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THE ROLE OF CORPORATE GOVERNANCE PRACTICES ON FIRM PERFORMANCE OF MEDIUM SIZED ENTERPRISES IN KILIFI COUNTY, KENYA

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ABSTRACT

The main purpose of this study was to investigate the role of corporate governance practices on firm performance of MSEs in Kilifi County, Kenya. Specifically, this study sought to establish the role of board size, board composition, board skills level and CEO duality on firm performance of MSEs in Kilifi County, Kenya. This study was conducted through a descriptive research design as it aimed at determining the what, when and how of a phenomenon to give facts of a situation from target respondents. Due to the variability of characteristics among items in the population, the researcher applied scientific sample designs by Cochran (1963) to select a sample of 385 respondents. The researcher used primary data collection through a semi-structured questionnaire. To achieve the objectives of the study the researcher used both descriptive and inferential statistics to analyse data and to describe the basic features of the data in the study as well as generalize the findings to the larger population. The study found that board size had a significance on firm performance of MSEs in Kilifi County, Kenya. The study also revealed that board composition made the structure function to maintain corporate integrity, reputation and responsibility. For board skills levels, it was found that a proper management structure was in place and the board members had sound knowledge of financial management and were always alert to ensure that the transactions in the firm were carried out with accuracy and honesty. The study further found that CEO duality properly indicated the separation of roles and had an increase in overall control. From the findings, the study made a number of concrete conclusions as stated below. It was concluded that small boards play a higher signficant role in the performance of the respondents organization compared to large boards in terms of decision making, monitoring of expenses and communication to the organization and raising the value of the firm. Second, a board that was in charge of the operations of the MSE as well as one that had more outside directors led to better perfomance through the identification and protection of the rights of internal and external stakeholders, in addition to proper monitoring of the management. Third, board skills of monitoring and evaluation played a more signficant role in enhancing firm performance by looking into the strategies and policies of management. Finally, CEO duality as a corporate governance practice enhanced firm performance through thorough reviews by the CEOs of the organizations.

Key terms: *Board Size, Board Composition, Board Skills Level, CEO Duality*

Statement of the Problem

Corporate governance has been regarded as a preserve of the listed and large firms. However, it is important to MSEs as it provides a framework for scrutinizing the actions and performance of the agent. Corporate governance protects both the future of the business and the interests of the owners and investors (Mirkovic, 2015).

Studies done by (Klapper & Love, 2002), (Moenga, 2015) and (Afande, 2015) have shown that adoption of proper governance mechanisms has affirmatively impacted the performance of a firm. This is attributed to the fact that there is less risk and higher guarantee of expected future cash-flows. Thus, we cannot only look at the financial performance of an entity without referring to the processes of corporate governance.

In today's ever-changing business environment, the two have come to be seen as two peas in a pod. It has become increasingly difficult for MSEs to access finances without proper governance structures so as to protect the financiers (Shlefer & Vishny, 1997).

In Kenya, medium enterprises face many challenges; they lack the proper mechanism that is enjoyed by their colleagues in big organizations who have structured bodies and proper systems in place. They are also faced with the difficulty of obtaining finance due to poor governance structures as they lack collateral and are also deemed to be family-oriented firms without proper internal controls. MSEs in Kenya have the potential to contribute more positively to the economy than is currently the case.

According to (Knell, 2010), better-governed companies have less management problems, act on and recover from shocks more quickly, achieve faster and more reliable growth. Due to poor performance of both public and private companies, corporate governance has gained prominence in Kenya as is the case in other countries, the focus on corporate governance and accountability is particularly crucial in the service sector and most of all in the MSEs in Kenya including those in Kilifi County since this sector has lately become a high contributor to the GDP of Kenya, 11.3% in 2013 (OECD, 2014).

Several studies locally have sought to investigate the relationship between corporate governance mechanisms and business performance. (Kimsop, 2014), (Mbaabu, 2010) focused on corporate governance and performance in insurance sector. (Kimei, 2011) focused on corporate governance and performance of small scale tea processing companies in Kenya. (Oketch, 2013) did a study on corporate governance structures and management in HIV/AIDS NGOs. Keitany (2009) did a study on corporate governance structures and practices in occupational retirement benefit schemes and found the boards to comprise of 6-12 members. (Wambui, 2011) did a study on challenges of implementing Lord Cadbury's principles of corporate governance in investment banks and established that, organizations faced legal and regulatory systems challenges, culture and supervisory challenges.

The MSEs has not been thoroughly studies as most studies have targeted the SMEs (Small and medium enterprises. MSEs has not been thoroughly studied to find out the role of CG practices on firm performance and the extent of adoption of the CG practices in MSEs. Since none of the above studies has attempted to establish the relationship between corporate governance practices and firm performance in Kilifi County, which leaves a research gap.

Research Objectives

- To establish the role of board size on firm performance of MSEs in Kilifi County, Kenya.
- To determine the role of board composition on firm performance of MSEs in Kilifi County, Kenya.

- To ascertain the role of board competence on firm performance of MSEs in Kilifi County, Kenya.
- To evaluate the role of CEO Duality on firm performance of MSEs in Kilifi County, Kenya.

Empirical Review

This section reviews the relationship of corporate governance practices (Board size, Board Composition, Board Skills Level and CEO duality) and Firm Performance.

Board Size and Firm Performance

There is a view that larger boards are better for corporate performance because they have a range of expertise to help make better decisions and are harder for a powerful CEO to dominate. However, recent thinking has leaned towards smaller boards. Studies such as Davila and Watkins (2009) in Mexico found that if the size of the Board is very small, the monitoring of the management team is smaller too, therefore, a larger size of Board assumes a better supervision of the management team and a higher quality of corporate decisions.

Wasike (2012**)** investigated the corporate governance practices and performance at Elimu SACCO in Kenya. The finding revealed that the size of the board had an impact on the quality of corporate governance and a large board could be dysfunctional and that smaller board sizes are better than larger ones because large boards may be plagued with free rider and monitoring problems. Further, larger boards are found to be slow in decision making because of the monitoring expenses and communication issues. Bathula (2014), studied Board size and found it to be positively associated with firm performance, indicating value of a larger board for the firm. Board size was also found to be positively associated with the firm variables of age and size. Board size was used as a moderating variable to examine the effect of other board variables on firm performance, while controlling for firm variables of age and size. In several instances, board size was found to be positively moderating the relationship between board characteristics and firm performance.

Victor (2014) studied the relationship of corporate governance and financial performance of manufacturing firms listed in the Nairobi Securities Exchange. The key results were that the board size is inversely related to firm performance variable of Return on Assets and Return on Equity for listed manufacturing firms in Kenya. A larger proportion of outside directors' lead to a higher shareholders' value but does not explain why listed manufacturing firms exhibit a high market price to Net Assets Value.

Board Composition and Firm Performance

In reference to board composition, the assumption is that an effective board comprises of a greater proportion of outside directors, for significant firm performance (Browne, 2013). Kiambati (2009), investigated the influence of corporate governance practices on financial performance of commercial banks in Kenya. The finding of the study revealed that board complexity positively influences the financial performance of commercial banks. Also, 38.3379% of the corresponding change in financial performance of commercial banks can be explained by a unit change in board complexity.

Abdullah and Norman (2010) sort to examine the effect of board structure, ownership structure, adviser structure and capital structure on discretionary current accruals – a proxy for earnings management for a sample of size-controlled rights issuers. The results suggested that firms with higher debt to equity ratios, with lower proportions of non-executive directors, or with no large block owner are more likely to use discretionary current accruals to manipulate earnings around rights issue.

Aduda, Chogii & Magutu (2013) investigated the importance of the board composition variables of proportion of non-executive directors, proportion of executive directors, size of the board, and the role of CEO duality on firm performance for actively trading companies at the NSE between 2004 to 2007 in Kenya. Regression analysis and Tobin Q ratio were applied on the secondary data. The findings of the study were that, overall regression models for the firm performance for both the Return on assets and Tobin Q ratio were significant.

Brown & Caylor (2014) examined whether firms with weaker corporate governance perform more poorly than firms with stronger corporate governance was found firms with weaker corporate governance to perform more poorly. They also examined which of the four corporate governance factors considered by Institutional Shareholder Services (ISS) is the driving factor of their results. The four factors they examined are board composition, compensation, takeover defenses, and audit. Board composition was identified as the most important factor and takeover defenses as the least important factor.

Board Skills Level and Firm Performance

After an extensive study, Puyvede et al. (2012) found evidence suggesting that specific competencies, which are able to distinguish between levels of board performance, exist. The six competencies the authors identified were contextual, educational, interpersonal, analytical, political, and strategic. With regard to the contextual dimension the board understands and takes into account the culture and the norms of the organization for which it is responsible.

For educational dimension, the board takes the steps necessary to ensure that members are well informed about the organization, the sector in which the organization operates, and board members' roles, responsibilities, and performance. Interpersonal dimension, the board nurtures group development, attends to the board's collective welfare, and fosters a sense of group cohesiveness. Analytical dimension, the board recognizes the complexities of the issues in which it is involved and relies on multiple perspectives to analyze problems and synthesize responses.

Political dimension, the board develops and maintains healthy relationships with stakeholders. Lastly, strategic dimension, the board envisions, shapes, and ensures the organization's future. Michael (1994) undertook a study on Continuing Education for Board Directors: An Empirical Study of Its Effects on Directors, Boards and Public Trust. His findings were supported the assumption that director education matters. A training program that is designed and delivered according to a set of best-practice principles, can enhance a director's ability to make a positive contribution to his/her board and can result in positive organizational and institutional outcomes. Lybaert (2008) argues that better performance is due to the proven positive relation of higher levels of education among entrepreneurs and their willingness to use external information, develop networks, use consultants or develop more detailed accounting and monitoring. Lawrie (2008) demonstrated that gaps in management expertise were less of a recognized barrier to MSE development than the availability of specialist staff skills, chiefly IT and languages. Therefore, although higher-level management qualifications may be useful to MSEs, there is still some doubt as to their relevance.

Chief Executive Officer Duality and Firm Performance

Literature reveals a board structure typology: the system where the CEO also acts as chairman of the board and the system where the positions of CEO and chairman are occupied by two individuals. It has been noted that the system where the CEO also acts as board chairman leads to leadership facing conflict of interest and agency problems (Brickley *et al.,* 2007) thus giving preference for the system where the CEO's role is separated from that of the board chairman.

According to Bathula (2014) with respect to CEO duality, firms with small boards seem to benefit from CEO duality while large boards do not. It means there is support for stewardship theory for 95 firms with small boards while large boards display agency problems, indicating entrenchment and loss of independence, when one person holds dual positions. It also implies that the context moderates the need for a particular type of leadership structure.

Adebimpe, Richard & Oluwatofunmi (2013) undertook a study on Chairman/CEO Duality and its Effects for the Management of Corporate Governance in Guayana. To this end the research sought to develop a Guyanese position based on various metrics which were extracted from the Annual Reports of the target companies spanning a three-year period i.e. 2009-2011. The evidence is certainly suggestive, if not compelling, that there is a substantive relationship between board leadership structure and business success in the market place of Guyana.

Zyad (2014) investigated the effect of corporate governance on firm performance of the Jordanian industrial and services companies during the period 2000 to 2010. Empirical investigation revealed a mixed set of results. The findings failed to reveal any significant impact for the board size on firm performance. However, CEO duality tended to have a positive effect on the firm performance. That was an indication that the Jordanian firms performed better when the chairman and the CEO roles were combined in a single individual.

Research Methodology

A descriptive research design was adopted to illustrate a condition as it ensues. The choice of using descriptive design was because it ensured that the sample chosen is a good representation of the target population hence allow generalization. The population in this study comprised of all Medium Sized in Kilifi County business district estimated to be 26,637 (County Government of Kilifi, Business Directory, 2015) to which findings were generalized.

Combination of Cochran (1963) and Systematic sampling was used to identify the actual respondents from the selected sample size. The study used a sampling interval of 69. To achieve this, each ward per the Sub-Counties was listed as per the Kilifi County statistics annual Report (2015). Two pairs of major land marks (permanent features such as a school, a church, a trading center) in each of the wards were randomly selected on a map and transect lines drawn joining each pair. Sampling was then done following as closely as possible the marked transects. Trained enumerators interviewed each MSE, first on the left, then on the right, and back to the left using a formal pre-tested questionnaire.

Research findings

Corporate Governance Practices

Board Size as a success factor for Corporate governance of organizations.

The first objective was to establish the role of board size on business performance of MSEs in Kilifi County, Kenya. The respondents were asked whether board size was considered a success factor for corporate governance in their organization.

The findings depicted that majority (92%) of the respondents organization considered board size a success factor for corporate governance and 8% did not. Hence majority of the respondents agreed that board size was considered a success factor for corporate governance in their organization. This concurs with Wasike (2012) study which suggested that large board size should be encouraged and the composition of outside directors as members of the board should be sustained and improved upon to enhance corporate financial performance. Wambua (2011) conducted a study on the effects of corporate governance on the financial performance of Sacco's in Kenya. The study found that 59% of the respondents indicated that the board size and composition affected the financial performance in the Sacco to a little extent.

Does the board consider Corporate Governance as a priority?

The respondents were further asked whether their organization considered corporate governance as an important organizational priority. Figure 1 presented the findings.

The findings revealed that majority (92%) of the respondents organization considered corporate governance a priority while 8% did not. Hence majority of the respondents agreed that corporate governance was an important priority in their organization. These findings support the argument presented by Claudio Fernandez-Araoz et al (2015) study where corporate governance was considered a priority. The study stated that an orderly and transparent representation of a business helps in avoiding conflicts hence more value is derived from corporate governance.

The state of Board size in respondent's organization

The respondents were asked to give their rating on the state of board size in their organization. The study used a Likert scale of 1-4 where; 1= very high extent, 2=High extent 3=Low extent 4= Very Low Extent. Figure 2 presented the findings.

Based on the findings, 63% of the respondents rated the state of board size in their organization highly (53% to a very high extent and 10% to a high extent). This indicated that the respondents' organization had adopted board size as a corporate governance practice These findings were in support of the argument presented by Wasike (2012) who investigated the corporate governance practices and performance at Elimu SACCO in Kenya. The finding of the study revealed that the size of the board had an impact on the quality of corporate governance.

Role of board size on firm performance in their organization.

The respondents were asked to mark the statements which best described their disagreement or agreement as pertaining to the role of board size on business performance in their organization. Likert scale of 1-5 measurement was used for means where; 1= Strongly disagree, 2=disagree 3=neutral 4= Agree and 5= strongly agree. Kothari (2004) and Sekaran (2006) indicated that a positive median should be over 60% on the Likert scale. On this scale, score of 60% was considered as a median of 3 and was treated as a positive result while a lower score was treated as a negative result.

Table 1: The Role of Board Size on firm Performance in their Organization

	Mean	Std. Deviation
Board size is the determinant of internal conflicts in corporate governance	3.4	0.971
Board size leads to free riding problems in corporate governance	3.59	0.604
Board size determines the increase in sharing costs in corporate governance	3.56	0.581
Small boards dismiss CEOs for poor performance	3.617	0.849
The larger the board of directors the better the firm's performance	3.202	1.306
Large boards are fast in decision making	3.330	0.691

Larger board size have the ability to push the managers to pursue lower costs of debt and increase performance	3.397	0.968
Large boards monitor expenses and communicate better to the organization	3.397	0.679
Large boards have superior monitoring ability pursue higher leverage to raise the value of the firm	3.415	0.977
Small board size push the managers to pursue lower costs of debt and increase performance	3.539	0.603
Small boards have superior monitoring ability pursue higher leverage to raise the value of the firm	3.566	0.583
When the board increases the frequency of its meetings, the recovery from poor performance is faster	3.617	0.849
Small boards monitor expenses and communicate better to the organization	3.692	0.909
The smaller the board of directors the better the firm's performance	3.702	0.879
Small boards are fast in decision making	3.762	0.871

The findings revealed that, the respondents agreed that; Board size in terms of the total number of directors on a particular board, was the determinant of internal conflicts in corporate governance (M=3.4). Board size lead to free riding problems in corporate governance (M=3.59), Board size determined the increase in sharing costs in corporate governance (M=3.56), Small boards dismiss CEOs for poor performance (M=3.617).

The research findings also revealed that the respondents agreed that; Small boards in relation to total number of directors on a particular board were fast in decision making (M=3.762).

The smaller the board of directors the better the firm's performance (M=3.702). Small boards monitored expenses and communicate better to the organization (M=3.692), When the board increased the frequency of its meetings, the recovery from poor performance was faster (M=3.617), Small boards have superior monitoring ability and pursued higher leverage to raise the value of the firm (M=3.566), Small board size pushed the managers to pursue lower costs of debt and increased performance (M=3.539). These findings support wasike (2012) who studied corporate governance practices and performance at Elimu SACCO in Kenya, whose findings revealed that the size of the board had an impact on the quality of corporate governance and a large board could be dysfunctional and that smaller board sizes are better than larger ones.

It was further revealed that large boards have superior monitoring ability to pursue higher leverage to raise the value of the firm (M=3.415), Large boards monitored expenses and communicated better to the organization and Larger board size have the ability to push the managers to pursue lower costs of debt and increase performance (M=3.397), Large boards were fast in decision making (M=3.330) and The larger the board of directors the better the firm's performance (M=3.202). These findings support the arguments presented by Bathula (2014) who studies Board size and found it to be positively associated with firfm performance, indicating value of a larger board for the firm.

The Role of Board Composition on Firm Performance of MSEs in Kilifi County, Kenya

The second objective was to determine the role of board composition and control on firm performance of MSEs in Kilifi County, Kenya. Respondents were asked to indicate their disagreement or agreement with statements as they apply to them. The responses are summarized and presented in the table 2 below.

Table 2: The Role of Board Composition on Firm Performance of MSEs in Kilifi County, Kenya

	Mean	Std. Deviation
The participation of outside directors enhances the ability of the firm to protect itself against threats from the environment	2.089	1.0138
The Board ensures that no one person or group of persons has unfettered power and that there is an appropriate balance of power	3.557	0.912
The board exercises objectives and independent judgment	3.585	0.883
The participation of outside directors aligns the firm's resources for greater advantage	3.621	0.681
Boards of directors are more independent as the proportion of their outside directors increases	3.641	0.753
Outside directors ensure that competition among insiders stimulates actions consistent with shareholder value maximization	3.649	0.810
The board increases meetings frequency if a situation requires a high supervision and control	3.653	0.685
Inside directors act as monitors to top management especially if they perceive the opportunity to advance into positions held by incompetent executives	3.692	0.731
The board agrees on a policy or policies for increasing wealth, jobs and sustainability of the business	3.719	0.703
Boards with a majority of independent directors are more effective in monitoring management	3.723	0.797
The board agrees on a policy or policies determining how the corporation should relate to, and with them	3.741	0.711
The board agrees on a policy or policies for ensuring that the rights of stakeholders established by law or custom are expected, recognized and protected	3.741	0.711
The board identifies the firm’s internal and external stakeholders	3.762	0.699

From the research findings, majority of the respondents agreed that; The board identified the firm’s internal and external stakeholders (M=3.762), The board agreed on a policy or policies for ensuring that the rights of stakeholders established by law or custom were respected, recognized and protected, The board agreed on a policy or policies determining how the corporation should relate to, and with them (M=3.741 each), Boards with a majority of independent directors were more effective in monitoring management (M=3.723), The board agreed on a policy or policies for increasing wealth, jobs and sustainability of the business (M=3.719), Inside directors acted as monitors to top management especially if they perceived the opportunity to advance into positions held by incompetent executives (M=3.692), The board increased meetings frequency if a situation requires a high supervision and control (M=3.653). These findings are in support of Dalton et al., (2008) whose findings indicated that effective board comprises of a greater proportion of outside directors for significant firm performance.

The Role of Board Skills Level on Firm Performance on MSEs in Kilifi County.

Table 3: The Role of Board Skills level on Firm Performance

	Mean	Std. Deviation
The board is always alert to ensure that the transactions in the firm are carried out with accuracy and honestly	3.351	0.567
The members of the board have sound knowledge of financial management	3.362	0.662
The board ensures that a proper management structure is in place	3.401	0.608
The board makes the structure functions to maintain corporate integrity, reputation and responsibility	3.436	0.612
The board of directors is able to ensure that procedures and values that protect the assets of the corporation are put in place	3.454	0.590
The board of directors is able to implement its values in order to ensure that the corporations survives and thrives	3.461	0.579
The board of directors is able to determine the purpose and values of the corporation	3.465	0.615
The board constantly reviews the viability and financial sustainability of the enterprise at least one a year	3.475	0.691
The board of directors is able to determine the strategy that purpose	3.479	0.542
The board monitors and evaluates the implementation of strategies policies and management performance criteria and the plans of the firm	3.550	0.578

According to the findings, it was clear that; the board monitored and evaluated the implementation of strategies, policies and management performance criteria and the plans of the firm (M=3.550), The board of directors was able to determine the strategy that purpose (M=3.479), The board constantly reviewed the viability and financial sustainability of the enterprise at least once a year (M=3.475), The board of directors was able to determine the purpose and values of the corporation (M=3.465), The board of directors was able to implement its values in order to ensure that the organizations survive and thrive (M=3.461), The board of directors was able to ensure that procedures and values that protect the assets of the organization were put in place (M=3.454), The board makes the structure function to maintain corporate integrity, reputation and responsibility (M=3.436).

The board ensured that a proper management structure was in place (M=3.401), The members of the board had sound knowledge of financial management (M=3.362), The board was always alert to ensure that the transactions in the firm were carried out with accuracy and honestly (M=3.351). This implied that board skills of monitoring and evaluation played a more signficant role in enhancing business performance by looking into the strategies and policies of management. Likewise, Chait, Holland, and Taylor (2013) found evidence suggesting there existed some specific skills that were able to distinguish between levels of board performance.

The Role of CEO Duality on Firm Performance of MSEs in Kilifi County, Kenya

The last and fourth objective was to evaluate the role of CEO Duality on firm performance of MSEs in Kilifi County, Kenya. The respondents were asked a series of questions in relation to this. To begin with, the respondents were asked whether CEO Duality properly indicated the separation of duties, to which they unanimously agreed that it does. Respondents were asked to indicate their level of disagreement or agreement on statements relating to the role of CEO duality on firm performance applied to their organization where; 1= strongly disagree2=Disagree 3=Neutral 4= Agree 5=strongly agree.

Table 4: The Role of CEO Duality on Firm Performance

	Mean	Std. Deviation
CEO Duality allocate a satisfactory budget to corporate governance programs	3.738	0.650
CEO Duality is a signal to other employees of how to value corporate governance initiatives	3.745	0.669
The results of corporate governance evaluation are reviewed by the Chief Executive Officer (CEO)	3.755	0.711

Based on the findings, the study revealed that the respondents agreed that; the results of corporate governance evaluation were reviewed by the Chief Executive Officer (CEO) (M=3.755), CEO Duality was a signal to other employees of how to value corporate governance initiatives (M=3.745) and CEO Duality allocated a satisfactory budget to corporate governance programs (M=3.738). The results indicated that CEO duality as a corporate governance practice enhanced business performance through thorough reviews by the CEO of the organizations. This supports Weir and Lang (2001) who found that the best performing firms had the lowest incidence of 'Cadbury-preferred' governance structures comprising of the separation of the CEO and chairman, and boards comprising of majority of non-executive director representation and board committees.

Provision of Checks and Balances by CEO Duality

The study also asked the respondents whether the CEO Duality had an increase in overall control. All the respondents agreed that it did. The study investigated if CEO Duality provided efficient checks and balances. The findings presented in Figure 7 revealed that majority (99%) of the respondents agreed that CEO Duality provided efficient checks and balances with only 1% of the respondents disagreeing. This concurred with Zyad (2014) study on Jordanian firms where CEO duality tended to have positive effect in overall control.

Rating on CEO Duality

The study requested the respondents to indicate the extent to which they would rate CEO duality in their organizations. Figure1 illustrated that 83% the respondents rated CEO Duality to a very high extent and 13% rated it to a high extent. Only 3% of the respondents rated CEO Duality to a low extent and 1% to a very low extent. This is in agreement with Zyad (2014) study which results indicated that CEO duality tended to have a positive effect on the firm performance.

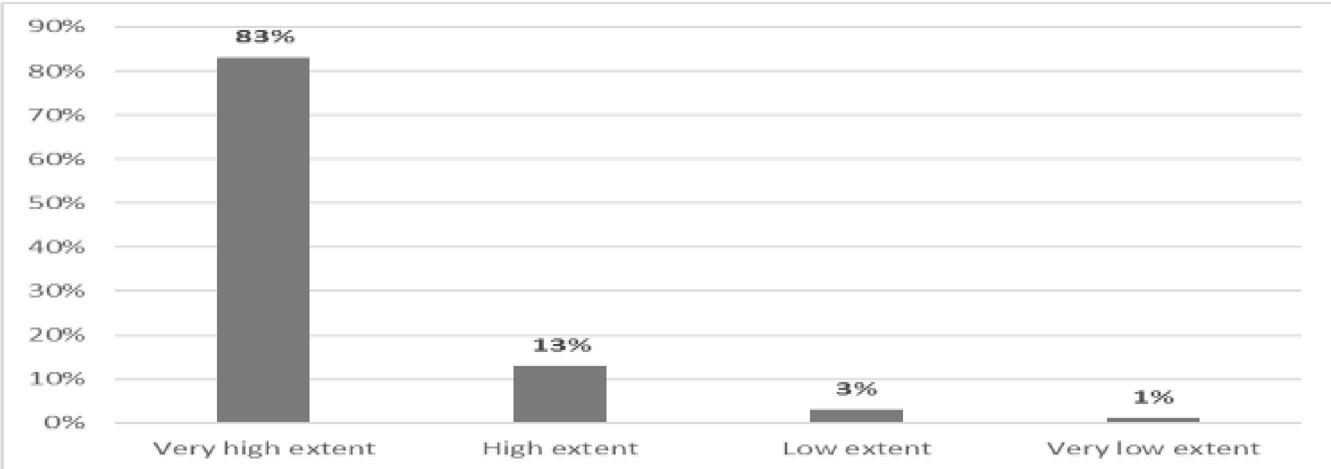

Figure 1: Rating on CEO Duality

Firm Performance

The study finally sought to evaluate the performance of the MSEs over a 3-year period. The respondents were therefore asked to indicate the average growth for the indicators of performance in their firm, from 2013 to 2015. If an MSE experienced a growth of, say, 20% in a particular year, the findings were indicated as 120%. If it declined with a certain percentage, for instance, 30%, the findings were indicated as 70%. The profitability trend was partly indicative of effectiveness of corporate governance management practices adoption.

Table 5: Medium Sized Enterprises Average Growth

Profitability Ratio	2013	2014	2015
Average Pre-tax Profits	105%	107%	109%
Return on Equity (ROE)	103%	107%	111%
Return on Assets (ROA)	103%	107%	111%
Employment Growth	112%	109%	116%
Sales Turnover	105%	107%	109%

As per the findings there was an increase in the Average Pre-tax Profits, Return on Equity (ROE), Return on Assets (ROA), Employment Growth and Sales Turnover throughout the years with 2015 recording highest growth rates of 9%, 11%, 11%, 16% and 9% respectively. This concurs with Aduda, Chogii and Magutu (2013) whose findings revealed regression models for the firm performance for both the ROA and Tobin Q ration to be significant.

Role of Corporate Governance in Profitability Improvement

The study enquired from the respondents the role played by corporate governance in the profitability improvement of their MSE. Figure 2 indicates the findings.

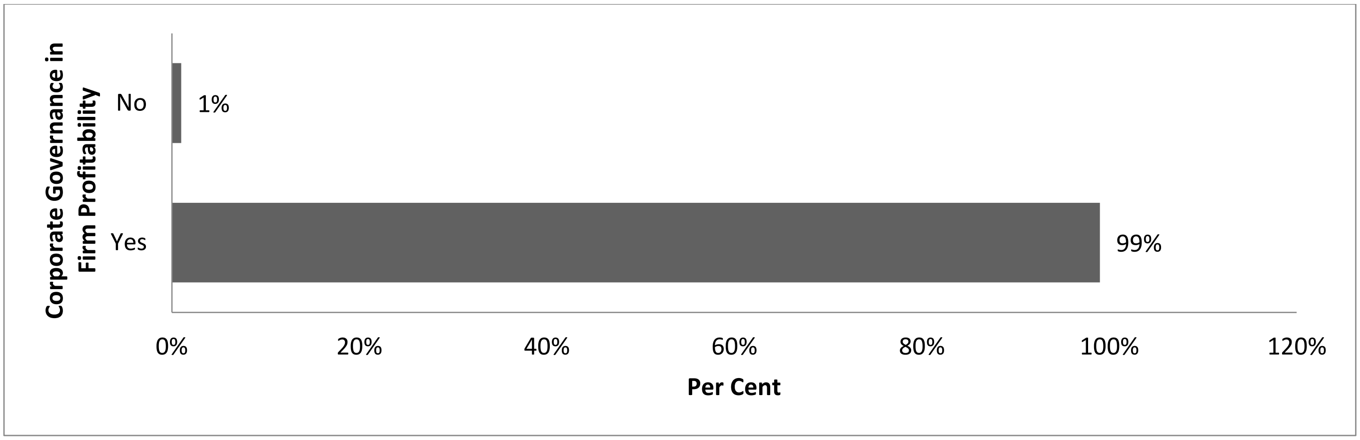

Figure 2: Corporate Governance and profitability improvement

According to majority (99%) of the respondents, corporate governance had indeed played a role in the profitability improvement of their MSE, while only 1% of the respondents were of the contrary idea. This is in support of Zyad (2014) study which examined the effect of corporate governance on firm performance and the findings revealed that firms with stronger corporate governance performed better than firms with weaker corporate governance.

The research further revealed that, for 62% of the respondents, profitability had improved by 6-10%, while for 13% of the respondents, profitability had improved by 1-5%. 12% of the respondents said profitability had improved by 11-15%, while 9% of the respondents indicated profitability had improved by over 21%. Profitability had improved by 16-20% in only 4% of the MSEs.

Correlation Analysis

Correlation coefficient values ranging between -1 and 1 measured the degree to which two variables were linearly related with the higher magnitude indicating higher degree of association between two variables. Adejimi, Oyediran and Ogunsanmi (2011) observed that a correlation coefficient of magnitude 0.3–0.5 showed a medium linear dependence between two variables while 0.5 to 1.0 showed a strong linear dependence.

The correlation summary shown in Table 6 indicated that the associations between each of the independent variables and the dependent variable at the 95% confidence level. The correlation analysis to determine the association between the role of corporate governance practices on firm performance of medium sized enterprises in Kilifi County, Kenya. Pearson Correlation Coefficient computed and tested at 5% significance level. The results indicated that there was a positive relationship (r=0. 854) between Board Size and firm performance of medium sized enterprises in Kilifi county. In addition, the researcher found the relationship to be statistically significant at 5% level (p=0.00., <0.05). The results indicated that there was a positive relationship (r=0. 451) between Board Composition and firm performance of medium sized enterprises in Kilifi county.

In addition, the researcher found the relationship to be statistically significant at 5% level (p=0.00., <0.05). The results indicated that there is a positive relationship (r=0.340) between Board skills level and firm performance of medium sized enterprises in Kilifi county. The results indicate that there was a positive relationship (r=0. 468*) between CEO Duality and firm performance of medium sized enterprises in Kilifi county. In addition, the researcher found the relationship to be statistically significant at 5% level (p=0.00., <0.05).

Table 6: Correlational Analysis

Correlations

		Board Size	Board Composition	Competence	Ceo Duality	Performance
Board size	Pearson Correlation	1				
	Sig. (2-Tailed)					
Board composition	Pearson Correlation	.537**	1			
	Sig. (2-Tailed)	0				
Board skills level	Pearson Correlation	.400**	.535**	1		
	Sig. (2-Tailed)	0	0			
Ceo Duality	Pearson Correlation	.442**	.363**	.557**	1	
	Sig. (2-Tailed)	0	0	0		
Performance	Pearson Correlation	.854**	.451**	.340**	.468**	1
	Sig. (2-Tailed)	0	0	0	0	

** Correlation Is Significant At The 0.01 Level (2-Tailed).

Regression Analysis

The main objective of the study was to determine the role of corporate governance on firm performance of MSEs in Kilifi County, Kenya. The study used multivariate regression analysis in establishing this relationship. The dependent variable of the study was firm performance of MSEs in Kilifi County, Kenya, while the independent variables were: board size, board composition, board skill level and CEO duality. The results from the regression analysis are discussed next.

Table 7: Results of Multiple Regression

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.838a	0.702	0.698	0.7858

R-Square is a commonly used statistic to evaluate model fit. R-square is 1 minus the ratio of residual variability. The adjusted R2, also called the coefficient of multiple determinations, was the percentage of the variance in the dependent explained uniquely or jointly by the independent variables. The independent variables reported R value of 0. 838 indicating that there was perfect relationship between dependent variable and independent variables. R square value of 0.702 means that 70.2 % of the corresponding variation in performance of firm performance of MSEs in Kilifi County, Kenya by (board size, board composition, board skill level and CEO duality) which indicated that the model fitted the study data. Adjusted R square in table 7 is called the coefficient of determination which indicated how firm performance of MSEs in Kilifi County varied with variation in effects of factors which included; board size, board composition, board skills level and CEO duality.

Table 8: Regression Coefficients

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.152	0.372		5.785	0.00
	Board size	0.725	0.06	0.565	12.043	0.00
	Board composition	0.528	0.099	0.259	5.316	0.00
	Board skill level	0.059	0.094	0.028	0.632	0.528
	CEO Duality	0.155	0.077	0.083	2.03	0.043

The regression equation established that taking all factors into account (board size, board composition, board skills level and CEO duality constant at zero firm performance in the MSEs would be 2.152. The findings presented also showed that, taking all other independent variables at zero, a unit increase in board size would lead to a 0.725 increase in FP of the MSEs in Kilifi County. A unit increase in board composition would a lead to a 0.528 increase in the FP of the MSEs in Kilifi County. In addition, the findings showed that a unit increase in board skills level would lead to a 0.059 increase in FP of the MSEs in Kilifi County. The relationship was significant. Finally, unit increase in CEO duality would lead to a 0.155 increase in firm performance in the MSEs in Kilifi County.

Summary of Findings

The study found that board size was considered a success factor for corporate governance in MSEs and corporate governance was considered an important organizational priority by the respondents. Additionally, the state of board size was rated highly by the respondents. The study also revealed that; Small boards in relation to number of members in the board, are fast in decision making. The fewer the number of board of directors the better the firm's performance. Smaller boards monitor expenses and communicate better to the organization. When the board increases the frequency of its meetings, the recovery from poor performance is faster.

Regression results showed that board size had a significance on firm performance of MSEs in Kilifi County, Kenya. The findings of this study concurs with those by Chatterjee (2011), who found that there was an optimal board size that allowed the board to make the most optimal contribution to the organization; anything below which would have a positive relationship and anything above which would have a negative relationship that would affect the organization performance.

The study revealed that; the board identified both the firm's internal and external stakeholders. The board agreed on a policy or policies for ensuring that the rights of stakeholders established by law or custom are respected, recognized and protected and how the corporation should relate to, and with them. Boards with a majority of independent directors were more effective in monitoring management. The participation of outside directors aligned the firm's resources for greater advantage. The board exercises objectives and independent judgment. The board ensures that no one person or group of persons has unfettered power and that there was an appropriate power balance. Regression results showed that board composition had a significance on business performance of MSEs in Kilifi County, Kenya. The findings of this study, with regard to board composition, concurs with Kiambati (2009) study which determined that board complexity positively influences the financial performance of commercial banks.

The study determined that the board monitors and evaluates the implementation of strategies, policies and management performance criteria and the plans of the firm. The board of directors was able to determine and implement its values in order to ensure that the organization survived and thrived. The members of the board have sound knowledge of financial management. The board was always alert to ensure that the transactions in the firm are carried out with accuracy and honesty.

The study further found that CEO duality properly indicated the separation of roles and have an increase in overall control. Majority of the respondents agreed that CEO duality provided efficient checks and balances. It also highly rated CEO duality. Moreover, the study revealed that the results of corporate governance evaluation were reviewed by the Chief Executive Officer (CEO). CEO duality was a signal to other employees of how to value corporate governance initiatives. It also ensured allocation of a satisfactory budget to corporate governance programs.

The study concluded that corporate governance had indeed played a role in the profitability improvement of the MSEs, with majority of the respondents attributing profitability to have improved. These findings concur with Aduda, Chogii & Magutu (2013) study whose findings revealed regression models for the firm performance for both the ROA and Tobin Q ratio to be significant.

Conclusion

From the findings, the study made a number of conclusions. To begin with, it was concluded that small boards play a higher signficant role in the performance of the respondents organization compared to large boards in terms of decision making, monitoring of expenses, communication to the organization and raising the value of the firm.

Secondly, a board that was incharge of the operations of the MSE as well as one that had more outside directors, lead to better perfomance through the identification and protection of the rights of internal and external stakeholders, in addition to proper monitoring of the management.

Thirdly, the study concluded that board skills of monitoring and evaluation played a more signficant role in enhancing business performance by looking into the strategies and policies of management.The regression results indicated that board skills level had a significant effect on firm perfomance.

Finally, the results indicated that CEO duality as a corporate governance practice enhances business performance through thorough reviews by the CEO of the organizations.

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