

ABSTRACT

Corporate governance is an important tool. Failure to implement it can negatively affect the financial performance of organizations. Unilateral decision making, lack of transparency in audit and financial reports, incompetence and mismanagement are some of the problems that can arise in situations where corporate governance practices are not applied. This study sought to examine the relationship between corporate governance and financial performance of Fund Managers in Kenya. The objective of the study was to establish the relationship between corporate governance practices and their impact on financial performance of Fund Managers in Kenya.

A questionnaire was sent to all the 16 Fund Managers to collect primary data on various aspects of Corporate Governance (i.e. Chairman-CEO Duality, Board Size, Board Meetings, Board Composition and Insider Shareholding) while the Financial statements of the Fund Managers were used to compute ROE. A pre-test was done on the questionnaire to establish whether it measured what it was meant to measure. A correlation analysis was also done on the independent variables to determine whether they had significant relationship among them at 5% level. The data collected was analyzed using SPSS. Linear regression was used to quantify the strength of the relationship between the independent variables (Corporate governance practices) and the dependent variable (Financial performance).

The study established that financial performance of Fund Managers in Kenya as measured by the Return on Equity is significantly influenced by corporate governance practices. Specifically the corporate governance variables of CEO - Chairman Duality, Board Size and Insider Shareholding had a positive relationship with ROE while the ROE of Fund Managers with high number of Board Meetings and high number of internal directors compared to external directors was negative. It is recommended that similar studies that include other variables in addition to or in exclusion to some of the variables used in this study be conducted.