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BOARD DIVERSITY EFFECT ON FINANCIAL SUSTAINABILITY OF NGOS IN NORTHERN KENYA

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Abstract**:** *This study aimed to assess the relationship between board diversity and the financial sustainability of NGOs in Northern Kenya. To achieve this goal, the study drew on the resource dependency theory. The study utilized a descriptive research design and a methodology that involved collecting primary data from a target population of 62 respondents, consisting of 31 managers and 31 chairpersons of the board. A multi-stage sampling technique was employed to select a sample for the study, including stratified random sampling and simple random sampling. The data collected from a sample of 54 respondents were analyzed using descriptive statistics and multiple linear regression. The results led to the conclusion that there is a significant positive statistically significant relationship between board diversity and financial sustainability. As a result, several recommendations have been proposed to enhance board diversity and enhance financial sustainability. These suggestions encompass promoting age diversity, implementing mentorship programs, and making strategic age-based appointments, along with championing gender equality through clear policies, providing cultural sensitivity training to address ethnic diversity, and establishing outreach programs for underrepresented ethnic groups to align with community needs.*

Keywords: *Board Diversity, Resource Dependency Theory, Financial Sustainability*

1. Introduction

The boardroom of an organization holds a pivotal role as the highest governing body responsible for oversight, surveillance, and decision-making. Its primary function is to provide valuable feedback, and effective advisory support and closely monitor managers who may at times prioritize their self-interest (Dong, et al., 2023). In recent years, global financial scandals like Enron, Tyco, WorldCom, and Adelphi, along with the increasing number of corporate failures, have emphasized the need to improve corporate board effectiveness. Non-governmental organizations (NGOs) have not been exempted from financial challenges, particularly following the global financial crisis of 2007/8 and the COVID-19 pandemic. These events have led funding agencies to reduce their grant disbursements to NGOs (Kabara, et al., 2022). To address this challenge, there is an increasing recognition of the importance of board diversity as a mechanism to enhance boardroom effectiveness and contribute to the organization's financial sustainability (Bagh, et al., 2023). Board diversity is firmly grounded in resource dependency theory, which sees board members as strategic assets and emphasizes that the principal function of boards of directors is resource provision. This involves the board's capacity to bring valuable assets and act as a crucial source of human capital for the organization, ultimately bolstering the organization's financial sustainability (EmadEldeen, et al., 2021).

Board diversity brings several advantages, including improved financial decision-making, creativity, monitoring, and competitiveness within organizations. The board of directors plays a central role in an organization's internal governance, with the responsibility of safeguarding shareholder interests. Consequently, a well-structured board contributes to improved decision accuracy, risk reduction, and enhanced organization's financial sustainability (Bagh, et al., 2023). Globally, there is a clear trend toward achieving greater diversity on corporate boards, encompassing factors such as gender, ethnicity, age, and professional background. This shift is driven by the belief that organizations with diverse boards tend to make more effective decisions that benefit their shareholders (Ngo, et al., 2019). While European countries have been pioneers in advancing women's rights in the workplace, other nations have followed suit, either through legal mandates or official recommendations. It has been asserted that reaching a minimum threshold of 40% of women on boards leads to the highest level of financial performance (Simionescu, et al., 2021). However, it's essential to emphasize that the promotion of women should be based on their education and professional competence to prevent any adverse impact on the corporation's profitability (Song, et al., 2020).

In contrast, board diversity in African organizations tends to be notably low. In many developing nations, decision-making remains predominantly male-dominated, both within households and in organizational settings (Webi & Puma, 2017). For example, Nigeria stands out for having a considerable number of organizations that have yet to embrace board diversity, despite the increasing volume of literature underscoring the benefits of diversified boards. These organizations face mounting pressure to diversify their boardrooms. The Society for Corporate Governance Nigeria has highlighted that excessively homogeneous boards can lead to governance failures, ultimately resulting in substantial financial losses or reduced profitability. It's worth noting that organizations in countries such as Kenya and South Africa have taken significant steps to embrace board diversity, setting them apart from the trend (Kabara, et al., 2022). However, Kenyan NGOs are grappling with financial difficulties stemming from a decline in donor funding, decreasing from 95 percent to 70 percent, despite their historical reliance on these contributions. This challenge has been exacerbated by the global financial crisis of 2007/8 and the ongoing repercussions of the COVID-19 pandemic (Kabara, et al., 2022). To address this financial strain and improve financial sustainability, it becomes imperative to explore strategies such as diversifying revenue sources, enhancing governance structures, and harnessing the potential of board diversity to bolster organizational financial stability. The study is focused on NGOs operating within community conservancies in Northern Kenya, where they play a crucial role in addressing a range of challenges, including issues related to human-wildlife coexistence, peace-building efforts, and community development. These NGOs rely heavily on financial support from international donors to sustain their operations.

2. Problem Statement

Non-Governmental Organizations (NGOs) play a crucial role in addressing societal gaps often overlooked by the public and private sectors (Webi & Puma, 2017). Historically, in Kenya, they have been heavily reliant on international donors, accounting for 95% of their funding. Nevertheless, there has been a noticeable decrease in donations, with contributions dropping to approximately 70%. This reduction has led to the closure of NGOs due to financial unsustainability, a situation further intensified by the global financial crisis of 2007/8 and the COVID-19 pandemic (Kabara, et al., 2022). This hampers the efforts to facilitate a bottom-up economic transformation agenda, as they play a crucial role in empowering marginalized communities and fostering inclusive development (KIPPRA, 2023). Additionally, it affects their board diversity as a lack of financial support can hinder their ability to attract diverse board members. This, in turn, impacts their financial sustainability, as board diversity enhances the organization's decision-making and oversight, which is crucial for financial sustainability (Dong, et al., 2023). Moreover, it will endanger the achievement of sustainable development goals, as NGOs are instrumental in driving progress in various areas such as healthcare, education, and environmental sustainability. Hence, it is imperative to recognize that the declining funding for NGOs not only endangers their own existence but also threatens the broader socio-economic and development goals, which are crucial for the well-being and advancement of Kenyan society (KIPPRA, 2023). Addressing this issue is of utmost importance to ensure the continued progress and prosperity of the nation.

The existing literature exhibits incoherencies in conceptualization, context, and findings while evaluating the relationship between board diversity and financial sustainability. For instance, EmadEldeen, et al., (2021) conducted their research on firms listed on the London Stock Exchange, uncovering a negative link between educational diversity and financial sustainability, while observing a positive association with gender diversity. On the other hand, Bagh, et al., (2023) identified that board room diversity has a positive relationship with financial performance in a study conducted on non-financial firms listed on stock exchanges in Moscow, Shanghai, Bombay, and Pakistan. However, Song, et al., (2020) established a positive link between gender diversity and financial sustainability in the lodging industry, while observing a negative association with age diversity. These divergent findings emphasize the need for a comprehensive investigation to bridge the existing gaps in conceptualization, context, and findings. Therefore, this research aimed to fill these gaps and gain a thorough understanding of the relationship between board diversity and the financial sustainability of NGOs in Northern Kenya. Ultimately, the research sought to provide valuable insights and contribute to the existing body of knowledge in the field. Furthermore, the study will offer practical recommendations to NGOs to enhance their financial sustainability through effective board diversity strategies, ensuring their continued ability to drive socio-economic and development progress in Kenya.

3. Literature Review

Resource Dependence Theory (RDT) was developed by (Pfeffer & Salancik, 1978) and posits that for an organization to secure resources it must engage in exchanges and interactions with other actors and organization within its environment. The theory assumes that organizations exist in environments where vital resources are often scarce, and these resources can encompass financial capital, information, technology, and human expertise. Additionally, it posits that organizations are inherently dependent on external sources to secure these essential resources. Therefore, they must establish and maintain relationships with these external sources to ensure a steady supply of resources. Lastly, it assumes that controlling and efficiently using resources are key determinants of an organization's power and effectiveness. Organizations are motivated to gain control over resource supplies to reduce vulnerability (Daniel-Vasconcelos, et al., 2023).

Resource Dependency Theory regards board members as a strategic asset and asserts that the primary role of boards of directors is to provide resources. This resource provision encompasses the capability of board members to contribute valuable assets and serve as a critical source of human capital for the organization, consequently enhancing the organization's performance (Di, et al., 2022). Board activities associated with resource provision include enhancing the firm's legitimacy and public image, offering expertise, providing guidance and advice, establishing connections with crucial stakeholders and external entities, facilitating resource access, nurturing external relationships, disseminating innovation, and contributing to strategic decision-making and other significant organizational choices (Dong, et al., 2023). Additionally, through networking board diversity increase the organization resources hence leading to its financial sustainability (Khidmat, et al., 2021)

In the realm of corporate governance literature, discussions have emerged regarding the relationship between board diversity and an organization's financial sustainability. The empirical evidence concerning the influence of board diversity on performance is inconclusive. These studies have employed diverse metrics to assess board diversity, including factors such as gender, nationality, race, age, and others. (EmadEldeen, et al., 2021) examined the correlation between board diversity and the financial performance of companies listed on the London Stock Exchange. The study employed measures of age diversity, nationality diversity, educational diversity, and gender diversity, with its foundation rooted in the Upper Echelons Theory, encompassing an analysis of 233 companies for the period between 2010 and 2016. The results of the regression analysis revealed a negative connection between age diversity, educational diversity, and financial sustainability, while simultaneously noting a positive association with gender diversity and nationality diversity. However, the research lacked specific recommendations, and the methodology used was not clearly delineated.

An examination of the board diversity relationship with the financial performance of Listed Chinese companies was conducted by (Khidmat, et al., 2021). The independent variable was measured using foreign national diversity, age diversity, independence diversity, and education diversity, with its foundation grounded in both the upper echelon's theory and the resource-based theory. Data was collected from companies listed on the Shanghai SSE 180 and the Shenzhen 100 between 2007 and 2016. The findings from the independent variables indicated a positive correlation with financial performance. However, the research did not specify the research design employed and did not clarify the process for determining the sample size.

A study based on the lodging industry examining the influence of board diversity on firm performance was carried out by (Song, et al., 2020). The study was underpinned by Resource Dependence Theory and the Human Capital Theory, utilizing gender diversity and age diversity as measures of board diversity. The research focused on publicly traded lodging firms in the United States. The regression results revealed a positive correlation between gender diversity and financial sustainability in the lodging industry, while simultaneously identifying a negative association with age diversity. However, the study did not specify the research design, sample size, or the instruments and methods employed for data collection.

(Bagh, et al., 2023) conducted a comprehensive examination of boardroom diversity and its impact on the financial performance of non-financial firms listed on stock exchanges in Moscow, Shanghai, Bombay, and Pakistan. This study drew from economic and resource dependency theory. The researchers analyzed a dataset consisting of 240 non-financial firms over a 13-year period (2008–2020) across the four aforementioned stock exchanges. They employed the generalized method of moments to address the common endogeneity issue in econometrics specification. The regression results unveiled a positive association between boardroom diversity and financial performance, indicating that increasing board diversity can enhance financial outcomes. However, the study did not specify any limitations or potential areas for further research.

4. Research Methodology

The study employed a descriptive research design, utilizing a multi-stage sampling approach that involved stratification based on the two targeted positions within the conservancies, specifically managers and chairpersons of the boards. Sample respondents for the study were selected from each stratum using a simple random sampling technique. The calculation of the sample size was determined using the Yamane (1967) formula, with a confidence level of 95 percent and a margin of error of 0.05. Consequently, the sample size for this study comprised 27 managers and 27 chairpersons of the board, totaling 54 respondents. Data collection primarily involved the use of emailed questionnaires to gather quantitative data. The relationship between board diversity and financial sustainability was assessed using a simple linear regression model. The strength of the relationship was assessed using the Adjusted R-Square, and the significance of individual independent variables was tested at a 5% significance level for the P-values.

5. Results and Discussion

In this section, we present the findings and engage in discussions regarding the response rate, descriptive results, and the hypothesis test.

6. Response Rate

The study employed a questionnaire to collect data on the effect of board diversity on the financial sustainability of NGOs in Northern Kenya. This questionnaire was administered to 54 respondents from NGOs in Northern Kenya. Impressively, all 54 sampled individuals completed the questionnaire, resulting in a 100 percent response rate. It's worth noting that a response rate exceeding 60 percent is generally considered satisfactory, while rates within the 70 to 85 percent range are deemed highly favorable. Response rates exceeding 85 percent are considered excellent (Masden & Wright, 2010). This exceptional 100 percent response rate ensures that the participants' responses can be effectively utilized for subsequent data analysis.

7. Board Diversity Descriptive Statistics

The study objective was to evaluate the effect of board diversity on financial sustainability. In this regard, respondents were requested to provide their responses to questions that related to various aspects of board diversity, including gender diversity, cultural diversity, and age diversity. The most highly rated response was related to the diversity of board members in terms of their age groups, scoring a mean of 4.46 and featuring a notably low standard deviation of 0.503. This low standard deviation indicates a strong consensus among respondents, with 44.3 percent strongly agreeing and 53.7 percent agreeing that the board indeed comprises members from various age groups. The high level of agreement implies that the majority of respondents held a shared perspective regarding the age diversity within the board.

Likewise, the rating for the representation of all genders on the board received a mean score of 3.94, with a standard deviation of 0.998. This standard deviation suggests more variability in the responses. Specifically, 31.5 percent of respondents strongly agreed, 46.3 percent agreed, 7.4 percent were neutral, and 14.8 percent disagreed concerning the representation of all genders on the board. This variation in responses indicates that while a significant portion agreed or strongly agreed, there was also a notable percentage of respondents who disagreed or held neutral views, highlighting differing perspectives among the participants regarding gender diversity on the board.

However, when it comes to the representation of all ethnic groups within the area of operations, the mean score was 3.91, and the standard deviation was notably higher at 1.03. This higher standard deviation points to a more pronounced variation in responses among respondents. Specifically, 29.6 percent of respondents strongly agreed with the statement, while 50.0 percent agreed. In contrast, 1.9 percent expressed a neutral stance, and another 18.5 percent disagreed with the notion. This presence of varying levels of agreement, neutrality, and disagreement contributes to a broader range of opinions on this particular aspect of the study, as reflected by the higher standard deviation. These results are presented in Table 1.

Table 1: Board Diversity Descriptive Statistics

Question	SA %	A %	N %	D %	SD %	Mean Statistic	Standard Deviation
The board represent all genders well	31.5	46.3	7.4	14.8	0.0	3.94	0.998
All ethnic groups within your area of operations are well represented.	29.6	50.0	1.9	18.5	0.0	3.91	1.03
The board consists of Members of different age gaps.	46.3	53.7	0.0	0.0	0.0	4.46	0.503

8. Board Diversity and Financial Sustainability

The research employed multiple linear regression analysis as the statistical method to explore the relationship between board diversity and the financial sustainability of NGOs operating in Northern Kenya. This approach was selected because it allows for a comprehensive examination of how various independent variables influence the dependent variable (Zikmund, et al., 2013). This approach facilitated a deeper understanding of the relationship between the predictor variable and financial sustainability.

Simple linear regression was conducted to assess the relationship between board diversity and financial sustainability of NGOs in Northern Kenya. The analysis revealed a weak positive correlation ($r = 0.3251$), indicating a weak relationship between these variables. The R-squared (R^2) value of 0.1057 suggests that approximately 10.57 percent of the variability in financial sustainability can be explained by the predictor variables. The adjusted R-squared (Adjusted R^2) value of 0.0885 reinforces this, indicating that 8.85 percent of the variations can be attributed to the studied variables.

To test the overall model's significance, an ANOVA test was conducted, and the results showed a significance value of 0.00, which is below the significance level of 0.05. This indicates that the model is statistically significant in predicting how board diversity influence financial sustainability, making the general model significant. Additionally, the study variables were examined so as to compute the coefficient of the predictor variables. The results are as indicated in table 2.

Table 2: Regression Coefficients

Model	Coefficients (β)	Std. Error	t	P
Intercept	7.259	2.074	3.50	< .001
Board Diversity	0.412	0.166	2.48	0.016

The multiple linear regression test established a prediction equation as highlighted below;

Financial Sustainability = 7.259 + 0.412 Board Diversity

This equation indicates that for every unit increase in board diversity, financial sustainability increases by 0.412, while the intercept is 7.259, representing the expected financial sustainability when board diversity is zero. Further, the regression results indicate that board diversity and its constant have a P value less than 5 percent and a coefficient (β) of 0.412 and 7.259. This indicates that there is a positive and significant relationship between board diversity and financial sustainability. These findings are in agreement with the results of a study conducted by (EmadEldeen, et al., 2021), (Khidmat, et al., 2021) and (Bagh, et al., 2023), which indicated a positive and significant relationship with financial performance.

9. Conclusion and Recommendations

The study revealed that there is a statistically significant relationship between board diversity and the financial sustainability of NGOs in Northern Kenya. Based on the study findings, several recommendations have been formulated to guide these organizations toward enhancing their board diversity and, consequently, improving financial sustainability.

First and foremost, NGOs should be encouraged to have a mix of board members from various age groups. This diversity can be leveraged to introduce fresh perspectives, foster innovative thinking, and provide a broader range of insights. Additionally, implementing mentorship programs is a recommended strategy where senior board members can guide and share their knowledge with younger ones, fostering a dynamic learning environment. Also, NGOs can make strategic appointments so as to address any gaps in age representation, fostering an inclusive and vibrant leadership team.

In terms of gender diversity, it is imperative for NGOs to establish clear and comprehensive policies that champion gender equality in their board recruitment and selection processes. These policies should be designed to guarantee equal opportunities for individuals of all genders. By doing so, organizations can create an equitable platform for board participation, ensuring that talent and expertise are the primary criteria for selection.

To address ethnic diversity, NGOs can provide cultural sensitivity and diversity training for board members. This training will enhance their awareness and understanding of different ethnic backgrounds, fostering a more inclusive and welcoming board environment. Such an approach not only contributes to diversity but also promotes a respectful and harmonious atmosphere within the organization.

Lastly, it is recommended that organizations establish outreach programs targeting underrepresented ethnic groups in the community. By actively engaging with these communities, NGOs can seek input and encourage their active participation on the board and within the organization. This approach not only broadens the pool of potential board members but also ensures that the organization is in harmony to the needs and perspectives of the diverse communities it serves.

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