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Original Article

Relationship between Corporate Governance Practices and Performance of Medium Enterprises in Mombasa County, Kenya

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Abstract: *Many elements, notably those supported by the CAMEL framework, have a significant impact on the success of SMEs. While the smaller businesses are hurting, the larger firms are thriving. Establishing a link between corporate governance practises and the performance of medium-sized businesses in Mombasa County was the main goal of this study. The agency theory, stewardship theory, stakeholder theory, and resources dependency theory served as the study's foundations. An approach to descriptive research was used in the study. In Mombasa County, 86 SMEs were used for this study. The key data used in this investigation. The association between variables was shown using descriptive and inferential statistics. Regression analysis was used to examine the relationship between corporate governance practices and performance of medium enterprises in the county of Mombasa The findings showed that there is a weak positive significant relationship between performance of medium enterprises in Mombasa County and board independence (rho=0.463). Also, there was a significant positive relationship between board size and performance of medium enterprises in Mombasa County (rho=0.618). Further, unit increase in Board Meetings, while holding other factors constant, will lead to an increase in Performance of medium enterprises in the county of Mombasa by 0.101 (p = 0.021). The frequency of board meetings also shown a favourable correlation in that as SMEs' operational efficiency increased over time, this led to better financial performance. These results were consistent with the goal of determining how corporate governance practises affected SME financial performance. According to the study's findings, authorities should strengthen their systems for ensuring that the corporate governance disclosures in annual reports are truly put into practise at the firm level rather than just being statements of good intentions. This will significantly raise the bar for corporate governance, and thus, enhance business performance. Corporate governance generally has a favourable effect on all of an organization's performance measures. The study suggests that in order to address corporate governance challenges, researchers, management, and policy creation in the SME sector need to be more open and flexible. The nuances of context that will moderate what is more appropriate and likely to be embraced in the small company sector must be interacted with and taken into account by research, management, and policy instruments of training support.*

Keywords: *Corporate governance, Financial performance, Policy Development, Mechanism.*

I. INTRODUCTION

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

To underpin the study findings this study will rely on three theories. Agency theory by Jensen and Meckling (1976) that describes the correlation between agents(management) and principals(shareholders). The agency hypothesis acknowledges that by incurring agency fees, the shareholders are better equipped to oversee the agents, resulting in performance maximisation. Donaldson and Davis' (1991) stewardship theory views managers as stewards who combine their own aims with those of the organisation. According to the argument, managers always act in the best interests of shareholders since they are responsible stewards. Stakeholder theory, developed by Freeman in 1984, asserts that every stakeholder has an impact on an organisation and that it is important to address their interests.

Due to the collapse of a large number of corporate organisations all over the world over the last decennary, prominence has been given to the studies that relate to corporate governance of corporate organisations. The alignment of shareholders' interests with management is the main issue in corporate governance in large firms. Studies from the past show that medium-sized businesses pay less attention to corporate governance practises (Shuk, 2015). Corporate governance and the effectiveness of medium-sized businesses in Mombasa County, Kenya, will be the main topics of this study. Kenya is the finest option for studying because it is a less developed nation. This is also because of the fact that past studies that have been done on medium enterprises have mainly focussed on developed countries with improved financial and legal systems. Non-the less, there's a necessity for exploration on corporate governance practices in Medium enterprises and especially in less developed countries and emerging economies.

A) Research Problem

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

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

Despite earlier work in this field, there are still unanswered questions. For instance, Olayiwola (2018) aimed to ascertain the impact of corporate governance on the performance of listed companies. According to the study, board composition significantly correlated positively with net profit margin (NPM), however board size significantly negatively correlated with NPM. The study also found that the board's size and composition had a positive link whereas the audit committee's size showed a negligible correlation with NPM. The study produced a knowledge gap on the companies that are not included. Goel (2018) aimed to ascertain how corporate governance affected performance in India. This study revealed a consequential correlation between intergrated framework of total CSR and performance. The basis of this study was existing literature hence creating a methodological research gap.

Njenga (2018) investigated how corporate governance affected the performance of Kenyan services and commercial enterprises listed on the NSE. The study concluded that size and composition of the board and CEO non-duality had a great influence on performance on these firms. This study focused on only two sectors for firms listed in the NSE, thus creating a contextual research gap. Miruka (2020) examined the corporate governance effect on Kenyan banks' financial success and revealed that banks financial success is dependent on effective governance structures. The study presents a contextual gap as Medium enterprises are faced with different operational challenges compared to banks. operates differently from commercial banks. The goal of Saddimbah (2019) was to determine how corporate governance affected the performance of Kenya's commercial state businesses. The research has a conceptual gap because certain elements of corporate governance, such board meetings, were not taken into account. A contextual gap is also presented by the study. From the aforementioned, it is clear that studies on the relationship between corporate governance practises and performance of medium enterprises in Mombasa County, Kenya, already exist. However, there are still some conceptual and contextual gaps that the current study aims to close by addressing these gaps.

B) Research Objective

To determine the connection between medium enterprise performance in Mombasa County and corporate governance practises.

II. LITERATURE REVIEW

In the Jordanian listed firms, Qadorah and Fadzil (2018) conducted a study on the companies' performance and the relationship between local CG tools and board of directors' characteristics (board independence and board meeting frequency). The study employed samples of 64 industrial companies and also used cross-sectioned information from the Amman Stock Exchange for 2013. ROA was utilized to determine the companies' performance. The analysis's primary goals are to ascertain the firms' results, develop the theory, and examine the relationship between the board of directors' characteristics (such as the board's independence and how frequently it meets). In this study, multiple linear regression analysis was employed. The findings indicate a significant and positive association between board independence and ROA. According to recent research, there was little correlation between the number of board meetings and ROA-measured business performance. Some features of the CG structures were not included thus showing a conceptual gap in this research.

Ashari and Krismiaji (2019) investigated the relationship between the financial performance of manufacturing companies listed on the Indonesian Stock Exchange and the independence, size, competency, and frequency of meetings of audit committees. The financial performance is measured and approximated using return on assets. 466 publicly traded companies from a population of 660 listed companies that were traded on the Indonesian Stock Exchange for the fiscal years ending December 31, 2016, and 2017, are used in this study. According to the study, the audit committee's attributes all benefit an organization's performance. Firm size, financial leverage, and auditor quality are three additional control variables included in the study. The calibre of an organization's auditors and internal controls have a favourable impact on its financial performance. The calibre of an organization's auditors and its financial leverage have a beneficial impact on its financial performance. However, a corporation's scale has a detrimental impact on its financial performance. There exist a difference in the social-economic context and the nature of operations between the listed firms of Indonesia where the study was performed and that of medium firms in Mombasa.

Afzalur (2019) investigated if board independence might have an impact on the financial performance of Bangladeshi listed companies. By using data from 135 Dhaka Stock Exchange listed companies, market performance indicators, and accounting, this study uses a coinciding equation theory to follow up on the potential endogeneity issue. According to the current study, there is no positive correlation between a board's independence and a company's financial performance. In this paper, board size also has a positive effect on board independence and firm conclusions. Board independence in Bangladesh can still be an illusion despite the fact that it is a crucial component of corporate board procedures in many developed nations. There are differences between the sociocultural and economic notions in Kenya, the location of the most recent study, and Bangladesh, where this research was conducted.

Brahma, Nwafor, and Boateng (2020) looked into the connection between gender diversity, certain female characteristics, and the financial performance of UK enterprises. This study comes to the conclusion that there is a positive as well as a substantial association between corporate performance and gender diversity using the critical mass technique and looking at gender diversity as the percentage of female boardroom representation. On occasion, results are less clear and significant when there are two or fewer women on the board than when there are three women. Additional research shows that post-appointment financial output is favourably correlated with female educational attainment, age, and the number of female board members who concurrently hold executive director positions. After taking into consideration endogeneity issues and using several measures of company success, such as ROA and Tobin's Q, the results remain unchanged. The social and economic environment in Kenya, where the current study will be conducted, is different from that in the UK.

In their 2020 study, Ouni, Mansour, and Arfaoui looked at how gender diversity affected the financial performance of directors of actively involved Canadian enterprises, as well as governance orientation and the mediating role of social, environmental, and executive committees. 133 Canadian business samples made up the study, which included 925 outcomes over 18 years (2002-2019). This study, which accounts for 53% of the variation, provides empirical support for the idea that gender diversity in turnover influences a firm's financial success. The study confirms that gender diversity has a positive influence on performance and identifies a mediating mechanism made up of a company's environmental, social, and governance orientation that contributes to about 4% of the overall gender diversity impact on performance. This study focused exclusively on one CG structural notion.

Mwangi (2018) investigated how the composition of audit committees affected the status of financial reporting in non-commercial state corporations in Kenya. The analysis's objective was to determine the influence of the audit committee's independence, meetings' status with regard to financial reporting, diversity, and financial competency. The study used an illustrative study design and a census sample of non-commercial corporations from 72 states. Additionally, the study made use of the illustrative and inferential analytical theories. The study's findings showed that the frequency of audit committee meetings was statistically significantly associated with the accuracy of financial reporting. However, the latest study would theoretically limit its scope to performance while the prior study concentrated on financial reporting.

Koech (2018) looked on what makes state-run businesses in Kenya deploy successful CG. Regression analysis was used to analyse the data, which included managers from 187 different companies. The study only made use of primary information collected through semi-structured questionnaires. The findings showed a significant correlation between corporate governance and board characteristics across all firms. This study disregarded the impact of CG on other factors, such as revenue collection, which is the subject of the current study.

Rono (2019) looked at how gender diversity on the board affected the operations of a commercial bank in Kenya. 146 participants participated in the study, which used an illustrative study plan, and 106 respondents made up the sample. In this unique study, primary data were gathered using a closed-ended questionnaire and a purposive sampling technique. The analysis of regression was performed. The results showed that there was a positive and significant relationship between board gender diversity and business performance. According to the report, gender diversity on the corporate board is crucial for enhancing leadership capacity. The lack of other CG structures in the research leaves a conceptual gap.

Ibrahim, Ouma, and Koshal (2019) looked into how gender diversity affected the financial performance of Kenyan insurance companies. In this study, information from Kenya's 55 insurance companies was used. The proportion of female directors on the boards of Kenyan insurance companies was used to gauge gender diversity. A total of 412 board members, CEOs, and chief financial officers contributed primary data. The data were interpreted using both illustrative and inferential statistics. The accounting-based ROA assessment was used to evaluate the company's performance. The results of the regression analysis show that gender diversity has a considerable and positive impact on the financial performance of Kenyan insurance companies. Due to the exclusion of other CG structures, the analysis exposes a conceptual gap.

The impact of CG on the financial performance of Kenyan banks was examined by Miruka (2020). The study accurately focused on the effect on NIC banks' daily operations based on board independence. 135 employees from 8 NIC bank locations in Nairobi's Central Business District made up the research population. Stratification was done based on three management metrics: managers, department heads, and the operations team, which included a sample of 101 employees. The questionnaire that was used to gather the data received responses from 81 people. The data analysis was done using SPSS, and the results are presented in Figures and Tables. According to the research, independent boards have a positive impact on performance, which leads to a direct discussion of pertinent issues. Due to its narrow focus on a single aspect of CG, the study exhibits a conceptual gap.

A) Summary of Literature Review and Research Gap

The theories that underpin corporate governance practises and their connection to performance in medium-sized businesses are discussed in this chapter. Agency theory views on the necessity of conflict management in enhancing organizational efficiency which translates to improved performance of a business both financially and overall. Resource dependent theory observes that internal decision making will be improved by accurate date. All these theories are under the umbrella of corporate governance. The chapter also reviews the determining factors of performance focusing on the corporate governance.

The relationship between corporate governance and performance has been examined in a number of research. Despite this, conceptual and contextual gaps continue to persist. There is no conceptual agreement on how corporate governance practises affect business performance. This can be explained by the fact that earlier research examined corporate governance in different ways, and that results are a function of the proxies employed. Few studies have contextually looked at the level of corporate governance in Medium firms, especially in Kenya. Most studies have been exclusively undertaken in the developed countries including Germany, Italy and Ireland. The scenario is obviously different and the findings would most probably not be applicable to the local environment where organizational set up and economic development are different. This study seeks to fill this research gap.

B) Conceptual Framework

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

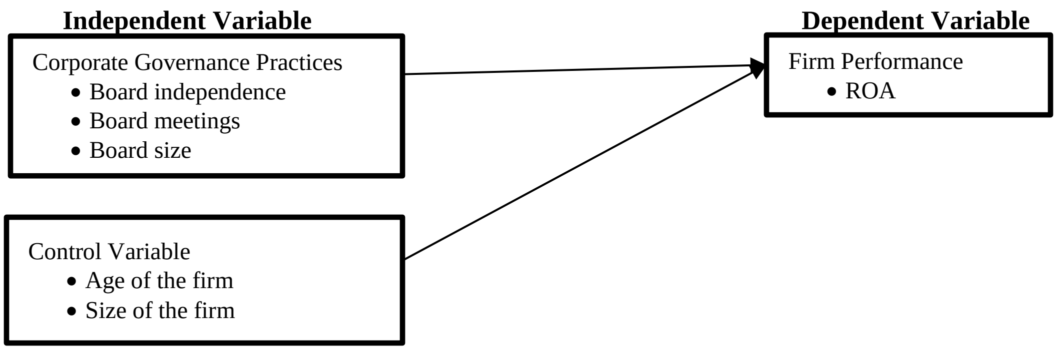

Figure 2: Conceptual framework

III. RESEARCH METHODOLOGY

A) Research Design

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

B) Target Population

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

C) Sampling Technique and Sample Size

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

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

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

86 respondents are obtained by substituting these values in the aforementioned calculation; these respondents served as the sample size for the current investigation.

D) Data Collection

The CEOs of medium-sized businesses or their representatives served as key informants for the research, and survey questionnaires were used to gather primary data from them. Structured questionnaires, a source of primary data, was used for data collection from these research participants. The questionnaires had closed ended questions that had a 5 point scale where the research participants were required to fill according to their level of acceptance of the statements. With the aim of observing the recommendations of the Ministry of Health on minimization of physical contact, questionnaires were sent via Google forms.

E) Data Analysis

To create information for analysis, the acquired data was coded and entered into SPSS. Frequency tables were used to present the analysed data. Means, percentages, frequencies and standard deviation was used to analyze quantitative data.

F) Analytical Model

Analysis models aid in establishing the relationship between the research's factors. The relationship between corporate governance practises and performance of medium-sized businesses was examined using a regression model. The relevancy and relationships was determined by multiple regression and correlation analysis techniques where;

$$\mathbf{Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \varepsilon}$$

Where;
Y = Performance of medium enterprises
X_1 = Board independence
X_2 = Number of Board Meetings
X3= Board size
β_0 = constant of the regression
β_1, β_2, β_3, β_4 and β_5 = the coefficients of independent variables
ε = Residual (error) term

IV. RESULTS

A) Descriptive Statistics

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

The first goal looked into how Board Independence affected the performance of medium-sized businesses in Mombasa County. The data was gathered and examined as depicted below. The results of the computation of the mean and standard deviations of the data collected on the impact of board independence are shown in table 1. The study's findings showed that our board has more non-executive directors than executive directors on average (mean=3.52, SD=1.712). The respondents responded that the company's board regularly assesses the effectiveness of the internal audit function, with a mean of (mean=3.81, SD=1.363). With a mean of (mean==3.17, SD=1.202), some respondents indicated that outside directors are keen to monitor management because their reputations are on the line, while others claimed that the board's decisions are independent of the organization's executives with a mean of (mean==3.66, SD=1.175).

The aggregate findings thus show that respondents' opinions regarding the impact of board independence on the success of medium-sized businesses were in agreement. The outcomes are shown in table .1.

Table 1: Effect of Board Independence on Performance of Medium Enterprises

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

Source: *Research Data (2022)*

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

The impact of board meetings on the performance of medium-sized businesses in the County of Mombasa is the subject of the second variable in this study. The mean and standard deviation were used for data collection and analysis. The information gathered on board meeting topics was calculated, and the results are shown in the table below. Based on the average and standard deviation, the participants agreed that board meetings are attended by an acceptable number of people (mean=2.89, SD=0.345), while others stated that board meetings are held at least four times a year at predetermined intervals (mean=3.81, SD=.782). With a mean of (mean=3.52, SD=1.072) and others indicating that the board is accountable for choices taken during meetings with a mean of (mean=3.73, SD=1.184), the respondents also agreed with the claims that the majority of audit committee members are independent nonexecutive directors. The conclusion makes clear that board meetings are important to corporate governance.

Table 2: Effect of Board Meetings on Performance of Medium Enterprises

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

Source: *Research Data (2022)*

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

The third independent variable in this study was the effect of Board Size on Performance of Medium Enterprises in the County of Mombasa. Utilising means and standard deviation, data was gathered. The obtained data's mean and standard deviations were computed, and the results were presented as indicated in the table below. The board size of the organisation is crucial in resolving agency issues, as the mean findings show. Other respondents felt that board size of the organisation ensures appropriate task delegation, with a mean of (mean=2.77, SD=1.245). with a mean of (mean=2.81, SD=1.182). With a mean of (mean=2.52, SD=1.272), the participants also stated that the board size improves organisational transparency, while other respondents claimed that the board size determines the effectiveness of the organization's decision-making process. averaging (mean=2.29, SD=1.078). The results of this study are consistent with those of Rotich and Achode (2016), who found a direct, beneficial relationship between corporate governance and board size.

Table 3: Influence of the Board Size

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

Source: *Research Data (2022)*

B) Correlation analysis

To gauge how strongly the variables were connected, correlation was used. These relationships are shown in Table 4 below.

Table 4: Correlation Matrix

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

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

According to the results shown in Table 4, board independence and the performance of medium-sized businesses in Mombasa County are significantly positively correlated (rho=0.773). As a result, it may be inferred that improved medium-sized business performance is related to increasing board independence. Second, the results revealed a marginally significant positive link between board independence and the performance of medium-sized businesses in Mombasa County (rho=0.463). Additionally, in Mombasa County, there was a strong positive correlation between board size and performance of medium-sized businesses (rho=0.618).

C) Regression Analysis

After diagnostic tests showed that the assumptions of the multiple regression model would not be violated, the association between corporate governance practises and performance of medium firms in the county of Mombasa was established. Analysis of the model's coefficients, model significance, and coefficients of determination were all part of the regression analysis process. The dependent variable's percentage changes that are explained by the independent variables in a regression model are shown by the coefficient of determination.

Table 5: Model Summary

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

Dependent Variable: ROA

According to Table 6, Board Independence, Board Meetings, and Board Size account for 26.8% of changes in the performance of medium-sized businesses in the county of Mombasa. This coefficient of determination (R squared) was 0. 268. The modified R square value of 0. 260 demonstrated that medium enterprise performance changes in the county of Mombasa accounted for 26.0% of the changes.

Table 6: ANOVA of the Regression

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

a. Dependent Variable: ROA

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

The study's findings demonstrated the importance of the overall model. The model connecting corporate governance practises to performance of medium firms in the county of Mombasa was significant, according to the F statistic value of 32.05 (Sig = 0.00003 < 0.05).

The F-critical value (F 0.05 (3,57)) was determined at = 3% using the denominator degrees of freedom of 57 and the numerator degrees of freedom of 5 and compared to the F-calculated value of 32.048 using the F-distribution table. As a general rule, if F-calculated is higher than F-critical, the model is significant. It is confirmed by the F-critical value from the F-distribution table, which was 2.214 and less than 32.048, that the model connecting corporate governance practises to the performance of medium-sized businesses in the county of Mombasa was important.

Table 7: Coefficient of Correlation

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

a. Dependent Variable: ROA= 2.374+ 0. 444X_1 + 0. 101X_2 + 0. 612X_3

According to the results in Table 7, the performance of medium-sized businesses in the county of Mombasa will be 2.374 if Board Independence, Board Meetings, and Board Size are all set to zero. According to the findings, a unit increase in board independence will result in a 0.444 (p = 0.000) increase in the performance of medium-sized businesses in the county of Mombasa, while keeping other variables (board meetings, and board size) equal. Additionally, a unit increase in board meetings will result in a 0.101 (p = 0.021) increase in the performance of medium-sized businesses in the county of Mombasa while maintaining other variables (board independence and board size) constant. Additionally, a unit increase in board size will result in a 0.612 improvement in performance for medium-sized businesses in the county of Mombasa (p = 0.001) while keeping other variables (board independence, board meetings) equal.

D) Discussion of Findings

The results of the computation of the mean and standard deviations of the data collected on the impact of board independence are shown in table 4.5. The study's findings showed that our board has more non-executive directors than executive directors on average (mean=3.52, SD=1.712). According to the respondents, the firm's board regularly assesses the effectiveness of the internal audit function, on average (mean=3.81, SD=1.363). As a result, it may be inferred that improved medium-sized business performance is related to increasing board independence. Second, the results revealed a marginally significant positive link between board independence and the performance of medium-sized businesses in Mombasa County (rho=0.463). Additionally, in Mombasa County, there was a strong positive correlation between board size and performance of medium-sized businesses (rho=0.618). In accordance with the study's findings, Jovanoic (1982) suggested that the Board Independence would be a valuable indicator for determining how long the SME will be in operation. Companies that have been in business for longer often have wider profit margins because they have a broader customer base and a stronger reputation (Liargovas, & Skandalis, 2008).

The results revealed a weak positive significant link (rho=0.463) between board independence and the performance of medium-sized businesses in Mombasa County. Additionally, in Mombasa County, there was a strong positive correlation between board size and performance of medium-sized businesses (rho=0.618). Additionally, a unit increase in board meetings will result in a 0.101 increase in the performance of medium-sized businesses in the county of Mombasa (p = 0.021), while keeping all other variables constant. The frequency of board meetings also shown a favourable correlation in that as SMEs' operational efficiency increased over time, this led to better financial performance. These results were consistent with the goal of determining how corporate governance practises affected SME financial performance.

V. CONCLUSION

A) Conclusion of the Study

The study investigated the connection between corporate governance and organisational performance. It was shown that implementing effective corporate governance practises increases operational transparency, promotes accountability, and boosts business profitability. By putting the shareholders' interests in line with those of the managers, it also helps to defend the shareholders' interests. SMEs in Mombasa County should adopt corporate governance practises, according to the findings, if they want to maximise shareholder wealth and increase corporate profitability. The CBK should make sure that SMEs abide by its prudential requirements, which ensure that proper risk management procedures are adopted not only in writing but also in day-to-day activities in the SMEs. In order to promote and instill a culture of corporate governance among Kenyan SMEs, it is also advised that the Institute of Certified Public Secretaries work with the Kenya Bankers Association to develop prizes for those SMEs that practise exemplary corporate governance.

The authorities should also strengthen their methods for ensuring that the corporate governance disclosures in the annual reports are implemented at the firm level rather than just being statements of good intentions. This will significantly raise the bar for corporate governance, and thus, enhance business performance. Corporate governance generally has a favourable effect on all of an organization's performance measures. Organisational performance is positively correlated with board size, board and management skill, size, institutional and foreign ownership, and annual meeting. The study's findings show that some of the SMEs who took part in it had embraced the following corporate governance practises:

The creation of a board of directors, the creation and institutionalisation of a system for board and individual director evaluation, the creation of bylaws to regulate board meetings, the holding of four or more regular board meetings annually, the use of cumulative voting for the election of directors, the selection of shareholder meeting dates and locations to promote attendance, and the board's approval of related party transactions are all steps in the formation of a board of directors. The results also demonstrate a favourable correlation between the performance of the SMEs who took part in the study and the following corporate governance practises: The existence of a board of directors; a mechanism for rating the board and each director; bylaws to manage board meetings; and the use of cumulative voting for director elections.

The results also demonstrate that the adoption of the following corporate governance practises has a direct impact on the profitability of the SMEs that took part in the study: holding four or more regular board meetings per year; selecting a date or venue for shareholders to encourage attendance; and requiring board approval for related party transactions. The primary channels of communication between a firm and its stakeholders are its annual reports and financial statements. It is impossible to overstate the delicate role played by the board of directors in ensuring that the financial statements accurately reflect the success of the company. To improve its independence, the board of directors must be properly constituted and the appropriate size. Additionally, the outcome shows that the businesses are in a good position to help the nation's economic development.

The companies would be able to generate more resources to increase job opportunities, pay dividends to shareholders, and earn more tax income for the government if they had an excellent corporate governance record. It is impossible to overstate the importance of corporate governance because it creates the organisational climate for a company's internal operations. Corporate governance in Kenya may significantly help the SME sector by introducing better management practises, stronger internal auditing, and more growth chances. Through external independent directors, corporate governance creates new strategic perspectives and boosts the corporate entrepreneurship and competitiveness of businesses. If the rules of corporate governance are correctly followed, there is no danger to value development in entrepreneurial enterprises.

B) Recommendations of the Study

According to the survey, SMEs should adopt advanced digitalization to ensure the effective and seamless operation of their operations. By doing this, companies may decrease client interaction time by using more straightforward procedures. To encourage SMEs in Kenya to embrace corporate governance practises, the following actions are advised: By ensuring that the interests of the companies are served, boards of directors in SMEs are likely to exert the much-needed pressure for greater performance. In the case of a SME, board members contribute expertise and knowledge about financing choices and tactics to source such finances to the company, addressing the credit constraint that SMEs face as well.

This study suggests that in order to address corporate governance challenges, the researcher, management, and policy development of training in the SME sector need to be more open and flexible. The nuances of context that will moderate what is more appropriate and likely to be embraced in the small company sector must be interacted with and taken into account by research, management, and policy instruments of training support.

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

C) Limitations of the Study

The research's factors included the size of the board, the number of board meetings, and the independence of the board. Return on assets was used to gauge the performance of medium-sized businesses. Therefore, the conclusions are predicated on those variables and the particular methods used to measure them. The study only focused on three corporate governance practices leaving out many potentially better corporate governance practices which could have affected the overall model and explain more variations in SMEs performance in Mombasa County. The study also did not capture any of the market related data so as to have real dynamism of the market operations.

The researcher also took into account the fundamental drawback of descriptive research methodology, which is that it is challenging to describe phenomena that develop over time. As a result, the conclusions of the study are only applicable to the time period covered by the study. This makes it challenging to understand phenomena that develop over time, hence the study's conclusions are limited to the time period covered by that study. Due to the tight secrecy practises adopted by the majority of SMES, data was impossible to obtain. Finally, the study relied on primary data, which might not accurately represent the actual state of affairs.

D) Suggestions for Further Research

Thus, the following research fields are recommended:

- Future research should concentrate on the many organisations that help SMEs in order to establish any differences, in contrast to the current study, which concentrated on corporate governance practises and their effect on their performance;
- Employee perspectives on corporate governance activities were not explored in the current study, which is thought to be essential for the creation of successful corporate governance intervention techniques. ROA was considered as the measure of performance of medium enterprises, future researchers' may use other measures of financial stability.

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