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The Role of Corporate Governance Practices on Financial Performance of Not-For-Profit Faith-Based Hospitals in Central Kenya

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MBA/HCM/83038/14

Submitted in partial fulfillment of the requirements for the award of a Master's in Business Administration in Healthcare Management degree at Strathmore University.



Strathmore Business School

MAY 2018

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DECLARATION

Declaration

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Mwaura, Samuel Njuguna

May 2018

Approval

This dissertation of MWAURA, Samuel Njuguna was reviewed and approved by the following:

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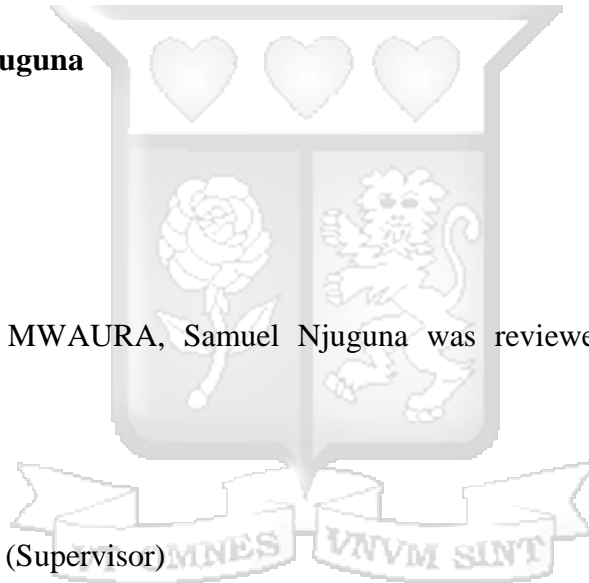
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ABSTRACT

The main objective of this study was to assess the role of corporate governance practices and their effect on financial performance of not-for-profit faith-based hospitals in central Kenya. The study sought to determine whether there is a relationship between governance practices of accountability, stakeholder engagement, setting shared strategic direction, stewardship, board empowerment and financial performance of not-for-profit faith-based hospitals in central Kenya. The study used a descriptive research design. The target population consisted of the not-for-profit faith-based hospitals in the former central province of Kenya with a bed capacity of one hundred or more inpatient beds while the respondents were board members, (including the chief executive and other senior managers who sit in the boards) of these facilities. The study used purposive and stratified sampling technique to obtain its sample. Questionnaires and personal interviews were the data collection instruments while secondary data was collected from the institutions audited financial statements. Quantitative techniques were used to analyze data where both descriptive and inferential statistics were used. From the regression results, corporate governance practices of accountability, stakeholder engagement, setting a shared strategic direction, stewardship and board empowerment had a significant and positive effect on the financial performance of faith-based hospitals in central Kenya. The study recommends that boards intentionally and actively involve all stakeholders in the decision-making process of organizations in order to ensure that the interest of all the stakeholders is taken care of. The board should also set and communicate a shared strategic direction so that everyone in the organization understands and supports its execution. Board members should be properly inducted and continuously trained on governance to ensure that they execute their governance mandate effectively. Selection of board members should also take into account the required skills mix as well as consider equitable gender representation in the boards.

DEDICATION

To my dear wife Hannah Wamucii, my children Joy, Michelle, Nicole and Andrew for their love, encouragement and sacrifice during the period of this study.



ACKNOWLEDGEMENT

I am profoundly grateful to my supervisor Prof. Hazel Gachunga whose invaluable support, guidance and encouragement enabled me to develop clarity and understanding of the study subject. Her prompt reviews and comments of the various drafts were instrumental in shaping this study into its final form.

Words may not be enough to describe my indebtedness to my employer, AIC Kijabe Hospital for granting me a partial financial scholarship and study leave during this study.

This project would not have been possible without the support of my family. My deepest gratitude to my dear wife Hannah, my children and my parents for their love, sacrifice and encouragement.

I thank the Almighty God for granting me the opportunity and ability to successfully complete this research project.

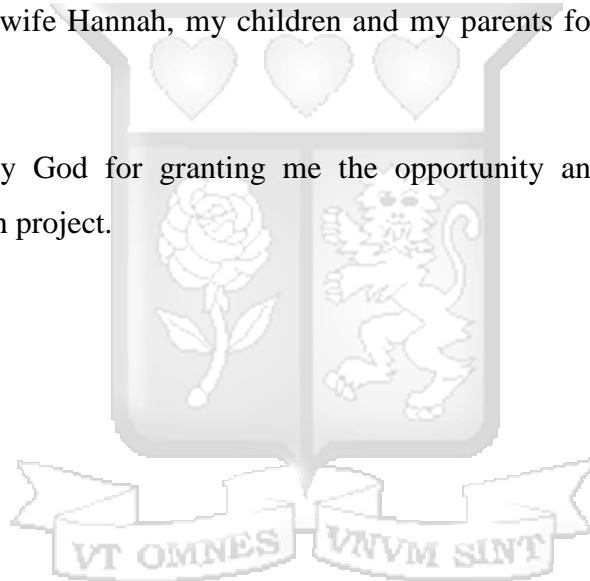
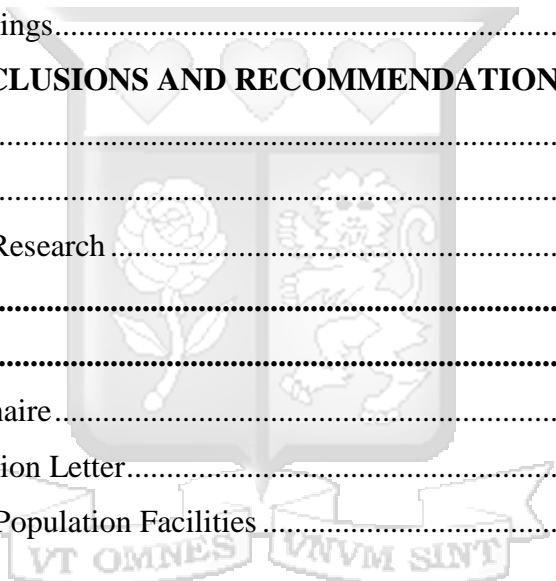


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CHAPTER ONE: INTRODUCTION TO THE STUDY

1.1 Background of study

Corporate Governance is concerned with the ways in which all parties interested in the well-being of an organization (the stakeholders) attempt to ensure that managers and other insiders are always taking appropriate measures or adopting mechanisms that safeguard the interests of the stakeholders (Anyanga, 2014). Such measures are necessitated by separation of ownership from management, an increasingly vital feature of the modern organizations. Corporate Governance is defined as the process and structure used to direct and manage business affairs of the Company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing shareholder long term value while taking into consideration the interest of other stakeholders(CMA Act, 2002)

Globally, the role of corporate governance as a tool of efficient institutional management has generated a lot of interest over the last few decades and is currently a topical issue of discussion in many strategic and policy making organs worldwide. Several economic scandals in the corporate world have heightened this renewed interest in corporate governance. During the wave of financial crisis in the late 1990s in Russia, Asia, and Brazil, failures in the corporate sector affected entire economies, while deficiencies in corporate governance endangered the stability of the global financial system (Claessens & Yurtoglu, 2013). Thereafter, confidence in the corporate sector was severely weakened by financial scandals in the United States and Europe that triggered some of the largest insolvencies in world history. The mega scandals that were largely blamed on corporate governance failures in institutions and corporations such as Enron (US), Maxwell (UK), Parmalat (Italy), Vivendi (France) and WorldCom (US) led to serious harm to the global economy, among other systemic consequences.

Consequently, economists, business leaders and policymakers worldwide recognized the potential macroeconomic, distributional, and long-term consequences of weak corporate governance systems. Driven by the need to foster economic stability (Hopkin, 2017), nations in the world placed corporate governance requirements on organizations, requirements that

are particularly strong on organizations that are quoted on the stock exchanges, registered charities, government departments, agencies and authorities.

The role of good corporate governance in organizations is critical in ensuring the achievement of the overall purpose, the facilitation of accountability, responsibility for efficient and effective performance and ethical behaviour in operations. Claessens and Yurtoglu (2013) and Hopkin (2017) agree that better corporate governance adds value and benefits firms through greater access to financing, lower cost of capital, better performance, and more favourable treatment of all stakeholders, regardless of the market or the industry environment. It is for this reason that the financial performance and sustainability of many, if not all not-for-profit faith-based hospitals, is highly dependent on the trust that financiers and the society at large places on their corporate governance. This study sought to determine the role of corporate governance practices on the financial performance of not for profit faith-based healthcare organizations in central Kenya.

1.1.1 Financial Performance

Financial performance is a subjective measure of the accountability of an entity for the results of its policies, operations and activities quantified for an identified period in financial terms (Mwangi, 2013). In the public sector the nature of financial performance is a function of what the public sector entity is held accountable for accomplishing in financial terms in the identified period (Adams & Mehran, 2005). Multiple perspectives of financial performance considered together provide a comprehensive picture of an entity's achievement in relation to the multiple accountabilities expected of it. This term is also used as a general measure of a firm's overall financial health over a given period of time and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. There are many different ways to measure financial performance, but all measures should be taken in aggregation. Ratio analysis as well as line items such as revenue from operations, operating income or cash flow from operations are common metrics used to measure financial performance and by extension financial sustainability.

1.1.2 Corporate Governance

The first studies on the system of corporate governance appeared in the 1930's, based on studies undertaken by (Berle & Means, 1932). They analyzed the value created by the separation between shareholders and management. Their concern was driven by the decline of traditional family businesses, whose owners and managers were the same persons. These sole proprietor companies were replaced by companies with dispersed capital ownership in which there was a clear separation between ownership and control.

According to Cadbury (2002), corporate governance is concerned with “the system by which companies are directed and controlled, which is clearly the responsibility of the boards of directors”. (Monks & Minow, 2004) defined corporate governance as “the structure that is intended to make sure that the right questions get asked and that checks and balances are in place to make sure that the answers reflect what is best for the creation of long-term, “sustainable value”. Specifically, these authors highlight the relationships among shareholders, directors and the management as the core object of corporate governance.

Colley, Doyle, Logan, & Stettinius, (2005) further explained the role of governance when they said that “today, the public corporation itself operates as a form of representative government. The owners (shareholders) elect directors as their representatives to manage the affairs of the business. The directors, who as a group are referred to as the board of directors, then delegate responsibility for actual operations to the chief executive officer, whom they hire. The Chief executive officer is accountable to the board of directors, which collectively and individually, is accountable to the shareholders. In addition, to its role in selecting the CEO, the board also advises on and consents to the selection of businesses and strategies of the firm as well as oversees results. In sum, this system of authoritative direction, or government, is known as corporate governance”.

Chappelet, Janssen, and Scholl (2010) agrees with (Colley et al., 2005) when they define governance as the process of decision making and the process by which decisions are implemented (or not implemented). Carver on the other hand defines the governance role as

that of assuring the organization produces the results expected by its owners, not at any cost but using acceptable means. How the board goes about controlling the organization to provide that assurance is the governance process (Carver, 2001)

Various scholars also argue that good governance generates investor goodwill and confidence. Again, poorly governed firms are expected to be less profitable. (Claessens & Yurtoglu, 2013) also points that a better corporate governance framework benefits firms through greater access to financing, lower cost of capital, better financial performance and more favorable treatment of all stakeholders. On the other hand, they add that weak corporate governance does not only lead to poor firm financial performance and risky financing patterns but are also conducive for macroeconomic crises like the 1997 East Asia crisis.

Corporate governance is concerned with the need for openness, integrity and accountability in decision making and this is relevant to all organizations regardless of size or the sector in which an entity operates. The Organization for Economic Cooperation and Development (OECD) is an international body that has developed a set of principles that focus on development of an effective governance framework that pays due regard to the rights and interests of all stakeholders (Hopkin, 2017).

In order to enhance good corporate governance practices in Kenya, the Capital Markets Authority of Kenya issued corporate governance guidelines through a gazette notice no. 3362 in 2002 which all publicly listed companies are required to observe. In addition, The Centre for Corporate Governance (CCG) was established 1999 as an independent organization that seeks to improve governance by fostering adoption, adaptation, application and implementation of the highest standards of corporate governance in all types of business enterprises in Kenya.

As an enabler of openness, fairness, integrity leadership and accountability in decision making, (Keasey, Thompson, & Wright, 1997) adds that corporate governance is relevant to all organizations regardless of size or the sector in which an entity operates. This study focuses on corporate governance practices that include board accountability, stakeholder

engagement, setting a shared strategic direction and stewardship of resources and board empowerment. They are discussed below;

Organizations are accountable both to themselves (in terms of internal expectations and values) and to multiple external stakeholders including owners, staff, beneficiaries, donors and government agencies amongst others (Kemei & Mweberi, 2017). An explicit governance structure is the first step toward establishing a stable and predictable framework for accountability. An organization exercises good governance when it has an internal system for checks and balances that ensures that all stakeholders interests are served. Disclosure and transparency which were seen as measures of accountability are important in that they are both foundations to protecting shareholders' rights and building shareholders confidence in the business. This was supported by (Khanna, Palepu, & Srinivasan, 2004) who examined disclosure practices of organizations and found a relationship between disclosure and firm performance. (Khanna et al., 2004) firms with high levels of corporate disclosure are highly trusted by shareholders and perform better than firms with low levels of disclosure.

Recent corporate governance codes emphasize on stakeholder engagement in governance practices, often in connection with social and environmental responsibility (Ayuso, Rodríguez, García-Castro, & Ariño, 2014). However (Alkhafaji & Nelson, 2013) says that “despite the growing attention given to stakeholders, there has been little research on how to integrate the interests of all the different stakeholders into the corporation’s decision making and management process and on the effects of adherence to these practices”. That said, scholars from Anglo-American shareholder systems argue that these highly stylized portraits are primarily used to explain differences between countries in finance, ownership, labor relations and the role of the market in corporate control as well as to explore the possibilities of convergence or continued divergence in corporate practices (Aguilera & Jackson, 2003). Less attention has been paid to concrete mechanisms for involving a wide array of stakeholders in company governance and for using these mechanisms as a way of addressing the needs of diverse stakeholders within a strategy of corporate social responsibility.

Using a stakeholder approach, a firm is not just responsible to its shareholders but also its constituency of stakeholders. These stakeholders include contractual partners, like employees, suppliers; social stakeholders like the members of the community; and the environment. This approach emphasizes long term performance enhancing contributions by stakeholders and also view corporations as socially responsible institutions. Thus, an appraisal of a firm's performance should not only include financial performance but also employment, market share and growth in trading relations with suppliers and purchasers.

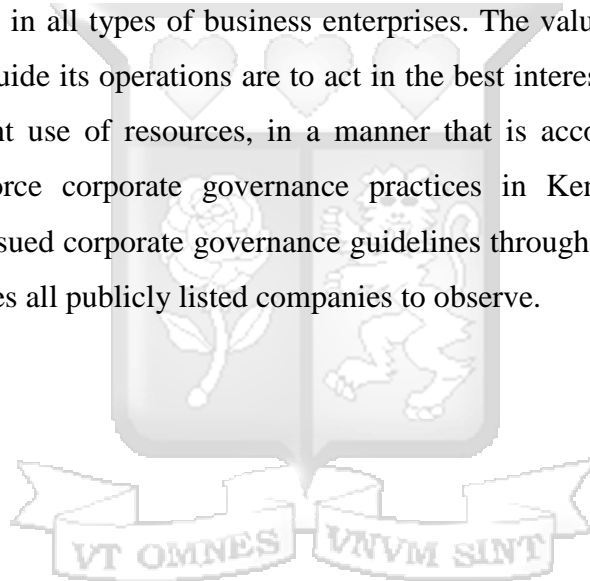
A well thought out and shared strategy is what determines the firm's direction and long-term survival. Corporate governance requires the selection of presiding board of directors. If the board selection/nomination does not bring in the right skilled individuals then there would be less strategic long-term initiatives that might affect the entrepreneurial direction of the firm.

Davis, Schoorman, & Donaldson, (1997) state that “a manager as a steward of the corporation diligently works to attain high levels of corporate profit and shareholder returns. Thus, organizational financial performance and shareholder wealth will be maximized by empowering managers to exercise unencumbered authority and responsibility.” The board and the CEO act as the stewards whose focus may not be to advance their interest but to promote the interest of the principals by pursuing both the objectives of their principals and their own objectives or interest at the same time (Davis et al., 1997).

The Board exercises a critical function in corporate governance framework of any organization. A board composed of qualified, competent and people of high integrity who are capable of exercising objective and independent decisions will be effective on guiding strategy development and monitoring management. Organization for Economic Cooperation and Development (OECD), states in their Report on Principles of Corporate Governance (2015) that “A proper understanding of the role and responsibilities of the Board must be shared not only by members of the Board, but also by company executives and external stakeholders, to ensure that the Board has appropriate autonomy, authority, and accountability in exercising its functions and that it can be held accountable by stakeholders. The board should fulfill certain key functions, including, reviewing and guiding corporate

strategy, major plans of action, risk management policies and procedures, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestitures.

Globally, the organization for economic cooperation and development (OECD) is helping governments and corporations tackle economic, social and governance challenges by developing a set of internationally acceptable standards and principles that focus on creating an effective governance framework. In Kenya, the Centre for Corporate Governance (CCG) established in 1999 is an independent organization that seeks to improve governance by fostering adoption, adaptation, application and implementation of the highest standards of corporate governance in all types of business enterprises. The values upon which CCG was founded and which guide its operations are to act in the best interest of society in promoting effective and efficient use of resources, in a manner that is accountable, responsible and transparent. To enforce corporate governance practices in Kenya, the capital markets authority of Kenya issued corporate governance guidelines through a gazette notice no. 3362 of 2002 which requires all publicly listed companies to observe.



1.2 Research Problem

The ability for good corporate governance to promote relationships of accountability by holding management accountable to the board and the board accountable to shareholders amongst other stakeholders has been cited by various research findings, (Keasey *et al.*, 1997). Notably, funding and therefore financial sustainability of not for profit faith-based hospitals is highly dependent on the trust that the donor community and the society as a whole place on their corporate governance.

In Kenya, studies by (Kimosop, 2011) and (Mbaabu, 2010) focused on corporate governance and performance in the insurance sector and found that good corporate governance was essential for enhanced sustainable growth and survival of insurance companies. (Kimei, 2011) studied the effect of corporate governance and performance of small scale tea processing companies in Kenya. (Muriuki, 2011) examined the challenges of implementing Lord Cadbury's principles of corporate governance in investment banks and established that the organizations in the sector faced legal and regulatory, cultural and supervisory challenges. Studies by (Kalume, 2012); (Mutuku, 2012); (Mugwanga, 2008) are particularly relevant to this study as they focused on corporate governance in the Kenyan health sector. Notably (Mugwanga, 2008) focused on corporate governance practices in public hospitals in the Coast province of Kenya while (Kalume, 2012) studied corporate governance in private hospitals in the same coast region of Kenya. Both studies found that Corporate Governance is being practiced to some reasonable degree.

The researcher did not find a study on the corporate governance practices that specifically targeted faith-based hospitals in Kenya. Except for (Mugwanga, 2008) who studied corporate governance in public hospitals, all the other studies focused on for profit private hospitals whose objectives of profit and shareholder value maximization significantly differ from not for profit social enterprises. The role of corporate governance practices on the financial performance of these faith-based Hospitals has not been studied. This study therefore sought to answer the question, what is the role of corporate governance practices on the financial performance of not-for-profit faith-based hospitals in central Kenya?

1.3 Objectives of Study

The general objective of this study was to determine the role of corporate governance practices on the financial performance of not for profit faith-based healthcare organizations in central Kenya.

The specific objectives were to:

- i) Establish to what extent board accountability influences financial performance of not-for-profit faith-based hospitals in Central Kenya
- ii) Establish to the effects of stakeholder engagement on financial performance of not-for-profit faith-based hospitals in Central Kenya
- iii) Establish the extent to which setting a shared strategic direction influences financial performance of not-for-profit faith-based hospitals in Central Kenya
- iv) Establish to the effects of stewardship of resources on financial performance of not-for-profit faith-based hospitals in Central Kenya
- v) Establish to what extent board empowerment influences financial performance of not-for-profit faith-based hospitals in Central Kenya

1.4 Research Questions

In order to achieve the set objectives, the study sought to answer the following research questions:

- i) To what extent does board accountability affect the financial performance of not-for-profit faith-based hospitals in Central Kenya?
- ii) How does stakeholder engagement affect the financial performance of not-for-profit faith-based hospitals in Central Kenya?
- iii) To what extent does setting a shared strategic direction affect the financial performance of not-for-profit faith-based hospitals in Central Kenya?
- iv) To what extent does stewardship of resources affect the financial performance of not-for-profit faith-based hospitals in Central Kenya?
- v) To what extent does board empowerment affect the financial performance of not-for-profit faith-based hospitals in Central Kenya?

1.5 Significance of Study

The findings of this study might help the not-for-profit faith-based hospitals in Kenya to have a documented study on the best practices of corporate governance in this special health subsector. These results were of importance to the sponsoring organizations and the donor community who had an opportunity to evaluate the improvement research that would be made by stakeholders and make possible improvements in bridging any gaps that was identified as well as crafting cost effective and efficient strategies to overcome any identified challenges that hinder implementation of corporate governance in these institutions. In addition, the study added to the body of knowledge in the practice and adoption of corporate governance in this important sector of healthcare provision in Kenya. Financial performance is a fundamental concern for many faith-based organizations and the donor community. This research was expected to establish any connection between good corporate governance and financial performance and thus sustainability in this very important sector. The study may assist the researchers and academicians in understanding the role of corporate governance practices on the financial performance of not for profit faith-based healthcare organizations. It will add to the already existing literature. This is done by either critiquing various theories in existence or supporting them. Additionally, it may also be used as a foundation for future reference and further investigation in the similar field.

1.6 Scope of Study

According to the latest data from (Ministry of Health Kenya, 2016), there are 34 faith-based hospitals in central Kenya with a bed capacity of 1 or more inpatient beds. However, this study focused on the eight (8) faith-based hospitals in Central Kenya with a bed capacity of 100 or more inpatient beds. The 8 hospitals were selected to be a representative sample of all faith-based hospitals as it would be too expensive and time consuming to involve all faith-based health facilities in central Kenya, estimated to be over 600 and widely dispersed all over the counties. In addition, the selected Hospitals were diverse in their ownership and location. Out of the eight hospitals, two are owned by the Presbyterian Church, five (5) are owned by the Catholic Church while one is owned by the Africa Inland Church. The eight are also straddled in all the five counties in central Kenya. Unlike the smaller Hospitals, the bigger hospitals are likely to have well established governance structures and hence their

selection. However, the results derived from this study were useful to the entire faith-based healthcare sector as the challenges and opportunities they face are almost homogeneous. The target population consisted of these 34 facilities but focus on the strata of hospitals with 100 or more inpatient beds. The target respondents were board members. However, due to complexities in healthcare business, apart from the chief executive officers/administrators who serve as board secretaries, a number of other senior managers of these facilities also serve as board members, hence their inclusion as respondents.



CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter discusses the literature review of the proposed study. The areas covered in this review are the concept of corporate governance, theories of corporate governance, and elements of corporate governance.

2.2 Theories of Corporate Governance

Various scholars have come up with several theories some of which are identified below. The theories relate to corporate governance. The agency theory is about the agents working on behalf of the principal, in this case the board of directors and agents working on behalf of the owners of the organization. Stakeholder's theory talks about the involvement of the shareholders in organization corporate governance activities because they are the key stakeholders in the organization. Stewardship theory posits that senior executives act as stewards for the organization and in the best interests of the principals.

2.2.1 Agency Theory

Agency theory is an important, yet controversial theory of corporate governance. According to (Jensen & Meckling, 1994) and (Mallin, 2010) in an agency/principal relationship, the principal puts himself at risk by entrusting their work to the agent who may be driven by self-interest rather than a desire to maximize the interests of the principal. Agency theory therefore requires that shareholders (principals) interests be protected by separation of incumbency of roles of board chair and CEO (Donaldson & Davis, 1991). Good corporate governance principles require that this separation be governed through proper "agency relationships" at various levels; "between shareholders and boards of directors, between boards and senior management, between senior management and subordinate levels of management" (Hayes & Abernathy, 1980). This theory is important for corporate governance when determining the model of governance with respect to the limitations and the freedoms given to management by the board in executing their duties.

This study intends to establish whether shareholders rights, disclosure and transparency and board operations have an impact on the financial performance of not for profit faith-based healthcare organizations. Shareholders and the wider array of interested groups of stakeholders can be considered as the principals while the board and the CEO are the agents. These shareholders have yielded their decision-making authority to the board and CEO. The shareholders have rights which the board and the CEO should respect and uphold. The board is also under the obligation to disclose relevant information to shareholders and to be transparent in their operations. Since the study focuses on stakeholders as principal and board and CEO as the agents, it justifies the use of the theory. This theory underlines the importance of board accountability and ethical behaviour in the governance process and explains how this relationship affects decisions that impact on financial performance of not-for-profit faith-based hospitals.

2.2.2 Stakeholders Theory

The stakeholder relationship has been described as one of exchange, where the stakeholder groups supply companies with “contributions” and expect their own interests to be satisfied via “inducements” (March & Simon, 1958). The general public is viewed as corporate stakeholders with expectations that companies will enhance, not degrade, their quality of life (Hill & Jones, 1992). A basic principle for stakeholder theory is that company’s impact on society is so pervasive that they should discharge accountability to many sectors of society other than just their shareholders. This theory is important for faith-based not for profit hospitals corporate governance practice as their stakeholders range from the church, state, patients, suppliers, and the general public. Accountability frameworks adopted should consider the interests of all these competing stakeholder groups and engage them appropriately.

This theory underlines the importance of stakeholder engagement in the governance process and explains how this relationship affects decisions that impact on financial performance of not-for-profit faith-based hospitals in central Kenya. According to (Hung, 1998) “corporate governance involves the adoption of pluralist approach to management.” Stakeholders including employees, customers, suppliers and creditors interests should not be ignored. This

study sought to find out whether the all the board of faith-based hospitals actively engage their stakeholders in decision making and the effect of this engagement of financial performance. This justifies the use of the theory in the study.

2.2.3 Stewardship Theory of Management

The stewardship theory was developed by (Davis, Schoorman, & Donaldson, 1997) as an alternative to the agency theory. Stewardship theory posits that senior executives act as stewards for the organization and in the best interests of the principals. The assumption is that the manager will make decisions in the best interest of the organization, putting collectivist options above self-serving options because by doing what is right for the organization and maximizing the performance of the organization, both the steward and the principal benefit from a strong organization (Mallin, 2010).

This study seeks to establish whether among other variables the operations of the board affects the financial performance of not-for-profit faith-based hospitals in Kenya. Stewardship is at the core of governance as the board and management (insiders) act as stewards whose focus should not be advancement of their personal interests but to promote the interest of the principals. However, a win-win situation results when boards and managers champion both the objectives of their principals and also their own objectives or interest at the same time (Davis et al., 1997). Various elements of the board will be studied to establish whether they are acting as good stewards. This include the extent the board involves itself in setting a shared strategic direction, supervises the implementation of major plans of action, ensures effective use of resources amongst other roles. Therefore, this justifies the use of the theory in the study.

2.3 The Corporate governance models and accountability frameworks

(Onofrei, 2007) identifies three closely related models or approaches to corporate governance based on analysis of governance structures in the developed world. Each of the three identified models developed in response to country-specific factors and conditions, which means that it is not practical to simply select a model and apply it to a given country. (Cadbury, 1992) agrees with this view; that corporations work within governance

frameworks that are set by law, by regulations, by the corporation's own constitution, by those who own and fund them, and by the expectations of those they serve. These frameworks will differ from country to country, since they owe much to history and culture and it involves both rules and institutions. Any models' effectiveness depends on its coherence and on the degree of reliance which can be placed on its constituent parts.

2.3.1 The traditional governance model

Commonly referred to the outsider/insider model, the traditional model is specific to the North American systems and unfolds on three hierarchical levels: shareholders, directors and managers. Managers' authority derives from the authority of directors (Brezeanu & Stănculescu, 2008). The boards of directors of most corporations that follow the Anglo-US model includes both "insiders" and "outsiders". An "insider" is as a person who is either employed by the corporation (an executive, manager or employee) or who has significant personal or business relationships with corporate management. An "outsider" is a person or institution which has no direct relationship with the corporation or corporate management. A synonym for insider is executive director; a synonym for outsider is non-executive director or independent director.

According to (Hart, 1995) the right of shareholders to influence the current activity of the enterprise is limited to the election of members for the Board of Directors. Shareholders do not have the right to make direct decisions regarding the business such as payment of dividends, they can act only indirectly, namely through the Board of Directors, to alter managers' attitudes and decisions. The traditional models address more of the structure of accountabilities rather than the process. The Carver Model below focus on the process of Governance.

2.3.2 The Carver Policy Governance model

The carver policy governance model distinguishes itself from the other governance models by its deliberate focus on two main areas, organizational ENDS policies and organizational MEANS policies. Developed by John Carver in the 1970s, the policy governance model has been widely adopted and adapted by boards across the globe. According to Carver, (Carver,

2001) the boards work is to assure the organization produces the results expected by its owners, not at any cost but using acceptable means. How the board goes about controlling the organization to provide that assurance is the governance process. He claims that the traditional approach to governance is often dysfunctional because the systems and processes of governance are themselves dysfunctional. The Policy governance model overcomes this dysfunctionality by specifying what is to be achieved and establishing this in broad ends policies. It also establishes executive limitations policies to ensure that the CEO does not act imprudently. By providing these boundaries, the CEO is empowered to use his best judgment to carry out operations that achieves the expected results in the most prudent manner. The board then uses these same policies to periodically monitor compliance and evaluate the CEO's performance with regards to the ends and the means.

There has been no formal evaluation of the policy governance model but a study by (Brudney & Murray, 1998) suggests that it was more important for an organization to have used any model other than to have used Carver's model, as "Carver users were no more satisfied with their board changes than the users of any other model or combination of models". Another challenge of implementing the carver model is his insistence that the model has to be implemented in its entirety, without modifications, which limits its improvement and adaptability to dynamic environments (Bradshaw, Hayday, Armstrong, Levesque, & Rykert, 2007). Nevertheless, the carver model though criticized of its rigidity and process orientation is viewed as the panacea for many dysfunctional boards

2.4 Effective Corporate Governance Practices

According to a survey carried out by MSH, the Leadership, Management and Governance project (Galer, Sylvia, & Ellis, 2005) identified five major governing practices that are essential for effective governance in the context of health. These are cultivating accountability, engaging stakeholders, setting a shared strategic direction, Stewarding resources as well as Assessing and enhancing governance. Each of these practices has elements or enablers discussed below.

2.4.1 Engagement with Stakeholders

Empirical studies have shown that effective boards engage with their stakeholders in order to enhance the sense of inclusion, participation and collaboration in decision making (Galer et al., 2005). Gender equity, diversity in competences and inclusion are the products of effective stakeholder engagement. Being inclusive involves engaging all relevant stakeholders across gender, age, race, socioeconomic status, ethnic, health and disability status and location. Collaborating involves building mutually rewarding and lasting partnerships with key stakeholders.

According to stakeholder theory, firms have to consider the interests of multiple stakeholders in managerial decision making. An active engagement of stakeholders can thus be considered both as a condition for and a consequence of stakeholder approach to corporate governance. Stakeholder engagement process range from identification of key stakeholders to long term projects teams and partnerships. While it is not the role of the board to be involved in the implementation of tactical programs of stakeholder management, it must ensure that the company is aware of stakeholder needs and takes them into account in board decisions and corporate strategy for normative and or instrumental reasons. In this sense, (Enric Ricart, Ángel Rodríguez, & Sánchez, 2005) report that leading companies in corporate sustainability are intentionally and actively involving and engaging stakeholders to a greater extent than other companies.

2.5.2 Setting a Shared Strategic Direction

According to Carver, the governance board's main duty is that of setting a shared strategic direction of the organization, including the mission, vision, values and objective. (Carver & Oliver, 2002) Aligning stakeholders to share and own the strategic plans makes it easier for the organization to realize and achieve it. Shared strategic direction comes from agreeing on which "ideal state" everyone is trying to get to. If there is no agreement on what or where you are moving to, agreeing on approaches for how to get there will be that much more difficult. If you know that you are all moving in the same direction, you will find it easier to gather support for the planning process and define strategy to achieve this vision. You can then design a shared action plan with measurable goals for reaching it and set up

accountabilities to accomplish the plan. If the stakeholders share and own the strategic direction, it is more likely that the organization will realize and achieve it.

Effective governance in the organization should lead to improved client experiences and health outcomes, as well as innovation. Those who govern are responsible for setting a shared strategic direction - creating a collective vision, articulating this vision, and inspiring everyone in the system to achieve it (Galer et al., 2005). They oversee the process of planning, strategizing, and monitoring progress toward the vision, all the while advocating for the needs of those affected by governance activities. Leadership is essential to setting and achieving the strategic direction. Effective leadership is a prerequisite for effective governance and effective management. Leaders are critical to the governing and management processes. The full potential of governance and management cannot be realized without strong and effective leadership. Shukla, Colindres, & Orton, (2013) add that “Leaders who govern define must the vision for the organization as well as the strategy to achieve this vision; exert influence across all sectors; govern the organization in ethical ways; ensure that the system design is aligned with the organization goals; and make policies that enhance the organization outcomes for the populations they serve.” They raise and allocate the resources for the organization to meet its vision and mission. Effective leaders engage with stakeholders and foster inclusion and participation in the governance process.

2.5.3 Stewarding of Resources

Stewardship is the ethical use of common resources in pursuit of financially efficient outcomes. This involves mobilization, allocation and protection of organizational resources for the efficient and effective achievement of mission. Compiling, disseminating, and applying data on how resources are being used are essential stewardship functions.

The stewardship concept of governance acknowledges accounting as a necessary tool for monitoring the shareholder–manager relationship (Mutuku, 2012). According to Mutuku, both accounting and auditing developed as a monitoring mechanism and are relevant and reliable financial reports that have always been demanded by investors for decision-making purposes. However, (Griffin & Moorhead, 2011) argues that compliance with legal and

financial reporting standards are not sufficient safeguards, citing the American Institute of Certified public accountants admission on the Enron Scandal that keeping up with today's increasingly fast-paced business activities is putting a strain on the accounting profession's traditional methods for auditing, financial reporting and time honored standards of professional ethics.

Poor governance oversight especially on the audit functions has been cited as the greatest contributor in abetting several corporate scandals in both profit and non-profit organizations. For this reason, the composition of the board audit committee is very important. (Cornforth, 2003) advises charitable organization to consider establishing an audit committee composed of independent board members with appropriate financial expertise, irrespective of whether that is a legal requirement.

2.5.4 Board Empowerment

According to (Jackson & Holland, 1998) board assessment and enhancement should involve a serious examination of the board's structure, membership composition, and core competencies on an ongoing basis aimed at improving governance effectiveness. Various studies have demonstrated that objective assessment coupled with proper development programs can improve board members engagement and performance, (Prybil et al., 2008). The board should invest the resources required to objectively assess its performance against established benchmarks and take action to make changes required to improve the board's structure, practices, and performance.

According to (Prybil et al., 2008) changes in economic, environmental, legal, and technological arena have continuously increased the complexity with which governance in organizations is carried out. Accordingly, sustained commitment to a well- designed board orientation, education and development program has become a basic benchmark of good governance. Unfortunately (Prybil et al., 2008) found that only a handful of boards have assigned clear responsibility for board orientation, education and development to a standing board committee which means that it is possible that this important responsibility is either being performed informally or in an ad hoc manner.

According to (Jackson & Holland, 1998) a board evaluation mechanism should involve a serious examination of the board's structure, membership composition, and core practices on an ongoing basis aimed at improving governance effectiveness. Various studies have demonstrated that objective assessment coupled with proper development programs can improve board performance, (Prybil et al., 2008). However, according to (Nadler, Behan, & Nadler, 2011) argues that self-evaluation by boards vary widely in terms of rigor, results, and value, while (Prybil et al., 2008) suggests that good governance practice in this area should not merely focus on conducting some form of mechanical board self-assessment on a periodic basis. Rather, the board should invest the resources required to objectively assess its performance against established benchmarks and take action to make changes required to improve the board's structure, practices, and performance.

2.5.5 Cultivating Board Accountability

Boards are responsible for setting standards of conduct for the board members to act responsibly and ethically. Transparency, integrity, openness and disclosure are all essential in cultivating accountability for boards and all stakeholders.

Boards are confronted with ethical issues in exercising their governance role. Ethics are a person's beliefs about what constitutes right or wrong behavior in a given situation. In carrying out their oversight role, board members are expected to comply with both legal and ethical codes of conduct. (Arjoon, 2005) makes a distinction between legal compliance and moral compliance mechanisms and shows that the former has clearly proven to be inadequate as it lacks the moral firepower to restore confidence and the ability to build trust. (Griffin & Moorhead, 2011) agrees with this argument, saying that far too many financial scandals started with the ethical breakdown in the corporate governance structures. Compromised independence and conflict of interest are critical ethical issues that boards have to consider if they are to effectively exercise their oversight role.

2.5.6 Financial Performance

Financial performance is a subjective measure of the accountability of an entity for the results of its policies, operations and activities quantified for an identified period in financial terms (Mwangi, 2013). Multiple perspectives of financial performance considered together provide a comprehensive picture of an entity's achievement in relation to the multiple accountabilities expected of it. This term is also used as a general measure of a firm's overall financial health over a given period of time and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. There are many different ways to measure financial performance, but all measures should be taken in aggregation. Financial performance, (Heremans, 2007) adds, is the employment of financial indicators to measure the extent of objective achievements an organizations goals while. Other researchers define performance of the organization as the extent to which an organization achieves its intended outcome, (Adhiambo, 2013; Namisi, 2002). The general assumption among both researchers and practitioners is that effective boards lead to higher financial performance and overall value addition to the firm. (Epstein, 2003) argues that regardless of one's perspective, there is an indication that good boards may be able to add value to the organization.

2.6 Empirical Review

Kalume, (2012) studied corporate governance practices of private hospitals in the coast province of Kenya. The aim of the study was to determine the corporate governance practices and corporate governance challenges of the Private hospitals in the Coast province of Kenya. The research methodology used was a cross-sectional census survey. The population of study was made up of fourteen (14) private hospitals but only eleven (11) responded adequately making the response rate 79%. The data was collected by means of a questionnaire. The collected data was analyzed using Statistical Package for Social Sciences (SPSS). New insights on corporate governance practices and corporate governance challenges of private hospitals in Coast province of Kenya were highlighted. A good number of the surveyed private hospitals in Coast province of Kenya indeed do practice corporate governance. On the other hand, a number of corporate governance challenges are being experienced by the private hospitals. A major challenge identified was the issue of low-income clients in need of

their services. Through the study, vital information and critical areas in corporate governance practices pertaining to private hospitals management have been brought out.

(Mutuku, 2012) did a study on corporate governance and accountability mechanisms and challenges in the private hospitals in Kiambu County, Kenya. The researcher applied a descriptive research design. The target population of this study consisted of a total of 18 top managers working at the 18 private hospitals in the Kiambu County, Kenya. The study used primary data which was obtained through an interview questionnaire which was developed based on the two objectives of the study. It had statements describing significant corporate governance and accountability mechanisms and challenges. It was administered through electronic mail and pick and drop later or picked immediately to the targeted population and followed up. The study established that corporate governance and accountability mechanisms was applied in the private hospitals since there the board members were appointed for a fixed term of 3 years and approval from the owner's representatives, chairman of the hospital was different from the CEO of the hospital and there was a clear split of CEO and the chairman's roles in the management of the hospitals. Further the study established that the private hospitals experienced the challenges of organizational structure, culture, managerial and legal systems in the process of implementing corporate governance and accountability mechanisms.

(Ng'eno, 2009) studied corporate governance practices and challenges: a study of international NGOS in Kenya. She observed that scholars focus has over the years been on commercial, public and private bodies where governance has been questioned and tested, with only a few scholars looking at corporate governance in not - for - profit organizations and the function of its board. The study sought to establish the current governance practices and challenges in international NGOs. 50 respondents were targeted, but response was received from 35 out of which, 30 were considered to meet the standards set in terms of completion and timeframe. Data was collected through a questionnaire and analyzed using statistical methods and tabulated graphically and using tables. The findings were summarized and found that international NGOs have functional boards in place that practice good corporate governance to a large extent. The boards have put in place policies and guidelines

to guide operations and they exercise financial control over the organizations' resources. The board and the management both have defined roles and responsibilities and the board chair is not the CEO. Diversity exists in the boards through gender representation and diverse skills in the subcommittees.

(Kemei & Mweberi, 2017) studied the effect of corporate governance practices on financial management in non-governmental organization, Kenya. The main purpose of the study was to establish the role of corporate governance in financial management. An explanatory research design was adopted in the in-depth study on the corporate governance applied by 50 NGOs in Kenya. Primary data was obtained by administering questionnaires. Data was analyzed using quantitative techniques. From the regression results corporate governance efficiency/effectiveness, Responsibility, Transparency, Integrity and Accountability had significant and positive effect on financial management of MFI. Thus, leading to efficient, effective and sustainable entities that have contributed to the welfare of society by creating wealth, employment and solutions to emerging challenges; creating positive image among the stakeholders both locally and internationally; and promoting transparency and accountability recognized by the stakeholders are among the major importance of corporate governance.

(Mang'unyi, 2011) carried out a study that explored ownership structure and corporate governance and its effects on performance of firms in Kenya with reference to banks. The study revealed that there was no significant difference between type of ownership and financial performance, and between banks ownership structure and corporate governance practices. Further results revealed that there was significant difference between corporate governance and financial performance of banks. However, foreign-owned banks had slightly better performance than domestically-owned banks. The study recommended that corporate entities should promote Corporate Governance to send positive signals to potential investors and that regulatory agencies should promote and emphasize the role Corporate Governance and its relationship to firm performance across firms.

(Miring'u, 2011) analyzed the effects of Corporate Governance on performance of commercial state corporations in Kenya. Using a descriptive study design, the study sampled 30 SCs out of 41 state corporations in Kenya and studied the relationship between financial performance, board composition and size. The study found a positive relationship between Return on Equity (ROE) and board compositions of all State Corporations.

2.7 Research Gap

From the literature above, the issue of corporate governance practices in public hospitals has been widely addressed. Studies by (Kalume, 2012), (Mutuku, 2012) and (Mugwanga, 2008) focused on corporate governance in the Kenyan health sector. Notably (Mugwanga, 2008) focused on corporate governance practices in public(government) Hospitals in the coast province of Kenya while (Kalume, 2012) studied corporate governance in private hospitals in the same region. Both studies found that good Corporate Governance is being practiced to some reasonable degree. However, (Kalume, 2012) suggested further studies to be carried out on how corporate governance relates or affects the quality of service delivery in healthcare facilities. Arguably, these studies looked at the presence of practices of corporate governance but did not establish the extent of adoption of best practices and the effect of these on financial performance or sustainability, which will be an area of interest in this study. (Mutuku, 2012) on the other hand studied corporate governance and accountability mechanisms in private hospitals in Kiambu County, where he found that good corporate governance was in place in most private hospitals but there were challenges with respect to the implementation. He suggested further studies on challenges of implementation be carried on the entire health sector in Kenya. The author did not find any study specifically targeting not for profit-faith based hospitals in Kenya which is a unique group of healthcare providers by virtue of its ownership, the quality and ease of access for their services as well as a wide range of stakeholders. Additionally, recent studies have not looked at how corporate governance practices affect financial performance in not for profit hospitals. The study aims to fill this gap by assessing the extent to which corporate governance practices affect financial performance and subsequently financial sustainability of these not for profit faith-based hospitals.

2.8 Conceptual Framework

The World health organization's report (World Health Organization, 2007) has identified leadership and governance as one of the essential six building blocks of Health systems strengthening. Regardless of size, ownership or structure, all health systems have to carry out these basic functions if they are to achieve their goals,; they have to provide services; develop health workers and other key resources; mobilize and allocate finances, and ensure robust health system leadership and governance. (Galer et al., 2005) modified the WHO health systems model to help health care leaders identify key practices and competencies that when combined with well managed teams deliver results. The conceptual framework for this study borrows from the (Galer et al., 2005) model of Leading , managing and governing for results. The Galer model identified five major and broad governing practices that are essential for effective governance in the context of health. These are cultivating board accountability, engaging stakeholders, setting a shared strategic direction, stewarding of resources as well as assessing and enhancing governance.

These five broad practices of governance have been identified as the enablers of effective governance in organizations. The conceptual frame work will borrow from this model by extending the governance role of health systems strengthening to faith-based hospitals in Central Kenya. This study's conceptual model identifies these five broad governance practices as the independent variables or enablers of effective governance. Each of these governance practices has components such as board composition, effective board meetings, resource mobilization, allocation and financial monitoring, board training and evaluation and many others that the study will seek to assess in order to establish the level of adoption of the practices. The combination of these practices determines how the board goes about its governance role to provide the necessary assurance for the expected results. The result of board actions or practices is the institutional performance, which can be measured using various performance yardsticks including financial performance, sustainability, achievement of mission, cross cutting diversity and ethical behavior. However, this conceptual model limits the study of organizational performance to financial performance which is inferred from operations performance and infrastructural growth. This was the dependent variable for this study. Financial performance was assessed through analysis of liquidity ratios, operating

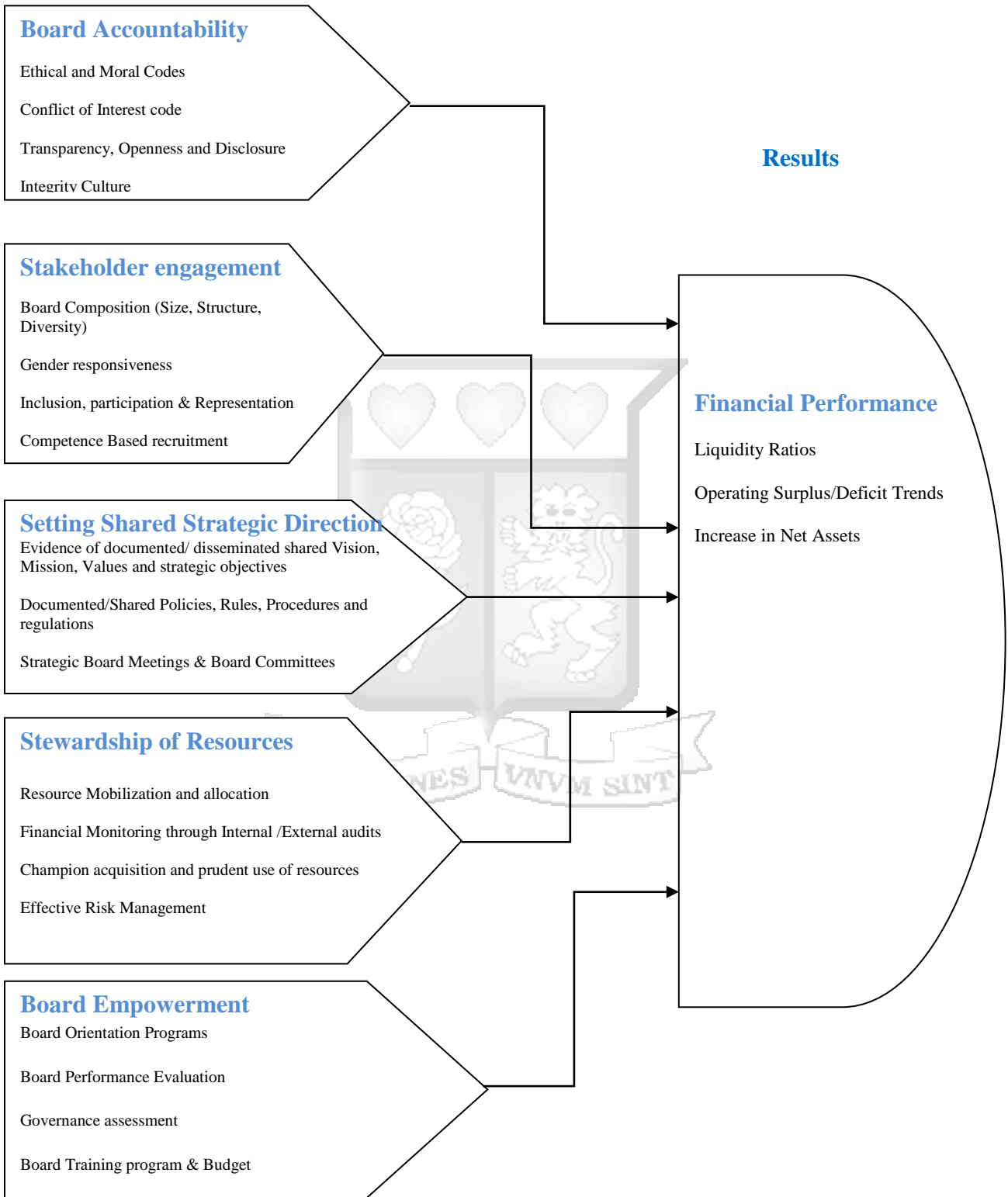
surplus/deficit trends and increase in net assets while infrastructural growth was assessed through the growth of fixed assets. Financial performance and sustainability are key concerns for not for profit faith-based hospitals because the achievement of their mission of provision of compassionate and affordable healthcare is highly dependent on it.



Independent Variables

Dependent Variable

Governance Practices



CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research methodology that was used to answer the research questions posed in the study. The validity of any research outcome(s) is largely founded on the research methodology applied (Creswell, 2007). This includes the research design, target population, sample and sampling technique, data collection tools, data analysis, research quality and ethical issues observed during the collection and analysis of data which are described in the section that follow.

3.2 Research design

This study sought to answer the research questions by providing an analysis of the evidence from the collected data. The study used a descriptive research design. A descriptive research study investigates phenomena in their natural setting and consists of not only data collection but also involves measurement, classification, analysis, comparison and interpretation. According to (Koul, 2009) descriptive studies are designed to obtain pertinent and precise information concerning the current status of phenomena and whenever possible, to draw valid general conclusions from the facts disclosed. This method was preferred because it was expected to establish the state of affairs of corporate governance in the study population (Kothari, 2013) with the possibility of challenging accepted assumptions about the status of corporate governance practices in the target population backed by valid general conclusions drawn from the facts that may be discovered. (Vaus & Vaus, 2011) suggests that transformative ideas can be generated out of such valid general conclusions.

The research was based on a combination of both qualitative and quantitative research methods. Qualitative aspects were geared towards establishing the status of corporate governance practices in the target population while quantitative analysis was used to compare selected financial performance indicators of the target population. The researcher used self-administered structured questionnaires to gather the necessary information from the respondents.

3.3 Target Population

The study was carried out as a cross sectional survey of all the not-for-profit faith-based hospitals in the former central province of Kenya with a bed capacity of 100 or more inpatient beds. According to the (Ministry of Health Kenya, 2016) master list, there are 9,722 facilities in Kenya with 55,233 inpatient beds and 7,495 baby cots. Of these, 3,613 facilities with 11,213 beds and 1,638 cots are private for-profit facilities while 1,388 facilities with 12,490 beds and 1,534 cots are operated as not for profits and owned by faith-based organizations and other humanitarian organizations. The rest of the facilities are publicly owned.

Stratified clustering design was used to select a representative sample as it would be too expensive and time consuming to study all faith-based facilities in the area. According to the latest data from (Ministry of Health Kenya, 2016), there are 593 faith-based facilities in the former central Kenya, 34 of which have 1 or more inpatient beds. This study will focus on the eight (8) faith-based hospitals in Central Kenya with a bed capacity of 100 or more inpatient beds. The 8 hospitals as the unit of analysis were selected to be a representative sample of all faith-based hospitals as it would be too expensive and time consuming (Tongco, 2007) to involve all faith-based health facilities in central Kenya, estimated to be over 600 and widely dispersed all over the five counties of Kiambu, Muranga, Nyandarua, Kirinyaga and Nyeri. In addition, the selected Hospitals are diverse in their ownership and location. Out of the eight hospitals, two are owned by the Presbyterian Church, five (5) are owned by the Catholic Church while one is owned by the Africa Inland Church. The eight are also straddled in all the five counties in the former central Kenya region. The unit of analysis was the not-for-profit faith-based hospitals in the former central province of Kenya.

In addition, the selected hospitals have well established governance structures that were likely to influence financial performance and hence their selection. The target respondents consisted of board directors, chief executive officers, administrators and senior managers of these facilities who attend board meetings. The respondents formed the unit of observation for this study.

Table 3.1: Target Population Faith-based facilities with 100 or more beds in Central Kenya

Code	Facility Name	H_level	Owner	Beds	Cots	County
1	10602 Kijabe (AIC) Hospital	Level 4	CHAK	265	60	KIAMBU
2	10603 Kikuyu (PCEA) Hospital	Level 4	CHAK	218	6	KIAMBU
3	11124 Tumutumu (PCEA) Hospital	Level 4	CHAK	203	18	NYERI
4	10887 North Kinangop Catholic Hospital	Level 4	KECCS	186	22	NYANDARUA
5	10825 Nazareth Hospital	Level 4	KECCS	184	84	KIAMBU
6	10100 Consolata Mission Hospital (Mathari)	Level 4	KECCS	170	17	NYERI
7	10199 Gaichanjiru Hospital	Level 4	KECCS	147	0	MURANG'A
8	10808 Mwea Mission (Our Lady of Lourdes) Hospital	Level 4	KECCS	110	10	KIRINYAGA

Source: Kenya Master Health Facilities list as at 30th April 2016
http://kmhfl.health.go.ke/#/facility_filter/results.

3.4 Sampling Technique

The sampling technique used is Purposive sampling and stratified clustering. As per the Kenya master health facility list (Ministry of Health Kenya, 2016), not for profit faith-based healthcare institutions in Kenya consists of 1388 facilities. The target population for this study was selected as a geographical cluster for the entire not for profit faith-based healthcare institutions in central Kenya with 593 facilities.

Purposive sampling is a non-probabilistic technique where the researcher decides who to include in the sample based on their typicality with the inherent bias of the method contributing to its efficiency, even when tested against random probability sampling. Purposive sampling is used to collect focused information such as the one required by this study. In this case, the researcher focused on those facilities that have a bed capacity of 100 or more inpatient beds within the selected cluster. 8 facilities out of the 593 in the geographical cluster fitted this criterion. Both cluster and purposive sampling were preferred as they were focused and would save time and money. The sample population was 80 board members from the 8 facilities.

3.5 Pilot Testing

The researcher conducted a pilot study to determine the validity and reliability of the instruments. According to (Baker, 1999) a pilot test can be used to pre-test a particular research instrument with the advantage that it might give an advance warning about where the main research project could fail, thus according the researcher an opportunity to make improvements on the research instrument. (Van Teijlingen & Hundley, 2001) argues that a pilot study does not guarantee success in the main study but it increases the likelihood by affording the researcher an opportunity to improve the research design before embarking on the main study. During piloting, five board members were randomly selected from AIC Kijabe Hospital. The researcher administered the study instruments on the randomly selected respondents. The purpose of the pilot was to test the instruments' suitability in collecting data needed in the study. Piloting helped to check whether there was enough coverage in terms of the range of information required, and also tested whether there were identifiable ambiguities in the structure of the questions in order to reveal any flaws and inadequacies and then make improvements. Pilot testing results were used in evaluating and improvement of the instruments before the main study.

3.6 Data Collection

3.6.1 Data Collection Tool

The study data was collected from both primary and secondary data. Primary data on governance practices was collected directly from respondents by means of administering structured questionnaires while secondary data on financial performance was collected from audited financial reports filled in a structured questionnaire by the financial managers in the different institutions.

The researcher distributed the questionnaires through hand delivery, courier and email. According to (Bryman & Bell, 2015), self-administered questionnaires are cheaper and quicker to administer and increases reliability as there are similar questions in similar order to all respondents, including the benefit of convenience to the respondent in terms of the time and speed they want to respond. The questionnaires had an opening remark explaining their

purpose; instructions for filling and giving an assurance to the respondents that the responses given would be treated with strict confidentiality. Each questionnaire was accompanied by a participant's information and consent form to ensure that participation in the study was absolutely voluntary. Secondary data on the other hand was collected from audited financial reports and the finance specific questionnaires for 5 years. The finance managers of the different institutions provided financial data for the periods ranging between 2011 and 2015. The data collection tools are presented under appendix I and II.

3.6.1 Data Capture Process

Having developed the structured questionnaire, the researcher first pre-tested the questionnaire by conducting a pilot study to determine the validity and reliability of the instruments as well as their suitability in collecting the data needed for the study. During piloting, five board members were randomly selected from AIC Kijabe Hospital. The researcher administered the study instruments on the randomly selected respondents. Piloting helped to check whether there was enough coverage in terms of the range of information required, and also tested whether there were identifiable ambiguities in the structure of the questions. A number of flaws and inadequacies were revealed and improvements made to the instruments before embarking on the main study's data collection. The researcher first obtained clearance from the Hospitals administrators to collect data from the institutions. This was done through a letter of introduction that was sent to all the participating institutions. A copy of this letter is presented in under Appendix III.

The researcher distributed the questionnaires through hand delivery, courier and email. Follow ups and reminders were sent through email and telephone calls to the respondents to encourage them to return the responses. The filled questionnaires were returned to the researcher through email, courier and hand delivery.

3.6.1 Data Entry and Collection

After completion of the data collection exercise, all questionnaires were adequately checked for data quality. The questionnaires were then systematically coded and categorized for the purposes of transcribing the findings in into a computer program. The process consisted of

data cleaning and initial data analysis. Data cleaning was done to inspect and correct erroneous entries. The data was then entered and analyzed as per the research objectives using Statistical Package for Social scientists (SPSS) version 21.0. Qualitative approach was used to help overcome the weaknesses associated with using only one method. Quantitative approach on the other hand was used to help in establishing the relationships between the predictor variables and the dependent variables.

3.7 Data Analysis

Data analysis was carried out to uncover patterns and trends in the data set collected (Best & Kahn, 2016). In this study, the collected data was analyzed using both qualitative and quantitative approaches. Descriptive statistics were used to present the analyzed data. Qualitative content analysis was followed by appropriate coding and categorization of data. This entailed the analysis of the responses based on scaling on the likert scale. Analysis of these responses was done in an effort to gain insights into the patterns and relationships that existed in the data.

Descriptive statistics of Mean (measure of central tendency) and standard deviation (measure of dispersion) were used to reduce the mass of data to simpler, more understandable terms. To illustrate the relationships between different types of variables, Pearson's correlation coefficient (Pearson's r) was used. This is a statistical measure of co-variation or association between two variables. Correlation coefficient r ranges between +1.0 to -1.0, where +1 represented perfect positive linear relationship and a -1.0 represented a perfect negative linear relationship, while no correlation was indicated where $r=0$. The Chi square test was used to test the hypothesis about the effect of governance practices on the financial performance. The data as analyzed was presented in tabular form. Regression and correlation analysis were used to determine whether a linear relationship exists between the independent variables (X) and the dependent variables (Y), how strong that relationship is and whether the relationship is positive or negative.

3.8 Data presentation

The collected data was analyzed and presented using tables, diagrams, bar graphs and pie charts. The presentations will seek to display relationships and reveal patterns between the predictor variables and the independent variables with the aim of deriving important conclusions from which recommendations can be made. According to quantification of qualitative data is done to help in describing certain characteristics and enable representation of values in terms of quantities or numerical values. The data was also organized in a way that makes it easy for the mind to absorb and understand which will ultimately help in describing the situation through numbers and representing it through tools like tables, histograms, bar charts, pie charts and frequency curves.

3.9 Research Quality

3.9.1 Internal Validity

Internal validity according to (Saunders, Lewis, & Thornhill, 2012) measures the extent to which a data collection instrument or method accurately measures the intended parameter.

Data collection instruments in this study were pilot-tested using five (5) pre-selected board members in one of the institutions to ensure that the items in the instruments were clearly stated and had the same meaning to all respondents. (Mugenda & Mugenda, 2003) underlies the importance of pre-testing instruments to ensure that the research process will yield consistent findings over time and across researchers.

3.9.2 External Validity

Eternal reliability refers to the degree to which research findings can be used to generate conclusions relevant to similar relevant contexts (Saunders et al., 2012) In this study, data was designed to be collected from all the 8 faith-based hospitals in the former central province of Kenya that had 100 or more inpatient beds. The hospitals also represented three different prominent faith groups that own hospitals in Kenya and therefore highly representative of faith-based hospitals in Kenya.

3.9.3 Reliability

To improve reliability and consistency of findings, researchers should use the same instruments across the board and get responses from the same level of respondents regardless of the size of the institution (Mugenda & Mugenda, 2003). To ensure reliability of the findings, this study used the same structured questionnaires across the board while respondents were predetermined by their level of knowledge and or interactions with their board of governors. All the respondents were either board members or senior managers who attend board meetings. In addition, to measure whether the different items that propose to measure the same general construct are likely to generate similar scores, researcher calculated the Cronbach's alpha coefficient as measure internal consistency on scale reliability. The tool returned a value of $\alpha=0.946$ which shows a high internal consistency.

3.9.4 Objectivity

Objectivity is concerned with the degree to which a measurement is free of bias (Kothari, 2003). In the research design, the researcher included reversed questions to ensure there was objectivity in the responses. The researcher acknowledges his own bias as a senior staff member in one of the hospital, but this bias was also useful in interpreting findings and conclusions.

3.10 Ethical considerations

The researcher sought to ensure that participants were not subjected to any risk of embarrassment, pain, harm, or any material disadvantage by the virtual of taking part in this study. This was done by explaining the purpose and the benefits of the study to the respondents while taking care not to promise unrealistic outcomes and benefits. This explanation was clearly spelt out in the introduction letter, the Questionnaires and the Participant's information and Consent form which majority respondents acknowledged by signing.

Ethical clearance was also obtained from Strathmore University's Internal Review Board before commencement of data collection. The researcher sought prior clearance from the Hospital administrations before approaching respondents. The researcher also informed the

respondents beforehand that they had the right not to respond to any questions they found too sensitive. The researcher assured the respondents that the information obtained would be treated with utmost confidentiality and any transmission of data other than the research report would only be done with their consent. In particular, Participant's information and Consent form included the request for consent to participate in the interview and disclosure/ non-disclosure preferences.



CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter discusses the data analysis, interpretation, presentation and discussion of the findings obtained from the field. The chapter presents the background information of the respondents, findings of the analysis based on the objectives of the study. Descriptive and inferential statistics have been used to discuss the findings of the study.

4.2 Response Rate

The study targeted 80 board members, 10 from each of the 8 selected hospitals. However only 5 hospitals gave consent for the study while 3 declined. 50 questionnaires were distributed to the 5 Hospitals. 32 of the respondents filled and returned the questionnaire, forming a response rate of 64%. A response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent (Mugenda & Mugenda, 2003). Hence in our case the response rate was good. This is as shown in Table 4.1

Table 4.1: Response Rate

Response	Frequency	Percent
Returned	32	64
Unreturned	18	36
Total	50	100

4.2.1 Reliability Analysis

Reliability analysis was done to determine the reliability of the questionnaire. The study used the Cronbach's Alpha. Gliem and Gliem (2003) established the Alpha value threshold at 0.7, thus forming a benchmark for the study. The Cronbach's alpha was used to determine the reliability of each objective. The findings as shown in Table 4.2 indicate that Board accountability as an alpha of 0.756, Stakeholder engagement as an alpha of 0.742, Setting a shared strategic direction as an alpha of 0.761, Stewardship of resources an alpha of 0.798 and Board empowerment alpha of 0.752. This shows that that all the variables are reliable.

Table 4.2: Reliability Analysis

Scale	Cronbach's Alpha	Number of Items
Board accountability	0.756	10
Stakeholder engagement	0.742	10
Setting a shared strategic direction	0.761	10
Stewardship of resources	0.798	10
Board empowerment	0.752	10

4.3 Demographic Information

4.3.1 Gender of the Respondents

The respondents were asked to indicate their gender. The results were as shown in Figure 4.1

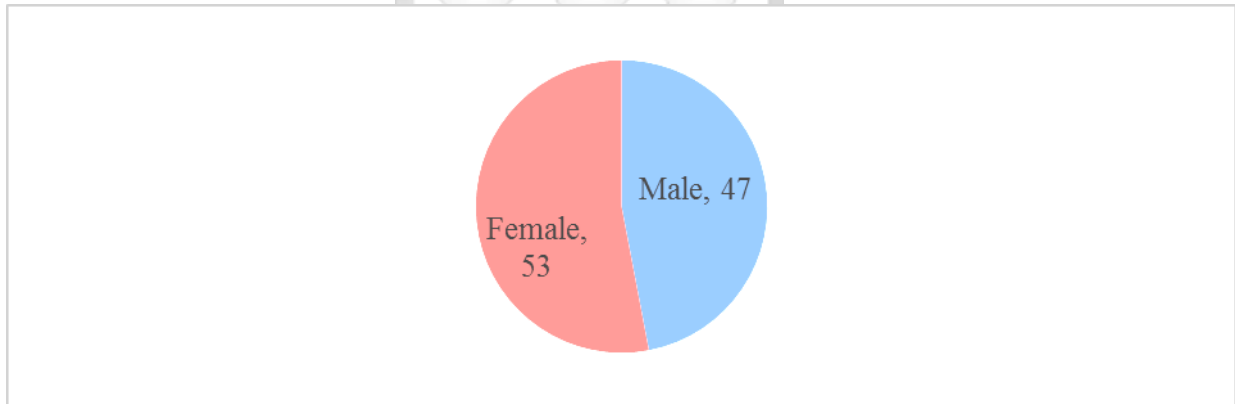


Figure 4.1: Gender of the respondents

From the findings 53% of the respondents were female while 47% were male. This implies that both gender participated in the study though not in the same proportion.

4.3.2 Age Bracket

The respondents were requested to indicate their age bracket. The results were as shown in Table 4.2

Table 4.3: Age Bracket

Category	Frequency	Percent
20-30 Years	3	9%
31-40 Years	7	22%
41-50 Years	8	25%
51-60 Years	9	28%
60+ Years	5	16%
Total	32	100

According to the findings 28% of the respondents indicated that they are aged between 51 to 60 years, 25% respondents indicated that they are aged between 41 to 50 years, 22% respondents indicated that they are aged between 31 to 40 years, 16% respondents indicated that they are above 60 years and 9% respondents indicated that they are aged between 20 to 30 years. This implies that most board members are aged between 51 to 60 years which means there is a wealth of experience in the boards.

4.3.3 Highest academic level

The study sought to determine the highest academic level of the respondents. The results were as shown in Figure 4.2.

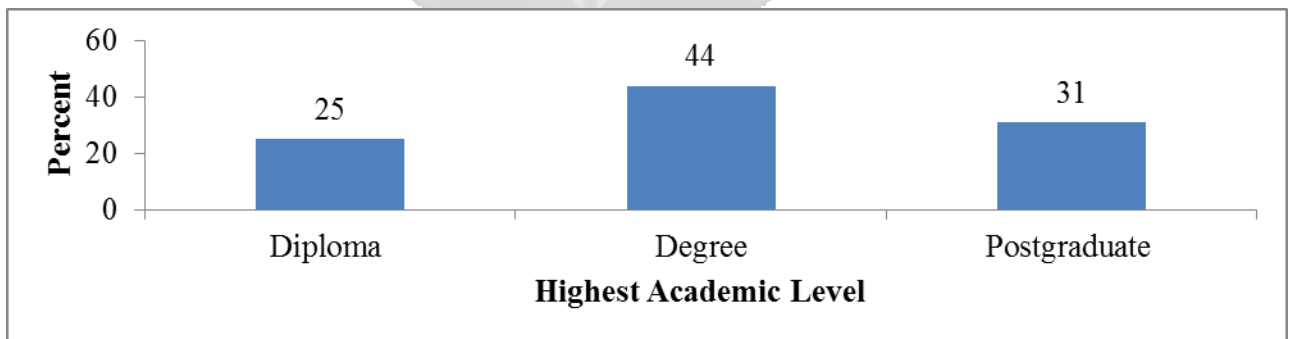


Figure 4.2: Highest academic level

From the results 44% of the respondents indicated that they have degree level of education, 31% had postgraduate level of education and 25% had diploma level of education. This shows that the respondents are educated and are in a good position to provide information needed for the study.

4.3.4 Length of Service in the organization

The board members were requested to indicate the period they had worked in the hospitals. The results are as shown in Figure 4.3

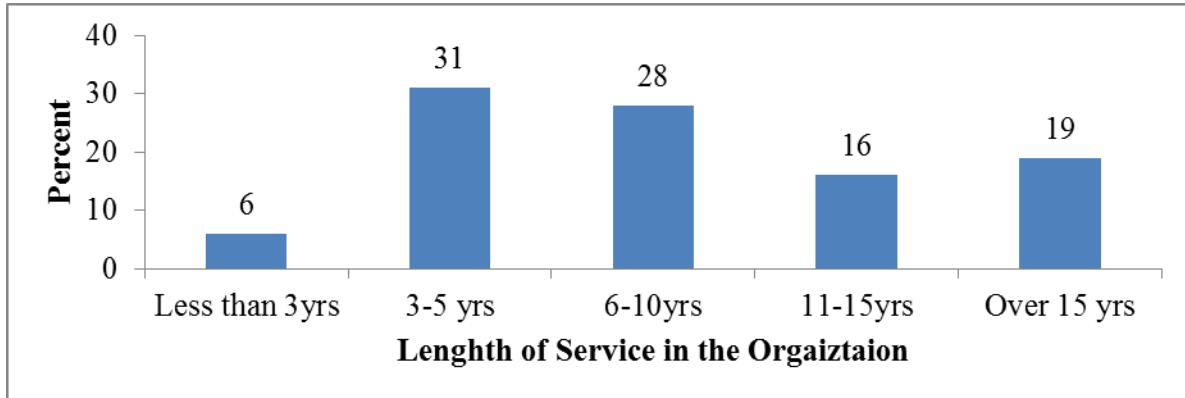


Figure 4.3: Length of Service in the organization

From the results, 31% of the respondents indicated that they had worked with the organization for a period between 3 to 5 years, 28% indicated that they had worked with the organization for a period between 6 to 10 years, 19% indicated that they had worked with the organization for a period for over 15 years, 16% indicated that they had worked with the organization for a period between 11 to 15 years and 6% indicated that they had worked with the organization for a period less than 3 year. This shows that the respondents had worked with the organizations long enough to appreciate and provide information needed for the study.

4.3.4 Respondents Position in the Organization

The study sought to determine the respondents' position in the organization. The results were as shown in Table 4.3

Table 4.4: Respondents position in the organization

Category	Frequency	Percent
Non-Executive Directors	7	22%
Executive Director	8	25%
Senior Management	11	34%
Administrators	6	19%
Total	32	100

From the findings 34% of the board members indicated that they are senior managers, 25% indicated that they are executive directors, 22% indicated that they are non-executive directors and 19% indicated that they are administrators. This shows that the governance of most hospitals has a good mix of executive and non-executive (independent or “outsider”) directors, but non-executive members were less responsive. This was attributed to the fact that most of them do not reside in the hospitals and getting them to fill in the questionnaires was a challenge.

4.3.5 Organization’s Governance Structure

The respondents were asked to indicate the form of the organization’s governance structure.

The results were as shown in Table 4.4

Table 4.5: Organization’s Governance Structure

Category	Frequency	Percent
Governance Board	16	50%
Operating Board	9	28%
Advisory Board	7	22%
Total	32	100

From the findings 50% of the respondents indicated that the form of their organization’s governance structure is governance board, 28% indicated that the form of their organization’s governance structure is operating board and 22% respondents indicated that the form of their organization’s governance structure is advisory board. Governance board have distinct roles with management and are mainly concerned with providing broad strategic objectives and overseeing the management to ensure implementation. Operating boards are more involved in the day to day running and decision making in the organizations while advisory boards roles in decision making ends at provision of advisory. Advisory boards have no fiduciary duty to the organization. Governance and operating boards have more power and potential to affect the financial performance of firms through their governance and oversight roles.

4.4 Descriptive Statistics

4.4.1 Cultivating Board Accountability (Independence/Conflict of Interest/Ethics)

The respondents were requested to indicate their level of agreement with the statements about the influence of board accountability as a practice of corporate governance on financial performance of not-for-profit faith-based hospitals in Central Kenya. The results were as shown in Table 4.5



Table 4.6: Influence of Board Accountability on Financial Performance

Statements	Totally Agree	Moderately Agree	Neutral	Moderately Disagree	Totally Disagree	Mean	Std. Deviation
The Chairman of the board and/or board members is/are actively involved in running the day to day operations of the organization.	28%	50%	13%	6%	3%	3.938	0.871
The board ensures ethical behavior and sets the right “tone at the top” by its own behavior.	31%	38%	16%	9%	6%	3.781	0.723
There is a clearly understood policy on conflict of interest and board members are required to declare any conflicts of interest before handling sensitive matters.	19%	53%	9%	9%	9%	3.625	0.850
Board members use their positions to influence management decisions on staff recruitment, procurement.	41%	34%	19%	3%	3%	4.063	0.871
There are written standards of conduct to cultivate ethical behavior of board members.	38%	31%	13%	13%	6%	3.813	0.771
Board members are aware and have signed and agreed to adhere to written standards of conduct and ethics.	44%	34%	9%	6%	6%	4.031	0.939
Board members use their positions for personal financial benefit to the detriment of the hospital.	16%	19%	22%	19%	25%	2.813	0.237
In case of unethical behavior, the board takes action to restore confidence and rebuild trust.	22%	47%	13%	9%	9%	3.625	0.753
The board has set policies for openness	25%	41%	13%	13%	9%	3.594	0.677

and transparency in the recruitment, promotion and rewarding of staff.

The board has set policies for openness and transparency in procurement procedures and practices.	31%	31%	19%	13%	6%	3.688	0.646
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From the findings the respondents moderately agreed that board members use their positions to influence management decisions on staff recruitment, procurement as shown by a mean of 4.063, board members are aware and have signed and agreed to adhere to written standards of conduct and ethics as shown by a mean of 4.031, the Chairman of the board and/or board members is/are actively involved in running the day to day operations of the organization as shown by a mean of 3.938, there are written standards of conduct to cultivate ethical behavior of board members as shown by a mean of 3.813, board members use their positions for personal financial benefit to the detriment of the hospital as shown by a mean of 2.813, board ensures ethical behavior and sets the right “tone at the top” by its own behavior as shown by a mean of 3.78, the board has set policies for openness and transparency in procurement procedures and practices as shown by a mean of 3.688, in case of unethical behavior the board takes action to restore confidence and rebuild trust as shown by a mean of 3.625, there is a clearly understood policy on conflict of interest and board members are required to declare any conflicts of interest before handling sensitive matters as shown by a mean of 3.625 and the board has set policies for openness and transparency in the recruitment, promotion and rewarding of staff as shown by a mean of 3.594. According to (Hart, 2011) the right of shareholders (owners) to influence the current activity of the enterprise is limited to the election of board members. They can only influence management decisions indirectly through for the board of directors. The results show that the boards represented had strong board accountability structures that are important for cultivating ethical behavior and culture of independence on board members.

4.4.2 Stakeholder Engagement (Board Composition and Competences, Inclusion)

The respondents were asked to indicate their level of agreement with the statements about the effect of stakeholder engagement as a practice of corporate governance on financial

performance of not-for-profit faith-based hospitals in Central Kenya. The findings are as shown in Table 4.6

Table 4.7: Effect of Stakeholder Engagement on Financial Performance

	Totally Agree	Moderately Agree	Neutral	Moderately Disagree	Totally Disagree	Mean	Std. Deviation
The composition of the board of your organization embraces diversity of skills.	22%	63%	9%	3%	3%	3.969	1.046
The composition of the board of your organization embraces diversity of gender.	25%	50%	13%	9%	3%	3.844	0.834
The composition of the board of your organization embraces diversity of relevant expertise.	25%	41%	16%	13%	6%	3.656	0.674
There is a clear and open criterion of selecting members to serve in the board.	31%	47%	9%	6%	6%	3.906	0.867
The size of your board is too large when compared to the size of your organization	19%	22%	19%	25%	16%	3.031	0.315
The board committee's structure consists of experienced, informed and engaged members,	22%	53%	13%	13%	0%	3.844	0.860
The composition of the board of your organization embraces diversity of age and experience.	31%	38%	16%	9%	6%	3.781	0.723
Current board skills composition affects the performance of the firm positively.	28%	44%	3%	13%	13%	3.625	0.790
Board selection gives high priority to owners/sponsors interests but does not consider the interests of the workers, managers, suppliers, customers, and society.	16%	22%	25%	28%	9%	3.063	0.311

There is a limit of time that an individual board member can serve in the board.	34%	38%	16%	6%	6%	3.875	0.781
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According to the findings the respondents moderately agreed that there is a clear and open criterion of selecting members to serve in the board as shown by a mean of 3.906, the composition of the board of your organization embraces diversity of skills as shown by a mean of 3.969, there is a limit of time that an individual board member can serve in the board as shown by a mean of 3.875, the board committee's structure consists of experienced, informed and engaged members as shown by a mean of 3.844, the composition of the board of your organization embraces diversity of gender as shown by a mean of 3.844, the composition of the board of your organization embraces diversity of age and experience as shown by a mean of 3.781, the composition of the board of your organization embraces diversity of relevant expertise as shown by a mean of 3.656 and current board skills composition affects the performance of the firm positively as shown by a mean of 3.625. The respondents were neutral that board selection gives high priority to owners/sponsors interests but does not consider the interests of the workers, managers, suppliers, customers, and society as shown by a mean of 3.063 and the size of your board is too large when compared to the size of your organization as shown by a mean of 3.031. (Galer *et al.*, 2005) argued that effective boards engage with their stakeholders in order to enhance the sense of inclusion, participation and collaboration in decision making.

4.4.3 Setting a Shared Strategic Direction

The respondents were requested to indicate their level of agreement with the statements about the effect of setting a shared strategic direction as a practice of corporate governance on financial performance of not-for-profit faith-based hospitals in Central Kenya. The findings were as shown in Table 4.7

Table 4.8: Effect of Setting a Shared Strategic Direction on Financial Performance

	Totally Agree	Moderately Agree	Neutral	Moderately Disagree	Totally Disagree	Mean	Std. Deviation
The board continually scans the internal and external environment and considers these when setting the hospitals strategic direction.	28%	47%	13%	6%	6%	3.844	0.821
The board proactively mobilizes human, material and financial resources and aligns them to achieve better health outcomes.	28%	59%	3%	3%	6%	4.000	1.053
The board has defined its roles and responsibilities through written policy.	22%	53%	6%	9%	9%	3.688	0.876
The board has identified and scheduled through a forward agenda, issues that it believes should be discussed/reviewed on a regular basis.	19%	44%	16%	13%	9%	3.500	0.668
Board members can and do influence the content of agendas in board meetings.	31%	50%	13%	6%	0%	4.063	0.908
There is a pre-agreed calendar of board meetings.	34%	41%	16%	3%	3%	3.906	0.832
Most board meeting time is spent on strategic and policy formulation.	25%	56%	9%	6%	3%	3.938	0.951
Most board meeting time is spent on discussing operational reports.	31%	47%	6%	9%	6%	3.875	0.870
The quality, quantity and timing of information given to board members is adequate for strategic decision making.	25%	66%	3%	3%	3%	4.063	1.136
Board members adequately prepare for board meetings in doing the reading and other preparation	28%	59%	6%	6%	0%	4.094	1.039

necessary to participate in
deliberations

From the findings the respondents moderately agreed that Board members adequately prepare for board meetings in doing the reading and other preparation necessary to participate in deliberations as shown by a mean of 4.094, the quality, quantity and timing of information given to board members is adequate for strategic decision making as shown by a mean of 4.063, Board members can and do influence the content of agendas in board meetings as shown by a mean of 4.063, the board proactively mobilizes human, material and financial resources and aligns them to achieve better health outcomes as shown by a mean of 4.000, most board meeting time is spent on strategic and policy formulation as shown by a mean of 3.938, there is a pre-agreed calendar of board meetings as shown by a mean of 3.906, most board meeting time is spent on discussing operational reports as shown by a mean of 3.875, the board continually scans the internal and external environment and considers these when setting the hospitals strategic direction as shown by a mean of 3.844, the board has defined its roles and responsibilities through written policy as shown by a mean of 3.688 and the board has identified and scheduled through a forward agenda, issues that it believes should be discussed/reviewed on a regular basis as shown by a mean of 3.500. According to (Carver & Oliver, 2002), aligning all stakeholders to a shared strategic direction make it easier for the organization to realize and achieve its objectives.

4.4.4 Stewarding Resources (Mobilization and Monitoring Resources)

The respondents were requested to indicate their level of agreement with the statements about effects of stewardship of resources as a practice of corporate governance on financial performance of not-for-profit faith-based hospitals in Central Kenya. The results are as shown in Table 4.8

Table 4.9: Effects of Stewardship of Resources as a Practice of Corporate Governance on Financial Performance

	Totally Agree	Moderately Agree	Neutral	Moderately Disagree	Totally Disagree	Mean	Std. Deviation
The board respects the division of responsibility between its oversight and policy- making role and the CEO's management role.	22%	44%	16%	9%	9%	3.594	0.696
The board proactively allocates resources for growth of infrastructure and services.	19%	69%	3%	3%	6%	3.906	1.163
There is an audit and risk management committee of the board comprising of members with relevant audit and accounting skills.	25%	59%	9%	3%	3%	4.000	1.011
The board has developed accounting and auditing as a performance monitoring mechanism.	28%	47%	13%	6%	6%	3.844	0.821
Board members are trained and are actively involved in mobilizing external resources for the organization.	38%	41%	16%	3%	3%	4.063	0.878
The board is effective in monitoring operational and financial performance of the organization.	31%	50%	6%	6%	6%	3.938	0.921
The organization is financially stable now and in the foreseeable future.	31%	59%	3%	3%	3%	4.125	1.083
The board has a documented conflict of interest policy for the governing board and the staff.	41%	41%	6%	6%	6%	4.031	0.945
The board has a code of ethics and conduct for the governing board and the staff.	34%	63%	3%	0%	0%	4.313	1.172
To the greatest extent, the	28%	53%	9%	6%	3%	3.969	0.927

organization is achieving its mission and goals in a timely and cost-effective manner

From the findings the respondents moderately agreed that the board has a code of ethics and conduct for the governing board and the staff as shown by a mean of 4.313, the organization is financially stable now and in the foreseeable future as shown by a mean of 4.125, Board members are trained and are actively involved in mobilizing external resources for the organization as shown by a mean of 4.063, the board has a documented conflict of interest policy for the governing board and the staff as shown by a mean of 4.031, there is an audit and risk management committee of the board comprising of members with relevant audit and accounting skills as shown by a mean of 4.000, to the greatest extent, the organization is achieving its mission and goals in a timely and cost effective manner as shown by a mean of 3.969, the board is effective in monitoring operational and financial performance of the organization as shown by a mean of 3.938, the board has developed accounting and auditing as a performance monitoring mechanisms as shown by a mean of 3.844, the board proactively allocates resources for growth of infrastructure and services as shown by a mean of 3.906 and the board respects the division of responsibility between its oversight and policy- making role and the CEO's management role as shown by a mean of 3.594. . (Cornforth, 2003) advises charitable organization to consider establishing an audit committee composed of independent board members with appropriate financial expertise, irrespective of whether that is a legal requirement.

4.4.5 Board Empowerment through Assessment and Development (Orientation, Training and Evaluation)

The respondents were requested to indicate their level of agreement with the statements about effects of board empowerment as a practice of corporate governance on financial performance of not-for-profit faith-based hospitals in Central Kenya. The findings were as shown in Table 4.9

Table 4.10: Perceptions of Board Empowerment on Financial Performance

	Totally Agree	Moderately Agree	Neutral	Moderately Disagree	Totally Disagree	Mean	Std. Deviation
Board members are aware of and clearly understand their roles and responsibilities.	31%	38%	9%	13%	9%	3.688	0.728
Board members are aware and comply with both legal and ethical codes of conduct.	28%	56%	6%	6%	3%	4.000	0.986
There are governance manuals on duties and responsibilities of the board.	28%	47%	13%	6%	6%	3.844	0.821
There is an orientation program for new board members and the program implemented adequately.	34%	56%	3%	3%	3%	4.156	1.070
New members receive a thorough orientation before attending their first governing board meeting.	31%	47%	9%	6%	6%	3.906	0.867
The board has a written policy and budget for its education and development to regularly train and update board members on their governance skills.	25%	59%	9%	3%	3%	4.000	1.011
The board has the resources and skills required to objectively assess its performance.	28%	53%	6%	6%	6%	3.906	0.935
Board committees have documented and clearly understood terms of references.	31%	44%	9%	9%	6%	3.844	0.817
The organization has established benchmarks to aid in assessing board competences and performance at personal and team level.	34%	50%	9%	3%	3%	4.094	0.960
Board members are regularly appraised on their performance and competencies	25%	47%	13%	9%	6%	3.750	0.782

From the finding the respondents agreed that there is an orientation program for new board members and the program implemented adequately as shown by a mean of 4.156, the organization has established benchmarks to aid in assessing board competences and performance at personal and team level as shown by a mean of 4.094, the board has a written policy and budget for its education and development to regularly train and update board members on their governance skills as shown by a mean of 4.000, board members are aware and comply with both legal and ethical codes of conduct as shown by a mean of 4.000, the board has the resources and skills required to objectively assess its performance as shown by a mean of 3.906, new members receive a thorough orientation before attending their first governing board meeting as shown by a mean of 3.90, there are governance manuals on duties and responsibilities of the board as shown by a mean of 3.844, board committees have documented and clearly understood terms of references as shown by a mean of 3.844, board members are regularly appraised on their performance and competencies in their governance role as shown by a mean of 3.750 and board members are aware of and clearly understand their roles and responsibilities as shown by a mean of 3.688. (Prybil *et al.*, 2008) found that only a handful of boards have assigned clear responsibility for board orientation, education and development to a standing board committee which means that it is possible that this important responsibility is either being performed informally or in an ad hoc manner.

4.4.6 Perceptions of Governance practices on financial performance

The respondents were requested to indicate their level of agreement with statements in Table 4.10.

Table 4.11: Perception of Governance practices on financial performance

Governance Practices	Totally Agree	Moderately Agree	Neutral	Moderately Disagree	Totally Disagree	Mean	Std. Deviation
Our ethical and moral codes have greatly influenced the positive performance of our organization.	28%	53%	6%	9%	3%	3.938	0.931
Transparency, openness and disclosure greatly influences the positive performance of our organization.	25%	59%	3%	6%	6%	3.906	1.022
The composition of the board in size, structure and diversity negatively affects performance of the organization.	41%	47%	6%	3%	3%	4.188	1.022
The board selection considers competence, inclusion, participation and representation of all stakeholders.	34%	50%	6%	6%	3%	4.063	0.962
Current board skills composition affects the performance of the firm positively.	34%	56%	3%	3%	3%	4.156	1.070
The board sets and regularly revises the hospitals strategic direction which affects the firms' performance positively.	38%	41%	9%	9%	3%	4.000	0.876
The board has up-to-date strategic plans, policies, rules, procedures and regulations which positively affect the performance of the firm.	28%	56%	13%	3%	0%	4.094	0.979
The board's oversight and monitoring on resources greatly affects the positive performance of the Hospital.	31%	47%	13%	6%	3%	3.969	0.861
The Boards role in championing acquisition and prudent use of resources affects the firms' performance positively.	31%	47%	9%	6%	6%	3.906	0.867
There exists an effective internal/external audit and risk	19%	63%	6%	9%	3%	3.844	1.030

management which positively affects the performance of the firm.

There is regular appraisal on performance and competencies of board members which positively affects the performance of the firm.	41%	41%	6%	6%	6%	4.031	0.945
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There is regular training and updating board members on their governance skills which positively affects the performance of the firm.	34%	44%	9%	6%	6%	3.938	0.868
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From the findings the respondents agreed that current board skills composition affects the performance of the firm positively as shown by a mean of 4.156, the composition of the board in size, structure and diversity negatively affects performance of the organization as shown by a mean of 4.188, the board has up-to-date strategic plans, policies, rules, procedures and regulations which positively affects the performance of the firm as shown by a mean of 4.094, there is regular appraisal on performance and competencies of board members which positively affects the performance of the firm as shown by a mean of 4.031, the board selection considers competence, inclusion, participation and representation of all stakeholders as shown by a mean of 4.063, the board sets and regularly revises the hospitals strategic direction which affects the firms' performance positively as shown by a mean of 4.000, the boards oversight and monitoring on resources greatly affects the positive performance of the Hospital as shown by a mean of 3.969, there is regular training and updating board members on their governance skills which positively affects the performance of the firm as shown by a mean of 3.938, our ethical and moral codes have greatly influenced the positive performance of our organization as shown by a mean of 3.938, transparency, openness and disclosure greatly influences the positive performance of our organization as shown by a mean of 3.906, the Boards role in championing acquisition and prudent use of resources affects the firms performance positively as shown by a mean of 3.906 and there exists an effective internal/external audit and risk management which positively affects the performance of the firm as shown by a mean of 3.844.

4.4.7 Financial Ratio Analysis showing the Financial Performance of Profit Faith-Based Organizations

Financial information from the respondents was analyzed using ratios to determine the financial performance of the hospitals for the years 2011 to 2015. The financial information of the organization was obtained from the selected profit faith-based healthcare organizations financial statements for the years 2011 to 2015.

Liquidity Ratios

Three types of Liquidity ratios were computed namely Current ratio, Quick ratio and Acid Tests ratio. The findings are presented in Table 4.11

Table 4.12: Liquidity Ratios

Ratio	Mean	Desired Ratio
Current Ratio	3.22	2.0
Quick Ratio	2.63	1.5
Acid Test Ratio	1.21	1.0

Liquidity ratios measure the ability of the hospitals to meet their short term financial obligations. The current ratio compares the firm's total current assets with the total current liabilities to determine how much cover the business has for every shilling that its owed by other firm's entities. According to (Zelman, McCue, Glick, & Thomas, 2014), as a rule of thumb, healthcare providers should maintain a current ratio of 2.0 and above which indicates the ability to pay of their debts that follow due within one year out of their current assets. The hospitals recorded an average current ratio of 3.22 over the period of study which shows that their current assets were 3.22 times higher than their total current liabilities. The computed average current ratio is significantly higher than the desired ratio which means that the hospitals liquidity was good, which is an indicator of good financial performance.

The quick ratio compares the firm's current assets with the total current liabilities without considering inventory which is deemed to be less liquid to determine how much cover the business has for every shilling that its owed by other firm's entities. According to (Zelman et al., 2014), healthcare providers should maintain a quick ratio of 1.5 or higher which indicates

the ability to pay off their debts that fall due within one year out of their current assets less inventory. The hospitals recorded an average quick ratio of 2.63 over the period of study which shows that their current assets without counting inventories were 2.63 times higher than their total current liabilities. The computed average quick ratio is significantly higher than the desired ratio which means that the hospitals liquidity was good, which is an indicator of good financial performance.

Acid test ratio measures an entity's liquidity by considering only the most liquid assets of cash and marketable securities with its short-term liabilities. These are compared with the total current liabilities to measure the ability of a business to pay its short-term debts. This an indicator of immediate liquidity risk of inability to make urgent payments. An acid test of (Zelman et al., 2014), and (Finkler, Jones, & Kovner, 2013) of 1:1 is considered as a good indicator of ability to meet urgent short term cash obligations. The hospitals recorded an acid test ratio of 1.21 over the period of study which is slightly above the recommended ratio. This shows that their most liquid assets of cash and marketable securities are slightly higher than their short-term obligations.

Profitability Ratios

Three profitability ratios computed included operating margin, return on total assets, and return on net assets. The computed averages and the respective desired ratios are presented in

Table 4.13: Profitability Ratios

Profitability Ratio	Mean	Market Ratio
Operating profit Margin	5.86%	5%
Return on Total Assets	4.67%	4%
Return on Net Assets	5.36%	8%

Profitability ratios are measures that assess the ability of a business to generate earnings (profits) compared to its expenses and other relevant costs incurred over a period of time. Having a higher than market or relative to the same ratio of the previous period indicates that the company is doing well. The average market for hospitals operating margins (Zelman et al., 2014) is 5% for faith-based hospitals. The hospitals average operating margin over the period of study which is slightly above the market average at 5.86%. This finding shows that

these hospitals are only generating a marginal surplus with more than 94% of all the revenues generated going to cover operating expenses.

Return on total assets ratio is a metric that indicates the efficiency with which the total assets of the business are utilized to generate profits. According to (Finkler et al., 2013) and (Zelman et al., 2014), higher ratio indicates higher efficiency in the use of all assets to generate higher revenues, and generally, a return on total assets ratio of 4% is considered good in the faith-based healthcare sector, but in a highly mechanized and technologically advanced setup. The hospitals average return on total assets ratio over the period of study is slightly above the market average at 4.67%. This finding shows that these hospital's net incomes are on average 4.67% of the total invested assets. While this seems good compared to the market average, the environmental context within which the hospitals operate which are less mechanized and technologically advanced means that the hospitals could possibly return a higher margin with better and advanced medical technology.

Return on Net assets ratio is a metric that indicates the efficiency with which the net assets of the business are utilized to generate profits. This a more conservative measure than return on total assets that is calculated by dividing the net income of a company by the sum of its fixed assets and net working capital. This is an important ratio because in the fixed assets are the single largest component of the investment healthcare organizations. While there is no set standards or benchmarks to measure this ratio, the higher the better it is. However, (Zelman et al., 2014) says a return on net assets of more than 8% is considered good. This study shows that these hospital's net incomes are on average 5.36% of the net invested assets, which is significantly lower than (Zelman et al., 2014) standard of 8%. According to this ratio, the hospitals are not efficiently and effectively utilizing the invested assets to generate earnings.

Growth Ratios

Two growth ratios were computed which included revenue growth and growth in net fixed Assets. The findings are presented in table 4.13

Table 4.14: Growth Ratios

Growth Ratio	Mean
Revenue Growth	11.52%
Growth in Net Assets	18.11%

Growth ratios were computed to determine whether the hospitals are growing their revenues and investments in fixed assets. There are no set standards or benchmarks to measure these ratios, but the higher the better it is. A higher consistent growth in revenues and investment in fixed assets is an indicator of good financial performance, (Goel, 2015), as well as an assurance that the business is likely to remain as a going concern in the near and foreseeable future. This study shows that these hospital' patient revenues grew by average 11.52% per year over the period of study. Investment in hospitals net assets averaged Kshs 140M per year which was equivalent to 18.11% growth per year in the same period. These hospitals significant investments in their fixed assets and a relatively high annual turnover growth of 11.52% predicate good financial performance. Other commonly used growth ratios were not calculated as they are not relevant for not-for profit hospitals.

Average Bed Occupancy

Average bed occupancy percentage was computed to determine the level of utilization of inpatient bed capacity in the hospitals. The findings are presented in table 4.14

Table 4.15: Average Bed Occupancy

No of Inpatient Beds	1075
Average Occupancy per year	65%
% Un-utilised beds per year	35%

There were a total 1,075 inpatient beds in the respondent's facilities. Average bed occupancy per year for the five years was 65% representing occupancy of 700 beds per day leaving a total of 375 inpatient beds un-utilized per day. Based on NHIF daily bed rebates, an inpatient bed costs KShs 3000 in these facilities. Therefore, 375 in-patient beds un-utilized per day translates into lost opportunity of Kshs 411 Million per year.

Viewed together, all the financial ratio analyzed on this study indicate the hospitals liquidity was better than the average standards while their ability to generate revenue and control expenditure at the same time is more or less equal to the market standard but close to the borderline. The hospitals are also experiencing moderate growth in patient revenues but also experiencing significant growth in their fixed assets. However, there is huge idle capacity represented by 35% of un-occupied beds in the Hospital which means that the hospitals have capacity to generate more revenues than they have done in the period covered by this research.

4.4.8 Correlation Analysis

The correlation analysis is used to analyze the association between independent and dependent variables. The study used the Pearson Moment Correlation analysis to determine the association between board accountability, stakeholder engagement, setting a shared strategic direction, stewardship of resources and board empowerment with financial performance. The results were as shown in Table 4.10.

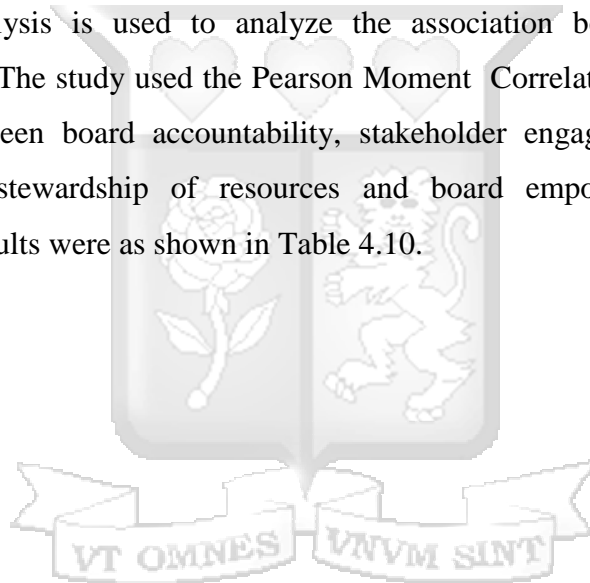


Table 4.16: Correlations Coefficient

		Financial performance	Board accountability	Stakeholder engagement	Setting a shared strategic direction	Stewardship of resources	Board empowerment
Financial performance	Pearson Correlation	1					
	Sig. (2-tailed)						
	N	32					
Board accountability	Pearson Correlation	.784**	1				
	Sig. (2-tailed)	.001					
	N	32	32				
Stakeholder engagement	Pearson Correlation	.806**	.348	1			
	Sig. (2-tailed)	.000	.059				
	N	32	32	32			
Setting a shared strategic direction	Pearson Correlation	.813**	.487	.513	1		
	Sig. (2-tailed)	.000	.055	.077			
	N	32	32	32	32		
Stewardship of resources	Pearson Correlation	.795**	.256	.442	.258	1	
	Sig. (2-tailed)	.001	.079	.056	.178		
	N	32	32	32	32	32	
Board empowerment	Pearson Correlation	.809**	.226	.432	.298	.274	1
	Sig. (2-tailed)	.000	.069	.051	.143	.161	
	N	32	32	32	32	32	32

** . Correlation is significant at the 0.01 level (2-tailed).

The results revealed that there was a strong positive correlation between board accountability and financial performance as shown by $r = 0.784$, statistically significant $p = 0.001 < 0.01$; there was a positive correlation between stakeholder engagement and financial performance as shown by $r = 0.806$, statistically significant $p = 0.000$; there was a positive correlation between setting a shared strategic direction and financial performance as shown by $r = 0.813$, statistically significant $p = 0.001$; there was a positive correlation between stewardship of resources and financial performance as shown by $r = 0.795$, statistically significant $p = 0.001$; there was a positive correlation between board empowerment and financial performance as shown by $r = 0.809$, statistically significant $p = 0.000$. This implies that there exists a relationship between the practices of good governance (board accountability, stakeholder engagement, setting a shared strategic direction, stewardship of resources and board empowerment) with the financial performance of the faith-based hospitals studied.

4.4.9 Model Summary

Model summary is used to analyze the variation of dependent variable due to the changes of independent variables. The study analyzed the variations of financial performance due to the changes of board accountability, stakeholder engagement, setting a shared strategic direction, stewardship of resources and board empowerment. The results are as shown in Table 4.12

Table 4.17: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.836 ^a	0.698	0.672	0.01433

Adjusted R squared was 0.672 implying that there was 67.2% variation of financial performance, due to the changes of board accountability, stakeholder engagement, setting a shared strategic direction, stewardship of resources and board empowerment. The remaining 32.8% imply that there are other factors that lead to financial performance which were not discussed in the study. R is the correlation coefficient which shows the relationship between the study variables. From the findings, the study found out that there was a strong positive relationship between the study variables as shown by 0.836.

4.4.10 Analysis of Variance

The analysis of variance ANOVA is used to determine whether the data used in the study is significant. The results are as shown in Table 4.13

Table 4.18: Analysis of variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	20.864	5	4.173	14.193	.001 ^b
	Residual	7.644	26	0.294		
	Total	28.508	31			

From the ANOVA statistics, the processed data (population parameters) had a significance level of 0.001. This shows that the data is ideal for making a conclusion on the population's parameter as the value of significance (p-value) is less than 5%. The F calculated was greater

than F critical (14.193 > 2.587). This shows that board accountability, stakeholder engagement, setting a shared strategic direction, stewardship of resources and board empowerment significantly influences financial performance.

4.4.11 Beta Coefficients of the Study Variables

The regression equation was

$$Y = 1.114 + 0.432 X_1 + 0.568 X_2 + 0.621 X_3 + 0.582X_4 + 0.582X_5$$

The equation above reveals that holding board accountability, stakeholder engagement, setting a shared strategic direction, stewardship of resources and board empowerment constant, the variables will significantly influence financial performance as shown by a constant = 1.114 as shown in Table 4.14.

Table 4.19: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
1 (Constant)	1.114	0.204		5.461	0.004
Board accountability	0.432	0.094	0.356	4.596	0.008
Stakeholder engagement	0.568	0.104	0.424	5.462	0.004
Setting a shared strategic direction	0.621	0.088	0.532	7.057	0.00
Stewardship of resources	0.582	0.102	0.442	5.706	0.003
Board empowerment	0.546	0.092	0.411	5.935	0.002

4.5.4.1 Board Accountability and Financial Performance

The effect of Board accountability is statistically significant to financial performance as shown by ($\beta = 0.432$, $p = 0.008$). This shows that Board accountability had significant positive relationship with financial performance. This implies that a unit increase in Board accountability will result to an increase in financial performance by a factor of 0.432.

4.5.4.2 Stakeholder Engagement and Financial Performance

Stakeholder engagement is statistically significant to financial performance as shown by ($\beta = 0.568$, $p = 0.004$). This shows that stakeholder engagement had significant positive relationship with financial performance. This implies that a unit increase in stakeholder engagement will result to an increase in financial performance by a factor of 0.568.

4.5.4.3 Setting a Shared Strategic Direction and Financial Performance

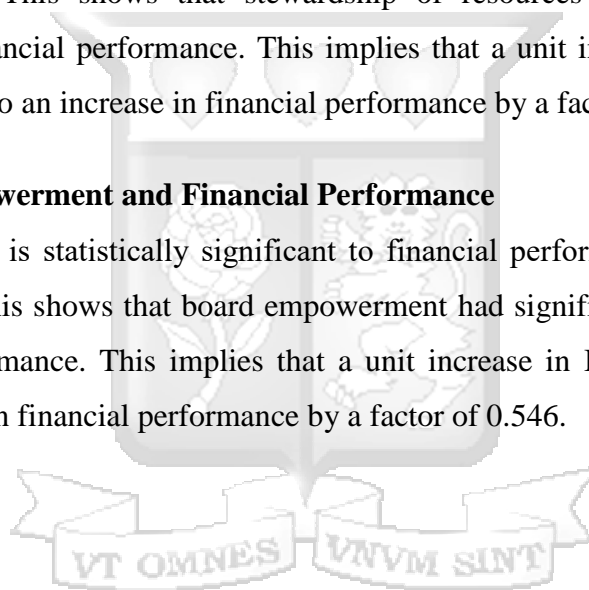
Setting a shared strategic direction is statistically significant to financial performance as shown by ($\beta = 0.621$, $p = 0.000$). This shows that setting a shared strategic direction had significant positive relationship with financial performance. This implies that a unit increase in setting a shared strategic direction will result to an increase in financial performance by a factor of 0.621.

4.5.4.4 Stewardship of Resources and Financial Performance

Stewardship of resources is statistically significant to financial performance as shown by ($\beta = 0.582$, $p = 0.003$). This shows that stewardship of resources had significant positive relationship with financial performance. This implies that a unit increase in stewardship of resources will result to an increase in financial performance by a factor of 0.582.

4.5.4.5 Board Empowerment and Financial Performance

Board empowerment is statistically significant to financial performance as shown by ($\beta = 0.546$, $p = 0.002$). This shows that board empowerment had significant positive relationship with financial performance. This implies that a unit increase in Board empowerment will result to an increase in financial performance by a factor of 0.546.



CHAPTER FIVE: DISCUSSION OF FINDINGS

5.1 Introduction

This chapter presents the discussion of key findings. The conclusions and recommendations drawn were focused on addressing the objective of the study. The study objectives were; establish to what extent board accountability as a practice of corporate governance influences financial performance of not-for-profit faith-based hospitals in Central Kenya; establish to what extent stakeholder engagement as a practice of corporate governance affects financial performance of not-for-profit faith-based hospitals in Central Kenya; establish the extent to which setting a shared strategic direction as a practice of corporate governance influences financial performance of not-for-profit faith-based hospitals in Central Kenya; establish to what extent stewardship of resources as a practice of corporate governance influences financial performance of not-for-profit faith-based hospitals in Central Kenya and establish to what extent board empowerment as a practice of corporate governance influences financial performance of not-for-profit faith-based hospitals in Central Kenya.

5.2 Discussion of Findings

5.2.1 Board Accountability and Financial Performance

The study revealed that board members use their positions to influence management decisions on staff recruitment, procurement, board members are aware and have signed and agreed to adhere to written standards of conduct and ethics, the Chairman of the board and/or board members is/are actively involved in running the day to day operations of the organization, there are written standards of conduct to cultivate ethical behavior of board members, board members do not use their positions for personal financial benefit to the detriment of the hospital, board ensures ethical behavior and sets the right “tone at the top” by its own behavior, the board has set policies for openness and transparency in procurement procedures and practices, in case of unethical behavior the board takes action to restore confidence and rebuild trust, there is a clearly understood policy on conflict of interest and board members are required to declare any conflicts of interest before handling sensitive matters and the board has set policies for openness and transparency in the recruitment, promotion and rewarding of staff. (Arjoon, 2005) makes a distinction between legal

compliance and moral compliance mechanisms and shows that the former has clearly proven to be inadequate as it lacks the moral firepower to restore confidence and the ability to build trust. (Griffin & Moorhead, 2011) agrees with this argument, saying that far too many financial scandals started with the ethical breakdown in the corporate governance structures. Compromised independence and conflict of interest are critical ethical issues that boards have to consider if they are to effectively exercise their oversight role.

5.2.2 Stakeholder Engagement and Financial Performance

The study revealed that there is a clear and open criterion of selecting members to serve in the board, the composition of the board of your organization embraces diversity of skills, there is a limit of time that an individual board member can serve in the board, the board committee's structure consists of experienced, informed and engaged members, the composition of the board of your organization embraces diversity of gender, the composition of the board of your organization embraces diversity of age and experience, the composition of the board of your organization embraces diversity of relevant expertise and current board skills composition affects the performance of the firm positively. The respondents were neutral that board selection gives high priority to owners/sponsors interests but does not consider the interests of the workers, managers, suppliers, customers, and society as well as whether the size of their boards is too large when compared to the size of the organization. (Prybil et al., 2008) argues that in the healthcare field and other sectors, there is agreement that the membership of governing boards must include persons with a strong blend of pertinent experience and skills in order to perform their fiduciary duties effectively. (Ryan, Chait, & Taylor, 2003) also supports the idea of proactive culture of commitment and engagement by the board. They argue that this ultimately translate to highly effective boards and drives the organization towards high performance.

5.2.3 Setting a Shared Strategic Direction and Financial Performance

The study established that Board members adequately prepare for board meetings in doing the reading and other preparation necessary to participate in deliberations, the quality, quantity and timing of information given to board members is adequate for strategic decision making, Board members can and do influence the content of agendas in board meetings, the

board proactively mobilizes human, material and financial resources and aligns them to achieve better health outcomes, most board meeting time is spent on strategic and policy formulation, there is a pre-agreed calendar of board meetings, most board meeting time is not spent on discussing operational reports, the board continually scans the internal and external environment and considers these when setting the hospitals strategic direction, the boards have defined their roles and responsibilities through written policy and the boards have identified and scheduled through a forward agenda, issues that they believe should be discussed and/or reviewed on a regular basis. . (Prybil et al., 2008) suggests that boards that proactively and actively engage in governance work likely to influence for higher efficiency and effective performance than boards that are laid back and uninvolved. In agreement, (Pointer & Orlikoff, 2002) suggests that a well-organized board committee's structure with experienced, informed and engaged members is key to effective governance. Division and Clarity of oversight responsibility for critical governance functions is a good yardstick for measuring board performance.

5.2.4 Stewardship of Resources and Financial Performance

The study found that the board has a code of ethics and conduct for the governing board and the staff, the organization is financially stable now and in the foreseeable future, Board members are trained and are actively involved in mobilizing external resources for the organization, the board has a documented conflict of interest policy for the governing board and the staff, there is an audit and risk management committee of the board comprising of members with relevant audit and accounting skills, to the greatest extent, the organization is achieving its mission and goals in a timely and cost effective manner, the board is effective in monitoring operational and financial performance of the organization, the board has developed accounting and auditing as a performance monitoring mechanisms, the board proactively allocates resources for growth of infrastructure and services and the board respects the division of responsibility between its oversight and policy- making role and the CEO's management role. According to (Mutuku, 2012), both accounting and auditing developed as a monitoring mechanism and are relevant and reliable financial reports that have always been demanded by investors for decision-making purposes However, (Griffin & Moorhead, 2011) argues that compliance with legal and financial reporting standards are not

sufficient safeguards, citing the American Institute of Certified public accountants admission on the Enron Scandal that keeping up with today's increasingly fast-paced business activities is putting a strain on the accounting profession's traditional methods for auditing, financial reporting and time honored standards of professional ethics.

5.2.5 Board Empowerment and Financial Performance

The study revealed that there is an orientation program for new board members and the program is implemented adequately, the organizations have established benchmarks to aid in assessing board competences and performance at personal and team level, the board has a written policy and budget for its education and development to regularly train and update board members on their governance skills, board members are aware and comply with both legal and ethical codes of conduct, the board has the resources and skills required to objectively assess its performance, new members receive a thorough orientation before attending their first governing board meeting, there are governance manuals on duties and responsibilities of the board, board committees have documented and clearly understood terms of references, board members are regularly appraised on their performance and competencies in their governance role and board members are aware of and clearly understand their roles and responsibilities. (Prybil et al., 2008) found that only a handful of boards have assigned clear responsibility for board orientation, education and development to a standing board committee which means that it is possible that this important responsibility is either being performed informally or in an ad hoc manner. (Nadler et al., 2011) argues that self-evaluation by boards vary widely in terms of rigor, results, and value, while (Prybil et al., 2008) suggests that good governance practice in this area should not merely focus on conducting some form of mechanical board self-assessment on a periodic basis. Rather, the board should invest the resources required to objectively assess its performance against established benchmarks and take action to make changes required to improve the board's structure, practices, and performance.

CHAPTER SIX: CONCLUSIONS AND RECOMMENDATIONS

6.1 Conclusions

Board accountability showed a positive relationship with financial performance. The study concludes that cultivating culture accountability across all board activities in the organization is important. The ethical and moral codes of the board are important to ensure accountability. Transparency, openness, disclosures and integrity culture ensures that the board conducts their activities and makes decisions in the best interest and for the benefit of the organization.

The study concludes that individual board members serve for a specified duration, then other individuals are recruited into the board. The board comprises of experienced, informed and engaged members, the composition of the board of the organization embraces diversity of gender, the composition of the board of organizations embraces diversity of age and experience, the composition of the board of organizations embraces diversity of relevant expertise and current board skills composition affects the performance of the firm positively.

The study concludes that the quality, quantity and timing of information given to board members is adequate for strategic decision making, board members can and do influence the content of agendas in board meetings, the board proactively mobilizes human, material and financial resources and aligns them to achieve better health outcomes, most board meeting time is spent on strategic and policy formulation, there is a pre-agreed calendar of board meetings, most board meeting time is not spent on discussing operational reports, the board continually scans the internal and external environment and considers these when setting the hospitals strategic direction.

The study concludes that board members are trained and are actively involved in mobilizing external resources for the organization, the board has a documented conflict of interest policy for the governing board and the staff, there is an audit and risk management committee of the board comprising of members with relevant audit and accounting skills, the organization is achieving its mission and goals in a timely and cost effective manner, the board is effective in monitoring operational and financial performance of the organization, the board has developed accounting and auditing controls as performance monitoring mechanisms.

The study concludes that the board have written policies and budget for its education and development to regularly train and update board members on their governance skills, board members are aware and comply with both legal and ethical codes of conduct, the board has the resources and skills required to objectively assess its performance, new members receive a thorough orientation before attending their first governing board meeting, there are governance manuals on duties and responsibilities of the board, board committees have documented and clearly understood terms of references.

6.2 Recommendations

The study recommends formalized continuous board performance evaluation both at the individual member level and at the corporate level to ensure that the board performs its governance role effectively. All stakeholders' interests should be considered in the organizations decision making process by actively and intentionally involving them in the governance process. The board should also set and clearly communicate a shared strategic direction so that everyone in the hospital understands and buys into the organizations vision. This will help in aligning staff and other stakeholders to work together to achieve the organization goals. The hospitals should plan and budget for board training and development to ensure that they empower their board members with relevant and up to date knowledge and skills for continuous improvement of their governance performance.

Boards should be encouraged to be more active in monitoring financial management aspects of the hospitals. Financial monitoring should be done thoroughly by the board. A policy which clearly indicates the required board skills and how to select and replace board members should be put in place to ensure there is relevant and diverse skills in the boards. Hospitals should consider conducting of regular Corporate Governance Audits and Evaluations. This is because good corporate governance has a positive economic impact on the institutions in question and may also save the organizations from possible losses like those occasioned by frauds, corruption and similar irregularities.

The study recommends that the board size and composition be considered since they affect the financial performance of the companies. Although (Dalton, Daily, Johnson, & Ellstrand, 1999) argues that literature provides no consensus about the direction of the relationship between board size and financial performance, he found that there exists a non-zero, positive relationship between board size and performance. The number of nonexecutive directors needs to be selected carefully since they affect financial performance of the firms. Selection of board members should also take into account the required skills mix as well as consider equitable gender representation in order to tap in members with relevant skills and expertise since they are actively involved in shaping the Hospital's strategy. The study recommends that directors be oriented and trained on corporate governance before they start serving on boards. They should also be continuously trained on governance to ensure that they execute their mandate effectively. Ownership concentration in boards needs to be reduced in order to increase the level of independence and objectivity in decision making that eventually affects the financial performance of the organizations.

6.3 Areas for Further Research

The objective of this study was to determine the role of corporate governance practices on the financial performance of not-for-profit faith-based healthcare organizations in central Kenya. From the findings there was 67.2% variation of financial performance, due to the changes of board accountability, stakeholder engagement, setting a shared strategic direction, stewardship of resources and board empowerment. The remaining 32.8% imply that there are other factors that lead to financial performance which were not discussed in the study. The study recommends that another study should be conducted to identify other factors that affect financial performance of faith-based organizations different from the ones discussed in this study.

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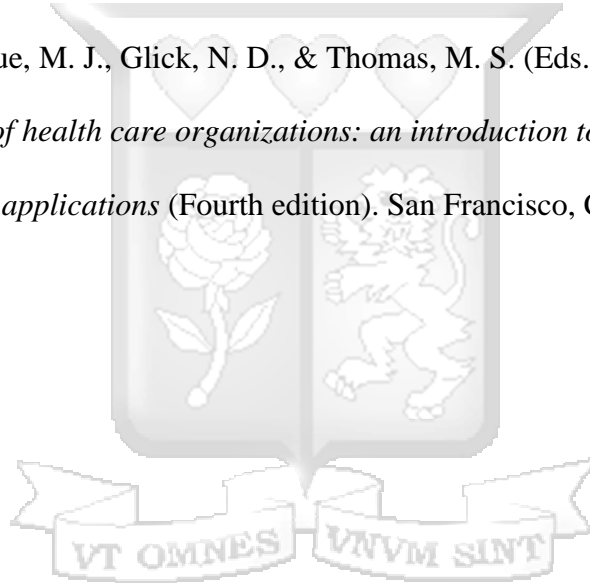
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APPENDICES

Appendix I: Questionnaire

Corporate governance practices adoption in not-for-profit faith-based healthcare organizations in Central Kenya

My name is Samuel Mwaura, an MBA Student at Strathmore University. I am conducting a study on the role corporate governance practices on financial performance in not for profit faith-based healthcare organizations in Central Kenya. I am kindly requesting you to support me in carrying out the study by filling out the questionnaire below. I assure you that your responses will be treated with utmost confidentiality and will be used for academic purposes only. Your participation will be highly appreciated.

SECTION A: DEMOGRAPHICS

1. Total Number of inpatient bedsCots.....
2. Principal owner / Sponsor of this Organization
3. Job title of the person filling out the questionnaire:
4. What is your gender? Male Female
5. What is your age bracket? 20-30 31-40 41-50 51-60 60+
6. What is your highest academic level?
Primary Secondary Diploma Degree
Postgraduate Any other Specify.....
7. For how long have you been working in this organization:
8. Department you work in:
9. Level of your position in organization
Non-Executive Director Executive Director Senior Management
Middle management Other.....
10. What is the form of your organization's governance structure
Governance Board Operating Board Advisory Board

SECTION B: Cultivating Board Accountability (Independence/Conflict of Interest/Ethics)

Indicate the extent to which you agree with the following statements		Totally Disagree	Somewhat disagree	Neutral	Somewhat Agree	Totally agree
11.	The Chairman of the board and/or board members is/are actively involved in running the day to day operations of the organization					
12.	The board ensures ethical behavior and sets the right “tone at the top” by its own behavior					
13.	There is a clearly understood policy on conflict of interest and board members are required to declare any conflicts of interest before handling sensitive matters					
14.	Board members use their positions to influence management decisions on staff recruitment, procurement etc					
15.	There are written standards of conduct to cultivate ethical behavior of board members					
16.	Board members are aware and have signed and agreed to adhere to written standards of conduct and ethics					
17.	Board members use their positions for personal financial benefit to the detriment of the hospital					
18.	In case of unethical behavior, the board takes action to restore confidence and rebuild trust					
19.	The board has set policies for openness and transparency in the recruitment, promotion and rewarding of staff					
20.	The board has set policies for openness and transparency in procurement procedures and practices					

SECTION C: Stakeholder Engagement (Board composition and Competences, Inclusion)

Indicate the extent to which you agree with the following statements		Totally Disagree	Somewhat disagree	Neutral	Somewhat Agree	Totally agree
21.	The composition of the board of your organization embraces diversity of skills					
22.	The composition of the board of your organization embraces diversity of gender					
23.	The composition of the board of your organization embraces diversity of relevant expertise					
24.	There is a clear and open criteria of selecting members to serve in the board					
25.	The size of your board is too large when compared to the size of your organization					
26.	The board committee's structure consists of experienced, informed and engaged members					
27.	The composition of the board of your organization embraces diversity of age and experience					
28.	Current board skills composition affects the performance of the firm positively					
29.	Board selection gives high priority to owners/sponsors interests but does not consider the interests of the workers, managers, suppliers, customers, and society.					
30.	There is a limit of time that an individual board member can serve in the board					

SECTION D: Setting a shared strategic direction

Indicate the extent to which you agree with the following statements		Totally Disagree	Somewhat disagree	Neutral	Somewhat Agree	Totally agree
31.	The board continually scans the internal and external environment and considers these when setting the hospitals strategic direction.					
32.	The board proactively mobilizes human, material and financial resources and aligns them to achieve better health outcomes					
33.	The board has defined its roles and responsibilities through written policy					
34.	The board has identified and scheduled through a forward agenda, issues that it believes should be discussed/reviewed on a regular basis					
35.	Board members can and do influence the content of agendas in board meetings					
36.	There is a pre-agreed calendar of board meetings					
37.	Most board meeting time is spent on strategic and policy formulation					
38.	Most board meeting time is spent on discussing operational reports					
39.	The quality, quantity and timing of information given to board members is adequate for strategic decision making					
40.	Board members adequately prepare for board meetings in doing the reading and other preparation necessary to participate in deliberations					

SECTION E: Stewarding Resources (mobilization and monitoring resources)

Indicate the extent to which you agree with the following statements		Totally Disagree	Somewhat disagree	Neutral	Somewhat Agree	Totally agree
41.	The board respects the division of responsibility between its oversight and policy- making role and the CEO's management role					
42.	The board proactively allocates resources for growth of infrastructure and services					
43.	There is an audit and risk management committee of the board comprising of members with relevant audit and accounting skills					
44.	The board has developed accounting and auditing as a performance monitoring mechanism					
45.	Board members are trained and are actively involved in mobilizing external resources for the organization					
46.	The board is effective in monitoring operational and financial performance of the organization					
47.	The organization is financially stable now and in the foreseeable future					
48.	The board has a documented conflict of interest policy for the governing board and the staff					
49.	The board has a code of ethics and conduct for the governing board and the staff					
50.	To the greatest extent, the organization is achieving its mission and goals in a timely and cost-effective manner					

SECTION F: Board Empowerment through Assessment and development (orientation, training and evaluation)

Indicate the extent to which you agree with the following statements		Totally Disagree	Somewhat disagree	Neutral	Somewhat Agree	Totally agree
51.	Board members are aware of and clearly understand their roles and responsibilities					
52.	Board members are aware and comply with both legal and ethical codes of conduct					
53.	There are governance manuals on duties and responsibilities of the board					
54.	There is an orientation program for new board members and the program implemented adequately.					
55.	New members receive a thorough orientation before attending their first governing board meeting					
56.	The board has a written policy and budget for its education and development to regularly train and update board members on their governance skills					
57.	The board has the resources and skills required to objectively assess its performance					
58.	Board committees have documented and clearly understood terms of references					
59.	The organization has established benchmarks to aid in assessing board competences and performance at personal and team level					
60.	Board members are regularly appraised on their performance and competencies in their governance role					

SECTION G: SUMMARY/ X-Y CONTROL TABLE

Indicate the extent to which you agree with the following statements		Totally Disagree	Somewhat disagree	Neutral	Somewhat Agree	Totally agree
61.	Our ethical and moral codes have greatly influenced the positive performance of our organization					
62.	Transparency, openness and disclosure greatly influences the positive performance of our organization					
63.	The composition of the board in size, structure and diversity negatively affects performance of the organization.					
64.	The board selection considers competence, inclusion, participation and representation of all stakeholders					
65.	Current board skills composition affects the performance of the firm positively					
66.	The board sets and regularly revises the hospitals strategic direction which affects the firms performance positively.					
67.	The board has up-to-date strategic plans, policies, rules, procedures and regulations which positively affects the performance of the firm					
68.	The boards oversight and monitoring on resources greatly affects the positive performance of the Hospital					
69.	The Boards role in championing acquisition and prudent use of resources affects the firms performance positively					
70.	There exists an effective internal/external audit and risk management which positively affects the performance of the firm					
71.	There is regular appraisal on performance and competencies of board members which positively affects the performance					

	of the firm					
72.	There is regular training and updating board members on their governance skills which positively affects the performance of the firm					

SECTION G: Financial Performance Evaluation

Kindly provide a copy of your audited financial reports or fill in the following financial information from your audited accounts.

Metric	2011 Kshs in Millions	2012 Kshs in Millions	2013 Kshs in Millions	2014 Kshs in Millions	2015 Kshs in Millions
Total Operating Revenues					
Total Operating Expenses					
Operating Income					
Total Patient Revenues					
Net Surplus/ (deficit)					
Total Assets					
Total Current Assets					
Net Accounts Receivables					
Accounts Payables					
Long term Debt					
Total liabilities					
Inventory					
Net Assets					
Cash+Short term Financial Assets					

Other Related Metrics

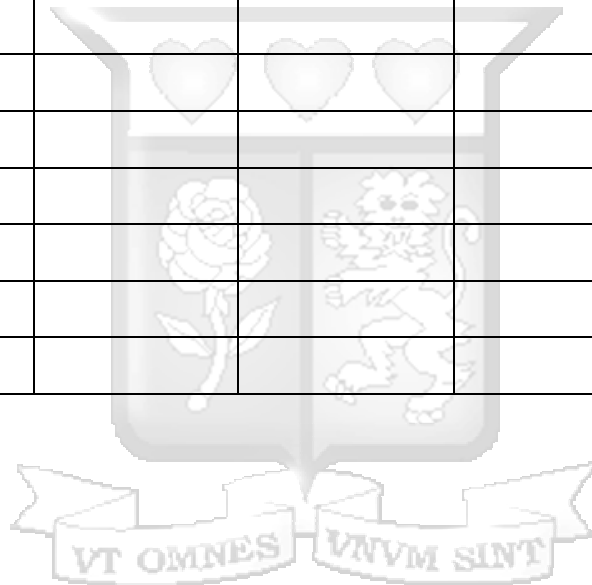
Metric	2011	2012	2013	2014	2015
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No of Inpatient beds					
Average Outpatients seen per day					
Average % Bed occupancy per day					

Infrastructure growth /Upgrade Evaluation

Kindly fill in the following information from your infrastructure improvement.

New/Upgraded infrastructure/ Major medical Equipment	2011 Cost in Kshs	2012 Cost in Kshs	2013 Cost in Kshs	2014 Cost in Kshs	2015 Cost in Kshs



Appendix II: Introduction Letter

Thursday, March 9, 2017

The CEO/Administrator/Board Member/Senior Manager

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.....
.....

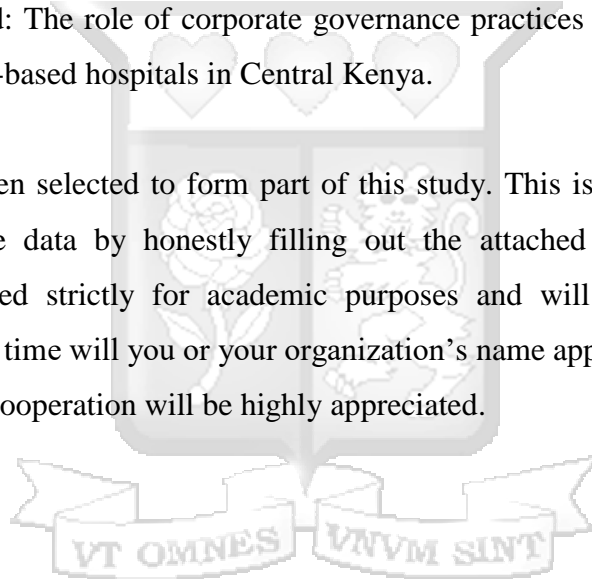
Dear Sir/Madam,

RE: RESEARCH QUESTIONARE

I am a postgraduate student at the Strathmore University pursuing an MBA degree in Healthcare Management. In order to fulfill the degree requirements, I am undertaking a research project titled: The role of corporate governance practices on financial performance of not-for-profit faith-based hospitals in Central Kenya.

Your hospital has been selected to form part of this study. This is to kindly request you to assist me collect the data by honestly filling out the attached questionnaire. The data collected will be used strictly for academic purposes and will be treated with utmost confidentiality. At no time will you or your organization’s name appear in my report. Your assistance and cooperation will be highly appreciated.

Yours faithfully,



Samuel N Mwaura
Principal Investigator

Prof Hazel Gachunga, PhD
Supervisor

Appendix III: Target Population Facilities

Table 1.1: Target Population Faith-based facilities with 100 or more beds in Central Kenya

	Code	Facility Name	H_level	Owner	Beds	Cots	County
1	10602	Kijabe (AIC) Hospital	Level 4	CHAK	265	60	KIAMBU
2	10603	Kikuyu (PCEA) Hospital	Level 4	CHAK	218	6	KIAMBU
3	11124	Tumutumu (PCEA) Hospital	Level 4	CHAK	203	18	NYERI
4	10887	North Kinangop Catholic Hospital	Level 4	KECCS	186	22	NYANDARUA
5	10825	Nazareth Hospital	Level 4	KECCS	184	84	KIAMBU
6	10100	Consolata Mission Hospital (Mathari)	Level 4	KECCS	170	17	NYERI
7	10199	Gaichanjiru Hospital	Level 4	KECCS	147	0	MURANG'A
8	10808	Mwea Mission (Our Lady of Lourdes) Hospital	Level 4	KECCS	110	10	KIRINYAGA

