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ABSTRACT

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 was analyzed and 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.

Key Words: *Corporate Governance, Board Structure, CEO Duality, Audit Committee*

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INTRODUCTION

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).

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 United 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.

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 persons. Medium enterprises engages more than 50 persons and less than 99 person accompanied with an average yearly turnover of between Ksh. 5 Million and Ksh. 1 Billion.

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.

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 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.

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 was measured using board structure, CEO duality and audit committees (Wairimu 2014; Durgavanshi 2014; Memba and Kimungunyi 2015, Leng, 2014). Researchers had not done a lot of work in the SME sector in line with corporate governance practices and financial performance this presented a gap since very limited information was available in the public relating the two variables.

Research Objectives

The general objective was to determine the effect of corporate governance practices on financial performance of selected small and medium enterprises in Kenya. The study findings were directed based on these specific objectives;

- To determine the effect of board structure on the financial performance of selected SMEs in Kenya.

- To establish the effect of CEO duality on the financial performance of selected SMEs in Kenya
- To assess the influence of audit committee on financial performance of selected SMEs in Kenya

The following research questions guided the study;

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

LITERATURE REVIEW

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.

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.

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 Bjurstom, 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.

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.

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).

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.

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.

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.

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.

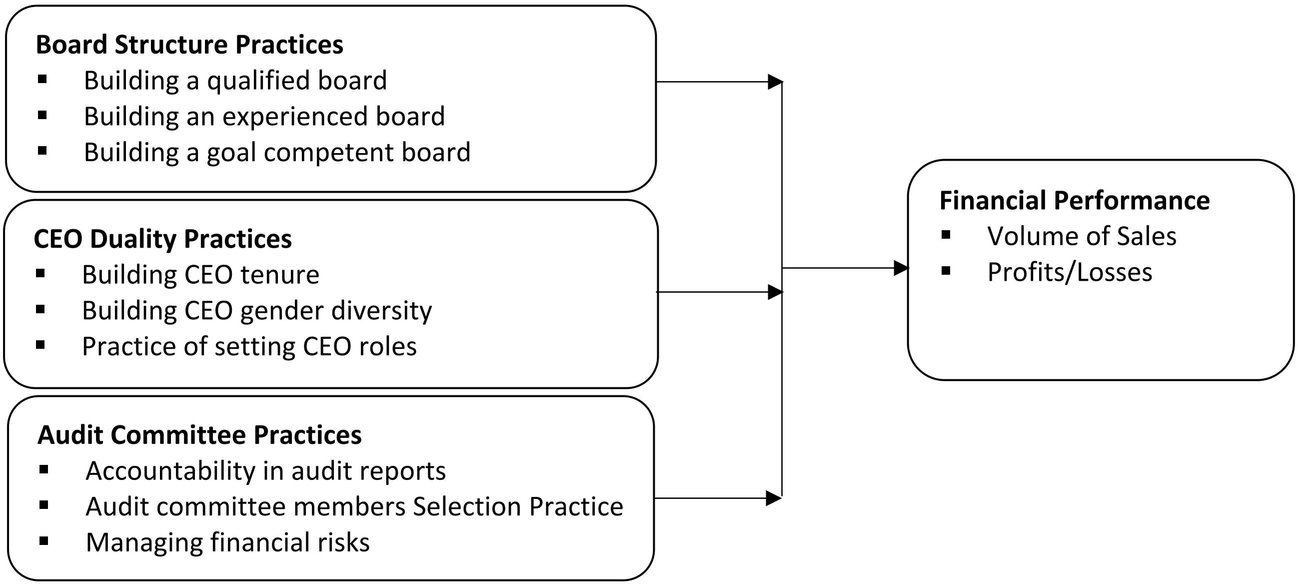
Audit Committee and Financial Performance

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.

Conceptual Framework



Independent Variable **Dependent Variable**

Figure 1: Conceptual Framework

Source: Author (2022)

METHODOLOGY

A descriptive research design was used to elicit facts about corporate governance practice on the financial performance of selected SMEs in Kenya. For this study, the target population was from the selected SMEs in Kenya. 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. 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 research findings employed questionnaires for primary data as the vital tool to carry out this research. Structured questions were used. The questionnaire was distributed electronically via email and filled out manually by participants. 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. The study collected both qualitative and quantitative data in this study. 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. Descriptive statistics was computed, displaying frequencies, percentages, means, and standard deviations in both tables and figures.

FINDINGS AND DISCUSSIONS

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.

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 1.

Table 1. Board Structure Practices

	Mean	SD
Performance of company is positively correlated with number of directors on board.	3.0225	.81781
Efficiency of board is reduced and free riding is increased with 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 1. 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 1. 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.

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 2.

Table 2. 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 2. 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 indicate 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.

Audit Committee Practices and Financial Performance

The audit committee practices results were presented in Table 3.

Table 3. 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 3. 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 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.

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. presented the results.

Table 4. 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. 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.

Inferential Analysis

The section presented results on the correlation and regression analysis.

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

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 6, Table 7. and Table 8. presents the results.

Table 6. 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 6. 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 7. 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 8. Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		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 8. the adopted model becomes;

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

Table 8. 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 (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 8. showed that CEO duality had a positive and significant effect on financial performance of SMEs (B=1.343, sig<0.05). A unit change in CEO duality resulted to 1.343 unit's changes in financial performance. Table 8. shows that audit committee had a positive and significant effect on financial performance (B=0.833, sig<0.05). A unit change in audit committee resulted to 0.833 unit's 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.

CONCLUSIONS

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.

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;

- For a SME to thrive and persist, the board of directors must be energetic which was core to effective governance.
- 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.
- 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.
- 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.

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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