RELATIONSHIP BETWEEN CORPORATE GOVERNANCE PRACTICES AND PERFORMANCE OF MEDIUM ENTERPRISES IN MOMBASA COUNTY, KENYA

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DECLARATION

This research project is my original work and has not been presented for a degree in any other university.

Signed: ……… Date: …26th November 2022………

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This research project has been presented for examination with my approval as a university supervisor.

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DEDICATION

I wish to dedicate this project to Harry and Luther for their undivided support throughout the entire process.

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LIST OF ABBREVIATIONS AND ACRONYMS

ANOVA	Analysis of Variance
ASX	Australian Stock Exchange
BOD	Board of Directors
BSC	Balanced Score Card
CG	Corporate Governance
CEO	Chief Executive Ofiicer
CMA	Capital Market Authority
CSR	Corporate Social Responsibility
EU	European Union
NGO	Non Governmental Organization
NPM	Net Profit Margin
NSE	Nairobi Securities Exchange
OECD	Organisation for Economic Co-operation and Development
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment
SACCO	Savings And Credit Co-Operative Organisation
SME	Small and Medium Enterprises
UK	United Kingdom
VAS	Value Added Service

ABSTRACT

The success of medium enterprises is heavily influenced by a variety of factors, especially those championed by the CAMEL framework. The larger corporations are flourishing while the smaller ones are struggling. The general objective of this study was to establish the relationship between corporate governance practices and performance of medium enterprises in the county of Mombasa. The study was anchored on agency theory, Stewardship Theory, Stakeholder Theory and Resources Dependency theory. The study adopted a descriptive research approach. This research used 86 medium enterprises in Mombasa County. This study used primary data. Descriptive and inferential statistics were used to demonstrate the relationship between variables. Regression analysis was used to examine the relationship between corporate governance practices and performance of medium enterprises in the county of Mombasa The findings showed that there is a weak positive significant relationship between performance of medium enterprises in Mombasa County and board independence (rho=0.463). Also, there was a significant positive relationship between board size and performance of medium enterprises in Mombasa County (rho=0.618). Further, unit increase in Board Meetings, while holding other factors constant, will lead to an increase in Performance of medium enterprises in the county of Mombasa by 0.101 ($p = 0.021$). Number of board meetings also drew positive relationship in that the operating efficiency of medium enterprises improved over the years consequently leading to higher financial performance. These findings were in line with the objective of establishing the effect of corporate governance practices on the financial performance of medium enterprises. The study conclude that the regulators should improve on the mechanisms of ensuring that the corporate governance disclosures in the annual reports are not simply statement of good intentions but are actually implemented at firm level. This will greatly improve the level of corporate governance and by extension firm performance. That generally corporate governance has positive impact on all the performance indicators of an organization. The study recommends that the researcher, management, and policy development of training in the medium enterprises sector needs to be more open and flexible in order to address corporate governance issues. Research, management and policy instruments of training support will need to interact with, and be responsive to, the subtle distinctions of context that will moderate what is more appropriate, and more likely to be welcomed, in the small business sector.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

To safeguard interests of stakeholders, Corporate Governance (CG) measures has been adopted to ensure insiders are taking appropriate actions for the benefit of the organisation. Corporate governance has been a vital feature for the success of modern business organisations, including medium enterprises, since it necessitates the separation of ownership from the management (CMA, Act, 2012). Corporate governance practices reduce financial scandals and organisational misconduct, if these practices are the forefront of the management (OECD, 2014). Further, market context of development and realization of goals and objectives on regulatory and social within the operating environment through corporate governance. Corporate governance reduces principal-agent conflicts and improves board efficiency but increases operational cost. Due to the reduction in agency problems, performance of the firms, may improve (Shuk, 2015).

To underpin the study findings this study will rely on three theories. Agency theory by Jensen and Meckling (1976) that describes the correlation between agents(management) and principals(shareholders). The agency theory recognizes that by incurring agency costs, the shareholders are able to monitor the agents better leading to maximization of performance. Stewardship theory by Donaldson and Davis (1991) which considers managers as stewards that integrate their goals alongside those of the organization. The theory maintains that managers are effective stewards and therefore they will always make decisions that are in the best interest of shareholders. Stakeholder theory by Freeman (1984) that acknowledges that an organization has an effect on all stakeholders and should take into consideration the interests of these stakeholders.

Due to the collapse of a large number of corporate organisations all over the world over the last decennary, prominence has been given to the studies that relate to corporate governance of corporate organisations. The major concern in corporate governance in large corporations is the aligning of the interest of shareholders with management.

From the studies done in the past, we see that less attention is given to corporate governance practises in medium enterprises (Shuk, 2015). This study will focus on corporate governance and the performance of Medium enterprises in Mombasa County, Kenya. Kenya being a less developed country is the best choice to study. This is also because of the fact that past studies that have been done on medium enterprises have mainly focussed on developed countries with improved financial and legal systems. Non-the less, there's a necessity for exploration on corporate governance practices in Medium enterprises and especially in less developed countries and emerging economies.

1.1.1 Corporate Governance

Shleifer and Vishny (1997) describe Corporate Governance as, "The ways in which suppliers of finance to corporations assure themselves of getting a return on their investment." It refers to a set of guidelines and principles meant to provide structural support for ensuring openness, accountability, fairness, and protecting the majority as well as minority stakeholders rights (Liao, 2018). In a number of the Medium enterprises in Kenya, ownership is concentrated around the family which leads to high level of ownership control. There is also lack of pay related to performance in the Kenyan corporate sector. There also lacks supervisory at the corporate board level since most of these boards are one management boards. Abdullah and Valentine (2019) study quoted the Corporate Governance Council (2013) of the Australian Stock Exchange (ASX) that states that corporate governance is a structure of regulations, systems, relationships, and procedures that companies are directed and controlled. In the African context, corporate governance relates to all factors which have an influence on business organizational processes which include policies and the legal framework adopted by the society to govern, regulate and license the conduct of business. Such involve the instruments for appointing regulators, governors and controllers who take part in management of firms (Darrough & Stoughton, 2017).

Compared to companies with poor CG, those with effective CG are much more probable to disclosure transparently and to maximize shareholder wealth through investments. Top management must set the proper tone for CG to be successful. High-caliber managers are able and capable of upholding the CG principles. They have received proper training and disclose information more honestly (Chen, Cheng & Wang, 2016). By adhering to the established CG, managers venture effectively, improving the operational efficiencies of their company (Bidabad, Amirostovar & Sherafati, 2017). Due to significant financial scandals and corporate collapses caused by insufficient internal control measures that increase financial transparency and accountability, CG has garnered fresh global interest (Salem, Damak & Hussainey, 2019).

In regards to operationalization, there is diversity in CG measurement (Olick, 2015). Sarbah and Xiao (2015) operationalized CG in terms of gender diversity, board activities, independence and ownership concentration. Liao (2018) focused on board meetings, board size and ownership structure. The following factors will be used to operationalize CG: board independence, number of meetings and board size. This in pursuit of Chen et al. (2017) recommendations . The abovementioned proxies have been made aware of the fact that non-executive directors with the necessary credentials are essential in overseeing management activities and providing them with operational advice to enhance performance. Board size can also influence performance as large board sizes are likely to have a better mechanism to monitor managers. However, a very large number of board members might also be inefficient. Boards that have frequent meetings are in a better position to monitor management. Although there are other corporate governance attributes, the current research will focus on these three aspects of corporate governance mechanisms.

1.1.2 Firm Performance

As described by Huang (2018) performance is achievement of goals, which an entity intends to attain. It involves a firm's potential in achieving its set goals by utilizing the available resources optimally (Daft & Marcic, 2013). As opined by Bharadwaj, Chauhan and Raman (2015) a firm's performance entails a complex correlation of seven criteria: profitability, reliability, quality of work, productivity, effectiveness, efficiency including creativity. Therefore, performance is closely associated with achievement of the entire seven criteria that are regarded as performance goals. In spite of performance having no commonly agreed upon meaning, a firm should have objectives including a way of measuring the entire results basing on the outlined agendas.

Organization performance is very significant since it assists in measuring institutional efficiency, firm competency along with the productivity. Also, it is considered as a determination for efficiency including effectiveness of resources which have been utilized in production of output or products of the preferred type by customers plus society in the long run (Bain, 2016). Company performance aids in revealing the organization's profitability which is determined using income as well as expense. Business managers have a very important duty of enhancing the performance of the company since enterprise survival is dependent on its profitability (Chakravarthy, 2016). Moreover, firm performance reveals how an enterprise is fairing in its methods of attaining objectives, mission as well as vision (Eisenhardt & Schoonhoven, 2018).

In regards to operationalization, financial as well as non-financial measures being made use of (Chakravarthy, 2016). The Balanced Scorecard (BSC) which was founded by Kaplan and Norton (1992) have previously been frequently lied upon by scholars in examining the performance. BSC generates success measurements basing on the company's goal, strategy besides vision. It is a measure for evaluating the company's general performance. It incorporates the customer factor, financial factor, internal processes also learning and development (Kaplan & Norton, 1992). Due to balance scorecard's wide recognition as a performance measure, it will be applied in this study.

1.1.3 Corporate Governance Practices and Performance

Some theories describe the theoretical link between corporate governance structures and performance, like the agency theory, which forecasts that CG systems have a positive impact on efficiency. Firm owners may take consolation in the knowledge that agents' actions favours the owners if they are offered adequate incentives and are properly managed (Jensen & Meckling, 1976). As a result, the director's function becomes one of monitoring management's actions who as per the stewardship theory has the fiduciary duty of ensuring the interests of the shareholders are well shielded. Thorough stakeholder monitoring will improve the likelihood of complete disclosure, resulting in a positive corporate governance structure's impact on firm performance.

Shleifer and Vishny (1997) argue that adoption of a strong corporate governance structure aids in obtaining more capital, resulting in an increase in the development of the business. Good corporate governance encourages investors to put their money into businesses. Competitiveness in a dynamic environment requires companies to be creative and to adjust strong corporate governance policies and frameworks (OECD, 2020).

Padachi, Ramsurrun and Ramen (2017) indicated a positive relation between the corporate governance index and value of firms. The findings of this research are confirmed by those of Opanga (2013) who found a positive correlation between governance as well as success among insurance firms in Kenya. However, earlier research by Luyima (2015) found that although CG is positively correlated with other aspects of performance such as customer performance, learning, and growth, the connection between corporate governance and performance was neutral.

1.1.4 Medium-Sized Enterprises in Mombasa County

OECD (2020), indicated that the definition of medium enterprises differs by country and is in most cases based on the number of employees and the value of sales and assets. Since it is easy to identify, the most used variable is the number of employees. The European Union (EU) and majority of OECD transition and developing countries set the upper limit in the number of persons employed in the medium enterprises between 200-250, with a few exceptions such as Japan with 300 employees and the USA with 500 employees. Consequently, in the 2020, OECD report on enhancing the contributions of medium enterprises in a global and digitalised economy it was further emphasized that a standard international definition of medium-sized enterprise does not exist since they are defined differently according to the different legislations across various countries. For statistical purposes, the OECD 2020 report referred to medium enterprises as organizations that employ between 50 and 249 employees.

As much as the number of medium enterprises grow every single day, many of them face a shorter lifespan as a result of the many challenges faced. Ochanda 2014 notes that Kenya has experienced high mortality rate with a survival rate of 10-20% hence necessitating for measures to be put in place to curb this.According to the Micro, Small and Medium Establishments Report (RoK, 2016) there are approximately 620 medium enterprises are located in Mombasa County. The medium enterprises found in the coastal region and especially Mombasa are advantaged in that they have access to supplies cheaply in comparison to those found in other counties. This is due the fact that the port of entry is found in this city. Reduced input costs then means that the products can be sold at a much cheaper price as compare to other towns. This study will focus on medium enterprises that operate within Mombasa City and cut across all sectors of business.

1.2 Research Problem

Corporate governance issues have been in existence for decades affecting all types of enterprises. The setting up of systems that enable proper governance has been one of the principal challenges facing firms. Thosen (2018) notes that good governance can aid in improvement of performance of firms and help guarantee its survival in the long term. Corporate governance practices reduce financial scandals and organisational misconduct, if these practices are the forefront of the management (OECD, 2014). Further, corporate governance reduces principal-agent conflicts and improves board efficiency but increases operational cost. Due to the reduction in agency problems, performance of the firms, may improve (Shuk, 2015).

According the VAS report (2018), one of the root causes of failure of firm is failure to have proper governance mechanisms in place, followed by lack of or limited transparency in financial management. Other factors include a weaker capital base, inadequate financing, poor market research and market intelligence, weaknesses in infrastructure, inadequacy in financing, high deployment and maintenance costs and adoption of financing models. The medium enterprises in Mombasa county still face challenges in spite of intervention from the government and NGO's through financial assistance and non-financial stimuli and facilities, government policies that are favorable for example through the enactment of the SME Act 2012. Sixty percent of small and medium businesses tend to fail in the first 3 years of business (Kenya Session Paper No.2 of 2005). This high rate of failure is associated with poor performance and the inability of these firms remaining competitive.

Although there are previous studies in this area, there exist research gaps. For example, Olayiwola (2018) sought to determine the effect that corporate governance has on performance of firms that are listed. The study found out that the size of the board had a serious negative correlation with net profit margin (NPM) whereas the composition of the board had a significant positive correlation with NPM. The study also observed that the size of the audit committee portrayed an insignificant correlation with NPM and that the size and composition of the board portrayed a positive correlation. The research resulted to a research gap on the firms that are not listed. Goel (2018) sought to determine the implication that corporate governance had on performance in India. This study revealed a consequential correlation between intergrated framework of total CSR and performance. The basis of this study was existing literature hence creating a methodological research gap.

Locally, Njenga (2018) studied the effect of corporate governance on performance of services and commercial firms in Kenya listed at the NSE. The study concluded that size and composition of the board and CEO non-duality had a great influence on performance on these firms. This study focused on only two sectors for firms listed in the NSE, thus creating a contextual research gap. Miruka (2020) examined the corporate governance effect on Kenyan banks' financial success and revealed that banks financial success is dependent on effective governance structures. The study presents a contextual gap as Medium enterprises are faced with different operational challenges compared to banks. operates differently from commercial banks. Saddimbah (2019) aimed to establish the corporate governance effect on Kenya's commercial state corporations' performance. The research presents a conceptual gap as some aspects of corporate governance such as board meetings were not considered. The study also presents a contextual gap. From the foregoing, studies exist on the effect of corporate governance on performance but there are still some conceptual and contextual gaps that the current study intends to fill by answering the research question; what is the relationship between corporate governance practices and performance of medium enterprises in Mombasa County, Kenya?

1.3 Research Objective

To establish the relationship between corporate governance practices and performance of medium enterprises in the county of Mombasa.

1.4 Value of the Study

The study findings would be crucial to the medium enterprises in Kenya since it would provide knowledge as to whether adopting corporate governance could have some value addition to their success both financially and otherwise. They would also put into utilization the findings of the study to improve on issues of corporate governance which will in turn enhance their management and operational efficiency.

Policy makers in government bodies could also benefit from these findings since it can form as a guidance on decision making process on best practises on corporate governance. This may in turn lead to enactment of laws and policies that encourage the use of corporate governance practises in the whole business sector and moreso in the medium enterprises which promote the country's corporate image and enhancement of the growth of the economy of the country.

The findings of this research may also benefit researchers and scholars as it will provide a way forward for further studies on the effect of corporate governance practises on Medium enterprises in the country as well as other sectors of the economy. Also, the resultsnwill build on the existing body of knowledge by improving the understanding and importance of incorporating corporate governance practices in medium enterprises.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The chapter presents findings by other researchers who've studied the topic and includes the theoretical framework, factors that determine performance, empirical review, literature review summary and research gap.

2.2 Theoretical Framework

Studies done in the past have revealed that corporate governance draws a lot of interest from experts across different professions including economists, lawyers, management science experts and even political scientists. This shows the diversity of the theoretical literature in this field. The three theories that describe corporate governance and that will guide the study comprise of the agency theory, the stewardship theory and the stakeholders theory.

2.2.1 Agency Theory

This theory was developed by Jensen and Meckling (1976) and is the anchor theory. Agency theory is a principle which sets to explain the relationship that exist between principals, who are owners of businesses and agents who are the management. According to Wachira (2015), emergence of large corporations increased the prominence of interest in agency relationships. Agency relationships arise because entrepreneurs posse capital whereas managers have surplus ideas on how to use this capital. Since entrepreneurs lack the required expertise or time to run their firms effectively, they engage agents who are the managers to aid them run and control day to day operations. This is what brings about the separation between ownership and control and in turn bring about agency problems. Wetukha (2016) opines that in an agency relationship, there is a clear definition of responsibilities between the principals and agents. Principals fund the businesses and put in place measures including employment of directors and auditors to make sure that that there is a success system of governance whereas agents' responsibility is the day to day running of operations.

The theory has been criticized on the ground that, the model of an employee portrayed in the agency theory is more of a self-interested, individualistic and are bounded rationality where rewards and punishments seem to take priority (Jensen &

Meckling, 1976). Further, Phan and Yoshikawa (2000), has criticised the theory on its applicabality, in that it is Anglo-American specific, hence it cannot be applied in other regions.

The agency theory is relevant to the curret study as the ideal fiduciary obligations of management as the agent include acting in the principals' best interests and providing them with accurate and timely financial reporting. The link between corporate governance practices and performance is the primary focus of this investigation, and the agency theory recognizes that by incurring agency costs, the shareholders are able to monitor the agents better leading to maximization of performance.

2.2.2 Stewardship Theory

This theory was pioneered by Donaldson and Davis (1991). According to Odhiambo (2012), stewards who are managers work to make sure that shareholder's wealth is protected and maximized through firm performance and through that, the usefulness of the stewards is increased. According to Donaldson and Davis (1991) as cited by Magali (2015), stewardship theory stresses on the role of management being stewards, combining its aspirations together with that of the organization. The theory acknowledges the significance of governance structures that give power to stewards and gives maximum independence built on trust (Kamonjo, 2016). It puts emphasis on employees acting more autonomously in order to maximize the returns of shareholders. The theory relates to corporate governance in that managers must be competent enough to act as stewards of owners of the firms.

The theory can be criticized on the ground that it is relatively young and has not undergone systematic empirical testing. Further, management in the context of this theory is neglected and as a result of excessive trust, directors may not notice erroneous developments (Grundel, 2018). Furthermore, the stewardship approach posits that being a steward simply results from a logical method, but it is not obvious what underlying tools cause a person to make that decision. How can a person tell if he or she has a steward's nature? Finding the type of internal drive that spurs a person to look beyond his or her self-interest and determine internal motivational disputes is crucial (Daodu, Nakpodia & Adegbite, 2017).

In relevance to this study, the theory requires managers of medium enterprises to be given clear and unambiguous role. The medium enterprises' structure should give and support acceptable authority, worth and power to the management. This theory gives different angle than agency theory, in which top management of the medium enterprises are expected to act for self-interests at the expense of shareholders.

2.2.3 Stakeholder Theory

The theory was originally put forward by Ian Mitroff in 1983 in San Francisco. According to Olomy (2015), one of the shortfalls of strict agency theory is its narrowness in its identification of shareholders as the only group of interest of corporate entities which necessitated further exploration. The prominence of stakeholder theory has been as a result of researchers recognizing that the undertakings of corporate entities have an effect on the outward environment necessitating answerability of these entities to more people in addition shareholders. Osoro (2015) noted that companies exist within society and are not just an instrument of shareholders and as such, they have responsibilities to that society.

One of the criticisms of this theory is that it is unable to solve the problem of managerial opportunism and the outcome of such opportunism, for example reduced cooperation of stakeholders and underinvestment (Anca, 2012). In cases of poor performance, managers can use the excuse of "stakeholders' to justify the poor performance. Additonally, it's difficult to satisfy the interests of different stakeholders since there lacks a universal approach on how to satisfy the stakeholders. The theory can also be criticized on the ground that it is relatively young and has not under gone systematic empirical testing.

The stewardship approach is pertinent to the study because it supports the stakeholder approach that identifies all significant stakeholders besides management who rely on performance to make judgments about their businesses. These stakeholders include shareholders, creditors, regulators, employees, financial analysts, as well as possible investors, amongst others. It provides a hypothetical framework for comprehending how prosperous stewards, who are directors of businesses, control their careers by carrying out their responsibilities with the greatest dedication, a definite requirement for any firm to comply with corporate governance procedures, and the regular disclosure of accurate, suitable, and valid reports to all interested parties without discriminating any stakeholder.

2.2.4 Resources Dependency theory

The theory was advanced by Pfeffer in 1972. The theory suggests that the board have a role to play in providing access to resources that the firm. It suggests that organizations have different levels of interaction with the external environment especially with regard to resources they need to operate. Due to this, Medium enterprises face uncertain future in acquiring resources (Grewal & Dharwaddkar, 2002). The theory puts forward an argument that, when organizations depend on externally placed resources it interferes with management's discretion and the realization of the goals of the firm. It is costly to be in situation of confrontation with nature which makes it advantageous to manage external dependence by adopting suitable strategies (Allaire & Firsirotu, 1989).

The theory can be criticised on the ground that there is lack of discrimination between power imbalance and mutual dependence; secondly it confounds a normative prescription and theoretical predictions; thirdly, its ambiguities around its boundary conditions; and finally, most empirical work focusing on dependence of one actor on another rather than on reciprocal interdependence (Kamyabi & Devi, 2011). This theory is relevant to this study, in that, powers of Medium enterprises managers and resouces are directly linked. Medium enterprises who are endowed with resources are considered more powerful compared to those who don't have access to those resouces.

2.3 Determinants of Firm Performance

The variables that influence production level may be internal as well as external to the business. Internal variables vary from one company to the next and influence performance in various ways. Such variables derive from decisions made by management in collaboration with the board of directors. Some of the variables are discussed in this section.

2.3.1 Corporate Governance Practices

Corporate governance is related to performance in that it is those charged with governance to ensure that proper accounting records are prepared and no malpractices to enhance profitability. Independence of directors (non-executive directors) on the other hand is related to corporate governance practices in the sense that these directors have an obligation to carefully consider corporate decisions and to challenge management channeling all their efforts towards enhancing performance of the Medium enterprises (Mak & Yuanto, 2013). A director may lack integrity if he happens to have an interest, financially, and if there exists personal or other relationships to the interested party and thus existence of non-executive directors would limit such acts within the Medium enterprises. Further, independence of committees is also connected to performance in that they consist entirely of independent committees in which at least one expert in finance is included in the audit committee to detect and report misappropriations.

2.3.2 Firm Size

A company's earnings from economies of scale are inversely correlated with its size. Due to significant economies of scale, a firm operating activity has a higher efficiency the larger it is. Large organizations, irrespective of their size, risk losing control of both their operational and strategic activities, which would reduce their efficiency (Burca & Batrinca, 2015). Bigger businesses carry more influence in the market. They can also further diversify their investment portfolios. If the company grows quickly, they are also more prone to encounter organizational waste. The cash flow amount that can be subsidized greatly depends on the size of the business. When determining a company's size, it's crucial to take its workforce, property holdings, and sales volume into account (Almajali et al., 2012).

2.3.3 Firm Age

According to Sorensen and Stuart (2000), a firm's performance may decline with age. They also noted that older institutions might be resistant to change owing to the organizational inertia that has made them what they are today. However, Liargovas and Skandalis (2008) pointed out that more established institutions may be more knowledgeable since they have been around for longer, have seen more, have reaped more advantages from learning, and are less subject to the dangers associated with innovation. As a result, they tend to have performance that is superior to that of emerging firms. It has also been noted that a firm's performance may occasionally decrease as firms age because aging may cause knowledge, skills, and capacities to become outdated and cause degradation in organizations. This may be one of the reasons why certain larger, more established firms are constantly being acquired, as suggested by Agarwal and Gort (2002).

2.4 Empirical Review

Studies done in the past have revealed that, corporate governance practises are linked to performance of businesses. This section presents both interntional and local studies conducted before on the two study variables.

2.4.1 Global Studies

In the Jordanian listed firms, Qadorah and Fadzil (2018) conducted a study on the companies' performance and the relationship between local CG tools and board of directors' characteristics (board independence and board meeting frequency). The study employed samples of 64 industrial companies and also used cross-sectioned information from the Amman Stock Exchange for 2013. ROA was utilized to determine the companies' performance. The main purpose of the analysis is to determine the firms' results as well as determine the theory and check the relationship between board features of directors (independence of board as well as board meeting frequency). Multiple linear regression analysis was used in this study. The results showing board independence is associated with ROA considerably and favorably. The recent research found that board meeting frequency had a minimal association with firm performance as determined by ROA. Some features of the CG structures were not included thus showing a conceptual gap in this research.

Ashari and Krismiaji (2019) examined how the independence, size, competence, and frequency of meetings of audit committees affected the financial performance of manufacturing firms listed on the Indonesian Stock Exchange. Measurement and proximations using return in assets are done to determine the financial performance. This research employs 466 publicly samples traded businesses on the Indonesian Stock

Exchange for the fiscal years ending December 31, 2016, and 2017, which were gathered from a population of 660 listed firms. All of the audit committee's qualities, according to the study, have a positive impact on the organization's performance. The study also includes three control variables: firm size, financial leverage, and auditor quality. The financial performance of a firm is positively influenced by the quality of its auditors and financial leverage. However, the financial performance of a corporation is negatively influenced by its size. There exist a difference in the social-economic context and the nature of operations between the listed firms of Indonesia where the study was performed and that of medium firms in Mombasa.

Afzalur (2019) examined if there could be any effect on the economic performance of the Bangladeshi listed companies that board independence could have. This study employs a coinciding equation theory to follow up on the likely endogeneity issue by employing information from 135 Dhaka Stock Exchange listed firms and market performance indicators and accounting. There is no favorable association between board independence and firms' economic finding as per the current study. Furthermore, board size has a favorable impact on board independence and firm findings, in this report. In Bangladesh, board independence may still be a mirage considering that it plays a main function in corporate board routine in several advanced countries. There is a distinction between the socio-cultural and economic concepts in Bangladesh where this research was undertaken and Kenya where the recent study will be performed.

Brahma, Nwafor, and Boateng (2020) examined the relationship between the financial performance of UK companies, selected female features, and gender diversity. In the case of the critical mass approach and examining gender diversity as the number of female boardroom representation, this study concludes a favorable as well as a significant relationship between corporate performance and gender diversity. Occasionally when two or fewer females are named to the board the results become less significant and ambiguous than when it is three females on board. Further studies illustrate that female educational achievement, age, as well as the presence of female board members who coincidingly work as executive directors are all positively associated with post-appointment financial output. The findings are unchanged after accounting for endogeneity problems and employing distinct indices of firm success, like ROA as well as Tobin's Q. Kenya, where the present study will be undertaken, has a distinct social and economic context than the UK.

Ouni, Mansour, and Arfaoui (2020) examined how gender diversity impacted the financial performance of engaged Canadian firms' directors, as well as governance orientation, as well as the mediating function of social, environmental, as well as executive committees. The study contained 133 Canadian business samples, with 925 results over 18 years (2002–2019). Gender diversity in turnover affects firm financial results is empirically backed in this paper, which reflects 53% of the variation. The study backs up the favorable effect of gender diversity on performance and reveals a mediating procedure consisting of a company's environmental, social, and governance orientation, which accounts for nearly 4% of the general gender diversity impact on performance. This research aimed on only one concept of CG structures.

2.4.2 Local Studies

Mwangi (2018) studied audit committee characteristics' effect on financial reporting status in Kenya's Non-Commercial State Corporations. The goal of the analysis was to decide on the impact of audit committee independence, meetings on financial reporting status, diversity, as well as financial competency. The study utilized a 72-state non-commercial corporation’s census sample and employed an illustrative study plan. Furthermore, illustrative and inferential analysis theories were utilized in the study. The research's conclusions revealed that audit committee meetings had a statistically substantial link with financial reporting quality. Nevertheless, the previous study focused on financial reporting, while the recent study's scope will be conceptually confined to performance.

Koech (2018) investigated the factors that make state corporations in Kenya employ successful CG. The research aimed at managers from 187 firms and data were analyzed using regression. The research exclusively utilized primary data gathered via semi-structured questionnaires. Results indicated that across corporations, corporate governance and board characteristics were positively correlated. This study overlooked CG's influence on other variables such as revenue collection which is the focus of the current research.

Rono (2019) examined the board gender diversity impact on Kenya's commercial bank's business routine. The study was performed through an illustrative study plan with a turnout of 146 workers and a sample of 106 respondents. A purposive sampling method was utilized for this distinct research and a closed-ended questionnaire was employed in primary data collection. Regression analysis was carried out. There was a favorable and substantial connection between board gender diversity and business performance as outlined by the results. The study found that for leadership capacity building in the firm board gender diversity is important. The research offers a conceptual gap as other structures of CG were not included.

Ibrahim, Ouma, and Koshal (2019) investigated the financial performance of Kenyan insurance firms due to gender diversity. Data from Kenya's 55 insurance firms were employed in this study. Gender diversity was measured using the number of female directors on the panels of Kenyan insurance companies. Primary data was provided by a total of 412 board directors, CEOs, and chief finance officers Inferential statistics as well as illustrative were used to interpret the data. In examining the company's performance, the accounting-based assessment of ROA was utilized. The regression analysis results reveal gender diversity has a significant as well as favorably affected financial performance of Kenyan insurance firms. The study reveals a conceptual gap as other structures of CG were not included.

Miruka (2020) investigated the CG effect on Kenyan banks' financial performance. Accurately, the research aimed at the impact on financial NIC bank's routine based on board independence. The study population comprised 135 employees at 8 NIC bank branches within Nairobi Central Business District presented. Stratification was carried out established on three management measures: Managers, heads of departments, and the operations team where a selection of 101 workers was sampled. 81 respondents responded to the questionnaire used for data collection. The data research was conducted through SPSS the findings are shown in Figures and Tables. The research present that performance is favorably affected by independent board results in a direct conference of relevant problems. The study presents a conceptual gap as it focuses on one feature of CG.

2.5 Summary of Literature Review and Research Gap

This chapter presents the theories which inform on corporate governance practices and its relationship with performance in Medium enterprises. Agency theory views on the necessity of conflict management in enhancing organizational efficiency which translates to improved performance of a business both financially and overall. Resource dependent theory observes that internal decision making will be improved by accurate date. All these theories are under the umbrella of corporate governance. The chapter also reviews the determining factors of performance focusing on the corporate governance.

Several studies have been reviewed which studied corporate governance and performance. Despite that, there still exist conceptual and contextual gaps. Conceptually, there is no concensus on how corporate governance practices influence the performance of firms. This can be explained by the fact that previous studies have measured corporate governance differently and findings are a reflection of the proxies used. Contextually, few researchers have examined the extent of corporate governance in Medium enterprises, particularly in Kenya. Most studies have been exclusively undertaken in the developed countries including Germany, Italy and Ireland. The scenario is obviously different and the findings would most probably not be applicable to the local environment where organizational set up and economic development are different. This study seeks to fill this research gap.

2.6 Conceptual Framework

The predictor (independent) variables that will be used to measure corporate governance practices include board independence, number of board meetings and board size whereas the response (dependent) variables that will be used to measure performance are sales revenues, operating income, profit margin and other incomes. The average mean score of these variables will be used. The controls variable is the age of the firm's as illustrated below.

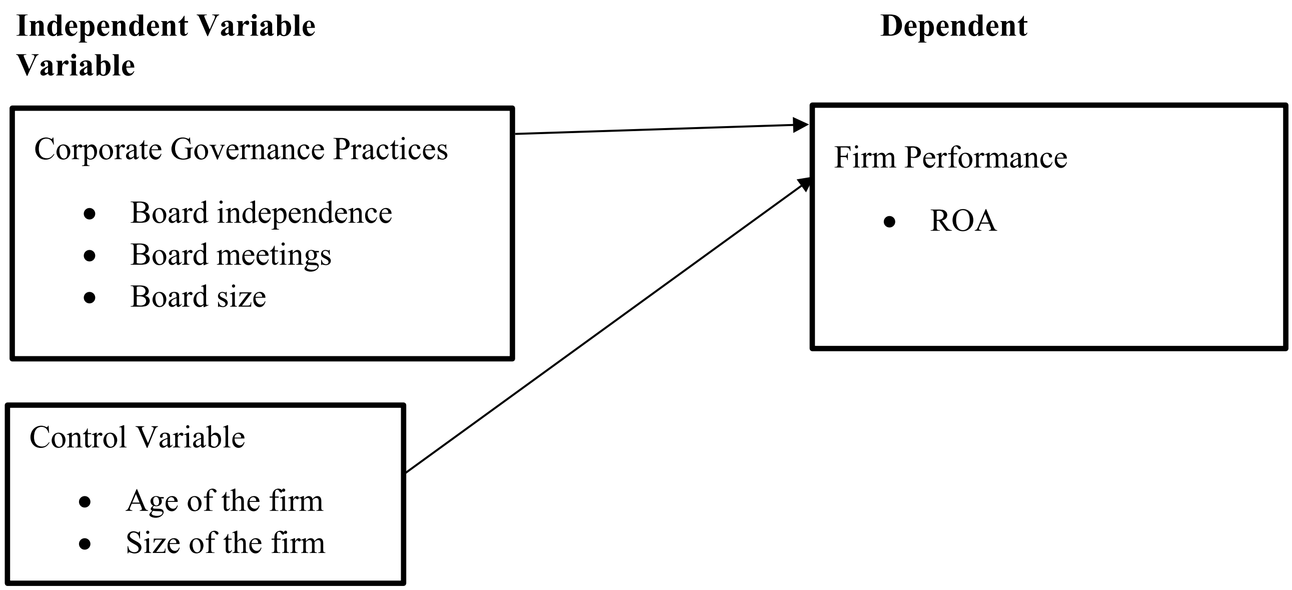

FIGURE 2.1 CONCEPTUAL FRAMEWORK

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter examined, research design, target population, sampling procedure and size of the sample, data collection and analysis techniques.

3.2 Research Design

This study adopted a descriptive research design. It involved establishing the what, where and how of a state of event. One of the major advantages of the descriptive research design that made it suitable to be used in this study is that it doesn't involve any sort of manipulation of the variables that are being studied. The design has been used before by Ibrahim et al. (2019) and Miruka (2020).

3.3 Target Population

There are approximately 620 medium enterprises located in Mombasa County as per the Micro, Small and Medium Establishments Report (RoK,2016). These medium enterprises are are spread across different sectors largely grouped into Manufacturing, Transport, Agriculture, Retail, Construction, Mining and the Service Industries. Mombasa has been chosen because of ease of accessibility which enabled the researcher save on time and cost in obtaining the necessary information.

3.4 Sampling Technique and Sample Size

The study picked a sample from the 620 medium enterprises located in Mombasa County using a simple random sampling technique. The study selected the CEO of the firm or their representative in each organization.

This study sample size was arrived at by using the formulae proposed by Yamane (1967), with assumption of 90% of confidence level. $n=N/(1+Ne^2)$ where, n = sample size, N= study population, 620 in this case, e= alpha level of 0.1.

$$n = \frac{(620)}{1+620(0.1^2)} = 86$$

Substituting these values in the above equation gives 86 respondents that were used as the sample size for the current study.

3.5 Data Collection

The research utilized survey questionnaires to collect primary data from key informants who include the CEOs or their representative in the medium enterprises. Structured questionnaires, a source of primary data, was used for data collection from these research participants. The questionnaires had closed ended questions that had a 5 point scale where the research participants were required to fill according to their level of acceptance of the statements. With the aim of observing the recommendations of the Ministry of Health on minimization of physical contact, questionnaires were sent via Google forms.

3.5.1 Data Validity and Reliability

The study used Cronbach's alpha in testing reliability. Reliability was tested using questionnaires that are duly completed by respondents were selected randomly. Cronbach's alpha coefficient was adopted to assess reliability. A figure that's nearer to 1 denotes a higher internal reliability. The recommended coefficient is 0.7. Validity stipulates the extent that a measure measures what it ought to be measuring. It is the ability to produce the accuracy of the results. This study used content validity to test whether the questions addressed the intended tests. The guidance of opinion of experts confirmed content validity. This entailed having study supervisors, scrutinize the questionnaire and offer competent opinions to ensure that all study variables are captured.

3.5.2 Diagnostic Tests

This study was tested for normality, linearity, heteroscedasticity, multicollinearity and autocorrelation. Normality tests are conducted to determine if sample data is selected from normally distributed population. The normality of distribution of data can be determined using several methods and fall into two categories: statistical and graphical. According to Smith (2015), normality aids in prediction of scores of response variables and aids in determining the distribution shape. In order to test for normality, this study will adopt Shapiro Wilk test. It is a test that indicates how well a theoretical distribution models the empirical data.

Multicollinearity is a multiple regression model where an independent variable is predicted from analysis of other variables (Smith, 2015). The study was tested for multicollinearity by analyzing the variance inflation factor (VIF) and assessing tolerance (1/VIF). A value of VIF that's more than 3 indicated that the independent variables are collinear.

Homoscedasticity, in a linear regression model, refers to situation where the error term has a normal distribution and has a variance that's constant across all values of the independent variable. The opposite refers to heteroscedasticity, that is where the error term variance is inconstant. A constant regression error (homoscedastic) indicates that the model used is accurate whereas uneven variances would indicate that the sample result is biased (Miruka, 2020).

Linearity is where a response variable depicts a linear relationship with one or more predictor variables. Murshed and Zhang (2016) states that linear relationships can be demonstrated in form of a graph whether the constant and the variable are connected using a straight line. This relationship can also be expressed mathematically where the product of the predictor variable and the slope coefficient is gotten and added to a constant resulting to the dependent variable. Linearity was tested using ANOVA output table for linear and non-linear components. SPSS version 28 will be used to do this. If the results indicate that the value of significant deviation from linearity is more than 0.05, then the relationship between the independent variables is linearly dependent. If otherwise, then the relationship is not linear.

3.6 Data Analysis

The collected data was coded and entered into SPSS in order to generate information that for analysis. Analyzed data was presented using frequency tables. Means, percentages, frequencies and standard deviation was used to analyze quantitative data.

3.6.1 Analytical Model

Analysis models help determine the correlation between the variables of the research. Regression Model was used to check the correlation between corporate governance practices and performance of medium enterprises. The relevancy and relationships was determined by multiple regression and correlation analysis techniques where;

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon}$$

Where;

Y = Performance of medium enterprises

X_1 = Board independence

X_2 = Number of Board Meetings

X3= Board size

β_0 = constant of the regression

β_1, β_2, β_3, β_4 and β_5 = the coefficients of independent variables

ε = Residual (error) term

3.6.2 Test of Significance

The significance of this study was tested at 95% confidence level and 5% significant levels. A significance value that is more than the critical value set means that the model is insignificant in explaining the relationship. Otherwise, the model should be regarded as significant.

3.7 Operationalization of Variables

Table 3.1: Operationalization of Research Variables

Construct	Indicators	Construct Operationalization	Supporting Literature
Corporate Governance	Board independence	composition of B.O.D Number of non-executive directors Number of executive directors Committees power compared to C.E.O power	Afande, O.F(2015).
	Board Size	Number of directors in the firm Frequency of elections in electing board of directors Board capacity in terms of skills and competency	Daily, C., Dalton, D., & Cannella, A. (2003).
	Board Meetings	Obtain information about firm operations Oversight and control of top management Financial meetings Frequency of meetings in a year	
Performance	Balanced score card	Return on Assets	Kamyabi, Y., & Devi, S. (2011).
Firm Age	Years	Number of years the firm has been in existence	Liargovas, P. & Skandalis K. (2008). Athens.
Firm size	Employees	Number of employees	Burca, A. & Batrinca, G., (2015).

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This section presents the research findings on the study on the relationship between corporate governance practices and performance of medium enterprises in the county of Mombasa. Analysis of data commenced by undertaking a descriptive analysis of the study variables aimed at obtaining the general profile of the data. In addition, appropriate regression diagnostic checks were undertaken on the data so as to determine its suitability for further statistical analysis. Further, an estimation of the regression models was undertaken and interpretation of the results performed using the inferential statistics. The study obtained complete data from the respondents. Board independence, Number of Board Meetings and Board size were the variables guiding the study.

4.2 Response Rate

The response rate is the number of respondents who answered the questionnaires divided by the number of people in the sample and it is always expressed in the percentage form. The research targeted 86 respondents of which 60 of the questionnaires were attended to with accurate level of 70%. Mugenda and Mugenda (2008) indicated that a response rate of 50% is adequate, 60% is good and above 70% is excellent. Therefore, the response rate of 70% was considered excellent to analyse the relationship between corporate governance practices and performance of medium enterprises in the county of Mombasa.

4.2.1 Reliability of the data

Reliability result showed that firm performance had an acceptable reliability of 0.904, Board Size had an acceptable reliability of 0.757, Board Independence had an acceptable reliability of 0.750, and Board Meetings had an acceptable reliability of 0.790. Lee Cronbach indicated that the acceptable reliability threshold is above 0.70. Table 4.1 presents the reliability results.

Table 4.1: Reliability

Variable	Number of items	Cronbach's Alpha	Decision
Board Independence	7	.750	Acceptable
Board Meetings	7	.790	Acceptable
Board Size	7	.757	Acceptable
Firm performance	7	.904	Acceptable

Research Data (2022)

4.2.2 Validity of the data

In order to assess the relationship between corporate governance practices and performance of medium enterprises in the county of Mombasa. Factor analysis was carried out to test for validity of variables. Kaiser-Meyer-Olkin measure of sampling adequacy and Bartlett's test of Sphericity were used to test the significance of the relationship between the variables. KMO provides a range of 0 to +1 with results less than 0.5 being considered inadequate, 0.5 being barely acceptable score, 0.7 to 0.8 being acceptable, and values above 0.9 being superb (Cresswell, 2013). Bartlett's tests on the other hand focuses on the validity and suitability of responses on the study. As per Bartlett's tests, instruments are valid if the significance value is less than 0.05 and invalid if the significance value is greater than 0.05 (Che et al, 2013).

KMO values close to one show that the correlations are close and the factor Analysis is reliable (Cresswell, 2013). In Table 4.3(a), the KMO value for strategy formulation is given as 0.747 which is acceptable as per KMO test. The Bartlett's test of Sphericity is significant ($p<0.000$) with a chi-square of 636.593 indicating a strong relationship among the variables.

Table 4.2: Factor analysis -KMO and Bart

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.747
Bartlett's Test of Sphericity	Approx. Chi-Square	636.593
	Df	3
	Sig.	.000

4.2.3 Legal status of the business

According to the respondents, 40% of the respondents had Sole Proprietorship, 30% of the respondents indicated that there medium enterprises are Limited company, 25% of the respondents posited that they operate a partnership kind of business while 5% of the respondents indicated that they operate a cooperative kind of business.. This showed that most of the respondents operate a sole proprietorship kind of medium enterprises. It implies that when it comes to medium enterprises, many people prefer sole proprietorship.

Table 4.3 Legal status of the business

Legal status of the business	Frequency	Percentage (%)
Sole Proprietorship	24	40
Partnership	15	25
Limited company	18	30
Co-operative society	**3**	**5**
Total	**60**	**100**

Research Data (2022)

4.2.5 Number of employees in your business enterprise

The researcher requested the respondents about the number of employees in their enterprises and she found out that 36% of the respondents indicated that there employees ranges from 50-99 employees, 34% of the respondents indicated that there employees ranges from 150 – 199 employees, 20% of the respondents indicated that their employees ranges from 100 – 149 employees while 10% of the respondents indicated that their employees ranges from 100 – 149 employees. The results shows that most of the respondents have between 50-99 employees in their enterprises. It implies that many medium enterprises in Mombasa County have employed between 50-99 employees.

Table 4.4: Number of employees in your business enterprise

Number of employees	Frequency	Percent
50-99 employees	22	36
100 – 149 employees	12	20
150 – 199 employees	20	34
200 – 249 and above	6	10
Total	**60**	**100**

Research Data (2022)

4.3 Descriptive statistics.

4.3.1 Effect of Board Independence on performance of medium enterprises in the County of Mombasa.

The first objective investigated the effect of Board Independence on performance of medium enterprises in the county of Mombasa. Data was collected and analyzed as shown below. The mean and standard deviations of the data collected on the effect of Board Independence was computed and findings are presented in table 4.5. From the result, the study revealed that the non-executive directors outnumber executive directors in our board with a mean of (mean=3.52, SD=1.712). The respondents indicated that the firm’s board checks the internal audit function's adequacy on a regular basis with a mean of (mean=3.81, SD=1.363). Some respondents indicated that outside directors have a strong desire to keep an eye on management because their reputations are on the line with a mean of (mean=3.17, SD=1.202) while some respondents indicated that the decisions of the board are not controlled by the executives of the organization with a mean of (mean==3.66, SD=1.175).

Therefore, the overall results indicate that the respondents were in agreement regarding the effect of Board Independence on performance of medium enterprises. The results are as represented in table 4.5

Table 4.5: Effect of Board Independence on performance of medium enterprises

Variables	N	Mean	Std. Deviation
Non-executive directors outnumber executive directors in our board	60	3.52	1.712
The firm's board checks the internal audit function's adequacy on a regular basis	60	3.81	1.363
Outside directors have a strong desire to keep an eye on management because their reputations are on the line	60	3.17	1.202
The decisions of the board are not controlled by the executives of the organization	60	3.66	1.175

Research Data (2022)

4.3.2 Effect of Board Meetings on performance of medium enterprises in the County of Mombasa.

The second variable in this study is about the effect of Board Meetings on performance of medium enterprises in the County of Mombasa. The data was collected and analyzed using the mean and standard deviation. The data collected on Board Meetings items were computed and findings are presented in table below. Based on the mean and SD, the participants agreed that there is adequate attendance in board meetings with a mean of (mean=2.89, SD=0.345), others indicated that board meetings are held at least 4 times in a year in specified intervals with a mean of (mean=3.81, SD=.782). The respondents also agreed with the statements that, majority of audit committee members are independent nonexecutive directors with a mean of (mean=3.52, SD=1.072) and others indicated that the board is responsible for decisions made during the meetings with a mean of (mean=3.73, SD=1.184). The result simplies that board meetings plays a critical role in corporate governance.

Table 4.6: Effect of Board Meetings on performance of medium enterprises

Variable	N	Mean	Std. Deviation
There is adequate attendance in board meetings	60	2.89	0.345
Board meetings are held at least 4 times in a year in specified intervals	60	3.81	0.782
Majority of audit committee members are independent nonexecutive directors	60	3.52	1.072
The board is responsible for decisions made during the meetings	60	3.73	1.184

Source: Research Data (2022)

4.3.3 Influence of the Board Size on performance of medium enterprises in the County of Mombasa.

The influence of the Board Size on performance of medium enterprises in the County of Mombasa formed the third independent variable in this study. Data was collected through means and standard deviation. The mean and standard deviations of the data collected was computed and findings were presented and are as shown in the table below. As the mean results indicate, board size of the organization is essential in solving agency problems.with a mean of (mean=2.77, SD=1.245), other respondents indicated that board size of the company ensures effective delegation of tasks. with a mean of (mean=2.81, SD=1.182). The participants also indicated that the board size enhances transparency in the organization with a mean of (mean=2.52, SD=1.272) while other respondents indicated that the board size dictates the quality of decisionmaking process in the organization. with a mean of (mean=2.29, SD=1.078). The findings of this study is as the same as those of Rotich and Achode (2016) who indicated that the size of the board have a direct favorable link with corporate governance.

Table 4.7: Influence of the Board Size

Variables	N	Mean	Std.Deviation
Board size of the organization is essential in solving agency problems.	60	2.77	1.245
Board size of the company ensures effective delegation of tasks.	60	2.81	1.182
Board size enhances transparency in the organization	60	2.52	1.272
Board size dictates the quality of decisionmaking process in the organization.	60	2.29	1.078

Research Data (2022)

4.4 Diagnostic Tests

There was a need to conduct diagnostic tests to establish whether it was free from multicollinearity and Autocorrelation before it was used to run a regression model. A variance inflation factor method was used to test for multicollinearity while Durbin Watson was used to test for Autocorrelation.

4.4.1 Normality Tests

The proper application of the parameters of inferential statistics the assumption of normality is tested. This is to ensure that the kurtosis and skewness of the data is tested. This is just to make a confirmation on whether the data under study is normally distributed. The data normality was then tested by use of Kolmogorov-Smirnov Test and the Shapiro-Wilk Test. The second method is best used when the sample of the data is small i.e. less than fifty. The method is much more reliable especially when making a determination on kurtosis and skewness of the data. When the result is below 0.05, then it is slowly deviating from the distribution of the data that is normal.

Table 4.8: Shapiro-Wilk Test of Normality

Variables	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	**df**	**Sig.**	**Statistic**	**df**	**Sig.**
ROA	0.216	180	0.328	0.725	180	0.456
Board Indipendence	0.348	180	0.328	0.675	180	0.456
Board Meetings	0.316	180	0.328	0.726	180	0.456
Board Size	0.326	180	0.328	0.743	180	0.456

In accordance to the results, the Kolmogorov-Smirnov tested significant values were at 0.328 for ROA of medium enterprises in Mombasa County, Board Indipendence, Board Meetings, and Board Size each. Shapiro-Wilk tested significant values were at 0.456 for ROA of medium enterprises in Mombasa County, Board Indipendence, Board Meetings, and Board Size. This brings an implication that the p-value is far much greater than the significance level of 0.05, hence the prediction that the data was normally distributed cannot be denied.

4.4.2 Heteroscedasticity Test

Breusch-Pagan test was applied in order to test for homoscedasticity. This test is conducted on the basis that there is a normal distribution in the error terms. The null hypothesis of the test is a constant variance. Consequently if the p-value is very significant, the null hypothesis is rejected in support of alternative hypothesis that is variance is not constant. Results below show that the p value is greater than .05 thus the error term is constant.

Table 4.9: Test for Heteroscedasticity

Breusch-Pagan / Cook-Weisberg test for heteroscedasticity			
Ho: Constant variance			
Variables: fitted values of net profit			
	chi2 (1)	=	1.34
	Prob> chi2	=	0.2476

Basing on the level of output, the values obtained were greater than 0.05, hence there is no big difference existing in the variation of dependent to independent variables that were tested.

4.4.3 Multicollinearity Test

Multi-collinearity is the type of the test that makes an evaluation of whether the independent variable under the study is correlated or not. The multicollinearity test was done to check if the date have high correlation or are independent variable. The VIF was used to make an evaluation of how the variable correlate and the level of variance each variable has as a result of the dependence with the other variables. Upon the application of the rule of the thumb when VIF is bigger than 10 then there must be an existence of a great problem with the multicollinearity hence this is very dangerous to the research. The outcome of multicollinearity test was as presented in Table 4.5. Based on the study findings, tolerance values were above 0.1 and VIF values were below 10 implying that there was no evidence multicollinearity in the multiple regression model.

Table 4.10: Variance Inflation Factor Test of Multicollinearity

	Colinearity Statistics Tolerance	VIF
ROA	.500	2.000
Board Independence	.608	1.646
Board Meetings	.633	1.580
Board Size	.493	2.027

4.4.4 Testing for Autocorrelation

The study conducted an autocorrelation test using the Durbin-Watson method. The findings indicated that the Durbin-Watson value is at 2.374 which shows that Durbin-Watson statistics is between 1.5 and 2.5, given in Table 4.5 hence there is no autocorrelation, (Hair *et al.*, 2010). According to Gujarat (2009), the Dublin-Watson values of less than 1.0 or greater than 3.0 may be a cause of concern. A Dublin-Watson value closer to 2.0 is regarded as satisfactory. Thus, the value 2.374 lies within the satisfactory levels and thus regarded as acceptable.

Table 4.11: Test for Autocorrelation

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.297[a]	.088	-.244	.54911	2.374

4.5 Correlation analysis

Correlation was used to determine the strength of the connection among the variables. Table 4.12 below, shows the correlations.

Table 4.12: Correlation Matrix

	ROA	Board I	Board M	Board S
ROA	1			
Board Inde	0.773	1		
Board M	0.463	0.316	1	
Board Size	0.618	0.163	0.216	1

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

Study findings presented in Table 4.12 established that, there is a significant positive relationship between performance of medium enterprises in MombasaCounty and board independence (rho=0.773). Therefore, it can be implied that an increase in board independence is associated with increased performance of medium enterprises. Secondly, the findings showed that there is a weak positive significant relationship between performance of medium enterprises in Mombasa County and board independence (rho=0.463). Also, there was a significant positive relationship between board size and performance of medium enterprises in Mombasa County (rho=0.618).

4.6 Regression Analysis

The relationship between corporate governance practices and performance of medium enterprises in the county of Mombasa. was established using multiple regression model after the diagnostic tests indicated that, the assumptions of multiple regression model would not be violated. Regression analysis involved the analysis of coefficient of determination, model significance and model coefficients. Coefficient of determination indicates the percentage changes in the dependent variable that is explained by the independent variables in a regression model.

Table 4.13: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.518[a]	.268	.260	.747

Dependent Variable: ROA

Table 4.14 indicates that, the coefficient of determination (R squared) was 0. 268 which implies that 26.8% of the changes in performance of medium enterprises in the county of Mombasa.is explained by Board Independence, Board Meetings, and Board Size. The adjusted R square value of 0. 260 revealed that, 26.0% of the changes in performance of medium enterprises in the county of Mombasa..

Table 4.14: ANOVA of the Regression

Model		Sum of Squares	Df	Mean of Square	F	Sig.
1	Regression	13.221	3	17.892	32.048	.000[b]
	Residual	6.864	57	.430		
	Total	20.085	60			

a. Dependent Variable: ROA

Predictors: (Constant), Board Independence, Board Meetings, and Board Size

The study findings revealed that, the overall model was significant. The F statistic value of 32.05 was significant (Sig = 0.00003 < 0.05), hence an indication that, the model linking Corporate governance practices to performance of medium enterprises in the county of Mombasa was significant.

The study also used the F-distribution table to obtain the F- critical value (F 0.05 (3,57)) calculated at = 3%, using denominator degrees of freedom of 57 and numerator degrees of freedom of 5 and compared against the F-calculated value of 32.048. The rule of the thumb is that if F-calculated is greater than the F-critical, then the model is significant. The F-critical value from the F-distribution table was 2.214 which is less than 32.048 hence it confirms the previous findings that the model linking Corporate governance practices to performance of medium enterprises in the county of Mombasa was significant.

Table 4.25: Coefficient of Correlation

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.374	.373		6.368	.000
	Board I	.444	.067	.375	6.586	.000
	Board M	.101	.044	.129	2.324	.021
	Board S	.612	.181	.182	3.389	.001

a. Dependent Variable: $ROA = 2.374 + 0.444X_1 + 0.101X_2 + 0.612X_3$

From the finding in Table 4.15, the study found that holding Board Independence, Board Meetings, and Board Size at zero Performance of medium enterprises in the county of Mombasa will be 2.374. It was established that a unit increase in Board Independence, while holding other factors (Board Meetings, and Board Size) constant, will lead to an increase in Performance of medium enterprises in the county of Mombasa by 0.444 ($p = 0.000$). Further, unit increase in Board Meetings, while holding other factors (Board Independence and Board Size) constant, will lead to an increase in Performance of medium enterprises in the county of Mombasa by 0.101 ($p = 0.021$). Further, unit increase in Board Size, while holding other factors (Board Independence, Board Meetings) constant, will lead to an increase in Performance of medium enterprises in the county of Mombasa by 0.612($p = 0.001$).

4.7 Discussion of Findings

The mean and standard deviations of the data collected on the effect of Board Independence was computed and findings are presented in table 4.5. From the result, the study revealed that the non-executive directors outnumber executive directors in our board with a mean of (mean=3.52, SD=1.712). The respondents indicated that the firm’s board checks the internal audit function's adequacy on a regular basis with a mean of (mean=3.81, SD=1.363).. Therefore, it can be implied that an increase in board independence is associated with increased performance of medium enterprises. Secondly, the findings showed that there is a weak positive significant relationship between performance of medium enterprises in Mombasa County and board independence (rho=0.463). Also, there was a significant positive relationship between board size and performance of medium enterprises in Mombasa County (rho=0.618). In tandem with the study findings, Jovanoic, (1982) opined that the Board Independence may serve as a useful indication for identifying the length of time the medium enterprises will operate as a business. Companies that have been in business for longer often have wider profit margins because they have a broader customer base and a stronger reputation (Liargovas, & Skandalis, 2008).

The findings showed that there is a weak positive significant relationship between performance of medium enterprises in Mombasa County and board independence (rho=0.463). Also, there was a significant positive relationship between board size and performance of medium enterprises in Mombasa County (rho=0.618). Further, unit increase in Board Meetings, while holding other factors constant, will lead to an increase in Performance of medium enterprises in the county of Mombasa by 0.101 (p = 0.021). Number of board meetings also drew positive relationship in that the operating efficiency of medium enterprises improved over the years consequently leading to higher financial performance. These findings were in line with the objective of establishing the effect of corporate governance practices on the financial performance of medium enterprises.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section summarizes the research results, conclusions and research recommendations. The research finally indicates the limitations and areas which may require additional research.

5.2 Summary of the Findings

The aim of this research was to explore the relationship between corporate governance practices and performance of medium enterprises in the county of Mombasa. The finding established that, there is a significant positive relationship between corporate governance and medium enterprises perfomance in Mombasa County. Therefore, The research findings indicate that the corporate governance principles influence organizational performance positively. This may be explained by the fact that the supply chain management practices provides a platform in supply chain inefficiencies and focusing on objectives, activities ,outputs and roles which eventually lead to improved organizational performance

One of the main findings of this study is that Board size impacts on the financial performance of medium enterprises. It was seen that as the board size increased, the financial performance reduced since the board became less effective. The medium negative correlation implied that as the board size reduced below optimal level, taken to be in this study, and then the financial performance would reduce. The number of non-executive directors also depicted a similar trend and thus an optimal number of both the board size and NEDs needed to be observed in order to have the financial performance of medium enterprises at a higher level.

The findings on number of management committees showed that as the number of management committees increased the financial performance of medium enterprises improved significantly. The reduction in NPLs meant a stronger asset base for the medium enterprises and thus improved profitability. Number of board meetings also drew positive relationship in that the operating efficiency of medium enterprises improved over the years consequently leading to higher financial performance. These findings were in line with the objective of establishing the effect of corporate governance practices on the financial performance of medium enterprises.

5.3 Conclusion of the Study

The study examined the relationship between corporate governance and the performance of organizations it was discovered that the adoption of good corporate governance practices enhances transparency of company's operations, ensures accountability and improves firm's profitability. It also helps to protect the interest of the shareholders by aligning their interest with that of the managers. The results show medium enterprises in Mombasa County should embrace corporate governance practices for them to enhance shareholder wealth maximization and corporate profitability. CBK through their prudential regulations should ensure that medium enterprises follow these regulations which ensure adequate risk management measures are followed not only in writing but in day to day operations in the medium enterprises. It is also recommended that the Institute of Certified Public Secretaries in conjunction with Kenya Bankers Association come up with awards to those medium enterprises that practices best corporate governance to encourage and root the culture of corporate governance in medium enterprises in Kenya.

The regulators should also improve on the mechanisms of ensuring that the corporate governance disclosures in the annual reports are not simply statement of good intentions but are actually implemented at firm level. This will greatly improve the level of corporate governance and by extension firm performance. That generally corporate governance has positive impact on all the performance indicators of an organization. The factors of board size, board and management skill, size, foreign and institutional ownership and annual meeting, all have positive correlation with the performance of organizations. Findings of the study indicate that some medium enterprises that participated in the study had adopted the following corporate governance practices:

Formation of board of directors; development and institutionalization of a system for evaluating board and individual directors; development of Bylaws to govern board meetings; holding four or more regular board meetings per year; use of cumulative voting for election of directors; choosing shareholder meeting dates and locations to encourage attendance; and ensuring board approval for related party transactions. The findings further show a positive relationship between the following corporate governance practices and performance of the medium enterprises that participated in the study: availability of board of directors; existence of a system of evaluating board and individual directors; existence of Bylaws to govern board meetings; and use of cumulative voting for elections of directors.

The findings also show that adoption of the following corporate governance practices has a direct influence on profitability of the medium enterprises that participated in the study: holding four or more regular board meetings per year; the choice of shareholder date or location to encourage attendance; and board approval requirement for related party transactions. The annual reports and the financial statements of the companies are the main means of communication between the company and the stakeholders. Therefore the sensitive role of the board of directors by ensuring that the financial statements show the true position of the company's performance cannot be over emphasized. The board of directors must be well constituted to increase its independence and with the right size. Furthermore, the result is an indication that the companies are well positioned to support the economic growth and development of the country.

With good corporate governance record, the companies would be able to generate more resources to create more employment opportunities, pay dividend to shareholders and generate more tax revenue to government. . The relevance of corporate governance cannot be over emphasized since it constitutes the organizational climate for the internal activities of a company. In Kenya corporate governance can greatly assist the medium enterprises sector by infusing better management practices, stronger internal auditing and greater opportunities for growth. Corporate governance brings new strategic outlook through external independent directors; it enhances firms' corporate entrepreneurship and competitiveness. It is not a threat to value creation in entrepreneurial firms if the guidelines on corporate governance are properly applied.

5.4 Recommendations of the study

The study recommends that, medium enterprises should embrace advanced digitalization that will ensures smooth and efficient running of medium enterprises activities, and in so doing they should shorten customer engagement through simplified processes. The following measures are recommended in order to enhance adoption of corporate governance practices among medium enterprises in Kenya: Good governance mechanisms among medium enterprises are likely to result in boards exerting much needed pressure for improved performance by ensuring that the interests of the firms are served. In the case of medium enterprises, board members bring into the firm expertise and knowledge on financing options available and strategies to source such finances thus dealing with the credit constraint problem of medium enterprises as well.

This study recommends that the researcher, management, and policy development of training in the medium enterprises sector needs to be more open and flexible in order to address corporate governance issues. Research, management and policy instruments of training support will need to interact with, and be responsive to, the subtle distinctions of context that will moderate what is more appropriate, and more likely to be welcomed, in the small business sector.

The study further recommended that, medium enterprises can adopt internal economies of scale mechanisms that can minimize excess costs that attract inefficiency among medium enterprises in Kenya. The study recommends that, medium enterprises should conduct an in-depth analysis on the viability of customer projects and their risk levels as well as its chances of returns from the venture. It is important to establish whether it would bring forth or it would lead to default from the customers due to lack of breakeven discrepancies.

5.5 Limitations of the Study

The variables of this research were Board independence, Number of Board Meetings, Board size and Performance of medium enterprises was measured using return on assets. The findings are therefore based on those variables and the specific measures adopted to measure those variables. The study only focused on three corporate governance practices leaving out many potentially better corporate governance practices which could have affected the overall model and explain more variations in medium enterprises performance in Mombasa County. The study also did not capture any of the market related data so as to have real dynamism of the market operations.

Furthermore, the researcher did not overlook the major limitation of descriptive research design which is that the design makes it difficult to explain phenomena that occur over time, hence the study's findings are only applicable to the study's time frame. This makes it difficult to explain phenomena that occur over time, hence the study's findings are only applicable to the study's time frame. It was difficult to access data due to strict confidentiality exhibited by most medium enterprises. Finally, the study used primary data which may not reflect the current situation in the ground.

5.6 Suggestions for Further Research

The following areas of further research are thus suggested:

-Whereas the current study focused on corporate governance practices and their impact on their performance, future studies should focus on the various organizations that support medium enterprises, with a view to establishing any variances;

- The present study did not allow for the exploration of employees perspectives of corporate governance activities, considered to be crucial in the development of effective corporate governance intervention strategies.. ROA was considered as the measure of performance of medium enterprises, future researchers' may use other measures of financial stability.

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APPENDIX I: QUESTIONNAIRE

This questionnaire will be utilized in collection of data for a research study on "*the relationship between corporate governance and performance of Medium enterprises in Mombasa County*". We have invited you to participate in our research by filling out this closed-ended questionnaire to help advance knowledge on this topic. Mark a response with a tick (√) on your choice. It is recommended that you do not write your name, facility, or organization on the questionnaire, or any other information that could be used to identify you. We shall treat the information we acquire about you with strict secrecy, and we will only share it with third parties for the purpose of obtaining an academic degree.

Instructions

Do not indicate your name on the questionnaire.

For each question, only one answer (box) should be ticked

PART A: BACKGROUND INFORMATION

1. Legal status of the business

Sole Proprietorship	[ ]
Partnership	[ ]
Limited company	[ ]
Co-operative society	[ ]

2. Which year was the business registered? ……………………..

3. How many employees do you have in your business enterprise?

a) 50-99 employees	[ ]	b) 100 – 149 employees	[ ]
c) 150 – 199 employees	[ ]	d) 200 – 249 employees	[ ]
e) 250 employees and above	[ ]		

PART B: CORPORATE GOVERNANCE

Which of the following statements do you agree with the most? On a scale of 1 to 5, how would you rate this? (1 Strongly disagree, 2 Disagree, 3 Neutral, 4 Agree, 5 Strongly Agree)

i) Board Independence

STATEMENT	**1**	**2**	**3**	**4**	**5**
Non-executive directors outnumber executive directors in our board					
The firm's board checks the internal audit function's adequacy on a regular basis					
A written declaration of conflict of interest through the chair by members is done periodically					
Outside directors have a strong desire to keep an eye on management because their reputations are on the line					
Internal audit findings, management reactions, and measures toward change are all considered by the board on an objective basis.					
Board members at this firm have confidential meetings with management and internal and external auditors, which result in an open and honest discussion of important issues.					
The decisions of the board are not controlled by the executives of the organization					

ii) Board Meetings

STATEMENT	1	2	3	4	5
Board meetings are held at least 4 times in a year in specified intervals					
The planning of board meetings is planned annually in advance to ensure the availability of all members					
There is adequate attendance in board meetings					
Our board is provided with adequate information on the agenda items of the board meeting to assist in decision making					
The agenda and documents supporting matters to be discussed in the meeting are circulated to the board members and persons who are to attend the meeting at least 14 days in advance					
The board is responsible for decisions made during the meetings and always choose the right course of action					
Majority of audit committee members are independent nonexecutive directors					

iii) Board Size

STATEMENT	**1**	**2**	**3**	**4**	**5**
The board size of the organization ensures collective participation during decision-making.					
Board size of the organization is essential in solving agency problems.					
Board size of the company ensures effective delegation of tasks.					
Board size enhances transparency in the organization.					
Board size is a crucial factor to consider in fostering equality throughout the organization.					
Board size dictates the quality of decisionmaking process in the organization.					
The size of the company's board is a crucial factor for the performance of the business.					

PART C: FIRM PERFORMANCE

Tick the suitable box to signify your level of agreement with the following assertions. Use the rating criteria: *1. Strongly Disagree (SD), 2. Disagree (D), 3. Uncertain (U), 4. Agree (A), 5. Strongly Agree (SA)*

Statements	**1**	**2**	**3**	**4**	**5**
Over time, there has been a rise in the number of new customers.					
There is increased customer retention in the firm					
The firm profitability has been increasing over the years					

There is reduced customer complaints in the firm					
There is increased number of referrals in the firm.					
Workers are given opportunities for personal and professional development.					
The personnel are friendly and provide good customer service.					

THANK YOU