

THE IMPACT OF CONTROL MECHANISMS ON THE PERFORMANCE OF ORGANIZATIONS FUNDED BY THE AFRICA ACADEMY OF SCIENCES IN KENYA.

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Abstract

This study investigates the impact of control mechanisms on the performance of organizations funded by the Africa Academy of Sciences (AAS) in Kenya. Control mechanisms, including internal controls, risk management, and compliance, are vital components of corporate governance that ensure effective monitoring and regulation of NGO operations. Using a descriptive research design, the study targeted 243 senior managers across various NGOs funded by AAS. Data was collected using structured questionnaires and analyzed using descriptive and inferential statistics. The findings reveal that control mechanisms significantly influence NGO performance, contributing to better financial sustainability, program outcomes, and accountability. The study concludes that strengthening internal controls and risk management systems is crucial for improving the performance of NGOs. The practical implications of this research are significant, empowering organizations to enhance their performance by implementing these control mechanisms effectively. Policy implications include enhancing regulatory guidelines to ensure compliance and transparency within organizations, equipping them with actionable insights.

Keywords: Control Mechanisms, Corporate Governance, NGO Performance, Internal Controls, Risk Management.

1. Introduction

Control mechanisms are integral to the governance frameworks of non-governmental organizations (NGOs), particularly those dependent on external funding to fulfill their missions. In Kenya, NGOs funded by the Africa Academy of Sciences (AAS) play a pivotal role in addressing societal challenges through scientific and developmental initiatives. However, the

performance of these organizations is often hindered by weak governance structures, inadequate internal controls, and poor risk management practices (Cheruiyot, 2022). The adoption of robust control mechanisms, which include internal controls, risk management, and compliance monitoring, is critical for ensuring that NGOs use their resources efficiently and achieve their objectives.

Existing literature suggests that NGOs with stronger control mechanisms demonstrate better financial performance, increased accountability, and greater program effectiveness (Mikeladze, 2023; Almashhadani, 2021). In contrast, organizations with weaker governance frameworks face challenges such as financial mismanagement, inefficiency, and reduced stakeholder trust. The importance of control mechanisms is further highlighted by the need for NGOs to meet donor expectations and adhere to regulatory frameworks that safeguard public trust and transparency.

This paper focuses on the role of control mechanisms in influencing the performance of NGOs funded by the AAS in Kenya. It seeks to evaluate how internal control systems and risk management strategies contribute to organizational performance, specifically in terms of financial sustainability, program outcomes, and accountability. By addressing these issues, the study provides insights into how NGOs can enhance their governance structures to improve overall performance.

2. Literature Review

2.1. Stewardship Theory

This study employed Stewardship Theory proposed by Davis and Donaldson (1997) which posits that managers act as trustworthy stewards of organizational resources, aligning their actions with the company's objectives to maximize performance. Recent proponents like Mills, Bradley, Keast (2021), and Klettner (2021) argue that this theory emphasizes trust, open communication, empowerment, and long-term performance optimization. The theory highlights how stewardship behavior, trust-building, and a sense of responsibility influence corporate governance, making it highly relevant to control mechanisms in NGOs. Managers ensure that internal controls, risk management, and compliance align with organizational missions, fostering accountability and enhancing performance. By instilling trust and responsibility within governance structures, stewardship theory reinforces the effectiveness of control mechanisms in achieving sustainable organizational success.

2.2. Empirical review

The empirical review of control mechanisms in NGOs encompasses various aspects, including internal controls, risk management, and external compliance, all of which significantly impact organizational performance.

Tran's (2021) examination of management controls in New Zealand NGOs revealed challenges in goal-setting and managing multiple accountabilities. The study emphasized the need for transparent internal controls to address the struggle between voluntarism and professionalism, although its limited sample size affects generalizability.

Oyedokun and Felejaye's (2022) study on internal controls' impact on Nigerian NGOs' financial performance uncovered the moderate positive impact of the control environment and risk assessment, with control activities strongly influencing financial performance. However, the study's methodological limitations should be considered when interpreting these findings.

Alio (2021) investigated the impact of internal controls on the sustainability of NGOs in Nairobi County, finding a strong correlation between robust internal controls, especially financial management practices, and enhanced social, financial, and environmental performance. The study recommended prioritizing internal control systems for long-term growth and sustainability, despite its focus on sustainability rather than performance and its limited scope.

Tran (2021) stressed the importance of aligning risk management with strategic planning to mitigate risks related to accountability and goal-setting in NGOs, although the study's small sample size and lack of conclusive evidence affect its applicability.

Collectively, the studies underscore the critical role of external compliance in ensuring NGOs meet donor expectations and regulatory standards. Tran (2021) recommended enhancing compliance practices with top-to-bottom accountability measures, highlighting the link between external compliance, organizational transparency, and performance.

3. Methods

3.1. Research Design

This study adopted a descriptive research design, which is practical for collecting data from a large sample and analyzing the relationship between variables. Descriptive research allows for an in-depth exploration of the role of control mechanisms on NGO performance. Using structured questionnaires, the study gathered quantitative data from a large sample, providing a comprehensive understanding of the research questions (Ansari, Rahim, Bhoje, & Bhosale, 2022).

3.2. Research Philosophy

The research is grounded in positivism, a philosophy that emphasizes objective, measurable facts and quantitative analysis. This approach aligns with the study's goal of establishing the relationship between control mechanisms and organizational performance using empirical data (Saliya, 2023). By employing quantitative methods, the study ensures neutrality and minimizes subjectivity, which is crucial for deriving reliable results.

3.3. Target Population and Sample

The target population for the study consisted of senior operations managers from 243 organizations funded by the Africa Academy of Sciences in Kenya. These managers were selected because they possess in-depth knowledge of their organizations' governance practices and performance. The study used purposive sampling to select 151 managers, ensuring that the respondents were directly involved in the decision-making processes related to corporate governance and control mechanisms.

The Yamane (1967) formula was used to calculate the appropriate sample size:

$$n = \frac{N}{1 + N(e)^2}$$

Where:

n = the sample size.

N = the population size 243.

e = the margin of error 0.05.

This resulted in a sample size of 151 managers, ensuring a high level of confidence in the results.

3.4.Data Collection and Procedures

The primary data collection instrument was a structured questionnaire designed to gather quantitative data on control mechanisms and organizational performance. The questionnaire included questions on financial reporting, risk management practices, and compliance with external regulations. A Likert scale was used to measure responses, ranging from "strongly disagree" to "strongly agree," allowing for the quantification of perceptions and attitudes.

3.5.Data Analysis

Data was analyzed using both descriptive and inferential statistics. Descriptive statistics, such as means and standard deviations, were used to summarize the responses. Inferential statistics, specifically regression analysis, were employed to determine the strength and significance of the relationship between control mechanisms and organizational performance. The following regression model was used:

$$Performance = \beta_0 + \beta_1 InternalContrl + \beta_2 RiskManagement + \beta_3 ExternlCompl + \epsilon.$$

Where:

$Performance$ = Organizationa Performance.

$InternalContrl$ = Internal Controls of the organization.

$RiskManagement$ = Risk Managemnt practices of the organization.

ExternlCompl = External Compliance practices of the organization.

β_0 = The Intercept.

$\beta_1, \beta_2, \beta_3$ = The slope coefficients.

ϵ = The error term.

4. Results

4.1. Response Rate

Out of the 151 questionnaires distributed, a total of 118 responses were received, yielding a response rate of 78.15%. This rate is deemed excellent for statistical analysis, as it surpasses the 70% benchmark recommended by Mugenda and Mugenda (2003).

4.2. Descriptive Statistics

The study measured control mechanisms through three main components: internal controls, risk management, and external compliance. Descriptive statistics for these variables are presented below.

Internal Controls: Respondents strongly agreed that internal controls, such as regular financial audits and segregation of duties, were essential for organizational performance, with a mean score of **4.28** (SD = 0.56).

Risk Management: Respondents reported that risk management strategies, such as risk assessments and contingency planning, were moderately implemented across their organizations, with a mean score of **3.92** (SD = 0.63).

External Compliance: The mean score for external compliance was **4.13** (SD = 0.58), indicating that most organizations adhered to external regulatory standards, such as donor reporting requirements and government audits.

4.3. Inferential Statistics

To test the relationship between control mechanisms and organizational performance, the following regression model was applied:

$$Performance = \beta_0 + \beta_1 InternalContrl + \beta_2 RiskManagement + \beta_3 ExternlCompl + \epsilon.$$

Table 4.1: Linear Regression Results

Variable	β Coefficient	Standard Error	t-Statistic	p-Value
Constant	1.182	0.562	2.102	0.037**
Internal Controls	0.394	0.102	3.863	0.000**
Risk Management	0.267	0.089	3.000	0.003**
External Compliance	0.321	0.111	2.892	0.005**

Source: Researcher (2024).

Significance: $p < 0.05$, indicating strong evidence of a relationship between control mechanisms and NGO performance.

As evident in the table 4.1 above, the model yielded an R^2 value of 0.732, suggesting that the control mechanisms studied (internal controls, risk management, and external compliance) explain 73.2% of the variation in NGO performance. This means that 73.2% of the improvements or fluctuations in NGO performance can be attributed to the effectiveness of these control mechanisms.

The results from table 4.1 above show that internal controls had a positive and statistically significant impact on organizational performance, with a β coefficient of 0.394 and a p-value of 0.000 ($p < 0.05$). This indicates that internal controls are a crucial factor in driving NGO performance. The t-statistic of 3.863 further emphasizes the strength of this relationship. The positive β coefficient suggests that for every unit increase in the effectiveness of internal controls, there is a corresponding 39.4% increase in NGO performance. This demonstrates that strong internal controls—such as financial reporting, segregation of duties, and regular audits—significantly enhance operational efficiency and accountability, directly impacting performance.

Risk management was also found to have a positive and statistically significant relationship with organizational performance, as evidenced by a β coefficient of 0.267 and a p-value of 0.003 ($p < 0.05$). The t-statistic of 3.000 supports the significance of this variable. The results imply that every unit improvement in risk management practices leads to a 26.7% increase in NGO performance.

Effective risk management strategies, such as proactive identification of risks, contingency planning, and regular risk assessments, enable NGOs to navigate uncertainties and maintain operational stability, thus contributing positively to performance.

Similarly, table 4.1 above indicates that external compliance had a statistically significant positive impact on NGO performance, with a β coefficient of 0.321 and a p-value of 0.005 ($p < 0.05$). The t-statistic of 2.892 reinforces the importance of compliance in influencing performance. The positive β coefficient indicates that for every unit increase in adherence to external compliance requirements—such as donor reporting standards and legal obligations—there is a 32.1% increase in organizational performance. This shows that NGOs that prioritize compliance with regulatory and donor expectations are better positioned to secure long-term funding, build trust with stakeholders, and enhance their overall effectiveness.

Therefore, based on the regression results in table 4.1 above, the null hypothesis that control mechanisms have no significant impact on the performance of organizations funded by AAS is rejected. Each of the control mechanisms (internal controls, risk management, and external compliance) demonstrated a statistically significant positive impact on performance ($p < 0.05$).

5. Discussion

The results of this study indicate that control mechanisms are key determinants of the performance of NGOs funded by the Africa Academy of Sciences in Kenya. Internal controls, risk management, and external compliance each play a crucial role in enhancing NGO performance by improving financial sustainability, operational efficiency, and accountability.

The significant positive impact of internal controls on NGO performance is consistent with prior research. Brochmann (2020) highlighted that NGOs with strong internal controls, such as regular audits and financial reporting systems, are more likely to achieve better financial outcomes. This study supports these findings, showing that internal controls are vital in preventing financial mismanagement and ensuring that funds are used for their intended purposes.

Risk management was found to significantly improve performance, aligning with Almarshhadani's (2021) findings, which emphasized that proactive risk management is crucial for organizations operating in volatile environments. NGOs in Kenya, especially those relying on external funding, face risks related to political instability, fluctuating donor priorities, and economic uncertainties. NGOs can mitigate these risks and maintain operational continuity by implementing robust risk management strategies, such as risk assessments and contingency planning.

Compliance with external regulations, such as donor requirements and government audits, also positively influences NGO performance. Cazenave and Morales (2021) suggest that transparent reporting and adherence to regulatory standards build trust with donors, which is critical for securing long-term funding. This study's findings confirm that NGOs that prioritize external

compliance are more likely to maintain positive relationships with donors and other stakeholders, ultimately enhancing their performance.

6. Conclusion and Policy Recommendations

This study examined the impact of control mechanisms on the performance of organizations funded by the Africa Academy of Sciences in Kenya. The findings revealed that internal controls, risk management, and external compliance all have a significant positive impact on NGO performance. By adopting robust control mechanisms, NGOs can improve their financial sustainability, enhance program outcomes, and maintain accountability to stakeholders. This study contributes to the growing body of literature on corporate governance in the NGO sector and provides actionable insights for both practitioners and policymakers. Strengthening control mechanisms should be a priority for NGOs seeking to improve their performance and secure long-term funding.

The study's findings have several important implications for policy and practice. First, NGOs should invest in strengthening their internal control systems to enhance accountability and improve financial management. Second, there is a need for NGOs to develop comprehensive risk management strategies to safeguard against potential disruptions. Finally, policymakers and regulatory bodies should enhance oversight mechanisms to ensure that NGOs comply with both local and international regulations, promoting transparency and accountability across the sector.

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