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Financial Management Practices and Financial Performance of Non-Governmental Organizations in Kenya. A Case of Lower Eastern Counties in Kenya.

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ABSTRACT

Non-governmental organizations (NGOs) play a crucial role in socio-economic development, particularly in the Lower Eastern Counties of Kenya. This study examines the relationship between financial management practices and the financial performance of NGOs in this region, with a focus on identifying key practices that influence their sustainability and effectiveness. The specific objectives included investigating the influence of budget control, financial monitoring, income diversification, and cash management on the Financial Performance of NGOs in Kenya. The goal-setting theory, the modern portfolio theory, and the trade-off theory guided the study. A descriptive research design was used for this study. The target population comprised 132 NGOs in Kenya's Machakos, Kitui, and Makueni counties. Since the population is small, a census was conducted, and all 132 critical decision-makers involved in financial matters were included in the sample. Primary data was collected through the administration of questionnaires. The study conducted correlation and regression analyses to understand the relationships between financial practices and Financial Performance among NGOs in Kenya's lower eastern counties. It found significant positive correlations between budget control, financial monitoring, income diversification, cash management, and Financial Performance. Effective budget control and financial monitoring practices contribute to stability and informed decision-making, while income diversification and sound cash management enhance resilience by reducing reliance on single revenue sources and navigating economic uncertainties. Regression analysis further supported these findings, showing that these practices collectively explain a notable proportion of Financial Performance variability. This emphasizes the critical role of diverse financial practices in ensuring the longevity and effectiveness of NGOs in Kenya. The study recommends enhancing financial management practices and sustainability in Kenyan NGOs through refined budgeting processes, robust financial monitoring, diversified funding sources, and improved cash management. It emphasizes aligning budgets with strategic goals, integrating financial monitoring into decision-making, and seeking alternative revenue streams beyond grants. Additionally, fostering transparency, adhering to financial standards, and investing in training programs are recommended to ensure adequate cash management and long-term Financial Performance within NGOs, providing a roadmap for positive change.

Keywords: Financial Management Practices; Budget Control; Financial Monitoring; Income Diversification; Cash Management; Financial Performance

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1.0 INTRODUCTION

1.1 Background of the Study

The financial performance of non-governmental organizations (NGOs) is critical for their sustainability, as it enables them to continue operating even after donor funding is withdrawn

(Renz, 2010). Financial performance, in this context, refers to the NGO's ability to recover costs, maintain cash flow, and secure reliable funding sources, which Milelu (2018) describes as essential indicators of financial health. This stability ensures NGOs can sustain core projects without interruption, a quality that depends significantly on effective financial management practices, such as budgeting and financial reporting, to avoid resource wastage and maintain operational integrity (Wolmorans, 2015). As noted by Ali (2012), in Kenya, NGOs often encounter financial performance challenges, such as inconsistent donor support and insufficient financial management practices, which can hinder their mission. Globally, NGOs use a variety of strategies to achieve financial stability, with some adopting diversified funding sources and income-generating activities like social enterprises, as explored by Davies and Dart (2005). Majumdar and Marcus (2001) argue that balancing financial regulations and autonomy is crucial for NGO sustainability in different environments. In Ghana, for instance, NGOs face distinct financial management challenges that impact their financial performance, including limited funding and economic fluctuations, as Dzansi (2017) details. In Kenya's Lower Eastern counties, NGOs like the Kitui County Farmers Association address both socio-economic and environmental issues by promoting sustainable farming to improve food security in the region. This context highlights the need for diversified funding, efficient financial practices, and strong community engagement to enhance NGOs' financial resilience and mission effectiveness (Makori, 2018; Kinyua & Muchina, 2016). Overall, effective financial management is central to the sustainability of NGOs, allowing them to maintain stability and adapt to financial uncertainties.

1.2 Statement of the Problem

Financial performance is fundamental to the long-term sustainability of non-governmental organizations (NGOs), particularly as these entities play a pivotal role in addressing socioeconomic and developmental needs. According to Masa and Horton (2018), an organization's financial health directly influences its ability to achieve mission continuity. However, a report by the NGOs Coordination Board (2021) highlights a significant funding crisis: many NGOs in Kenya lack consistent financial support, resulting in stalled projects and, in severe cases, organizational closure. Presently, only 8,893 out of 11,262 registered NGOs in Kenya remain active, with a significant portion struggling to survive their nascent stages due to financial challenges (NGOs Registration Board, 2022). The dependency on foreign donors has caused NGOs to shift their project priorities to align with donor interests, thereby limiting their operational flexibility and financial resilience (Kenya National Council of NGOs, 2018). Amid global economic challenges, including recessionary pressures, funding levels for NGOs have drastically declined (Nyang'au, 2020). This financial instability has prompted NGOs to adopt strategies to ensure sustainability, although gaps persist in understanding how financial management practices directly impact financial performance in specific regional contexts. In Eastern Kenya, encompassing Kitui, Machakos, and Makueni counties, NGOs continue to face challenges due to reduced funding allocations and donor shifts towards emerging markets, which, as observed by Miriti and Karithi (2020), limit the effectiveness and reach of NGO programs. The lack of region-specific studies on financial practices leaves critical knowledge gaps concerning the efficacy of financial management strategies for NGOs. This study seeks to address this gap by examining how financial management practices, such as resource allocation and income diversification, influence the financial performance of NGOs in Kenya, ultimately aiming to support more effective, sustainable, and impactful NGO operations in these counties.

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1.3 Objectives of the Study

The study's general objective is to establish the effect of financial management practices on the Financial Performance of Non-Governmental Organizations in Kenya.

1.3.2 Specific Objectives

1. To determine the effect of budget control on the Financial Performance of non-governmental organizations in Kenya.
2. To determine the effect of financial monitoring on the Financial Performance of non-governmental organizations in Kenya.
3. To examine the impact of income diversification on the Financial Performance of non-governmental organizations in Kenya.
4. To find out the effect of cash management on the Financial Performance of non-governmental organizations in Kenya.

1.4 Research Questions

The following research questions was guided the study

1. How does budget control affect the Financial Performance of non-governmental organizations in Kenya?
2. How does financial monitoring affect the Financial Performance of non-governmental organizations in Kenya?
3. To what extent does income diversification affect the Financial Performance of non-governmental organizations in Kenya?
4. How does cash management affect the Financial Performance of non-governmental organizations in Kenya?

1.5 Scope of the study

This study was focused on non-governmental organizations operating in Kenya's Lower Eastern Region. The region has three counties: Machakos County, Kitui County, and Makueni County. Currently, there are 132 NGOs in those selected counties. The study was conducted from September to December 2023.

2.0 LITERATURE REVIEW

2.1 Theoretical Review

The theoretical framework in this study provides a foundation for understanding the principles and strategies shaping financial management practices and their influence on financial performance within NGOs. It incorporates three core theories: Goal-Setting Theory, Modern Portfolio Theory (MPT), and Trade-Off Theory. Goal-Setting Theory (Locke & Latham, 1990) posits that setting specific, challenging, and measurable goals can enhance motivation and performance, a concept that is widely applied in financial management for budget control and monitoring practices within organizations. According to Nguyen and Taylor (2003), goal-setting in financial institutions boosts employee motivation by focusing on achieving clearly defined financial targets, demonstrating the utility of this theory in guiding financial goals and improving organizational outcomes. By setting concrete financial objectives and tracking progress, NGOs can leverage this theory to foster accountability and drive performance toward long-term financial health.Modern Portfolio Theory (MPT), proposed by Markowitz (1952), emphasizes diversification as a strategy for managing risk and optimizing returns, making it highly applicable to income diversification among NGOs. MPT's key premise, which suggests constructing a balanced portfolio of uncorrelated assets to reduce risk, is relevant for NGOs that depend on a variety of funding sources to ensure financial

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resilience. The theory's efficient frontier, which represents the optimal risk-return trade-off, supports NGOs in developing diverse funding portfolios that safeguard against revenue fluctuations and align with their operational objectives. MPT thus provides a comprehensive risk management approach, aiding NGOs in creating sustainable financial structures amidst varying funding streams. Trade-Off Theory, introduced by Modigliani and Miller (1958), addresses the balance between debt and equity in capital structure, essential for cash management within NGOs. The theory's insights into the benefits of debt, like tax shields, and the drawbacks of financial distress highlight the need for NGOs to carefully manage their financial obligations. Cotei et al. (2011) found that firms across different countries adjust leverage based on trade-off dynamics, underscoring the relevance of this theory in financial decision-making. By understanding the trade-offs associated with debt financing, NGOs can develop sustainable capital structures that optimize resource allocation, minimize risk, and reinforce their financial viability. In sum, these theories collectively guide NGOs in setting realistic financial goals, diversifying income streams, and balancing financing options. They enable organizations to align financial practices with operational strategies, thereby fostering resilience, sustainability, and an enhanced capacity for community impact.

2.2 Conceptual Framework

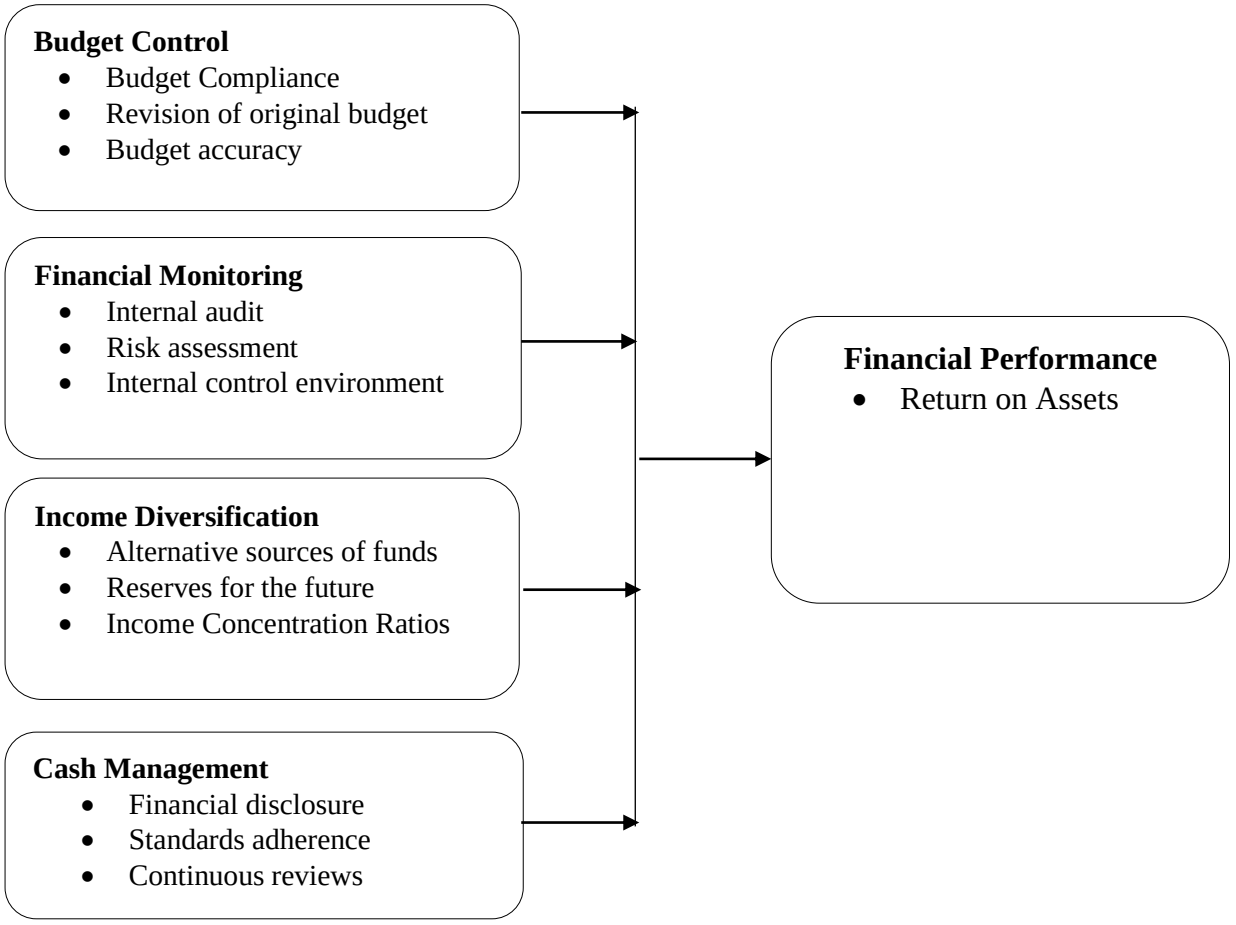

Figure 1: Conceptual Framework

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In the domain of financial management for non-profit organizations, budget control, financial monitoring, income diversification, cash management, and financial performance emerge as pivotal variables for effective financial sustainability. Keating & Frumkin (2003) and Young (1996) emphasize the role of budget control as a comparison of actual versus projected expenditures, advocating for regular monitoring and variance analysis to ensure efficient resource allocation. Anthony & Govindarajan (2007) extend this notion, describing budget control as part of a larger management system that encompasses setting objectives, performance tracking, and corrective actions. In a similar vein, Druly (2013) describes budget control as a strategic process of aligning expenditures with set budgets through rigorous tracking, thereby fostering cost management and fiscal responsibility. Financial monitoring, as highlighted by Brinkerhoff & Brinkerhoff (2011), involves the systematic analysis of financial data, which includes assessing expense tracking and budget adherence. Supporting this, Beresford & Katzenbach (2012) define it as a continuous oversight of financial activities, with regular financial reporting, variance analysis, and accountability playing essential roles in sustaining alignment with organizational objectives. Income diversification, essential for reducing fiscal vulnerability, is examined by Morduch (1999) and Ellis (1998), who propose that broadening income sources across various streams bolsters resilience against economic shocks and supports financial stability. Anand & Khanna (2000) similarly argue that income diversification enhances long-term sustainability and reduces risk by spreading revenue across multiple sectors or geographies. Cash management, as explored by Gitman & Zutter (2015), entails optimizing cash flows to maintain liquidity and operational efficiency through strategies like cash budgeting and forecasting. Lawrence Gitman (2012) concurs, underscoring that effective cash management prevents shortages, thus protecting financial stability. Finally, financial performance, the ability of an organization to sustainably support its mission, is vital; Salamon & Anheier (1997) and Masa & Horton (2018) stress the importance of diverse financing, fiscal planning, and financial ratios like current and quick ratios to gauge an organization's health. Bursk et al. (2008) and Lele & Siaw (2018) further emphasize long-term viability and the balance between financial and programmatic goals, recognizing financial performance as crucial to sustaining an organization's mission and resilience against financial instability. Together, these interconnected elements of budget control, financial monitoring, income diversification, cash management, and financial performance provide a comprehensive framework for non-profits to secure fiscal health, achieve objectives, and mitigate risks.

2.3 Empirical Review

Empirical review is a systematic approach to evaluating the evidence within a specific research area, guiding researchers in refining theories and planning future studies (O'Donnell et al., 2021). This methodology involves precise question formulation, strategic literature searches, and the establishment of clear inclusion and exclusion criteria (Sampaio & Mancini, 2007). To ensure research quality, empirical studies must adhere to reporting guidelines that encompass all essential details (Khan et al., 2018). Such reviews do not aim to establish a universal replication rate but facilitate the incorporation of evidence strength into ongoing research endeavors. In the context of budget control and financial performance, Hrynchyshyn (2021) highlights the necessity of systematic budgetary control within local governments, asserting its role in enhancing governmental efficiency and public trust. Complementarily, Zolotareva (2021) critiques Russia's financial performance, identifying systemic inefficiencies linked to budgetary control failures. Further, Isaac et al. (2015) underscore the significance of stakeholder involvement in budgeting

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within the Nigerian National Petroleum Corporation, advocating for collaborative budget preparation to improve organizational productivity. Additionally, Cuadrado-Ballesteros and Marco (2022) demonstrate a positive correlation between budget transparency and financial performance across 110 countries, emphasizing its role in fostering governmental accountability. Conversely, Matsoso et al. (2021) explore the perceptions of budgeting among SMEs, concluding that stakeholder engagement is crucial for successful budget implementation. Together, these studies affirm that effective budgetary practices and transparency are vital for improving financial performance and fostering organizational trust. Income diversification is a crucial factor influencing financial performance across various sectors. Osei-Kuffour and Peprah (2020) examine private tertiary institutions in Ghana, revealing a positive correlation between income diversification and financial performance, accounting for 17.6% of performance variation. They emphasize the role of institutional characteristics, noting that denominational institutions rely more on diversification for financial viability. Similarly, Zhikang et al. (2022) investigate seven emerging Asian economies, finding that revenue diversification enhances bank efficiency while negatively correlating with non-performing loans, underscoring its significance in competitive markets. Jiang and Han (2018) explore the non-linear relationship between income diversification, profitability, and risk in commercial banks, suggesting tailored diversification strategies based on bank size. In Ghana, Senyo et al. (2015) highlight non-interest income's role in stabilizing bank profits, while Kaur et al. (2018) show that income diversification positively impacts the financial stability of Indian banks. Githaiga (2021) extends this discussion to microfinance institutions (MFIs), finding a significant positive effect of revenue diversification on financial viability, urging MFIs to prioritize diversification over reliance on subsidies. Duho et al. (2021) further contribute by linking income diversification to improved loan quality in MFIs, although noting potential market risks. These studies collectively underscore the importance of income diversification as a strategy for enhancing financial performance, emphasizing the need for tailored approaches that consider institutional characteristics and market conditions. This growing body of literature highlights the critical role of diversification in fostering financial stability and sustainable growth across various sectors.

3.0 RESEARCH METHODOLOGY

In this study, a descriptive research design was employed to effectively address the research problem, allowing for a structured and coherent approach to data collection and analysis. The choice of this design was informed by its ability to provide a detailed understanding of the characteristics, behaviors, and features of the target population without manipulating the subjects involved (Abbott & McKinney, 2013). The target population consisted of 132 registered NGOs operating in the Lower Eastern Counties of Kenya, specifically Kitui, Machakos, and Makueni, as documented by the county government's records as of July 31, 2023 (Trochim & Donnelly, 2006). A census sampling technique was utilized, which involved collecting data from all key overall heads and those involved in financial decisions within these NGOs, thus ensuring comprehensive insights into the population. For data collection, questionnaires were utilized as the primary instrument, designed to gather both qualitative and quantitative data. The questionnaires incorporated closed and open-ended questions, facilitating efficient data collection while maintaining objectivity (Andres, 2012). Before the actual data collection, ethical considerations were meticulously observed, including obtaining necessary approvals from relevant governmental bodies and ensuring respondent confidentiality. The data collection procedure involved the

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researcher personally delivering the questionnaires to the CEOs of the NGOs, allowing participants adequate time to respond thoughtfully. A pilot study was conducted to ascertain the validity and reliability of the research instruments, with adjustments made based on the findings (Connelly, 2008; Roopa & Rani, 2012; Souza et al., 2017). After data collection, statistical analyses were carried out using SPSS to interpret the findings and establish relationships between the study variables, employing both descriptive and inferential statistics. This methodological framework provided a robust basis for understanding the financial performance of NGOs in the specified region.

4.0 RESEARCH FINDINGS AND DISCUSSION

4.1 Response Rate

The target population for the study was 132 NGOs operating in the lower eastern counties of Kenya as of 31st July 2023. After the pilot test of the research instrument, desired corrections were made. The researcher then personally visited the headquarters of the registered NGOs within these counties and presented the questionnaires to the CEOs of the organizations for the responses. In the process of coding data, 6 questionnaires were found not to have sufficient responses and, therefore, discarded. 126, which was about 95% of them, were properly filled and given the go-ahead to analyze the data.

4.2 Descriptive Statistics

Descriptive statistics is a branch of statistics that deals with data collection, organization, presentation, and interpretation. Its primary objective was to describe and summarise the features of a dataset through numerical calculations. According to this study, the descriptive statistics were done variable-wise to explain the behavior of data as follows.

4.2.1 Descriptive Statistics for Budget Control

Descriptive statistics for budget control were done to ascertain the characteristics of the collected data. NGOs could better understand their financial patterns, identify areas for improvement, and make informed decisions to optimize their budgeting strategies using the findings of these statistics. These findings are summarized in Table 1.

Table 1: Descriptive Statistics for Budget Control

Item	N	Mean	SD	Skewness	Kurtosis
The NGO has a well-defined budgeting process in place.	126	4.51	.502	.000	-2.033
Budgets are regularly reviewed and adjusted to reflect changing circumstances.	126	4.23	.359	1.975	1.932
Budgets are effectively communicated to all relevant staff members.	126	3.98	.615	-.046	-.329
The NGO uses historical financial data to inform budget decisions.	126	4.57	.742	.884	-.637
Budgets are aligned with the NGO's strategic goals and objectives.	126	4.02	.914	1.072	.552
There are mechanisms in place to monitor and control budget variances.	126	4.08	.615	-.046	-.329
The NGO encourages input from staff members in the budgeting process.	126	4.98	.423	-1.298	-.322

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Budget performance reports are regularly analyzed to inform future budget planning.	126	4.71	.423	-1.298	-.322

The findings from the descriptive statistics offer insights into how respondents perceive various aspects of budget control within non-governmental organizations (NGOs) in the lower eastern counties of Kenya, as measured on a Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The researcher provided various statements regarding budget control. The first finding shows that NGOs have a well-defined budgeting process, which is reflected by a high mean score of 4.51. This indicates that respondents generally agree on the structured nature of their budgeting systems. The low SD of 0.502 suggests minimal variability, meaning that the perception of a structured budgeting process is consistent across the organizations. The skewness value of 0.000 indicates a symmetrical distribution of responses, while the kurtosis value of -2.033 suggests that the distribution is flatter than normal, with fewer extreme opinions. This highlights that structured budgeting is a common and uniform practice in these NGOs.

Next, the findings indicate that budgets are regularly reviewed and adjusted to reflect changing circumstances, with a mean score of 4.23. This suggests strong agreement among respondents. The low SD of 0.359 reflects slight response variation, indicating consistency in how organizations approach budget adjustments. However, a skewness value of 1.975 indicates that while the majority agree with this practice, a few respondents do not observe frequent budget reviews in their organizations. The kurtosis value of 1.932, indicating a peaked distribution, shows that most responses cluster near the mean, underscoring that regular budget reviews are widely practiced, though not universally implemented.

Regarding the communication of budgets to staff, the mean score of 3.98 reflects moderate agreement, suggesting that budget communication is generally effective but not uniformly. The higher SD of 0.615 indicates more variation in the responses, pointing to potential inconsistencies in how budgets are communicated across different NGOs. The skewness value of -0.046 shows a nearly symmetrical distribution of responses, while the kurtosis value of -0.329 suggests that the distribution is close to normal but slightly flatter. This implies that while most respondents agree with the effectiveness of budget communication, some organizations may face challenges in ensuring that relevant staff members are fully informed.

Regarding using historical financial data to inform budget decisions, the mean score of 4.57 indicates strong agreement that NGOs utilize historical data in their budgeting processes. The SD of 0.742 reflects moderate variation, with some organizations possibly relying more heavily on historical data than others. A skewness value of 0.884 indicates that while most respondents agree, a small proportion may not fully integrate historical financial data into their budgeting decisions. The kurtosis value of -0.637 suggests a flatter distribution, meaning the responses are somewhat spread out, although the general trend is positive.

The alignment of budgets with the NGO's strategic goals and objectives has a mean score of 4.02, indicating general agreement. However, the SD of 0.914 points to a higher degree of variability, meaning that some NGOs may struggle to align their budgets with their broader strategic aims. A skewness value of 1.072 reflects that while most respondents agree, a minority may struggle with this aspect of budgeting. The kurtosis value of 0.552 indicates a moderately peaked distribution, showing that while many responses are close to the mean, there is still noticeable variation, suggesting room for improvement in aligning budgets with strategic goals.

The findings on the presence of mechanisms to monitor and control budget variances reveal a

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significant area of concern. With a mean score of 4.08, respondents generally agree that their organizations have adequate systems to monitor budget variances. This indicates the absence of a potential gap in budget control practices, which could negatively affect financial performance. The SD of 0.615 suggests moderate variability, showing that while some organizations may have such mechanisms, the majority do not. The skewness and kurtosis values are similar to budget communication, indicating that this issue is widespread and needs attention.

4.2.2 Descriptive Statistics for Financial Monitoring.

By employing descriptive statistics in financial monitoring, NGOs can better understand their financial performance, identify areas for improvement or risk mitigation, and make informed decisions to achieve their financial goals. The findings were summarized in Table 2.

Table 2. Descriptive Statistics for Financial Monitoring.

Item	N	Mean	SD	Skewness	Kurtosis
The NGO has a structured financial monitoring system in place.	126	4.05	.359	-1.975	1.932
Financial reports are regularly reviewed to track performance.	126	4.13	.446	-1.050	-.913
Budget adherence is closely monitored and enforced	126	4.50	.502	.000	-2.033
Financial data is used to make informed strategic decisions	126	3.75	.423	1.298	-.322
The NGO lacks effective tools for real-time financial tracking	126	3.01	1.07	-.739	-.721
The NGO has a dedicated financial monitoring team or officer	126	4.19	1.04	.623	-.934
Financial monitoring processes are well-documented and standardized	126	4.02	.786	.141	-1.363
Financial monitoring activities are not integrated into decision-making.	126	3.45	1.121	-.311	-1.426

The descriptive statistics for financial monitoring provide a comprehensive view of how NGOs in the Lower Eastern Counties of Kenya monitor their financial performance. Each aspect of financial monitoring is evaluated in terms of the mean, standard deviation (SD), skewness, and kurtosis, offering a clear understanding of the effectiveness and consistency of these practices across the organizations.

The first item, whether the NGO has a structured financial monitoring system, shows a mean score of 4.05. This indicates that respondents generally agree that structured financial monitoring systems exist in their organizations. The low SD of 0.359 suggests little variability in the responses, indicating consistency in how this practice is perceived across the NGOs. The negative skewness of -1.975 reflects that most respondents strongly agree with the statement. At the same time, the kurtosis value of 1.932 suggests a peaked distribution, indicating that most responses are concentrated around the mean.

For the second item, the regular review of financial reports to track performance has a mean of 4.13, signifying strong agreement among the respondents. This implies that financial reports are consistently reviewed to assess organizational performance. The SD of 0.446 indicates moderate response variation, while the skewness of -1.050 suggests that most respondents lean toward

agreement. The kurtosis value of -0.913 reflects a relatively flat distribution, indicating a spread of responses, though the consensus is positive.

Budget adherence is closely monitored and enforced, reflected by a high mean score of 4.50. This shows that NGOs place significant emphasis on monitoring budget compliance. The low SD of 0.502 suggests a slight response variation, implying that this practice is consistently applied across organizations. The skewness value of 0.000 indicates a symmetrical distribution, while the kurtosis value of -2.033 suggests a flatter distribution, meaning there are fewer extreme responses. This finding highlights that budget enforcement is a common and well-accepted practice among the NGOs.

The use of financial data to make informed strategic decisions has a mean score of 3.75, indicating moderate agreement. This suggests that financial data is used for strategic decision-making, although not as strongly as other aspects of financial monitoring. The SD of 0.423 shows relatively low variation in responses, while the positive skewness of 1.298 reflects that some respondents may not fully agree with this practice. The kurtosis value of -0.322 suggests a slightly flatter distribution, meaning that while many agree, there is still a spread in opinions on this issue.

The item stating that the NGO lacks practical tools for real-time financial tracking has a mean score of 3.01, indicating a neutral or mixed response. This suggests that NGOs are divided on whether they have practical real-time financial tracking tools. The relatively high SD of 1.079 reflects considerable variability in the responses, pointing to significant differences in the availability of such tools across different organizations. The negative skewness of -0.739 indicates that more respondents disagree with the statement, while the kurtosis value of -0.721 reflects a relatively flat distribution.

The presence of a dedicated financial monitoring team or officer is supported by a mean score of 4.19, indicating general agreement among the respondents. This suggests that most NGOs have a specific team or individual responsible for financial monitoring. The SD of 1.043 indicates moderate response variability, meaning some NGOs may not have dedicated teams. The positive skewness of 0.623 suggests that a minority of respondents might not have this setup, while the kurtosis value of -0.934 indicates a flatter distribution, suggesting a spread of opinions.

Financial monitoring processes being well-documented and standardized has a mean score of 4.02, indicating that respondents generally agree with this statement. This shows that most NGOs have standardized processes for financial monitoring. The SD of 0.786 indicates moderate response variation, reflecting that not all organizations may have fully standardized their processes. The skewness of 0.141 indicates a fairly symmetrical distribution, while the kurtosis value of -1.363 suggests a flatter distribution, implying that responses are more spread out.

Lastly, the integration of financial monitoring activities into decision-making processes is indicated by a mean score of 3.45. This reflects a moderately neutral response, suggesting that financial monitoring is not fully integrated into decision-making in some NGOs. The high SD of 1.121 suggests significant response variation, indicating that this practice is inconsistent across different organizations. The negative skewness of -0.311 suggests that more respondents disagree with the statement, while the kurtosis value of -1.426 reflects a relatively flat distribution, indicating a wide range of opinions.

These findings collectively show that while NGOs in the Lower Eastern Counties of Kenya have established structured systems and teams for financial monitoring, there are variations in the use of financial data for decision-making, real-time tracking capabilities, and the integration of

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monitoring processes into overall decision-making. Addressing these gaps could enhance the financial management practices in these organizations.

4.2.3 Descriptive Statistics for Income Diversification

Descriptive statistics were valuable for analyzing income diversification strategies, which involve generating revenue from multiple sources to reduce risk and increase overall financial stability. Table 3 provides key descriptive statistics that were applied to income diversification.

Table 3: Descriptive Statistics for Income Diversification

Item	N	Mean	SD	Skewness	Kurtosis
The NGO actively seeks diverse sources of funding beyond grants.	126	4.12	1.245	1.489	1.104
Income diversification is considered a priority in our financial strategy.	126	4.05	1.078	1.975	1.932
We have explored various income-generating activities as a means of diversification	126	3.99	1.210	.539	-1.449
Our organization relies heavily on a single source of funding	126	3.92	1.267	-1.470	1.037
Income diversification has not been a focus for our NGO.	126	1.05	.979	-1.085	.314
We regularly assess the potential risks and benefits of income diversification.	126	4.18	.488	.496	-1.782
Income diversification has positively impacted our Financial Performance.	126	4.23	.745	1.010	-.459

The first item, which addresses whether the NGO actively seeks diverse funding sources beyond grants, has a mean score of 4.12. This suggests that most respondents agree that their organizations proactively explore alternative funding sources. The high standard deviation (SD) of 1.245 indicates considerable response variability, implying that some NGOs may not prioritize this practice as much as others. The positive skewness of 1.489 suggests that while many organizations actively seek diverse funding, some lag in this effort. The kurtosis value of 1.104 indicates a peaked distribution, meaning that most responses are clustered around the higher end of the scale, showing a strong overall tendency toward income diversification efforts.

For the second item, the mean score of 4.05 indicates that income diversification is generally considered a priority in the financial strategies of the NGOs surveyed. The SD of 1.078 suggests moderate variability, meaning that while many NGOs prioritize income diversification, some may not view it as a top concern. The skewness value of 1.975 reflects that most organizations agree with this statement, but a few may place less importance on diversification. The kurtosis value of 1.932 indicates a peaked distribution, showing that responses are concentrated around the mean, reinforcing the finding that diversification is a strategic priority for many NGOs.

Regarding whether NGOs have explored various income-generating activities as a means of diversification, the mean score of 3.99 reflects moderate agreement among respondents. This suggests that NGOs are exploring income-generating activities, though not universally. The SD of 1.210 indicates significant response variability, suggesting differences in how extensively this practice is applied across organizations. A skewness value of 0.539 shows that more respondents

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agree with the statement than disagree, but there is still a noticeable spread of opinions. The negative kurtosis of -1.449 indicates a flatter distribution, implying a wider range of responses, showing that while exploration of income-generating activities is joint, its depth varies between NGOs.

The reliance on a single funding source shows a mean score of 3.92, indicating that some NGOs depend heavily on one. The SD of 1.267 indicates high variability, meaning some organizations are more diversified, while others may depend highly on a single source. The negative skewness of -1.470 reflects that many NGOs disagree with this statement, showing they are not reliant on just one funding stream, while some still heavily rely on a single source. The kurtosis value of 1.037 shows a moderately peaked distribution, indicating that opinions cluster around this central theme of mixed reliance on diverse funding streams.

For the statement that income diversification has not been a focus for the NGO, the mean score is extremely low at 1.05, showing strong disagreement. This suggests that almost all respondents believe income diversification is, in fact, a focus for their organizations. The SD of 0.979, though relatively high, reflects some variation, with a minority potentially not prioritizing diversification. The skewness value of -1.085 indicates a strong lean toward disagreement. In contrast, the kurtosis value of 0.314 reflects a relatively flat distribution, showing that while most NGOs focus on diversification, a few may still overlook it.

The regular assessment of the potential risks and benefits of income diversification has a mean score of 4.18, indicating that NGOs largely agree that this practice is part of their financial management strategy. The SD of 0.488 suggests low variability, meaning this practice is consistently applied across organizations. The positive skewness value of 0.496 shows a slight tendency toward higher agreement, while the negative kurtosis value of -1.782 suggests a flatter distribution. The results indicate a wide range of responses but with a strong overall inclination toward regular risk-benefit assessments.

Finally, the statement that income diversification has positively impacted financial performance has a mean score of 4.23, suggesting that respondents strongly agree. The SD of 0.745 reflects moderate response variability, meaning that while most NGOs see a positive impact, some may experience less tangible benefits. The skewness value of 1.010 indicates that more respondents lean toward agreeing. In contrast, the kurtosis value of -0.459 shows a flatter distribution, implying that while positive effects are widely recognized, there are some variations in the magnitude of the perceived benefits.

4.2.4 Descriptive Statistics of Cash Management

Descriptive statistics played a crucial role in analyzing cash management practices within NGOs. Table 4 shows some key descriptive statistics used in assessing cash management:

Table 4; Descriptive Statistics of Cash Management

Item	N	Mean	SD	Skewness	Kurtosis
Our NGO follows rigorous financial disclosure practices to maintain transparency in cash management	126	4.29	1.268	1.298	-.322
We regularly adhere to established financial standards and guidelines in our cash management procedures	126	4.43	.423	1.298	-.322
We periodically review and update our cash	126	4.17	.381	-1.735	1.026

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management policies to align with changing financial requirements					
Our organization occasionally faces challenges in adhering to financial standards in cash management	126	3.11	1.346	.475	-1.651
Cash management practices lack transparency and adherence to financial standards in our NGO	126	1.62	.488	-.496	-1.782
We conduct continuous audits and evaluations of our cash management processes to identify areas for improvement	126	4.48	.496	-.325	-1.925
Financial disclosure and adherence to standards have positively influenced our cash management efficiency.	126	4.16	.845	1.298	-.322

The first item, if NGOs use rigorous financial disclosure standards to maintain transparency in cash management, yields a mean score of 4.29. This suggests that most respondents feel their organizations maintain high levels of openness by following stringent financial disclosure guidelines. A high score like this indicates a strong consensus among respondents, implying that transparency is essential to financial management in these NGOs. However, the standard deviation (SD) of 1.268 indicates significant variability, implying that while most NGOs adhere to these disclosure norms, others may not do so as consistently. The skewness value 1.298 suggests that most replies fall on the higher end of the scale, indicating significant agreement with the statement. However, a few NGOs may not be as attentive to ensuring transparency. The negative kurtosis value of -0.322 suggests a generally flat distribution, indicating that, while most respondents agree, there are varied degrees of agreement, with some NGOs perhaps falling short in this area.

The second item, which evaluates the consistent adherence to established financial norms and principles in cash management operations, has an even higher mean score of 4.43. This shows that NGOs prioritize adherence to these financial rules. The low standard deviation of 0.423 suggests little answer variability, implying that most NGOs follow these rules consistently in their financial management processes. This consistency may indicate a strong organizational culture prioritizing financial prudence and adherence to recognized norms. The skewness rating 1.298 indicates a substantial positive skew, implying that most respondents agree with this statement, albeit a tiny minority may not follow these principles as rigidly. Similarly, the negative kurtosis value of -0.322 indicates that, while most replies are concentrated around agreement, there is a broad dispersion, implying that certain NGOs may have difficulty adhering to these financial norms.

The statement that cash management policies are routinely reviewed and revised in line with changing financial requirements gets a mean score of 4.17, indicating that respondents generally think that their NGOs are proactive in keeping their cash management procedures up to date. The low standard deviation of 0.381 emphasizes the consistency of responses, indicating that this practice is common across most NGOs. This level of consistency may indicate that NGOs recognize the significance of periodically modifying their policies to remain compliant with changing financial legislation and market situations. The negative skewness value of -1.735 indicates that most respondents strongly agree with this statement, implying that revising policies is not an infrequent activity but a critical component of the cash management process in many NGOs. Furthermore, the positive kurtosis value of 1.026 suggests a peaked distribution, implying that responses are clustered around this high level of agreement, demonstrating a substantial

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consensus among respondents on the need for policy reviews.

Conversely, the statement that organizations occasionally experience difficulties complying with financial rules in cash management has a mean score of 3.11, indicating a neutral view. This shows that certain NGOs have difficulty adhering to financial norms, but others do not. The high standard deviation of 1.346 suggests significant response diversity, alluding to different NGO experiences. Some organizations may have well-established systems that enable them to easily comply with financial norms, while others may struggle owing to resource constraints or external circumstances. The skewness score of 0.475 suggests that more respondents agree with the statement, albeit not overwhelmingly, while the negative kurtosis value of -1.651 indicates a flatter distribution. This shows that attitudes on this topic are more diverse, with no solid agreement on whether adherence to financial rules poses a considerable barrier for NGOs.

The statement that NGOs' cash management operations lack transparency and respect for financial norms received a low mean score of 1.62, indicating strong disagreement. Most respondents believe that their NGOs maintain openness and adherence to standards in their cash management methods, opposing the notion that these qualities are absent. The low standard deviation of 0.488 supports this, indicating minor diversity in responses—most organizations agree that they satisfy the necessary transparency requirements. The negative skewness value of -0.496 indicates that most respondents disagree with this statement, demonstrating that openness and compliance are essential organizational priorities. Furthermore, the negative kurtosis score of -1.782 indicates a flatter distribution, implying that, while there is significant disagreement with this statement, some respondents believe that transparency or adherence to standards may be improved in their NGO.

The mean score of 4.48 demonstrates substantial agreement among respondents on regular audits and reviews of cash management systems to find areas for improvement. This shows that many non-governmental organizations (NGOs) conduct frequent audits and inspections of their cash management procedures to improve efficiency and financial health. The low standard deviation of 0.496 indicates that this practice is prevalent among organizations, with little diversity in replies, implying that it is a common and valued practice in most non-governmental organizations. The negative skewness value of -0.325 indicates that most respondents strongly agree with this statement, while the negative kurtosis value of -1.925 suggests a relatively flat distribution. This shows that while most non-governmental organizations (NGOs) conduct continuous audits, there may be variations in how rigorous or frequently these processes are conducted.

Finally, respondents agreed that financial disclosure and adherence to rules improve cash management efficiency, with a mean score of 4.16. The standard deviation of 0.845 indicates substantial diversity in replies, implying that while many NGOs gain from these techniques, a few may not. The positive skewness score of 1.298 indicates that more respondents strongly agree with the statement. In comparison, the negative kurtosis score of -0.322 indicates a somewhat flat distribution, implying that, while there is consensus, the degree of perceived impact on efficiency varies between organizations. This could represent disparities in how effectively NGOs adopt financial disclosure and standards, resulting in variable amounts of cash management efficiency improvement.

4.2.5 Descriptive Statistics for Financial Performance

Descriptive statistics for Financial Performance provided essential insights into the behavior and characteristics of Financial Performance. The mean, representing the average, offers a central measure of performance. At the same time, the standard deviation indicates the volatility or risk

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associated with the strategy or, rather, the deviation from the mean. Skewness revealed the asymmetry in the Financial Performance distribution, with positive skewness suggesting more extreme positive and negative skewness indicating the opposite. Kurtosis highlights the peakedness or flatness in Financial Performance distribution, aiding in understanding the potential for outlier events. The findings are summarized in Table 5

Table 5 Descriptive Statistics for Financial Performance

	Min	Max	Mean		SD	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	SE	Statistic	Statistic	SE	Statistic	SE
ROA	-1.62	2.24	.0931	.1063	.86725	.386	.315	.068	.418

A better understanding of the financial performance of non-governmental organizations (NGOs) in Kenya's Lower Eastern Counties was gained from the descriptive statistics for the dependent variable, Financial Performance, which was determined using Return on Assets (ROA). Each NGO's net income was divided by the entire value of its assets to determine ROA. The organization's profit or excess after all costs were subtracted from revenues is known as net income. All of the organization's possessions, including money, machinery, real estate, and other revenue-producing resources, are included in its total assets. This ratio demonstrates how well an NGO makes use of its resources in order to produce profits. ROA can show how well NGOs balance their financial health and larger mission, as these organizations often focus on financial performance and social impact.

The NGOs provide an average positive but modest return on their assets, according to Table 4.7's mean ROA value of 0.0931. This implies that although these companies may usually profit, the yields are not very substantial. This may reflect the operational difficulties that non-governmental organizations (NGOs) frequently encounter, including financing scarcity, inefficient use of resources, or the nature of their work, which may put social effects ahead of profit. The precision of the mean estimate is measured by the standard error of 0.1063, which shows that although there is a noticeable fluctuation in the financial performance of the NGOs, the sample mean is generally consistent.

The ROA value range, which starts at -1.62 and goes up to 2.24, illustrates the range of financial results that the NGOs in the area have encountered. The negative minimum number implies that specific non-governmental organizations are running at a loss. This could be because of excessive operating expenses, inadequate financial management procedures, or outside variables like difficult donor funding or economic downturns. However, the greatest score of 2.24 shows that certain NGOs are turning a significant profit, most likely due to resource efficiency, successful fundraising campaigns, or good financial management. This broad range highlights the sector's financial performance disparity, with some businesses struggling while others prosper.

The distribution of ROA among the NGOs is further clarified by looking at the skewness and kurtosis data. With a longer tail on the left, the distribution of ROA is somewhat asymmetrical, as indicated by the skewness of 0.386, which shows a minor negative skew. This shows that NGOs tend to have ROA values below the mean rather than above it, suggesting that these organizations typically have poorer financial success than excellent financial performance. With a kurtosis value of 0.068, which is rather near to zero, the distribution of ROA appears to be roughly normal with no significant outliers. This suggests that although there are differences in financial performance, they are neither unduly wide or centered around a small number of companies. Rather, the sample's

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financial performance is fairly balanced, with most NGOs reporting moderate amounts of return on assets.

4.3 Inferential Statistics

4.3.1 Regression analysis

Regression analysis is a statistical method used to examine the relationship between one dependent variable and one or more independent variables. The study was to examine the financial practices and sustainability of non-governmental organizations in Kenya, a case of Lower Eastern Counties in Kenya. The objectives were to examine the effect of budget control, financial monitoring, income diversification, and cash management on the Financial Performance of non-governmental organizations in Kenya. The finding involves discussing the model summary, the ANOVA, and the model coefficients, as shown in tables 6, 7, and 8.

Table 6 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.622[a]	.387	.377	1.92223

a. Predictors: (Constant), Budget_Control, Financial_Monitoring, Income_Diversification, Cash_Management.

The finding from the model summary, R is the multiple correlation coefficient, often referred to as Pearson's correlation coefficient (r). It measures the strength and direction of the linear relationship between the predictor variables (Budget Control, Financial Monitoring, Income Diversification, and Cash Management) and the dependent variable (Financial Performance). In this case, the value of R is 0.622, indicating a moderate positive correlation between the predictors and the dependent variable. R Square is the coefficient of determination, representing the proportion of variance in the dependent variable explained by the model's independent variables. In other words, R^2 indicates the goodness of fit of the regression model. In this case, the R^2 value is 0.387, meaning that approximately 38.7% of the variance in the Financial Performance of non-governmental organizations in Kenya is explained by budget control, financial monitoring, income diversification, and cash management.

Studies with similar findings were identified. The study by Lu et al. (2019) provides insights into the relationship between financial management practices and nonprofit sustainability, emphasizing the significance of effective financial strategies in driving organizational viability. The research findings, supported by a substantial R^2 value of 0.40, underscore the critical role of financial management practices in enhancing sustainability outcomes for nonprofit organizations over five years. Hung and Hager (2018) provide relevant insight into the impact of revenue diversification on nonprofit financial health. While the reference focuses on revenue diversification, it contributes to the broader understanding of financial strategies that influence organizational sustainability, thus supporting the importance of financial management practices in ensuring long-term viability and resilience.

Table 7 ANOVAa

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	287.392	4	71.848	19.12886	.000[b]
	Residual	454.481	121	3.7560		
	Total	741.873	125			

a. Dependent Variable: Financial_Performance

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b. Predictors: (Constant), Budget_Control, Financial_Monitoring, Income_Diversification, Cash_Management

The ANOVA table provided summarizes the results of a regression analysis aimed at understanding the factors influencing Financial Performance. The model examines the impact of several predictor variables, including Budget Control, Financial Monitoring, Income Diversification, and Cash Management, on Financial Performance. The analysis reveals that the regression model as a whole is statistically significant, with a large F-statistic of 19.12886 and a p-value of practically 0.000. This indicates that the collective influence of the predictor variables on Financial Performance is beyond what would be expected by chance alone. Consequently, the model effectively explains a notable proportion of the variability observed in Financial Performance.

Table 8 Model Co-efficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-7.32	5.510		-1.329	.000
	Budget Control	1.289	.214	.146	6.023	.004
	Financial Monitoring,	1.183	.245	.197	4.829	.000
	Income Diversification	1.817	.283	.892	6.420	.000
	Cash Management	1.376	.205	.725	6.718	.000

a. Dependent Variable: Financial Performance

Fitted Model

$$Y = -7.32 + 1.289X_1 + 1.183X_2 + 1.817X_3 + 1.376X_4 + \varepsilon$$

The model coefficients in Table 8 offer valuable insights into the relationship between the predictor variables and Financial Performance. Starting with the constant coefficient, which represents the expected value of Financial Performance when all predictor variables are zero, it is noted to be -7.32. This suggests an expected negative value for Financial Performance without any predictor variables. Budget Control shows a coefficient of 1.289, implying that for each unit increase in Budget Control, Financial Performance is expected to increase by approximately 1.289 units. The associated p-value of .004 indicates that this coefficient is statistically significant at conventional levels, suggesting that Budget Control has a distinct impact on Financial Performance.

Similarly, Financial Monitoring, Income Diversification, and Cash Management exhibit positive coefficients of 1.183, 1.817, and 1.376, respectively. These coefficients signify the expected change in Financial Performance for each unit increase in the corresponding predictor variables. The relatively small standard errors associated with these coefficients indicate precise estimates. The standardized coefficients (Beta values) offer a useful metric for comparing the relative importance of each predictor variable in explaining Financial Performance. Income Diversification stands out with a Beta value of 0.892, indicating its strong impact on Financial Performance relative to other predictors. This is further supported by the large t-value of 6.420 and the associated p-value of .000, indicating high statistical significance.

Cash Management also exhibits a substantial standardized coefficient (Beta = 0.725), suggesting its considerable influence on Financial Performance. This is corroborated by the large t-value of 6.718 and the associated p-value

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5.0 CONCLUSIONS AND RECOMMENDATION OF STUDY FINDINGS

The conclusion of this study emphasized the significant role of financial practices in enhancing the financial performance of non-governmental organizations (NGOs) operating in Kenya's Lower Eastern Counties. By analyzing the response rate of 126 out of 132 targeted NGOs, a robust dataset was achieved, ensuring a high response rate of approximately 95%. The use of descriptive statistics revealed valuable insights into budgeting, financial monitoring, income diversification, and cash management practices. The analysis indicated that NGOs with well-defined budgeting processes, structured financial monitoring systems, and a proactive approach to income diversification achieved better financial performance, as reflected in the Return on Assets (ROA) metric. Furthermore, the regression analysis confirmed the hypothesis that budget control, financial monitoring, income diversification, and cash management practices positively correlated with financial performance, accounting for 38.7% of the variance in the dependent variable. These findings align with existing literature, which highlights the importance of effective financial management in ensuring the sustainability and success of NGOs.

Based on the findings, several recommendations were proposed for NGOs operating in the region. Firstly, it is crucial for NGOs to develop and implement comprehensive budgeting processes that incorporate regular reviews and adjustments to reflect changing circumstances. This practice will enable organizations to remain responsive to their financial environment. Secondly, enhancing financial monitoring systems is vital to ensure that financial reports are regularly reviewed and that budget adherence is closely monitored. Training and capacity building for staff involved in financial management should also be prioritized to strengthen financial practices. Thirdly, NGOs should actively pursue diverse funding sources to mitigate the risks associated with over-reliance on a single source of income, which is prevalent in many organizations. This can be achieved through exploring various income-generating activities and partnerships with other stakeholders. Lastly, adopting rigorous cash management practices, including regular audits and adherence to financial standards, will enhance transparency and efficiency in financial operations.

In terms of further research, the study highlighted several areas that warrant exploration. Future studies could investigate the impact of external factors, such as economic conditions and regulatory frameworks, on the financial practices and performance of NGOs in Kenya. Additionally, comparative studies between NGOs in different regions or sectors could provide insights into best practices and strategies for financial sustainability. Further research could also delve into the qualitative aspects of financial management, exploring how organizational culture and leadership influence financial practices and performance outcomes. This could involve in-depth interviews with key stakeholders within NGOs to gather richer data on their experiences and perceptions regarding financial management

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