

**CORPORATE GOVERNANCE PRACTICES AND FINANCIAL
PERFORMANCE OF SELECTED SMALL AND MEDIUM ENTERPRISES IN
KENYA**

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DECLARATION

This research project is my original work and has not been presented for award of any degree in any University for examination purposes.

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DEDICATION

This research project is a dedication to my family for their love I thank you all for your prayers and support. Last but not least, to my parents, thank you for trusting in me with your untiring devotion and prayers. You are great contributors to transforming my life, may the Almighty God bless you abundantly

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LIST OF ABBREVIATIONS AND ACRONYMS

BOD	Board of Directors
GDP	Gross Domestic Product
GOK	-Government of Kenya
GRDP	-Gross Regional Domestic Product
IAI	-Israel Aerospace Industries
IODSA	-Institute of Directors South Africa
KNBS	-Kenya National Bureau of Statistics
LDCs	-Least Developed Countries
OECD	-Organization for Economic Co-operation and Development
PRSP	-Poverty Reduction Strategy Paper
ROA	-Return of Assets
SME's	-Small and medium enterprises
SPSS	-Statistical Package for Social Science
UNCTAD	-United Nations Conference on Trade and Development
USA	-United States of America
USD	-United States Dollar

OPERATIONAL DEFINITION OF TERMS

Audit Committee Practice		The practice of accountability within the audit reports, practice of selecting experienced audit committee members and managing financial risks.
Board Structure Practice	:	It is a practice which entails the arrangement of the higher/upper management level within an organization. In this study, board structure comprises of building a qualified board, building an experienced board and building a goal competent board.
CEO Duality Practice	:	This is the practice in which the CEO also occupies the position of chairman of the board of directors. CEO duality in this study will involve; building CEO tenure, building CEO gender diversity and practice of setting CEO roles
Corporate Governance	:	Is procedures, or mechanism by which a firm is directed and controlled so as to ensure the effective balance of various stakeholders' interest.
Corporate Governance Practices	:	These are guidelines applied to outline the owners' rights, and the means they have to control management and workers. This practices may include the setting board structure practice, ceo duality practices and audit committee management practices.
Financial Performance	:	It reflects n a measure on the effectiveness of an organization to efficiently utilize its assets from its primary mode of business in generating revenues through volume of sales.

Small Enterprise	:	A firm whose turnover is between 500 thousand shillings and 5 million shillings annually and has between 10 and 50 employees.
Medium Enterprise	:	Is a business that employs more than 50 people and has a turnover between Ksh 5million - Ksh 1 billion.
Small and Medium Enterprise	:	SMEs are firms with 10-50 and more than 50 people employed, respectively, with a turnover of between Ksh 500 thousand to Ksh, 1 billion.

ABSTRACT

Good corporate governance practices are critical for improving financial performance in small and medium-sized businesses. The study is prompted by the persistently poor financial performance of small and medium-sized businesses. Over 70 percentage of SMEs fail within the first three years of operation due to low volume sales that lead to losses despite their importance to the Kenyan economy. Majority of the studies have indicated that corporate governance practices enhances performance of small and medium enterprises. This study aimed at investigating the effect of corporate governance practices on the financial performance of selected SMEs in Kenya. Subsequently the specific objectives steered this research project to determine the effects of board structure, CEO duality as well as audit committee on the financial performance of the selected SMEs in Kenya. The study adopted stakeholder theory, stewardship theory and resource dependency theory. The study looked at empirical review relevant to this research proposal. A descriptive research design was utilized. A target population of 165 directors and managers from the selected SMEs was the unit of analysis. The study targeted all the top level management of the selected SMEs in Kenya hence a census study was utilized to administer questionnaires to the respondent. Secondary data was collected through the use of secondary data collection schedule. The questionnaire validity was tested using the supervisor and expert assessment and reliability was checked by use of Cronbach's alpha. The collected data was probed for error then it was scrutinized using descriptive statistic by utilization of mean and standard deviation with the guidance of Statistical Package of Social Science (SPSS) software version 22 with and multiple regression analysis were used. A diagnostic test was conducted where a Shapiro Wilk test, Autocorrelation test and Multi-collinearity test was utilized. The collected data and analyzed was presented in form of charts, tables and graphs. Ethical considerations were observed. The study found that board structure had statistically insignificant effect on financial performance of SMEs. The study found that CEO duality had a positive and significant effect on financial performance of SMEs. The study found that audit committee had a positive and significant effect on financial performance. The study recommended that being a director on a board is a demanding job as a result of this duty, making the design of the function and make-up of the board of directors an essential task is critical.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The significance of small and medium-sized businesses (SMEs) in many nations play an essential economic role. Over the past decade, urban planners have acknowledged the contribution of the small business sector to attaining economic growth. Numerous governments and development organizations have prioritized the support of small and medium-sized businesses in an effort to increase private sector participation. 99 percent of all businesses are comprised of approximately 23 million small and medium-sized enterprises (SMEs), which account for approximately 75 million employees in the European Union's expanded 25-member state structure (Padachi, 2016).. In Britain, for instance, SMEs are the backbone of the economy (European Commission, 2015) However, according to Kargar (2018) these business have continuously experienced difficulties in maintaining their profitability levels due to reduced volume of sales. Corporate governance practices are key to improved financial performance of Small and Medium Enterprises across the globe (Mitchell, O'Donnell, Marshall, & Ramsay, 2016).

Developed nations such as the United States, Canada, the United Kingdom, and Australia, among many others, have long recognized building reliable board of governance structure, improving CEO duality and board independence for the stability and survival of small and medium-sized enterprises (Deloof, 2018). According to Gul, Khan, Rehman, and Khan (2020), maintaining adequate corporate governance practices is crucial over the long term as well. Corporate governance has become a global

phenomenon that continue to attract a lot of interest in business and academia, especially in the light of recent Global financial crises, which arose partly as a result of non-optimal corporate governance practices among several organizations across the globe (Dzigba and Ljungquist, 2015). Effective corporate requires that companies to have policies and procedures such as internal and external audits and governance to ensure compliance.

Globally, organizations are mostly concerned with the increase in corporate governance failure that has led to poor financial performance that has resulted in low sale volume, low profitability as well as slow asset growth (Kiragu, 2018). Corporate governance practices core objective is to strive to maximize shareholders' wealth. American Corporate Governance has undergone several revolutions. Much of its basic role was the oversight and control of internal corporate affairs, which has been overtaken by compliance (Griffith, 2015). Corporate Governance in the Unites States of America (USA) ensured that the directors of the company were independent from management, making sure that audit committees were in place to monitor activities and maintain standards of corporate behavior in relation to the investors and the surrounding community (Mitchell, O'Donnell, Marshall, & Ramsay, 2016).

Africa continues to grumble with difficulties in implementation of the practices. Some of the challenges are insufficient understanding of whole concept of corporate governance practices, lack of transparency and accountability, corruption, ineffective laws, bumpy relations between management and shareholders, false financial reports, weak controls internally and poor management of risk (Tait & Megan, 2017). Despite these challenges the continent continues to have strong champions of corporate governance practices both in private and public sector. African Corporate Governance Network report (2016) indicates

that African countries have embarked on a journey to develop their corporate governance practices within their respective political and economic environments. For instance, South Africa continues to be a leader internationally in corporate governance especially in defining application of global standards in an emerging market environment, while Mauritius has made progress in establishing globally recognized corporate governance practices for its small island economy (Dignam & Lowry, 2018).

Zimbabwe, Ghana, Uganda and South Africa have put in place national institutional mechanisms to promote good corporate governance practices. Tait and Megan (2017). Training, technical and awareness raising support has been extended by the World Bank and the Commonwealth Secretariat to various African countries such as Botswana, Senegal, Tunisia, Mali, Mauritania, Cameroon, Gambia, Mozambique, Mauritius, Sierra Leone and Zambia to help them put in place appropriate mechanisms to promote good corporate governance. In South Africa, corporate governance has been recognized as a fundamental objective for the efficient utilization and management of state-owned assets. The first 4 as well as the second King Commission Reports on Corporate Governance in South Africa have been pivotal in issuing new corporate governance guidelines. Notwithstanding the above, in Africa, corporate governance needs to be improved. The challenge is to take cognizance of the peculiarities of the sub-region and develop mechanisms and strategies to achieve this (Tait & Megan, 2017).

In Kenya, Corporate Governance has gained a lot of superiority over the last 15 years and this has been attributed to the poor performance of both private and public companies (Magalla, 2018). Kenyan companies have had issues related to corporate governance practices and this has led to the proposed Kenya Stewardship Code 8. This is an optional

tool to help the institutional investors in observing companies' compliance in which they have invested in (Dignam & Lowry, 2018). Further, Kenya, has established policy of Corporate Governance that mainly focused on the publicly traded companies since these companies are severely affected by the poor Corporate Governance (Dignam & Lowry, 2018). Corporate governance practices have been threatened by emerging scandals resulting from extreme provision of managerial compensation, countless abuse of organizational power and financial crisis of 2007 (Dignam & Lowry, 2016). Kenya has developed codes of corporate governance for state corporations, which are known as "Mwongozo". These codes of governance aim to reform and improve the performance of government organizations. Earlier on, Cap 486 guided companies in Kenya. In September 2015, the President of Kenya accepted the Companies Act 2015 to replace the 1948 Act.

1.1.1 Financial Performance

Organization financial performance is the extent to which the organization uses its investments from its main operations and generates revenue at a given time in period. A firm's financial performance is demonstrated through performance measures such as profits or losses or the volume of sales exhibited (Lee-Kuen, Sok-Gee and Zainudin, 2017). Financial performance in SMEs is vital to the economy as SME contributes over 30% to the GDP constituting 98% of all business and employs over 35% of the population (KNBS Economic Survey report, 2019). Therefore, financial performance measures a company's overall financial health and can be used to compare it to the performance of other companies in the same industry.

The survival of most SMEs are dependent on their financial performance at the long run. Financial performance is a good indicator of assessing the SMEs and often used in gauging the efficiency of the management in converting their resources into profits (Kiragu, 2018). In Kenya, MSME Act 2012, a micro enterprise must attain an average annual sales of less than Ksh. 500,000 and engages fewer or exactly 10 individuals. On the other hand, small sized enterprises must achieve annual sales of between Ksh. 500,000 and Ksh. 5 million and employees more than 10 but less than 50 person. Medium enterprises engages more than 50 person and less than 99 person accompanied with an average yearly turnover of between Ksh. 5 Million and Ksh. 1 Billion.

According to 2019 Kenya National Bureau of Statistic Economy Survey Report estimated the Real Gross Domestic product (GDP) of SME to have expanded by 6.3% in 2018 as compared to 4.9% in 2017. This report attributed to the 1.4 % growth to increased agricultural production, sustained growth in transportation, accelerated manufacturing together with the vibrant service sector activities. Financial performance and its measurement standards have come a long way in the field of finance and management. It can be said that there are three main factors that improve the financial performance of financial institutions: size of the institution, asset management and operational efficiency (Maranga, 2014). The financial performance of SMEs are generally measured using sale volume and revenue growth. The common assumption that supports most research and discussion on financial performance is that good financial performance leads to improvements in the functions and activities of the organization. The purpose of this research is to establish the impact of corporate governance practices on the financial performance of SMEs, therefore, organizational performance is limited in financial terms.

The financial performance of SMEs is measured according to the volume of sales as well as the revenue of the SMEs.

1.1.2 Corporate Governance Practices

Corporate governance is primarily concerned with how effective different governance systems are in promoting long term investment and commitment amongst the various stakeholders. Corporate governance is related to the protection of shareholder's interests and has roots in the issue of separation between management and control (Maharjan, 2019). Good corporate governance is vital to SMEs because it attracts investors and other form of funding and also it enhances accountability and performance of those entrusted to manage the business. Corporate governance is needed to protect the interest of all stakeholders, including shareholders. Corporate governance secures confidence for not only shareholders, but also other stakeholders, such as government, employees, suppliers, and customers in ensuring the firms' leaders are accountable for their decisions.

The major dimension of corporate governance practices include building a good board structure practices, CEO duality and building audit committee independence (Durst & Henschel, 2013; Kenga & Nzulwa, 2018). Building a good board structure include building a competent board of directors, a reasonable board size, experienced board members and a board that is diverse (Anyanga, 2014). Effective board structure with experienced board members influences its ability to oversee corporate governance practices, where competent members tend to be more effective as compared to inexperienced ones in carrying out governance and oversight related responsibilities (Kenga and Nzulwa, 2018). Further, according to Durst and Henschel (2013) the practice

of governance among small firms helps in managing their internal and external association with the different stakeholders.

In order to determine corporate governance practices, various facets are considered such as CEO duality where CEO duality comes about as a result when the CEO doubles up as the chair of the board and the CEO is unable to separate these two roles while performing their duties (Osiaka, 2018). Risk of conflict of interest and rivalry can be witnessed in boards with CEO duality especially when decisions are opposed with the other board members. Oluoch (2017), is of the view that firms like Housing Finance Kenya Limited and Enron exhibited dented images of dual CEOs due to abuse of power. It is worth noting that separation of CEO and board chair boost supervision and monitoring mechanisms undertaken by the board. Maigua (2013) opined that CEO duality in building CEO tenure, building CEO gender diversity and setting CEO roles are key to both private and public sector.

The presence of an audit committee within a firm stands as a key aspect of internal corporate governance. In most of the times, the composition of audit committee provides strict control and monitoring to avoid financial fraud or misstatement by engaging external auditors' services, and thus leading to high audit fees. Independent audit committee are mechanism through which shareholders are assured that management will act in their best interest and enables shareholders closely monitor the activities of the management (Habbash, 2016). Ineffective audit committees give confidence for management to pursue their own interest, however, effective audit committees tend to reduce deceptive behavior of management by detecting fraudulent financial report and actively monitoring (Aldamen, Duncan, Kelly, McNamara & Nagel, 2017).

1.1.3 SMEs in Kenya

In most economies globally, Small and medium enterprises (SMEs) play a major role for their employment creation and economic growth. A report by World Bank Group (2016) indicates that formal SMEs contribute up to 45% of the total employment and 33 percent to Gross Domestic Product (GDP) in the growing economies. In Kenya, SMEs are the backbone of the Kenyan economy contributing 30% to the GDP, constituting 98% of all businesses and employing over 35% of the population as per the KNBS 2019 Economic Survey report. The SMEs sector is increasingly viewed as an important engine for job creation employment creation and economic growth (Nakhaima, 2016). Further, as of 2019, Kenyan economy created 840.6 thousand new jobs with SMEs accounting for 83.6% of the total employment created (KNBS, 2019 Economic Survey). The sizes of SMEs are categorized into small (10-50 employees) and medium (50-100 employees) sized establishment.

According to Subhan *et al.*, (2013), SMEs are the driving force for the promotion of an economy. Due to their significance, all the countries either, developed or developing, are concentrating on the development of SMEs. He also argued that, Small enterprises are considered as main driver for innovation, poverty reduction, employment generation, and social integration. SMEs sector may amplify the production capacity which has significant impact for the promotion of economic and social development. Avendano (2013) mentioned that, SMEs provide the vast majority of employment in developing countries and are keystones in the productive structures of emerging economies. In Kenya, SMEs involvement is not restricted to a single segment of the economy but rather operates virtually in every sector of the economy they are the source of sustenance for

large portion of the citizen (Benedict, 2021). This study will select SMEs based on the similarity traits they have in corporate governance practices based on the board structure, CEO duality and audit committee. Additionally, the selected SMEs will be selected from annual joint initiative of KPMG Kenya and NMG on 100 SMEs survey from 2017 to 2020.

1.1.4 Financial Performance of SMEs in Kenya

A significant growth driver for achieving the development blueprint has been identified as the SME sector, and it has been given priority (Economic survey report, 2017). SMEs have been acknowledged as a larger provider to the Kenyan economy, providing a platform for both employment and creative ideas. In Kenya's economy, SMEs account for around 75% of all employment and for about 18% of GDP (Kangala, 2016). SMEs in Kenya provide the underprivileged with vitality, chances for employment, income, and support for economic growth (Mukoma & Masini, 2015). SMEs have been acknowledged as the primary driver of global economic growth and the eradication of poverty, according to Katua (2014).

Small and medium-sized enterprises (SME) are becoming more frequently recognized as being important for commercial growth (Makoni, 2019). SMEs contribute significantly to the economies of several nations. Over the past ten years, urban planners have acknowledged the role that the SME sector has played in attaining economic growth. Many governments and development organizations have concentrated on assisting SMEs as a means of encouraging increased participation from the private sector (Khan, Deng, &

Khan, 2016). Comparatively to their counterpart, the huge corporations, SMEs make up a larger portion of the enterprises that operate in Kenya.

According to the latest Economic Survey report done by KNBS there are over 7.41 million SMEs out of which 1.56 million are licensed SMEs and 5.85 million are unlicensed SMEs. Of the licensed firms, wholesale and retail trade accounted for 57.1%, or more than half of all licensing enterprises. SMEs still confront some difficult circumstances that restrict their growth and improvement despite the fact that they have emerged as highly significant and crucial actors in the Kenyan economy. The biggest hurdle is deciding which financial source is best. Most SMEs rely on self-financing or borrowing from friends and family (Kamau, 2017). For one reason, banks do not help SMEs enough and this affects their speedy growth (Chimaleniet, 2018).

Since SMEs are expected to account for 20% of GDP and 80% of employment in Kenya, they are becoming increasingly significant and have the potential to spur greater industrialization in that country (Phyllis, 2016). Mwangi (2015) asserts that SMEs play a significant role in Kenya's economic growth and that these companies' strong financial standing is crucial to their ability to make a significant economic contribution at some level or another. In spite of the importance of SMEs in Kenya, 2.2 million of them both licensed and unlicensed have closed their doors during the past five years, including in 2017. According to (Kamau, 2017) the majority of the enterprises that have closed were in the wholesale and retail trade as well as the sector that repaired cars and motorcycles, which accounted for 73% of the total closure. The majority of these SMEs folded after 3.8 years. Without even finishing their first year of operation, 46.3% of SMEs closed

(Economic survey report, 2017). Kenya National Bureau of Statistics MSEA report (2019) reported that 75% of the SMEs in Kenya have experienced a drop in volume of sales in the period 2016 to 2019 and 66% dropping their profits levels as a result.

1.2 Statement of the Problem

In Kenya, the SMEs sector is considered as one of the major contributors to the economy by providing income and employment of a significant proportion of the population (Ngugi and Bwisa, 2013). Despite the SMEs importance to the Kenyan economy, over 70% of SMEs in Kenya fail within the first three years of operation due to low volume sales that lead to losses (Ganbold, 2018). A recent survey by Viffa Consult Limited shows that 58 per cent of SMEs in Kenya reported a negative revenue performance of below 1 per cent to over 50 per cent decline in 2021 compared to 2020. According to the Kenya SME performance index 2019 almost 60% of the top 100 SMEs generated an annual revenue of less than Kshs 1 million, Hence the low volume of sales has put SMEs in a very precarious position that has led to most SMEs becoming bankrupt to a point of closing down. Therefore it is vital to understand every piece of the sale process. Additionally, 80% SMEs in Kenya are family owned and run thus brings about the issue of poor performance since they are not conversant with the market as most family owned would run the company without putting into consideration ways of improving sales (Nyamongo, 2019).

Good corporate governance practices are essential for improvement of financial performance in small and medium enterprises. The research will be instigated by the continuous poor financial performance of small and medium enterprises. Corporate governance practice and financial performance is an area which has intrigued a number

of researchers. Even though majority concludes to an existence of relationship between the two variables others conclude to no existence of relationship. Financial performance will be measured using board structure, CEO duality and audit committees (Wairimu 2014; Durgavanshi 2014; Memba and Kimungunyi 2015, Leng, 2014). Researchers have not done a lot of work in the SME sector in line with corporate governance practices and financial performance this presents a gap since very limited information is available in the public relating the two variables.

A few studies have been done on corporate governance and financial performance. Mang'unyi (2017) conducted a study to explore the ownership structure and Corporate Governance and its effects on performance of firms focusing on selected banks in Kenya and established significant difference between Corporate Governance and financial performance of banks. Muriithi (2016) did a study on the relationship between Corporate Governance mechanisms and performance of firms quoted on the NSE, Wanjiru (2016) did a study on effects of corporate governance on financial performance of companies quoted at the NSE and found that a strong relationship exist between Corporate Governance practices under study and the firms' financial performance. Similarly, leverage was found to positively affect financial performance of insurance firms listed at the NSE. Otieno (2017) researched on impacts of corporate governance and financial performance of commercial banks in Kenya and concluded that corporate governance elements represent 22.4 % of the budgetary execution of commercial banks. Matengo (2015) did a study on the relationship between Corporate Governance practices and commercial banks' performance in Kenya. From the reviewed studies very, few have focused on financial aspects of corporate governance and their influence on financial

performance of SMEs. Hence the current study sought to fill the knowledge gap by holistically investigating the influence of corporate governance practices on financial performance of selected SMEs in Kenya.

1.3 Research Objectives

1.3.1 General Objective

To determine the effect of corporate governance practices on financial performance of selected small and medium enterprises in Kenya.

1.3.2 Specific Objectives

This study finding were directed based on these specific objectives;

- i. To determine the effect of board structure on the financial performance of selected SMEs in Kenya.
- ii. To establish the effect of CEO duality on the financial performance of selected SMEs in Kenya
- iii. To assess the influence of audit committee on financial performance of selected SMEs in Kenya

1.4 Research Question

- i. How does board structure affect financial performance of selected SMEs in Kenya?
- ii. How does the CEO duality affect financial performance of selected SMEs in Kenya?
- iii. How does audit committee influence financial performance of selected SMEs in Kenya?

1.5 Significances of the Study

The significance for this findings is that it will offers invaluable inputs from both a conceptual and a realistic standpoint. From a theoretical standpoint, it will add to the basic understanding of the influence of corporate governance on financial performance of selected SMEs in Kenya. This study will assist policymakers and development partners in developing policies to improve the financial performance of these SMEs. The results will be used to promote the government's development agenda and Vision 2030. This research will also be useful to development partners in developing programs to fund activities that will improve the financial performance of SMEs in Kenya. The research findings will serve as a foundation for future researchers to build on.

The study will assist the regulatory authorities of the Republic of Kenya in understanding factors affecting corporate governance on SMEs and the resulting benefits to society as a whole. The corporate governance practices used by SMEs will also have an impact on the tax status of the SMEs, so the tax authority may want to know how the practices chosen will affect the tax levels. The study will also help the Kenyan government make policy decisions regarding the SME sector of the economy.

1.6 Scope of the study

The scope of the research was to investigate the effect of corporate governance practices on financial performance of SMEs in Kenya. The scope of the study was limited to three independent variables: board structure, CEO duality and audit committee. The study unit of observation were the selected SME's in Kenya. The specific objectives of the study were to assess how board structure, CEO duality as well as audit committee influence financial performance of selected SMEs in Kenya for the period 2022 which presented

the time scope. The study targeted the top 100 from KPMG Kenya report (2019). Descriptive research design was adopted and a census survey was conducted.

1.7 Limitation of the Study

The researcher encountered various limitations during conducting of the study. To begin with, the respondents were reluctant in providing information concerning relationship between corporate governance and financial performance of selected SME's in Kenya as they are sensitive. The researcher however addressed this by explaining the importance of this study to this business owners and assuring them that the data collected was used solely for academic purposes. Additionally, the study also limited to top 100 SMEs according to top 100 from KPMG Kenya report (2019). Despite this, the researcher ensured the data was collected comprehensively so as to enable generalization of the study's findings to other SMEs.

1.8 Organization of the Study

This research proposal is split into chapters for analysis and understanding. In chapter one, it provides a general description of the study by giving basic information about the findings, the declaration of the challenges, the aim of the research to be achieved. It also describes more in detail the research questions to be answered, the importance of this study, recognizes groups that stand to gain from the findings and how they benefit. Chapter two on the other hand will focus on the literature review of the study and also give out the theories of the study that has accentuated what the finding intends to achieve. Chapter two also presents some empirical studies that have been examined through giving the researcher to present the hypotheses and the theoretical framework for the findings. Also it will look at the concepts relating to board structure, CEO duality and

audit committee with the different elements of financial performance of the selected SMEs. It looked at the attempts at establishing what the past studies, concept and theories say about the affiliation amidst corporate governance and financial performance if there's an accord among scholars on these issues. The third chapter showed the research methodology to be adapted. It featured the research design to be used in the research study and also established and described the population under study. The chapter described and expounds the sampling design used for the research. It further analyzed the data collection instrument, the procedure used in the research and the data analysis method used. Chapter four presented the findings and discussions. Chapter five presented the summary of the findings, discussions and recommendations of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

To provide the theoretical context for the research, this chapter examined existing literature on corporate governance practices on financial performance of selected small and medium enterprises. Based on the existing literature, a conceptual framework was developed, which provided key variables and represented their interrelationships.

2.2 Theoretical Review

The theories on which the study was based were discussed in this section. The anchor theory was the Stakeholder theory, which was supported by the following theories: stewardship theory, resource dependency theory

2.2.1 Stakeholder Theory

Stakeholder theory was created by Freeman in (1984). The firm's primary aim, in his opinion, is to maximize the wealth of all stakeholders, not just shareholders. Companies, according to stakeholder theory, should serve the interests of a variety of groups, not just shareholders. This theory is broad in scope because it articulates management policies and addresses the needs of various stakeholders (Machuki and Oketch, 2013). As a result, organizations must understand their legal and ethical obligations to all stakeholders, whether intrinsic or extrinsic, participant or group, organizational or non-institutional. According to (Price, 2019), the stakeholder theory, organizations are expected to make efforts to mitigate or reduce conflicts between stakeholders. The theory also takes into account the interests of any third parties who rely on the organization in some manner.

Organizational management is based on business ethics principles that address issues of various stakeholders in a changing business environment. The theory identifies models that should guide employee behavior in order to achieve organizational goals. Firms create business codes of ethics to guide and inform employees about the expected code of conduct at work. The stakeholder expectation is that firm agents have moral integrity and make decisions that allow the firm to maximize profits while causing the least amount of harm to society (Ongore & Kusa, 2013). They argue that in a competitive business environment, systems are more likely to achieve goals by recognizing stakeholder interests and needs. Managers should always make decisions that do not contradict stakeholder expectations.

A well-functioning audit committee, according to this theory, ensures better corporate governance practice in a firm, which ultimately leads to the overall welfare of many stakeholders. (Dey, 2008) conclusion is noteworthy in this regard; he stated that various governance mechanisms, including the audit committee, positively affect an organization's performance and stakeholders' "value." Furthermore, (DeZoort, Hermanson, Archambeault, and Reed, 2002) emphasized stakeholder interests in the definition of an effective audit committee by stating that the committee's ultimate goal is to protect the interests and welfare of all stakeholders. This is because if the financial statements are of the highest possible quality, the interests of all stakeholders will be protected.

This theory is relevant to the study because it contends that a well-functioning board structure, CEO duality, and audit committee ensure better corporate governance

practices, which result in good financial performance. This will ultimately increase stakeholder confidence and ensure the organization's long-term growth.

2.2.2 Stewardship Theory

Davis, Schoorman, and Donaldson advanced the stewardship theory. (1997). According to the theory, when stewards align their interests with those of the principal, there will be no principal-agency conflict (Chrisman, 2019). In essence, when the steward's and the principle's interests coincide, both parties achieve their long-term goals without conflicting interests. According to the current study, the firm's managers or executives are stewards, while the firm's stakeholders are the principles. When managers or executives choose to act in a way that encourages self-motivation, goal attainment, and self-actualization, their ambitions will naturally align with the organization's goals (Schillemans and Bjurston, 2020).

According to stewardship theory, when the principal and manager in a business choose to act as stewards, the two parties will work in the principal's best interests, which is supported by psychological and situational factors (Madison, 2014). Stewards of the organizations' resources and assets must ensure that they are adequately safeguarded. Managers should protect all of the shareholders' resources by engaging in the most profitable business that maximizes the shareholders' wealth. Employees of the company should work with the goal of benefiting the company as a whole. A steward's behavior should not deviate from the organization's goals, but rather should be consistent with what the organization believes in. Stewards are expected to bridge the gap between the organization's various stakeholders and other interest groups.

A steward who successfully improves performance satisfies the majority of stakeholder groups in an organization when these groups' interests are well served by increasing organizational wealth. When a single person holds the positions of CEO and Chairman, the fate of the organization and the power to determine strategy is in the hands of a single person. Thus the focus of stewardship theory is on structures that facilitate and empower rather than monitor and control (Davis, Schoorman & Donaldson, 1997). As a result, stewardship theory takes a more relaxed stance on the separation of the roles of chairman and CEO, and advocates for the appointment of a single person as chairman and CEO, as well as a majority of specialist executive directors rather than non-executive directors. (Karanja, 2017).

The stewardship theory may be seen to validate that a duality structure forges a necessary and important unity of command at the top of the organization, aids in reducing confusion among managers, employees, and other stakeholders as to who is in charge, and facilitates effective decision making in the shortest amount of time. Otherwise, a company's top management may hold opposing views, resulting in slower and less effective decision-making and, ultimately, poor performance (Peng, Zhang, & Li, 2007).

In contrast to agency theory, stewardship theory advocates for a CEO duality structure that reduces information asymmetry and serves as an incentive mechanism for new CEOs during management transition (Saibaba et.al, 2011). According to stewardship theorists, the power of executives and the best stewardship role can only be exercised when the roles of CEO and Chair of the board are combined (Rashid, 2013). Thus, for improved financial performance, a firm should ensure that the structures in place ensure that managers are empowered and well facilitated to achieve the firm's objectives and, as a

result, meet his own objectives in the process. This theory will be significant to this study as it indicates how CEO duality structure that are well define will enhance financial performance of the selected SMEs in Kenya. Additionally, the theory will demonstrate that firms need to be transparency and directing policies and controls to stay away from abuse of money which may result to poor financial performance of the SMEs selected in Kenya.

2.2.3 Resource Dependency Theory

Pfeffer and Salancik coined the term "resource dependency theory" in 1978 after conducting a thorough review of empirical studies. They discovered that the executive and non-executive board members contribute significantly to the organization's resources. According to resource dependency theory, once appointed to the board, these individuals will aggressively work hard for the common good of the firm. As a result, the board of directors is regarded as an important factor in improving a company's financial performance. Resources come in a variety of shapes and sizes, and they can also be expressed as the firm's capital (Hilman & Dalziel, 2003).

This theory implies that corporate boards will reflect the environment of the (Pfeffer, 1972), and corporate directors will be chosen to maximize the provision of important resources to the Firm. Each director may bring unique connections and resources to a Board. Thus, board composition will be theorized to reflect a matching of an organization's dependencies to its Board members' resource acquisition potential (Hillman, Cannella, & Paetzold, 2000).

The resource dependence theory assesses firms based on their ability to obtain a variety of resources from the outside environment. As a result, corporate boards provide a steady flow of resources because they bring a wealth of professional contacts, ideas, experience, and knowledge (Ness, Meising and Kang, 2010). The resource dependency theory focuses on the role of the board of directors in obtaining critical resources for the company from the external business environment (Tachiwou, 2016). It helps to bring in numerous resources, such as skills and information access to key elements such as supplies of social groups, policy maker, purchase output and raw material, through an external connection formed by the firm's management (Afza and Nazir, 2014).

According to the resource dependency theory, directors generate resources such as information, expertise, critical elements (purchasers, suppliers, social units, public policymakers), and legality, which reduces uncertainty and, as a result, the transaction fee and the prospect of associating the corporation with the outside systems. This opens up the possibility of obtaining additional material and even expertise in a variety of fields (Chege, 2021).

Pfeffer and Salancik (1978) linked the resource dependency theory to CG as a natural effect, arguing that prosperous corporations have inner structures that equal outside environmental need. Among the RDT assumptions is that uncertainty overshadows a corporation's resource control, necessitating the corporation's adaptation of strategies to reduce this dependence. As uncertainty and dependencies grow, so does the need for relationships with other corporations (Hillman et al., 2000). Firms frequently modify their corporate governance practices in response to changes in control relationships with various firms, which affect their access to resources. The concept of resource dependency

will be used in this study to demonstrate how the board structure, CEO duality, and audit committee in selected SMEs in Kenya contribute to their financial performance.

2.3 Empirical Literature Review

The segment examined relevant empirical findings on the impact of corporate governance practices on the financial performance of selected SMEs in Kenya.

2.3.1 Board Structure and Financial Performance

Mandala, Kaijage, Aduda, and Iraya (2017) investigated how board structure affected the performance of Kenyan financial institutions. The study relied on secondary data collected over a ten-year period from 2006 to 2015. To assess the effects of the study factors, the researchers used moderated and gradual regression models, as well as correlation analysis. The research findings indicated that the board structure had a significant autonomous impact on the performance of financial institutions. However, the current study will look at board structure as well as CEO duality and audit committee on how they influence financial performance of selected SMEs in Kenya.

Oludele (2016) researched the connection between board freedom and monetary execution of public Nigerian assembling organizations. The target population of the study included 74 companies in the Nigerian manufacturing industry. This study used an intentional sampling method to sample 34 companies representing the research populace. Primary and secondary data were utilized in the study. The secondary data comes from the published fiscal report of the selected companies, while the original data comes from 170 participants from the 34 companies selected through the questionnaire. Research

results show that the independence of the board of directors of publicly traded Nigerian manufacturing companies has an important linear relationship with economic benefits.

Tachiwou (2016) examined corporate governance on the performance of listed companies in the Western African monetary Union (WAMU) regional financial exchange. The review analyzed the impact of board structure, Chief status, board size, board part, and proprietorship fixation on monetary execution in an example of 39 firms. The common least square relapse results uncovered a huge and positive connection between the piece and size of the directorate and business execution, while Chief status positively affected the exhibition of the tested organization. The creator likewise found a negative connection between proprietorship fixation and return on resource (ROA), yet a positive connection between possession focus and net revenue. The current study will look at the financial performance of selected SMEs in Kenya whereas this study focused on performance of listed manufacturing companies in Nigeria.

2.3.2 CEO Duality and Financial Performance

Ahmed (2021) investigated the effects of CEO characteristics on the financial performance of Nigerian listed insurance companies. The study makes use of documentary data gathered from annual reports and accounts of the sampled companies from 2016 to 2020. The data was analyzed using the Ordinary Least Squares (OLS) technique. According to the study's findings, CEO gender and CEO share ownership have a significant positive impact on firm financial performance. There was also a marginally positive relationship between CEO level of education and firm financial performance. Based on these findings, the study concludes that CEO characteristics influence the

financial performance of Nigerian listed insurance companies. Based on this conclusion, the study recommends, among other things, that males be given preference when hiring CEOs, and that CEOs of listed insurance companies in Nigeria be encouraged to own more shares in the companies they manage.

Faraj and Balasing (2019) investigated the impact of corporate governance on financial statement fraud in Tanzanian firms. The study used a survey design with primary data, and the findings revealed that CEO duality is one of the main causes of ongoing fraud because once on the board, there is no one to hold the position accountable. As a result, there is a high risk of colluding with some board members and engaging in unethical practices because there are few accountability measures in place. As a result, it represents a further gap to be anticipated in Tanzania in terms of corporate governance on the performance of listed companies based on CEO duality, board size, and composition.

Wagana and Karanja (2016) conducted a study in Kenya on the impact of corporate governance on corporate performance among Kenyan manufacturing firms. The study discovered that the CEO's duality had a positive effect on firm performance as measured by the return on asset. According to the study, the CEO's dual role reduces the board's ability to oversee top management. They claimed that board duality is the concentration of decision management and decision control in a single person. For systems in which the CEO also serves as chairman of the board, this frequently increases the possibility of conflict of interest and agency issues. The study concluded that CEO-duality reduces firm financial performance and that the effect of board independence and board duality on firm performance varies across the conditional quartiles of a firm's distribution.

2.3.3 Audit Committee and Financial Performance

El-Hawary (2021) evaluated the effect of audit committee Effectiveness on financial performance of companies listed on the Egyptian Stock Exchange over a three-year period covering 2016 through 2018. The characteristics that were appraised included committee size, committee independence, committee experience, committee gender diversity as well as committee frequency of meetings. Based on panel data regression analysis, the findings show that audit committee size and audit committee members' experience have a positive effect on financial performance. They further reveal that committee independence, diligence and gender diversity have no influence on financial performance of companies listed at the Egyptian Stock Exchange. This study however, was conducted in Egypt while the current study will be done in Kenya. Further, the study focused on companies listed in the Egyptian Stock Exchange while the current study will look at the selected SMEs in Kenya.

Oluwatamilore, Kingsley, Tumininu., Okeme, and Leigh (2021) investigated the relationship between audit committee and board characteristics and the market performance of Nigerian listed deposit money banks. The audit committee size, gender diversity, expertise, board size, and board shareholding were chosen as independent variables for the study. From 2013 to 2017, secondary panel data was collected from twelve (12) banks listed on the Nigerian Stock Exchange and analyzed using fixed and random regression analysis. The study discovered a negative relationship between audit committee size, board size, and Tobin Q. On Tobin Q, there was a statistically significant relationship between audit committee gender diversity and audit committee expertise. The study found that board shareholding had a positive but insignificant effect on Tobin

Q. Oluwatamilore et al., (2021) proposed that weak governance structures may lead to poor firm market performance and recommended that firms ensure that appointment criteria prioritize knowledge and competence, and that regulatory bodies be encouraged to track listed firms' compliance with corporate governance regulations.

In Nigeria, Ojeka, Iyoha and Obigbemi (2014) studied the effect of the effectiveness of audit committees on company financial performance. The study is based on 84 companies listed at the Nigeria Stock Exchange over the period a nine-year period of 2010 through 2018. Using panel regression, the findings reveal that audit committee attributes have no effect on financial performance of listed companies in Nigeria. This is in direct contradiction of the agency theory of Jensen and Meckling that expects a positive relationship between audit committees and performance of companies.

2.4 Summary of the Reviewed Literature and the Research Gaps

Table 2.1 shows a summary of the research gaps and the literature reviewed in this study.

Table 2.1: Summary of the reviewed literature and the research gaps

Author and Year	Focus of the study	Findings	Research gaps to be filled	How the Current study filled the Research gap
Ahmed (2021)	Effect of CEO characteristic on financial performance of listed insurance companies in Nigeria	CEO gender and CEO share ownership have significant positive impact on financial performance of the firms. An insignificant positive impact was also recorded between CEO level of education and firm financial performance.	-This study was conducted in Nigeria. -This study focused on CEO characteristics on financial performance of listed insurance companies in Nigeria.	-The current study was conducted in Kenya. -The current study looked at corporate governance practices on the financial performance of selected SMEs in Kenya.
El-Hawary (2021)	The effect of audit committee Effectiveness on financial performance of companies listed on the Egyptian Stock Exchange over a three-year period covering 2016 through 2018.	The audit committee size and audit committee members' experience have a positive effect on financial performance.	-This study was conducted in Egypt. -The study focused on audit committee effectiveness on financial performance.	-The current study was conducted in Kenya. - The current study focused on corporate governance practices on financial performance.
Oluwatamilore, Kingsley, Tumininu., Okeme &	The relationship between various audit committee as well as board characteristics and the market performance of listed	There was a positively significant relationship between audit committee gender diversity and audit	-The study examined the relationship between various audit	-The current study examined the impact of corporate governance practices on the financial

Leigh, (2021)	deposit money banks in Nigeria.	committee expertise on Tobin Q. The study showed a positive but insignificant influence of board shareholding on Tobin Q.	committee and board characteristic and the performance of listed deposit money banks in Nigeria. -The variable used in this study were audit committee size, gender diversity, expertise, and board size and board shareholding.	performance of selected SMEs in Kenya. - The study variable was Board structure, CEO duality as well as audit committee.
Faraj & Balasing (2019)	Impact of corporate governance of financial statement fraud on firms in Tanzania.	CEO duality is one of the main cause of the persisting fraud since one is part of the board automatically there is no one to hold accountable. Thus there is high chance of colluding with some board members and engage in unethical practices since there is little accountability.	-This study was done in Tanzania. -This study focused on corporate governance of financial statement fraud on firms in Tanzania. -This study used CEO duality, board size and board composition to measure corporate governance.	-The current study was done in Kenya. -The current study focused on corporate governance on the financial performance of selected SMEs in Kenya. -The current study utilized board structure, CEO duality and audit committee to measure corporate governance practices
Mandala, Kaijage, Aduda, & Iraya	Board structure on the performance of Kenyan financial institutions.	The board structure had a significant autonomous impact on the	-The study looked a board structure on the performance of	-The current study looked at the corporate governance practices on

(2017)		<p>performance of financial institutions.</p> <p>There was no significant interference of CEO tenure in this situation. A substantial moderating impact of company features on the relationship was observed.</p>	<p>Kenya financial institution.</p> <p>-The study focused on the financial institution in Kenya</p> <p>-The study focused on board structure only.</p>	<p>the financial performance of selected SMEs in Kenya.</p> <p>-The current study focused on the selected SMEs in Kenya.</p> <p>-The current study focused on board structure, CEO duality as well as audit committee</p>
Oludele (2016)	An investigation on the relationship between board independence and the financial performance of listed manufacturing companies in Nigeria	According to the study's findings, there was a significant positive linear relationship between board independence and financial performance of Nigerian listed manufacturing companies	<p>- The study was conducted in Nigeria hence the findings may not be generalized.</p> <p>- The study focused on manufacturing sector.</p> <p>- This study used an intentional sampling method</p>	<p>- However the current study was done in Kenya.</p> <p>-The current study focused on selected SMEs manufacturing sector include among the selected SMEs.</p> <p>-The current study used simple random sampling</p>
Tachiwou (2016)	Corporate governance on the performance of listed companies in the Western African monetary Union (WAMU) regional financial exchange	The study established a vital connection between board members' composition and the size of the board and the company performance. CEO status positively influenced company performance while	<p>- The study was done in Western Africa.</p> <p>- The study adopted ordinary least regression.</p> <p>- The study looked at the performance</p>	<p>-The current study was conducted in Eastern Africa (Kenya).</p> <p>-The current study was multivariate linear regression.</p> <p>-The current study looked at the financial</p>

		ownership concentration influenced company performance negatively	of registered listed companies in WAMU	performance of selected SMEs in Kenya
Wagana & Karanja (2016)	Influence of corporate governance on corporate performance among manufacturing firms in Kenya	The CEO duality had a positive effect on the performance of the firms as measured by the return on assets. The study argued that effectiveness of the board to oversight the top management is diminished by the duality of the CEO. They asserted that board duality is concentration of decision management and decision control in one individual	-The study focused on corporate performance. -The study was done on the manufacturing sector.	-The current study focused on financial performance. - The current study was done in selected SMEs where manufacturing sector would be included.

Source: Author (2023)

2.5 Conceptual Framework

Figure 2.1 depicts the conceptual framework that was developed based on the literature reviewed on the study. This study's independent variables were corporate governance practices, which include board structure, CEO duality, and audit committee.

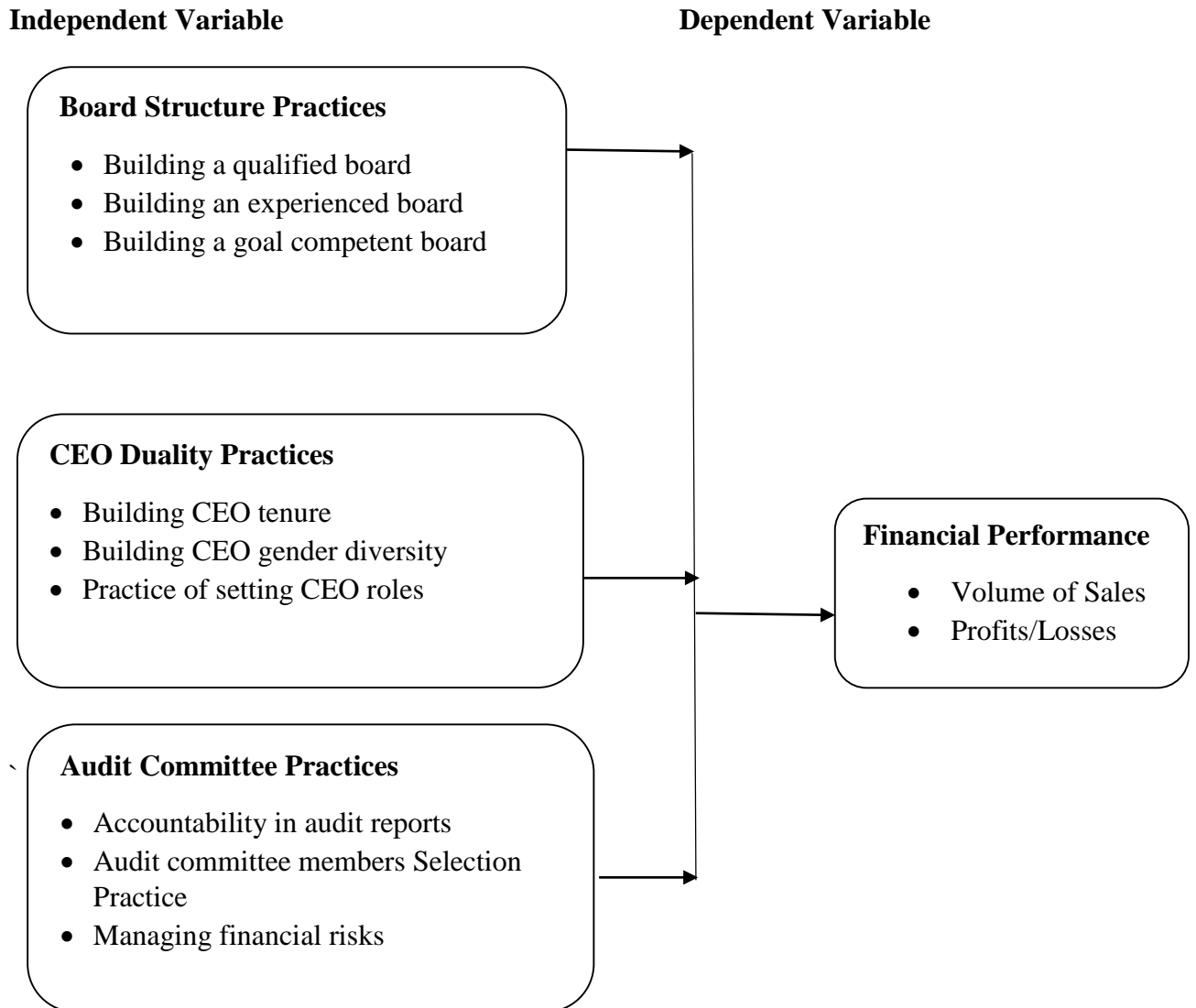


Figure 2.1: Conceptual Framework

Source: Author (2022)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methods that was used to collect data and provided a generalization of the research findings. This section describes how the researcher used various methods to analyze data and answer questions with the goal of meeting specific objectives. The chapter also discusses the design that was used as well as the target population. The chapter also discusses the sample size and why the sample was chosen. The study's model presented the ethical considerations.

3.2 Research Design

The arrangement or pattern of data analysis in accordance with the study's objectives is referred to as research design (Astalin, 2013). A descriptive research design was used to elicit facts about corporate governance practice on the financial performance of selected SMEs in Kenya. According to Amin (2019), descriptive research design was the best used to gather information from a specific population at a specific time. A descriptive research design enabled the researcher to describe the traits of the variables of interest. It was therefore justified that descriptive design was the most suited and justifiably adopted in this study. Descriptive design was useful in describing the characteristics of a population (Mugenda & Mugenda, 2011).

3.3 Target Population

According to Yin (2017), a population is the group of related items or observations of interest to the researcher. For this study, the target population will be from the selected SMEs in Kenya, where the data was derived from the annual joint initiative of KPMG

Kenya and NMG on top 100 SMEs survey from 2017 to 2021 (appendix iv). The SMEs were selected based on the growth of SMEs and audited accounts annual reports for the past 5 years. The target respondent comprised of the directors and managers thus comprising of 100 directors and managers from the selected SMEs.

Since the population was small a census study was adopted, hence, the entire population was considered. According to (Copper & Schindler, 2016), a census is feasible when the population is malleable and necessary when the elements are highly dissimilar. The unit of analysis was the selected SMEs in Kenya and the unit of observation was all the top level managers of the selected in Kenya.

3.4 Data Collection Procedure

According to Cooper (2014), is a formalized method of collecting and analyzing data related to variables, facilitating answers to pre-determined research questions, hypothesis testing, and result evaluation. The information gathered was derived from secondary data as well as from the primary source. The secondary data was obtained from the annual financial reports from the selected SMEs from the stock exchange audited annual reports database spanning five years (2017-2021). The study period of 5 years enabled the researcher to gather sufficient data on the study variables thereby being able to establish the trend in the selected SMEs in Kenya.

Structured questions were used. The questionnaire were distributed electronically via email and filled out manually by participants. Questionnaires were chosen because they were thought to be more effective because they take less time to manage, were less complete, and were less expensive than other methods. Furthermore, because the subjects were distributed in various locations, the questionnaire were applicable to this study.

Structured questions were used in the questionnaire to improve coding simplicity, data analysis, and congruency.

3.5 Data Collection Instrument

The research findings employed questionnaires for primary data as the vital tool to carry out this research. The questionnaire was a more suitable tool, especially when there are a large number of respondents to manage, because it allowed quick and easy data extraction in the shortest possible time Kerlinger (2004). The questionnaire used a combination of structured and unstructured questions on a 5-point Likert scale to elicit feedback against the subjects. The questionnaire was sectioned to six parts, every part includes a definite array of query to be clarified. Questionnaire had 19 questions, divided into parts A-F. Part A was general information, including questions designed to find the background information of the interviewee. Parts B, C, D, and E composed of questions to understand how the composition of the board, the size of the board, the dual identity of the CEO, and the ability of the board affect financial performance and how financial performance affects financial performance. The last part of Part F includes questions about the impact of financial performance. The questionnaire allowed respondents to express in a more open and clear way, and also allowed the collection of answers in a structured way (Cooper & Schindler, 2006).

3.6 Pilot Study and Pre-Testing

A pretest was administered in order to identify and correct any ambiguous, misinterpreted, or misunderstood questions. Furthermore, the pretest aids in the removal of typographical errors as well as the determination of whether the questions asked was relevant and appropriate (Collis & Hussey, 2014). The pretest was carried out in firms

located in Nairobi's industrial area region. Because of its proximity to the study area, this region was chosen. A pilot study was conducted to assess the validity and reliability of data collection instruments. A pilot study, according to Creswell (2014), is necessary for testing the validity and reliability of data collection instruments. A pilot study was conducted with top level and medium level management from the selected SMEs in Kenya.

3.6.1 Validity of the Research Instrument

Validity is defined as the degree to which a data collection instrument accurately quantifies or defines a measured unit (Creswell, 2014). The researcher employed both content and face validity during the analysis. Validity in face was used to reduce the number of vague or misinterpreted questions. The validity of content is a measure of how well all aspects of a given social construct are represented. The validity of the study's content was strengthened by consulting with qualified resource personnel, such as a university supervisor. Furthermore, by conducting a pilot study, the research improved the data collection instrument's validity and transparency.

3.6.2 Reliability of the Research Instrument

The ability of a data collection instrument to produce consistent results when tested in a similar environment or subject matter is referred to as reliability (Kothari, 2013). The internal accuracy of data obtained during the actual analysis was measured in order to assess the dependability of the data collection equipment (Kothari, 2013). The internal consistency was calculated under the assumption that each object should correspond to each other in a similar construct. Cronbach's alpha was the most accurate type of internal

accuracy calculation. The reliability of data collection instruments typically increases as the alpha values increase. The values range from 0 to 1, and if the alpha values was greater than 0.7, the data collection instruments was considered accurate (Creswell, 2017). As a result, the researcher accepted all Cronbach alpha values that exceeded 0.7 for the instrument of data collection.

3.7 Data Analysis

Yin (2008) includes ordering information in which analysis information is collected, important factors are prioritized, and the result is communicated smoothly and efficiently. The study collected both qualitative and quantitative data in this study. The information collected was encoded in order to support its entry into the computer for analysis. Quantitative data was coded with innuendo to the structure of the questionnaire number of varying quantitative variables, and the Social Sciences statistical package (SPSS version 22) with Advanced Models module was used for analysis. All quantitative variables were established to ensure that each variable's exact code is entered.

Descriptive statistics was computed, displaying frequencies, percentages, means, and standard deviations in both tables and figures. In order to determine inferential statistics, multivariate linear regression analysis was performed. The financial performance that is the Profits/losses of the company was expressed as a function of the board structure, CEO duality, and audit committee. At a significance level of 0.05, the 95 % interval between reliability was shown.

The regression models shown below was used.

$$\gamma_1 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon \dots\dots\dots i$$

Where;

γ_1 = Profits/losses

β_0 = Constant term

$\beta_1, \beta_2, \beta_3$ = Beta Coefficient

X_1 = Board Structure

X_2 = CEO Duality

X_3 = Audit Committee

ε = Error term

3.7.1 Operationalization and Measurement of Variables

Table 3.1: Operationalization and Variable Measurement

Variable	Type	Operationalization	Measurements
Financial Performance	Dependent Variable	<ul style="list-style-type: none">• Net Profits	Ratio
Board Structure	Independent Variable	<ul style="list-style-type: none">• Building a qualified board• Building an experienced board• Building a goal competent board	Ordinal
CEO Duality	Independent Variable	<ul style="list-style-type: none">• Building CEO tenure• Building CEO gender diversity• Practice of setting CEO roles	Ordinal
Audit Committee	Independent Variable	<ul style="list-style-type: none">• Accountability in audit reports• Audit committee members Selection Practice• Managing financial risks	Ordinal

Source: Author (2022)

3.8 Ethical Consideration

The study was guided by ethical considerations and followed Kenyatta University graduate school rules and regulations. Prior to the start of the study, the researcher submitted a graduate school letter to the respondents as well as a NACOSTI permit. The study's purpose was clearly stated in their research permit letter. The respondents' consent was sought through direct communication with them as well as through the authorization letter from Kenyatta University. Confidentiality was maintained, and research respondents were given a copy of the findings. To ensure anonymity, a research instrument did not collect identifying information from respondents unless it was required by a study's protocol. When filling out the questionnaires for this study, participants were asked not to include any personal information or their names.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

The chapter presents the results on corporate governance practices and financial performance of selected small and medium enterprises in Kenya. This chapter largely provides the conclusions reached from the field data. The chapter is divided into the following sections: response rate, background data on the respondents, descriptive analysis findings, and regression analysis findings.

4.2 Response Rate

The study targeted 100 SMEs in Kenya. The respondents were 100 directors, one from each of the SME. Out of 100 directors, 89 completely filled the questionnaire which gave a response rate of 89%. According to Baruch and Holtom (2014), a response rate of 80% or more is sufficient for data analysis. In order to properly analyze the data, a study response rate of 89% was found suitable. The study's high response rate increased the credibility and acceptability of its conclusions.

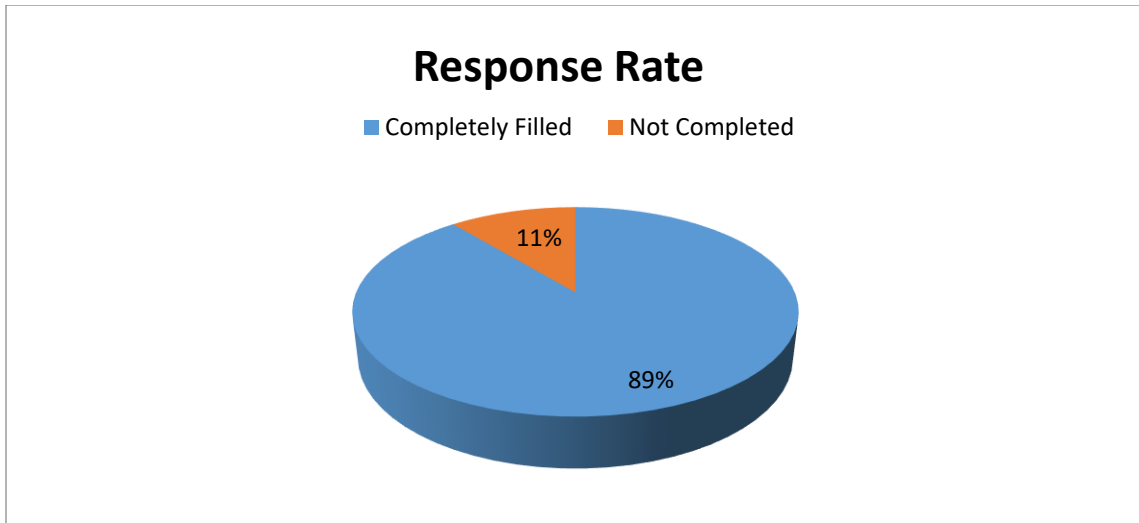


Figure 4.1 Response Rate

Source: Researcher (2023)

4.3 Reliability Tests

The pilot study was intended to facilitate the reliability tests of the research instruments.

The Cronbach Alpha was explained using the below scale; $\alpha \geq 0.9$ – Excellent; $0.9 > \alpha \geq 0.8$ – Good; $0.8 > \alpha \geq 0.7$ – Acceptable.

Table 4.1 Reliability Results

Constructs	Alpha Score	No. of Items	Comments
Board Structure	0.766	6	Accepted
CEO Duality	0.756	6	Accepted
Audit Committee	0.745	6	Accepted
Financial Performance	0.800	6	Accepted

Source: Researcher (2023)

Since the Cronbach Alpha scores were more than 0.7, the researcher was able to use the research instruments to describe the findings and draw conclusion relating to study variables.

4.3 Descriptive Analysis

Based on the respondents' gender, work experience, and educational attainment, the general information of the respondents was examined. The findings are displayed as follows:

4.3.1 Gender of the Respondents

The section presents results on respondent's gender. Figure 4.2 presents the results.

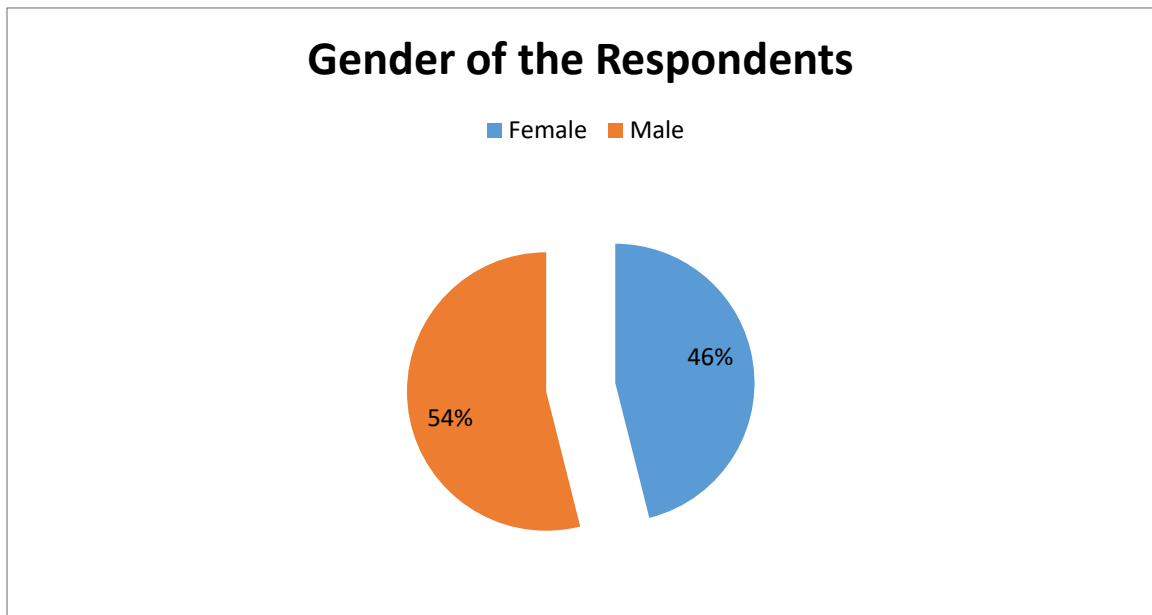


Figure 4.2 Gender of the Respondents

Source: Researcher (2023)

According to the findings shown in Figure 4.1, 54% of the respondents were men, who made up the bulk of the sample. However, just 46% of responses were female. This indicates a balanced distribution of gender in the research.

4.3.2 Level of Education

The results in this section presented the highest level of education of the targeted respondents. Table 4.2 presents the findings.

Table 4.2 Education Level

		Frequency	Percent
Valid	Undergraduate	64	71.9
	Diploma	20	22.5
	MBA	5	5.6
	Total	89	100.0

Source: Researcher (2023)

According to the findings in Table 4.2, the majority of respondents (71.9%) had a degree as their highest level of education, followed by 22.5% who had a diploma and 5.6% who had an MBA certificate. This demonstrates that the vast majority of the study's respondents have advanced degrees.

4.3.3 Duration of Business Operation

The section presents the number of years the SMEs had been in operations. The results were presented in Table 4.3.

Table 4.3 Business Operations Period

		Frequency	Percent
Valid	Less than 5 years	36	40.4
	Between 5 and 10 years	21	23.6
	Between 10 and 15 years	14	15.7
	Between 16 and 20 years	8	9.0

Above 20 years	10	11.2
Total	89	100.0

Source: Researcher (2023)

The results in Table 4.3 indicated that the majority of the respondents (40.4%) had operated their businesses for less than 5 years. The study results showed that 23.6% of the SMEs had been in operation for between 5 and 10 years, 15.7% operated for between 10 and 15 years, 9% had between 16 and 20 years of operations and 11.2% operated for more than 20 years. The study results implies that majority of the SMEs had been in operation for less than five years indicating a possibility of majority collapsing or closing down in less than five years.

4.4 Descriptive Analysis Results

Results that were descriptive were reported in this section based on the study's dependent and independent variables. The mean and standard deviation served as indicators of the degree of agreement and dispersion, respectively.

4.4.1 Board Structure and Financial Performance

The study aimed to establish the effect of board structure practices on financial performance of SMEs in Kenya. The results were presented in Table 4.4.

Table 4.4 Board Structure Practices

	Mean	Std. Deviation
The performance of the company is positively correlated with the number of directors on the board.	3.0225	.81781
The efficiency of the board is reduced and free riding is increased with an increase in board size.	3.1573	.84712
When the board is composed of a broad group of individuals with a variety of viewpoints and backgrounds, it performs better.	4.2247	.47505

A high degree of intellectual capacity is ensured by board members with the appropriate qualifications.	3.1124	.97200
The CEO's negotiating stance has an impact on the board's independence.	3.1236	1.17570
A non-executive director who is independent serves as the board's chairman.	3.0007	.91781
Aggregate Score	3.2735	0.8676

Source: Researcher (2023)

The result in Table 4.4 indicated that the aggregate mean was 3.2735 and the standard deviation was 0.8676. The result corresponded to “moderate” a score in the Likert scale provided in the questionnaire. The results implied that the board structure practices were moderately employed in the targeted SMEs. These were evidenced by individual scores for the six statements presented in Table 4.4. It was therefore evident that the CEO's negotiating stance had moderate impact on the board's independence (M=3.1236, SD=1.17570). The efficiency of the board was moderately reduced and free riding was moderately increased with an increase in board size (M=3.1573) and a high degree of intellectual capacity was moderately ensured by board members with the appropriate qualifications (M=3.1124, SD=.97200). However, the results indicated that when the board was composed of a broad group of individuals with a variety of viewpoints and backgrounds, it performed better (M=4.2247, SD=.47505).

The study agrees with Mandala, Kaijage, Aduda, and Iraya (2017) that the board structure had a significant autonomous impact on the performance of financial institutions. The structure of the board was relevant in explaining the financial performance of SMEs. The study concurs with Oludele (2016) that the independence of the board of directors had an important linear relationship with economic benefits. Further, Tachiwou (2016)

established that the board structure which consists of board independence and board size impacted positive on financial performance

4.4.2 CEO Duality and Financial Performance

The study aimed to establish the effect of CEO duality on financial performance of SMEs in Kenya. The results were presented in Table 4.5.

Table 4.5 CEO Duality and Financial Performance

	Mean	Std. Deviation
Building long tenure CEOs of SMEs perform better than short tenure CEOs	3.1461	.50180
Building CEO tenure affects the performance of the SME	3.6247	.69424
The process of recruiting CEO considers gender diversity.	4.1124	.69124
The SMEs have recruited female CEOs in the past as well as currently	3.0225	.51781
Roles of Chairman of Board and CEO should be clearly defined and not vested in the same person	4.0225	.40759
The monitoring role of board was weaker when the CEO is also Chair	4.0899	.32452
Aggregate Score	3.6696	0.5229

Source: Researcher (2023)

The result presented in Table 4.5 showed an aggregate mean score 3.6696 and a standard deviation of 0.5229. The result corresponds to “moderate” in the Likert scale provided in the questionnaire. The findings indicates that building long tenure CEOs of SMEs performed moderately better than short tenure CEOs (M=3.1461, SD=0.50180). The study found that building CEO tenure moderately affected the performance of the SMEs (M=3.6247, SD=0.69424). However, majority of the respondents opined that the process of recruiting CEO considered gender diversity (M=4.1124, SD=0.69124). The study results indicated that SMEs had moderately recruited female CEOs in the past as well as currently (M=3.0225, SD=0.51781). The study found that roles of chairman of board and CEO should be clearly defined and not vested in the same person (M=4.0225, SD=0.40759). The study results indicated that monitoring role of board was weaker when the CEO was also the chair (M=4.0899, SD=0.32452). The study clearly indicates that CEO duality affected the performance of the board and hence performance.

The study results were supported by Ahmed (2021) that there was marginally positive relationship between CEO responsibility and firm financial performance and that CEO characteristics influence the financial performance. Additionally, Faraj and Balasing (2019) revealed that CEO duality was one of the main causes of ongoing fraud because once on the board, there is no one to hold the position accountable. Further, Wagana and Karanja (2016) opined that CEO duality causes high risk of colluding with some board members and engaging in unethical practices because there are few accountability measures in place.

4.4.3 Audit Committee Practices and Financial Performance

The audit committee practices results were presented in Table 4.6

Table 4.6 Audit Committee and Financial Performance

	Mean	SD
Appointment of members in our audit committee is transparent	4.2000	.50782
The Audit Committee is composed of only non-executive directors who are independent of the company	3.5233	.62815
Members of the Audit committee possess certain level of financial competency	4.2135	.40106
There is a procedure to assess the performance of the audit committee chair.	4.1348	.55985
Audit committee members have stayed for 3years	4.2135	.40106
Audit committee members have different office tenure	4.3333	.41803
Aggregate Score	4.1031	0.4860

Source: Researcher (2023)

The result presented in Table 4.6 showed an aggregate mean score 4.1031 and a standard deviation of 0.4860. The result corresponds to “agree” in the Likert scale provided in the

questionnaire. The study found that the appointment of members in the audit committee was transparent (M=4.2000, SD=0.50782). The respondents moderately agreed that the audit committee composed of only non-executive directors who were independent of the company (M=3.5233, SD=0.62815). Majority of the respondents agreed that members of the audit committee possessed certain level of financial competency (M=4.2135, SD=.40106). The study established that there was a procedure to assess the performance of the audit committee chair (M=4.1348, SD= 0.55985). Further the study found that audit members had overstayed for more than 3 years and different audit committee members had different tenure as reflected by mean of 4.2135 and 4.3333. The study clearly indicates that board audit committee practices was fairly aimed at enabling the SMEs perform competently.

The results agreed with El-Hawary (2021) that that audit committee size and audit committee members' experience have a positive effect on financial performance. They further reveal that committee independence, diligence and gender diversity had influence on financial performance. The study further agreed with Oluwatamilore et al., (2021) discovered a negative relationship between audit committee practices on financial performance. The firms ensure that appointment criteria prioritize knowledge and competence, and that regulatory bodies be encouraged to track listed firms' compliance with corporate governance regulations. In addition, Ojeka, Iyoha and Obigbemi (2014) disagrees that audit committee attributes have no effect on financial performance.

4.4.4 Financial Performance of Small and Medium Enterprises

The study results in this section presented the financial performance of SMEs using net profit as an indicator. Table 4.7 presented the results.

Table 4.7 Descriptive Statistics on Financial Performance of SMEs

	N	Minimum	Maximum	Mean	SD
Net Profit	89	-51,902,288.00	84,112,000.00	22,435,528.29	12,304.06
Valid N (listwise)	89				

Source: Researcher (2023)

The study results in Table 4.7 presented that the 89 SMEs considered in the study had on average net profit of Kshs. 22, 435, 528.29 per year. The average net profit translated to Kshs. 1.9 M in a month. The huge standard deviation of 12.304.06 indicates a high variation in terms of their financial performance. These was further supported by a minimum net profit (Net loss) of Kshs. -51,902,288 per year and maximum net profit of Kshs. 84,112,000.00 per year. The huge variation in their performance was supported by the fact that majority of the SMEs were in different locations, had invested different, were of diverse sizes and the number of years in operation was also diverse.

4.5 Inferential Analysis

The section presented results on the correlation and regression analysis

4.5.1 Correlation Analysis

The correlation results were based on Pearson correlation were the result close to +1 or -1 indicated that the variables were strongly correlated positively or negatively respectively.

Table 4.8 Correlation

		BS	CD	AC	FP
BS	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	89			
CD	Pearson Correlation	.735**	1		
	Sig. (2-tailed)	.600			
	N	89	89		
AC	Pearson Correlation	.309**	.475**	1	
	Sig. (2-tailed)	.703	.800		
	N	89	89	89	
FP	Pearson Correlation	.759**	.819**	.641**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	89	89	89	89

Source: Researcher (2023)

The result in Table 4.8 indicates that the correlation between board structure practices and financial performance of selected SMEs in Kenya was positive and strong ($P=0.759$, $\text{sig}<0.05$). The relationship between CEO duality and financial performance of selected SMEs in Kenya was strong, positive and significant ($P=0.819$, $\text{Sig}=0.000$). The correlation between audit committee and financial performance of selected SMEs in Kenya was positive, strong and significant ($P=0.641$, $\text{sig}<0.05$).

4.5.2 Regression Analysis

The regression analysis presented the linear relationship amongst variables in the study. It helped explain the effect of changing one variable (independent) on the changes of the

other variable (predicted). The section presents model summary, ANOVA table and regression coefficients. Table 4.9, Table 4.10 and Table 4.11 presents the results.

Table 4.9 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.952 ^a	.907	.903	3.98775

a. Predictors: (Constant), BS, CD, BI

Source: Researcher (2023)

The result in Table 4.9 indicates that there was a strong correlation between variables (Correlation Coeff, R=0.952). the results on adjusted R square (coefficient of determination) indicates that 90.3% changes in financial performance of SMEs under study was explained by board structure, CEO duality and audit committee. Other factors not factored in the model explained 9.7% changes of financial performance.

Table 4.10 ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	13054.402	4	3263.600	205.231	.000 ^b
	Residual	1335.778	84	15.902		
	Total	14390.180	88			

a. Dependent Variable: FP

b. Predictors: (Constant), BS, CD, AC

The results indicated that the model was statistically significant at 95% confidence interval (sig<0.000). The F calculated of 205.231 was greater than F critical of 5.75.

Table 4.11 Coefficients^a

Model	Unstandardized		Standardized	t	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
1 (Constant)	14.404	2.350		6.129	.019
Board Structure	1.217	.144	.417	8.446	.071
CEO Duality	1.343	.172	.415	7.806	.000
Audit Committee	.833	.143	.232	5.838	.000

a. Dependent Variable: Financial Performance

Source: Researcher (2023)

From the results in the Table 4.11 the adopted model becomes;

$$Y=14.404 + 1.343X_2 + 0.833X_3 + \epsilon$$

Table 4.11 showed that the value of financial performance was 14.404 units when the three independent variables (board structure, CEO duality, audit committee) were held constant. There was a statistically insignificant ($\text{sig}>0.05$) relationship between financial performance of SMEs and board structure. A change in board structure practice had no effect on financial performance of SMEs. The study agrees with Mandala, Kaijage, Aduda, and Iraya (2017) that the board structure had a significant autonomous impact on the performance of financial institutions. The structure of the board was relevant in explaining the financial performance of SMEs. The study concurs with Oludele (2016) that the board structure had significant relationship with financial performance. Further, Tachiwou (2016) established that the board structure which consists of board independence and board size impacted positive on financial performance

Table 4.11 showed that CEO duality had a positive and significant effect on financial performance of SMEs ($B=1.343$, $\text{sig}<0.05$). A unit change in CEO duality resulted to 1.343 units changes in financial performance. The study results were supported by Ahmed (2021) that there was positive relationship between CEO responsibility and firm

financial performance and that CEO characteristics influence the financial performance. Additionally, Faraj and Balasing (2019) revealed that CEO duality had significant effect on financial performance. Further, Wagana and Karanja (2016) opined that CEO duality had insignificant effect on financial performance.

Table 4.11 shows that audit committee had a positive and significant effect on financial performance ($B=0.833$, $\text{sig}<0.05$). A unit change in audit committee resulted to 0.833 units changes in financial performance of SMEs in Kenya. The results agreed with El-Hawary (2021) that that audit committee have positive effect on financial performance. The study disagreed with Oluwatamilore et al., (2021) discovered a negative relationship between audit committee practices on financial performance. In addition, Ojeka, Iyoha and Obigbemi (2014) disagrees that audit committee attributes have no effect on financial performance.

CHAPTER FIVE

SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter presents summarized results from chapter four. The conclusions were also presented based on the inferential analysis. Recommendations were done based on the objectives of the study.

5.2 Summary of the Findings

The first objective was to determine the effect of board structure on financial performance of SMEs in Kenya. The results implied that the board structure practices were moderately employed in the targeted SMEs. It was therefore evident that the CEO's negotiating stance had moderate impact on the board's independence. The efficiency of the board was moderately reduced and free riding was moderately increased with an increase in board size and a high degree of intellectual capacity was moderately ensured by board members with the appropriate qualifications. However, the results indicated that when the board was composed of a broad group of individuals with a variety of viewpoints and backgrounds, it performed better.

The study aimed to establish the effect of CEO duality on financial performance of SMEs in Kenya. The findings indicates that building long tenure CEOs of SMEs performed moderately better than short tenure CEOs. The study found that building CEO tenure moderately affected the performance of the SMEs. However, majority of the respondents opined that the process of recruiting CEO considered gender diversity. The study results indicated that SMEs had moderately recruited female CEOs in the past as well as currently. The study found that roles of chairman of board and CEO should be clearly

defined and not vested in the same person. The study results indicated that monitoring role of board was weaker when the CEO was also the chair. The study clearly indicates that CEO duality affected the performance of the board and hence performance.

The third objective aimed to establish the effect of audit committee on financial performance of SMEs. The study found that the appointment of members in the audit committee was transparent. The respondents moderately agreed that the audit committee composed of only non-executive directors who were independent of the company. Majority of the respondents agreed that members of the audit committee possessed certain level of financial competency. The study established that there was a procedure to assess the performance of the audit committee chair. Further the study found that audit members had overstayed for more than 3 years and different audit committee members had different tenure.

The financial performance of the SMEs indicated that the average net profit translated to Kshs. 1.9M in a month. The huge standard deviation of 12.304.06 indicates a high variation in terms of their financial performance. These was further supported by a minimum net profit (Net loss) of Kshs. -51,902,288 per year and maximum net profit of Kshs. 84,112,000.00 per year. The huge variation in their performance was supported by the fact that majority of the SMEs were in different locations, had invested different, were of diverse sizes and the number of years in operation was also diverse.

5.3 Conclusion

The study concluded that board structure had statistically insignificant effect on financial performance of SMEs. A change in board structure practice had no effect on financial performance of SMEs. The study concluded that CEO duality had a positive and

significant effect on financial performance of SMEs. The study concluded that audit committee had a positive and significant effect on financial performance.

5.4 Recommendations

The study determined how the board structure, CEO duality, audit independence and dynamic interaction between the shareholders and the board should be reflected in the role of the board of directors and the attributes of the directors on the board. Based on the study results the following recommendations were made;

1. For a SME to thrive and persist, the board of directors must be energetic which was core to effective governance.
2. Being a director on a board is a demanding job as a result of this duty, making the design of the function and make-up of the board of directors an essential task is critical.
3. CEO duality weakens board control and promotes CEO entrenchment. Therefore, CEO duality has negative implications for firm performance and therefore CEO should only assume one responsibility.
4. Auditor independence remains an important element for it ensures an unbiased perspective and allows financial statements to be more reliable. SMEs should ensure auditors independence otherwise they will face the risk of damaging their reputation once auditors fail to report mistakes in their audits

5.5 Suggestions of the Further Area

The focus of the study was on corporate governance practices on financial performance of SMEs in Kenya. Future study should focus on MSMEs or any other sector to compare

the results. The study was limited to 100 selected SMEs in Kenya, future study should focus on certain selected SMEs within counties in Kenya.

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APPENDICES

APPENDIX I: TRANSMITTAL LETTER

Dear Respondent,

RE: Request to fill in the Questionnaire

My name is Gitari Davis Mwenda, a postgraduate student at Kenyatta University undertaking a research project titled “Corporate governance practices and financial performance of selected small and medium enterprises in Kenya.” As part of the requirements for partial fulfillment for the award for the Degree of Master of Business Administration (finance option).

You have been selected to participate in this study. You will be required to fill in a questionnaire that may take about 15 minutes. Please respond as objective and with honest and give as much as information you have on the projects. The information you provide confidential treated and no personal identifiers will be disclosed or used during the process of data collection. Kindly spare some time to fill out the questionnaire attached.

Thank you.

Yours faithfully,

Gitari Davis Mwenda.

APPENDIX II: QUESTIONNAIRE

The instrument is divided into six sections, the first of which requires the respondent to answer four questions about their background. The respondents are asked questions in the remaining sections and given the option of expressing their thoughts on a scale of strongly agreeing to strongly disagree. The respondent are supposed to check the box next to the area that best describes their viewpoint.

Please select (check) the most applicable box to answer all of the questions honestly and completely.

SECTION A: GENERAL INFORMATION

1. Name of your Organization (Optional)

.....

2. Name the sector of your firm

.....

3. What position o you hold in the SMEs?

.....

4. What is your Educational Level?

Secondary education level []

Certificate level []

Diploma level []

Undergraduate level []

Post graduate level []

5. In the spaces provided, please check the most appropriate number of years you have worked in this SMEs?

Less than 5 years []

- Between 5 and 10 years []
- Between 10 and 15 years []
- Between 16 and 20 years []
- Above 20 years []

SECTION B: BOARD STRUCTURE AND FINANCIAL PERFORMANCE

6. To what extent does the following aspect of board structure influence financial performance of selected SMEs in Kenya? Utilize a scale of 1 to 5 where 1 Strongly Agree, 2 Agree, 3 Neutral, 4 Disagree and 5 Strongly Disagree

Statement	1	2	3	4	5
There is a positive relationship between the high number of Board of Directors and the firm performance					
Increasing of the board size increases free riding and decreases board efficiency					
The board performs better when it has a diverse range of people from different perspectives and backgrounds					
Board Members with the right qualification ensures high level of intellectual ability					
Board independence is influenced by the CEO bargaining position					
The Chairman of the board is an independent non-executive director					

7. In your own opinion, what would you consider to be an optimal board size for an efficient and effective board?

.....

.....

SECTION C: CEO DUALITY AND FINANCIAL PERFORMANCE

8. To what extent does the following aspect of CEO duality influence financial performance of selected SMEs in Kenya? Utilize a scale of 1 to 5 where 1 Strongly Agree, 2 Agree, 3 Neutral, 4 Disagree and 5 Strongly Disagree

	1	2	3	4	5
Building long tenure CEOs of SMEs perform better than short tenure CEOs					
Building CEO tenure affects the performance of the SME.					
The process of recruiting CEO considers gender diversity.					
The SMEs have recruited female CEOs in the past as well as currently,					
Roles of Chairman of Board and CEO should be clearly defined and not vested in the same person					
The monitoring role of board is weaker when the CEO is also Chair and affects financial Sacco's					

9. In your own opinion how does CEO duality influence financial performance of selected SMEs in Kenya?

.....

.....

.....

SECTION D: AUDIT COMMITTEE AND FINANCIAL PERFORMANCE

10. To what extent does the following aspect of audit committee influence financial performance of selected SMEs in Kenya? Utilize a scale of 1 to 5 where 1 Strongly Agree, 2 Agree, 3 Neutral, 4 Disagree and 5 Strongly Disagree

Statement	1	2	3	4	5
Appointment of members in our audit committee is transparent					
The Audit Committee is composed of only non-executive directors who are independent of the company					
Members of the Audit committee possess certain level of financial competency					
There is a procedure to assess the performance of the audit committee chair.					
Audit committee members have stayed for 3years					
Audit committee members have different office tenure					

11. In your own opinion, how do the facets of audit committee above influence financial performance of selected SMEs in Kenya?

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THANK YOU

Appendix III: Secondary Data Collection Schedule

SMEs	Year	Net Profit
1.	2018	
	2019	
	2020	
	2021	
	2022	
2.	2018	
	2019	
	2020	
	2021	
	2022	
Upton	2018	
	2019	
	2020	
	2021	
	2022	

Appendix IV: List of the Top 100 SMEs in Kenya Year 2022

1.	Norda Industries Limited
2.	Pathcare Kenya Limited
3.	Visaro Construction Company Limited
4.	Dana Enterprises Limited
5.	Kiri Consult Limited
6.	Dignity Traders Limited
7.	East African Business Company Limited
8.	United (EA) Warehouses Limited
9.	Professional Digital Systems Limited
10.	Kaeser Compressors Limited
11.	Prafulchandra & Brothers Limited
12.	Plast Packaging Insusties Limited
13.	Palmhouse Dairies Limited
14.	Enwealth Financial Services Limited
15.	Asa International Kenya Limited
16.	Parshva Limited
17.	Lean Energy Solutions Limited
18.	Farmparts Limited
19.	Space And Style Limited
20.	Username Investment Limited
21.	Lupat Cleaning Services Limited
22.	Office Dynamics
23.	Dignity Traders Limited
24.	Lean Energy Solutions Limited
25.	Enwealth Financial Services Limited
26.	Izmir Enterprises Limited
27.	The Scott Travel Group Limited
28.	Gurbaksh Singh Kenya Limited
29.	Norda Industries Limited
30.	Clique Limited
31.	Professional Digital Systems Limited
32.	Bean Interactive Limited
33.	Username Investment Limited
34.	Seidor Kenya Limited
35.	Impax Business Solutions Limited

36.	Sahihi Interior Builders
37.	Simba Technology Limited
38.	Polucon Services Kenya Limited
39.	Africa Digital Media Institute
40.	Octagon Africa Financial Services Limited
41.	HealthCare Direct (K) Limited
42.	Norda Industries Limited
43.	Amex Autoparts Limited
44.	City Walk Limited
45.	Visaro Construction Company Limited
46.	Dana Enterprises Limited
47.	Oil Seals And Bearings Centre Limited
48.	East African Business Company Limited
49.	Winnie's Pure Health Products Limited
50.	Alpha Medical Manufacturers Limited
51.	Lupat Cleaning Services Limited
52.	United (E.A) Warehouses Limited
53.	Friendship Container Manufacturers Limited
54.	Kaeser Compressors Limited
55.	Imexolutions Limited
56.	Impax Business Solutions Limited
57.	Polucon Services Kenya Limited
58.	Elite Offset Limited
59.	Metco Limited
60.	Soilex Prosolve Limited
61.	Professional Digital Systems Limited
62.	Imexolutions Limited
63.	Shujaaz Inc Limited
64.	Melvin Marsh International Limited
65.	Kaeser Compressors Limited
66.	Bean Interactive Limited
67.	Metco Limited
68.	Farmparts Limited
69.	Impax Business Solutions Limited
70.	Polucon Services Kenya Limited
71.	Africa Logistics Properties
72.	Polucon Services Kenya Limited
73.	Greenspoon Kenya

74.	Space And Style Limited
75.	Topchoice Limited
76.	United (EA) Warehouses Limited
77.	Farmparts Limited
78.	Izmir Enterprises Limited
79.	Imexolutions Limited
80.	Africert Limited
81.	Manisha Dave – HealthCare Direct (K) Limited
82.	DR KIRAN RADIA – Pathcare Kenya Limited
83.	Nancy Wangui Munderu – Travel Shore Africa Ltd
84.	JOYCE WANGUI KARIUKI -Dignity Traders Limited
85.	Tara Nyambura Gitau -Winnie’s Pure Health Products Limited
86.	SHRUTI BADIANI MASRANI- Alpha Medical Manufacturers Limited
87.	Raakhee Mital Dhrona – Skypex Limited
88.	Juliet Joanna Agg Manning – Green Spoon Kenya
89.	MEGHMALA SUNIL BHATT – Seidor Kenya
90.	MAMTA JATANIA – Simba Technology Limited
91.	Devesh Manharbhai Patel – Amex Autoparts Limited
92.	Nancy Wangui Munderu – Travel Shore Africa Ltd
93.	Sadaam Abdulkader Suleiman – Dragonfly Limited
94.	Tara Nyambura Gitau -Winnie’s Pure Health Products Limited
95.	Rajesh Harji Arjan Kerai – Dignity Colleciton Limited
96.	Raakhee Mital Dhrona – Skypex Limited
97.	Rahul Bharat Parekh – Parshva Limited
98.	Prashanth Srinivas – Pesabazaar Insurance Agency Limited
99.	Bico Noriss Hamalah -Kobby Technologies Limited
100.	Martin Karanja Kiarie – Bean Interactive Limited

Appendix V: Approval of Research Proposal



KENYATTA UNIVERSITY
GRADUATE SCHOOL

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P.O. Box 43844, 00100

NAIROBI, KENYA

Tel. 810901 Ext. 4150

Website: www.ku.ac.ke

Internal Memo

FROM: Dean, Graduate School

DATE: 14th July, 2023

TO: Gitari Davis Mwenda
C/o Accounting and Finance Dept.

REF: D53/OL/CTY/32773/2016


SUBJECT: APPROVAL OF RESEARCH PROJECT PROPOSAL

This is to inform you that Graduate School Board at its meeting of 12th July, 2023 approved your Research Project Proposal for the M.B.A Degree Entitled, "Corporate Governance Practices and Financial Performance of Selected Small and Medium Enterprises in Kenya".

You may now proceed with your Data Collection, Subject to Clearance with Director General, National Commission for Science, Technology and Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking Forms per semester. The form has been developed to replace the Progress Report Forms. The Supervision Tracking Forms are available at the University's Website under Graduate School webpage downloads.

Thank you.



JULIA GITU

FOR: DEAN, GRADUATE SCHOOL



c.c. Chairman, Accounting and Finance Department.

Supervisors:

1. Dr. Jeremiah Koori
C/o Department of Accounting and Finance
Kenyatta University

Appendix VI: Research Authorization



KENYATTA UNIVERSITY GRADUATE SCHOOL

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NAIROBI, KENYA
Tel. 8710901 Ext. 57530

Our Ref: D53/ OL/CTY/32773/2016

DATE: 14th July, 2023

Director General,
National Commission for Science, Technology
and Innovation
P.O. Box 30623-00100
NAIROBI

Dear Sir/Madam,

RE: RESEARCH AUTHORIZATION FOR gitari davis mwenda – REG. NO. D53/OL/CTY/32773/2016

I write to introduce Mr. Gitari Davis Mwenda who is a Postgraduate Student of this University. He is registered for M.B.A degree programme in the Department of Accounting and Finance.

Mr. Gitari intends to conduct research for a M.B.A Project Proposal entitled, "Corporate Governance Practices and financial performance of Selected Small and Medium Enterprises in Kenya".

Any assistance given will be highly appreciated.

Yours faithfully,



PROF. ELISHIBA KIMANI
DEAN, GRADUATE SCHOOL

B/m

