya.The results showed that financial reporting instrument recognition and measurement had a positive and significant influence on financial performance of environmental conservation NGO's at Nairobi City County in Kenya. From the findings majority of the respondents strongly agree that financial reporting instruments recognition and measurement is a requirement by donors hence it is practically right as per the accounting guidelines that every firm should do financial reporting instruments recognition and measurement.

**5.2 Conclusion**

The study concludes that financial reporting instruments disclosure had a positive and significant effect on the financial performance of environmental conservation NGO's at Nairobi City County in Kenya. Being a requirement by the NGO's donors, NGOs should lean towards disclosure of financial and social and board disclosure to increase their performance. Moreover, the study concludes that financial reporting instruments presentation had a negative but marginally insignificant influence on financial performance of environmental conservation NGO's at Nairobi City County in Kenya. From the findings majority of the respondents strongly agree that financial statements and reports presentation is a requirement for the donors. Finally, the study concludes that financial reporting instrument recognition and measurement had a positive and significant influence on financial performance of environmental conservation NGO's at Nairobi City County in Kenya.It also concluded that it is practically right as per the accounting guidelines that every firm should do financial reporting instruments recognition and measurement.

**5.3 Recommendation**

The study having concluded that financial reporting instruments disclosure affects the financial performance of environmental conservation NGO's at Nairobi City County in Kenya, it is recommended that NGOs advanced to meet all the disclosure requirements and to provide a free and fair documentation to the donors for them to be abreast with the operations of NGOs they finance. Donors should be informed to this effect the advantages of disclosure so that they can be in support of the same.

Since instruments presentation was found to have a negative effect on the financial performance of environmental conservation NGO's at Nairobi City County in Kenya, the study recommends that NGOs don't invest more in the same but since this is a requirement for financial statements and reports to be availed to donors who demand this inorder to continue financing NGOs, instruments presentation should be considered an internal tool between NGOs and the donors and not an external tool between NGOs and any other third party for the this function to be achieved.

The research also recommends that all NGOs should adopt financial reporting instrument recognition and measurement. NGOs should also lean towards financial reporting instruments recognition and measurement to increase their performance. It is practically right as per the accounting guidelines that every firm should do financial reporting instruments recognition and measurement.

The present study reveals that financial reporting instruments presentation had no significant effect on financial performance of environmental conservation NGO's at Nairobi City County in Kenya. Also, studies focusing on the influence of financial reporting instruments presentation on financial performance bring mixed results when compared with other scholars. Moreover, further research should be undertaken to find out why research on financial reporting instruments presentation has a statistically insignificant influence on financial performance of environmental conservation NGO's at Nairobi City County in Kenya.

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