

**PILLARS OF CORPORATE GOVERNANCE, INVESTMENT POLICIES,  
GOVERNMENT REGULATIONS AND PERFORMANCE OF PENSION FUND  
MANAGERS IN KENYA**

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**DECLARATION**

I declare that this thesis is my original work and has not been previously in its entirety or in part been presented for a degree or other academic work.

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## **DEDICATION**

This thesis is dedicated to my family; mother, brothers, sisters and in-laws for their love, patience, help, encouragement and their prayers which saw me soldier on my studies. Special appreciation goes to my wife Amina Mohamed for encouragement throughout my studies, my late mother Adey Aden and my children for their perseverance, patience and unwavering support throughout my studies.

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## ACRONYMS AND ABBREVIATIONS

<b>ANOVA</b>	Analysis of Variance
<b>CBK</b>	Central Bank of Kenya
<b>CEO</b>	Chief Executive Officer
<b>CMA</b>	Capital Markets Authority
<b>GEPF</b>	Government Employees Provident Fund
<b>LAPF</b>	Local Authorities Pensions Funds
<b>MVO</b>	Mean-Variance Optimization
<b>NHIF</b>	National Health Insurance Fund
<b>NSSF</b>	National Social Security Fund
<b>OECD</b>	Economic Co-operation and Development
<b>PSPF</b>	Public Service Pensions Fund
<b>RBA</b>	Retirement Benefit Act
<b>ROA</b>	Return on Assets
<b>ROE</b>	Return on equity
<b>ROI</b>	Return on Investment
<b>VIF</b>	Variance Inflation Factor

## OPERATIONAL DEFINITION OF TERMS

**Board accountability:** Refers to the framework that structures the board and how it operates (Naciti, 2019).

**Corporate Governance:** Refers to the system of rules, practices and processes by which a firm is directed and controlled.

**Government Regulations:** Refers to a rule of order having the force of law, prescribed by a superior or competent authority, relating to the actions of those under the authority's control.

**Investment Policies:** Refers to principles that formalizes an institution's goals, objectives, guidelines for asset management and investment advisory.

**Ownership structure:** Refers to the distribution of equity with regard to votes and capital but also by the identity of the equity owners (Paniagua, Rivelles & Sapena, 2018).

**Pension Fund Manager:** A firm involved in in the management of funds or assets on behalf of individuals, investors or an organization.

**Pension Fund:** Refers to asset pool meant to generate stable growth over the long term and provide pensions for employees when they reach the end of their working years and commence retirement.

**Performance:** Comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives).

**Stakeholder participation:** Refers to the processes that enable stakeholders to understand and influence decisions and processes that may interest or affect them (Adebayo, Mudashiru, Brahim & Ishmael, 2014).

**Transparency:** Refers to the access and proper disclosure of financial information, such as a company's audited financial reports (Ramírez & Tejada, 2018).

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## ABSTRACT

Pension fund performance has received increased attention across the world with public pension fund performing dismally when compared to private pension fund. Pension funds performance in Kenya have been facing myriad of challenges ranging from poor administration and investments of pension funds, lack of transparency and accountability, non-remittance of monthly contributions by employers, misappropriation of scheme assets by the trustees, loss of scheme funds through negligence of trustees and poor investment of the scheme assets. The broad objective of this study was to examine the relationships between pillars of corporate governance, investment policies, government regulations and performance of pension fund managers in Kenya. The study sought to determine the intervening effect of investment policies on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya; to establish the moderating effect of government regulations on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya; and to determine the moderation - mediator effect on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya. Neoclassical theory, Q-theory, contingency theory and stakeholder theory was used in the study. This study adopted positivism philosophy. The study employed a cross sectional survey design whereby access to the widest possible amount of data from the targeted Fund Managers in Kenya was sought. The population of interest of the study was 31 Fund Managers in Kenya licensed by RBA and CMA. The study used purely primary data sources. Primary data was obtained from the selected respondents. Primary data was collected through questionnaire. Regression analysis was used to establish the relative significance of each of the variables on the influence of pillars of corporate governance, investment policies, government regulations on the performance of pension fund managers in Kenya. The study findings indicated that there was significant relationship between pillars of corporate governance and performance of pension fund managers in Kenya. In addition, the findings indicated that there was a partial intervening effect of investment policies in the relationship between pillars of corporate governance and performance of pension fund managers in Kenya. There was a significant moderating effect of government regulations on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya. Lastly, there was a significant moderation – mediator effect on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya. The study concluded that pillars of corporate governance practices being implemented had been incorporated in the Pension Fund's investment management decisions with its assets being more diversified and having enhanced reporting on investments. This implied that the adoption of the regulations from the regulatory bodies such as number of trustees, tax on non-exempt incomes of pension fund members, regulatory meetings, risk tolerance limits imposed by the RBA, competition as stipulated by RBA led to better performance. The study recommended on pension reforms, by creating a new class of potential activist shareholders in the form of pension funds, could in principle improve corporate governance and increased shareholder discipline. The study recommend that the pension fund managers must work with stakeholders to bring about a harmonized, workable and transparent legislative and institutional framework for the retirement benefits industry. Lastly, the study recommends that the governing body of the pension fund should set forth in a written statement and actively observe an overall investment policy

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.0 Introduction**

This chapter contextualizes and discusses the research study with global and regional perspectives and insights. It elaborates on the concepts of pillars of corporate governance, investment policies, government regulations and performance. It also outlines the objectives, hypotheses, rationale, and scope of the study.

### **1.1 Background of the Study**

Management of pension funds is influenced by the level of corporate governance, investment policies and government regulations employed within the pension schemes (Christensen, 2019). However, some larger corporations operate their pension funds in-house. Many international leaders of known firms have been involved in famous financial crises, such as the leaders of Enron, Anderson, WorldCom, Xerox, Parmalat, Merrill Lynch, Maxwell, Allied Irish Bank, and Sellafield (Alimehmeti & Paletta, 2018). A common cause for this failure resulted from weak internal control, which arises from poor corporate governance of organizations (Darus & Yusoff, 2018).

The existing studies mention that pillars of corporate governance practice: strengthens the board, helps in effective board monitoring, improves firm profitability and performance, and achieves better economic efficiency and growth (Al-Baidhani, 2017; Sarkar & Sarkar, 2018). Al-Sager and Samontaray (2018) explained the corporate governance concepts and the importance of ownership structure and board of directors (size, composition and committees). Buallay, Hamdan and Zureigat (2017) used pillars of corporate governance practices as the independent variable, the firm performance as the dependent variable and five control variables: firm size, firm age, auditing quality, board size, and an industry dummy, to find the impact of governance practice on the performance. In spite of the recognition that corporate governance is critical for firm performance and for sustained macroeconomic growth coupled with the heightened interest in the area, research in corporate governance has not received the needed attention on the continent. This study assessed the relationship between the pillars of corporate governance, investment policies, government regulations and performance of pension fund managers in Kenya.

The financial crises and several cases of corporate mismanagement have led to increasing attention on corporate governance rules and regulations, in close relation with business ethics issues (Roudaki, 2019). In addition, the financial crises have served as justification for new rules and

legislations to regulate corporate governance practices in developed and developing countries (Jen, 2014). The financial crises resulted in the legislators and regulators of most nations seeking to strengthen and enhance their corporate governance rules and regulations, disclosure, and transparency levels (Sáenz González & García-meca, 2019). As per the Sarbanes-Oxley Act, stock exchanges' administrators should impose corporate governance rules and regulations on listed companies regarding audit independence, board independence, and reliability of corporate disclosures (Ali, 2018; Alimehmeti & Paletta, 2018).

Globally, the EU, pension funds in 2019 accounted for around 30% of GDP, while insurance company assets were over 50% of GDP and investment funds 40%. The total value of institutional assets in Europe was around Euro11 tn, which implies annual revenue of around Euro 40 billion (OECD, 2019). The size of pension fund sectors differs markedly between countries, with Denmark, the Netherlands and Sweden as well as Switzerland standing out in Continental Europe, and the UK and Ireland also having major pension fund sectors. The value of institutional funds under management in Europe is dominated by the United Kingdom, which accounts for around 30 % (OECD, 2019). In Continental Europe, managers tend to be balanced, offering investment management services for whole portfolios, as in the United Kingdom, rather than specialists as in the United States. Size of asset managers differs widely, largely reflecting the size of the domestic markets; hence in countries such as Ireland and in Scandinavia, firms are generally quite small. In Southern European countries, including Spain, Italy, and Portugal, there are only six companies that feature in the largest 150 in Europe. Since managers are usually balanced, this implies inefficient scale and a potential benefit from consolidation of the industry (OECD, 2019).

In the regional perspective, South Africa pension market had assets totaling to US\$ 252 billion representing only 0.5% of total assets (Global Pension Assets Study Report of 2019). Most African countries have a multiplicity of pension systems. Pension systems exist in form of; National Social Security Fund (NSSF); Local Authorities Pensions Funds (LAPF); Parastatal Pensions Fund (PPF); Government Employees Provident Fund (GEPF); Public Service Pensions Fund (PSPF); and National Health Insurance Fund (NHIF) (Kyando, 2014). Most African countries have a multiplicity of pension systems. In Tanzania for example, there are six (6) major formal institutions that provide social security protection. These are: National Social Security Fund (NSSF); Local Authorities Pensions Funds (LAPF); Parastatal Pensions Fund (PPF); Government Employees Provident Fund (GEPF); Public Service Pensions Fund (PSPF); and National Health Insurance Fund (NHIF) (Kyando, 2014).

Locally, employers or trust corporations set up pension schemes under irrevocable trusts. This is done in accordance with following Acts of Parliament: Trustees (Perpetual Succession) Act Cap 164; Trustees Act Cap 167; Public Trustee Act Cap 168; Perpetuities and Accumulation Act 1984; Income Tax Act Cap 487 and Retirement Benefit Act, (1997). The Retirement Benefit Act, (1997) gave rise to the development of the Retirement Benefit Regulation for occupational schemes 2001. The Kenyan retirement benefits industry is regulated by the RBA. The funds are divided into four categories: the Civil Service Pension Scheme and the National Social Security Fund both created by Act of parliament; and Occupational Schemes and Individual Schemes both created by trustee deeds. Except Civil Service Pension Scheme, the categories are under the RBA.

There are 1232 pension schemes by the RBA as at 06<sup>th</sup> May 2016 (RBA, 2016). According to the Africa Asset Management 2020, the projected returns on equity for the period starting in 2011 to 2018 continued to decline from 7.8 to 7.2% as at the end of 2016 (Price Water Coopers, 2016). Studies such as Njuguna (2014) focusses on intake of pension schemes generally but do not investigate the factors influencing investment decisions. The study by Oluoch (2019) investigated the determinants of performance of pension schemes in Kenya but does not narrow down to the factors affecting the factors influencing investment decisions. There exist little knowledge investment policies in pension funds, hence the study sought to establish the link.

### **1.1.1 Pillars of Corporate Governance**

Corporate governance is regarded as the system through which the management of firm's are able to direct and control their various activities. In addition, corporate governance is considered as a system of rules, processes as well as practices against which the entire operations of an organization are directed and controlled (Tricker & Tricker, 2015). Corporate governance is also regarded as a framework of rules and practices through which organizational board of directors as well as the executive management ensures that there is accountability, fairness, and transparency throughout the organization as well as with its key stakeholders especially the state, the society in which they operate, customers, suppliers, staff as well as their management. Corporate governance also refers to the way boards of directors and management steer a business (Dore, 2017).

Several determinants have been used by different scholars to determine the pillars of corporate governance. These pillars includes transparency, ownership structure, board accountability board size, multiple directorship and ownership structure, independence of directors, independence of committees, board size, duality problem and board meetings. Transparency is the access and proper disclosure of financial information, such as a company's audited financial reports (Ramírez

& Tejada, 2018). It enables others to see and understand how they operate in an honest way. Widiatmika and Darma (2018) defines transparency as having full disclosure in public companies. Transparency allows its processes and transactions observable to outsiders. It also makes necessary disclosures, informs everyone affected about its decisions. Transparency is a critical component of corporate governance because it ensures that all of entity's actions can be checked at any given time by an outside observer (Azeez, 2015). Transparency ensures that all company's actions can be checked at any given time by an outside observer especially in the insurance sector where pool funds are invested.

Ownership structure is defined by the distribution of equity with regard to votes and capital but also by the identity of the equity owners (Paniagua, Rivelles & Sapena, 2018). Ownership structure concerns the internal organization of a business entity and the rights and duties of the individual holding the equitable or legal interest in that company (Utama, & Amarullah, 2017). Ownership concentration is perceived by agency theory assumptions as an effective monitoring technique by which shareholders can ensure that managers are behaving in line with their interests. Ownership structures are of major importance in corporate governance because they affect the incentives of managers and thereby the running and performance of the insurance firms.

Board accountability in governance is the framework that structures the board and how it operates (Naciti, 2019). According to Alabdullah, Ahmed and Muneerali (2019), board's accountability entails providing leadership to achieve these aims, establishing a supervisory process to ensure that the management of the business is effective and to report to shareholders on its performance. At its core, board includes the boards' responsibilities and organisational well-being. Board accountability is an important component of corporate governance which means being answerable or liable for something (Ullah, 2016). In the insurance sector, the board has a key responsibility to ensure that the pool funds are invested responsibly and reporting.

Stakeholder participation are the processes that enable stakeholders to understand and influence decisions and processes that may interest or affect them (Adebayo, Mudashiru, Brahim & Ishmael, 2014). Stakeholder participation promotes sustainable decisions by considering the needs and interests of all participants, including the decision-makers. The rights of shareholders, investors and all other stakeholders that are established by law or through mutual agreements are to be respected (Guzeh, 2019). This research focused on four governance attributes; predictability, accountability, transparency and participation as guided by the studies by Ramírez and Tejada (2018); Paniagua, Rivelles and Sapena, (2018); Naciti (2019); Adebayo, Mudashiru, Brahim and Ishmael (2014).

### **1.1.2 Investment Policies**

According to Musalem and Souto (2019) an investment policy describes the parameters for investing funds and identifies the investment objectives, preferences or tolerance for risk, constraints on the investment portfolio, and how the investment program will be managed and monitored. Pension schemes offer platforms for contributors to accumulate savings during their working life so as to finance their financial needs at old age. This is done either as a lump sum or by an annuity (Darus & Yusoff, 2018). The pension fund is a common asset pool meant to generate stable growth over the long term, and provide pensions for employees when they reach the end of their working years and commence retirement. These targeted investments often require union built construction or are aimed at job creation and retention as in the case of private equity investments (Hebb & Beeferman, 2018). The key investment policies components include acts and covenants, leverage of the fund and fund liquidity.

The investment policies varies depending on the type of pension plan. In the case of defined benefit plans, the goal of the investment function is to generate the highest possible returns consistent with the liabilities and liquidity needs of the pension plan, and in light of the risk tolerances of affected parties (Buallay, Hamdan & Zureigat, 2017). In a defined contribution plan, the main goal of the investment function is to generate gains that accrue to individual member account balances in light of her investment goals. Although various economic issues arise due to various developments of pension schemes it is notable that similar issues also arise in least developed countries (Alimehmeti & Paletta, 2018). Thus, traditional methods for providing the elderly with care are disintegrating because of the rapidly ageing population, industrialization, and ill-conceived social-security systems (Sampson, 2017). These schemes often have a range of labour friendly policies and programs aimed at building strong and healthy communities. Such programs include responsible contractors' policies, responsible investors' policies, and specific allocations for targeted (or economically targeted) investments in their investment portfolio thus acting as a suitable mediating variable.

### **1.1.3 Government Regulations**

Government regulations are rules that define the bounds of legal behavior in the pension funds and may take various forms. It could be restriction on industry structure where specific institutions can carry out the fund management business (Njuguna, 2019). For example, the Chilean pension reform established a new pension fund management industry. It could also be regulation of fund performance. In this case, pension funds must guarantee an absolute return on investment

(Economic Co-operation and Development (OECD), 2019). The returns are chosen based on the industry's average performance. This is the case in Germany and Chile. Lastly, it could be through regulations that impose limits on the share of investment assets held by pension plans (Chirchir, 2017).

It consist of setting ceilings (maximum) or floors (minimums) on the fund that can be invested in given assets. Different countries have adopted different degrees of pension regulations. Many countries start with stringent regulations but relax over time as the industry matures. A pension fund can invest a maximum 40% in equities, 20% in commercial paper, 50% in government securities, 5 % self-investments and 12% in foreign investments. In Argentina 98% of pension funds must be invested in Argentinean investments (OECD, 2019). South Africa pension funds must be invested within allowable limits as directed in the Pension Fund Act 1956, section 19 and Regulation 28. US pension sector, the largest and most established in the world has no set regulations on investments of pension funds. It is a fully liberalised sector wholly reliant on the “prudent man rule” of investments after a undergoing through a period of restricted investments.

United Kingdom (UK) regulates all the aspects of pension administration save investments, which remains unregulated. They too follow the principle of prudent man rule after a time of restricted investments (Even, 2004). The retirement benefits Act devotes several sections in the Retirement Benefits Act and Retirement Benefits Regulation that provides directives or guidelines on investment of pension funds (OECD, 2019). These are contained in the Retirement Benefits Act 1997, sections 38 (1) (b), 39 and 40, Regulation 31 (1) of the retirement benefits (Individual Retirement Benefits Schemes) regulations 2000 and regulation 38 (1) of the Retirement Benefits (Occupational Retirement Benefits Schemes) Regulations 2000. Section 38 makes distinct restriction on the use of funds (Even, 2004). Scheme funds cannot be used to make direct or indirect loans or invested in a bank, non-banking financial institutions, insurance company, or building society with a view to securing a loan.

In Kenya, employers or Trust Corporations set up pension schemes under irrevocable trusts. This is done in accordance with following Acts of Parliament: Trustees (Perpetual Succession) Act Cap 164; Trustees Act Cap 167; Public Trustee Act Cap 168; Perpetuities and Accumulation Act 1984; Income Tax Act Cap 487 and Retirement Benefit Act, (1997). The Retirement Benefit Act, (1997) gave rise to the development of the Retirement Benefit Regulation for occupational schemes 2001. The government regulations used in this study include Retirement Benefit/CMA guidelines, taxation and inflation.

#### **1.1.4 Performance of Pension Fund Managers**

Performance comprises the actual output or results of an organization as measured against its intended outputs. In other words, performance encompasses the actual output or results of an organization as measured against its intended outputs (or goals and objectives) (Cameron, 2017). Performance can be referred to as doing the work, as well as the results achieved after work completion. Performance refers to the work outcomes that provide the linkage to strategic goals of an organization and its contribution to the economy. Performance denotes its capability to efficiently utilize resources to achieve set objectives (Marinova et al., 2016). The extent of achievement of set goals is considered a measure of performance (Katou & Budhwar, 2018).

Walker and Iglesias (2019) also counsel against international comparisons of traditional performance measures, including returns, volatility, and Sharpe ratios. They argue that in addition to the differences in investment alternatives, including different risk-free interest rates and different investment alternatives, pension fund managers in different countries are subject to different risks, including exchange rate risk and real interest risk, which make comparisons not meaningful (Roudaki, 2019). They argue that volatility cannot be considered as a comprehensive measure of risk, because intrinsic risk elements are found in countries with different levels of development. For example, Sharpe ratios tend to vary overtime and across asset classes, and therefore comparing pension funds that have invested differently or in different time frames may not always be relevant (Alimehmeti & Paletta, 2018).

In Kenya, the pension industry is regulated by the Retirement Benefits Authority (RBA) and Capital Markets Authority (CMA), a body established by an Act of Parliament. Pension funds act as an important stimulus to capital markets in most countries where they exist through financial intermediation. Pension funds complement, and hence stimulate development of capital markets, while acting as substitutes for banks as they generate returns themselves. According to Chirchir (2017), until 1997, the pension industry in Kenya was by and large unregulated. The few regulations relevant to retirement benefits were in the Income Tax Act and the Trustees Act governing the industry. There were no specific regulations on investments, other than that exempting all those schemes registered with income tax from the withholding tax imposed on investment income. In 1997, the government enacted the Retirement Benefits Act and in 2000, approved the Retirement Benefits Regulation as new legislations to govern the entire management and administration of the pension industry.

## 1.2 Statement of the Problem

Pension fund performance has received increased attention across the world with public pension fund performing dismally when compared to private pension fund. Pension fund performance has thus given mixed results in different countries, with OECD countries recording positive real net investment returns in 2019, ranging from 1.2% in the Czech Republic to 16.7% in Denmark, with an OECD weighted average of 5.0%. However, the same is not said of non-OECD countries, with majority showing negative returns in 2020. These include Armenia, Nigeria among other countries in sub-Saharan Africa (Andonov, 2020). Performance of the pension funds in Kenya has largely mirrored that of the Nairobi Securities Exchange which has been on the decline, with pension results for 2019 showing a decline to average pension return of 15.5%.

Financial performance for most pension schemes have posted negative performance (Price Water Coopers, 2019). If pension funds are not well managed or if workers do not save for their pension then during retirement years or if employers fail to remit pension contributions, Kenyans would be exposed to poverty in their old age. Extended periods of investigations also discourage potential clients from saving with the pension schemes. In addition, the environment in which pension funds operate has been fraught with various corporate governance challenges that have hindered its progress. Therefore, a deliberate effort has to be made to avoid future corporate mismanagement and company failures given the important role insurance plays in the economy of Kenya especially towards the development of the small and large scale firms through ensuring financial security. Further, there is the limited understanding on how the concept of pension schemes works entirely. The perception is that the premiums received are meant to enrich the companies and not benefit the clients the claim is made (Price Water Coopers, 2019). In an attempt to identify the reasons for the leniency in the growth of pension schemes and inability to compete effectively, various issues have come to light. These issues range from poor corporate governance, non-favorable investment policies and government regulations within the pension schemes.

While several studies have been done on the effect of corporate governance on firm performance coming up with different findings, many have concluded that good corporate governance results in better financial performance of the firm (Stanwick & Stanwick 2018; Bebchuk, Cohen & Ferrell, 2014; Kihara, 2016) yet, other studies including (Lamport, Latona, Seetannah, & Sannasee, 2019) have found no significant difference in the performance of firms with poor corporate governance practice and those with excellent quality of governance practices. In addition, Kamau, Machuki and Aosa (2018) investigated the relationship between corporate governance and firm performance

without a moderating or mediating variable thus presenting a conceptual gap. The current study included the mediating variable and the moderating variable, in investigating the relationship between corporate governance and performance. Kiratu (2016) conducted a study on the influence of corporate governance on performance in Kenya with a case of agricultural state corporations. The study creates a methodological gap by use of a correlational design while the current study adopted a cross sectional survey design to analyze the study objectives. Wathanga (2017) conducted a study on the effect of corporate governance and was guided by correlational research design. The correlational research design may provide variations in findings when compared with a cross sectional research design, which presents a methodological gap. Najjar (2019) the study created a methodological gap by adoption of secondary data for analysis which differs with primary data in analysis.

This research aimed at filling the gaps that have not been explored by other researchers on the same subject. First, this research developed a means to measure corporate governance, investment policies and government regulations and rank the same findings and compare against performance to prove the relationship which sought to assess effect of corporate governance, investment policies and government regulations on performance.

### **1.3 Objective of the Study**

#### **1.3.1 General Objective**

The broad objective of this study was to examine the relationships between pillars of corporate governance, investment policies, government regulations and performance of pension fund managers in Kenya.

#### **1.3.2 Specific Objectives**

- i. To determine the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.
- ii. To establish the intervening effect of investment policies on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.
- iii. To establish the moderating effect of government regulations on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.
- iv. To determine the moderation-mediator effect on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.

#### **1.4 Significance of the Study**

This study plays a useful role in development of theory, assist government when developing investment policies and regulations on Retirement Benefits Authority and Pension fund managers to improve their financial performance. With respect to theory, this study is useful in filling the research gap and providing information on the link between pillars of corporate governance, investment policies, government regulations and performance of pension fund managers in Kenya. This study's findings on the impact of pillars of corporate governance to performance will strengthen its theoretical hypotheses. The findings of this study are significant contribution to the existing literature on financial performance of pension schemes. Since this is an area that has great potential of further growth and will attract further academic research, the findings will assist in providing reference materials for future researchers.

This study may be useful in filling the research gap and providing information on establishing the link between pillars of corporate governance, investment policies, government regulations and performance. Knowledge may also be added into the already existing resources. The study may assist Government when developing investment policy to spur the economy of pension funds. The findings from the study may be used to provide useful information that will, if utilized and adapted; improve investment policy, transparency, governance, drive investments, increase consumer satisfaction and lead to improved performance of the pension fund managers.

The study is expected to provide useful insights to various categories of stakeholders. This is important given that pension systems and retirement benefits schemes are necessary for developing countries like Kenya not only to secure people's livelihoods after retirement, but also due to the fact that retirement schemes provide an avenue for mobilizing savings for long-term investments. Finally, directors and management of the listed pension fund managers in Kenya are expected to appreciate the importance of investment policies and assist in rating their level of compliance against those of their competitors.

#### **1.5 Scope of the Study**

This study focused on the 31 registered pension fund managers in Kenya. The study was done on pension fund managers in Kenya. The conceptual scope included pillars of corporate governance, investment policies, government regulations and performance. The geographic scope was Kenya. The study used quantitative data which was collected through questionnaires. Secondary data was collected from the annual financial statements of the pension schemes in the custody of the Fund Managers as filed returns. For the purpose of this study, these performance financial statements

was sourced from the Retirement Benefits Authority systems and the pension schemes for validity. The study time scope was between September 2020 to July 2022.

### **1.6 Limitations**

The study anticipated to encounter some limitations that may hinder access to information that the study seeks. This included a low response by the respondents due to the organizations rigid policies, the respondents might not be free in answering the questions posed to them for fear of victimization by the authorities. This was overcome by assuring the staff that the study was not used anywhere else or by somebody else except for academic purposes. To mitigate this the researcher followed up the respondents regularly. In order to counter the constraints that might be experienced during the study, the researcher used the introductory letter from the University. Official consent letter was sent to the institutions seeking for the permission to access the institution.

### **1.7 Delimitations**

The study was carried out in Nairobi County in the year 2020. The study targeted the 31 registered pension fund managers in Kenya. The study targeted respondents was the top management, middle management and lower level management of the pension fund managers. The study adopted a survey design and used data from primary and secondary sources. Structured questionnaires were used to collect primary data.

### **1.8 Chapter Summary**

This chapter has considered the background of the problem by articulating what other researchers and practitioners in the area under consideration have found out with regard to pillars of corporate governance, investment policies and government regulations and their relationship with performance. It also listed the general and specific objectives underlying the study and clearly defined the importance and scope of the study. The next chapter discussed critical reviews of available literature on the subject matter, with keen focus on the theoretical framework underpinning this study and what other scholars have published with regard to each of the study's specific objectives.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter dealt with the available literature that has been reviewed for the study. The literature was mainly on the pillars of corporate governance practices, investment policies, government regulations and performance. The specific areas covered included different governance mechanisms and indices. Investment policies and government regulations and their relationship with pillars of corporate governance and performance was evaluated.

#### **2.1 Theoretical Reviews**

This study employed several theoretical approaches which can be used to outline the performance of organizations, to select the predictors to the models, and to justify the functional form between these predictors. In this review these approaches were classified into the following categories; stakeholder theory, agency theory, neoclassical theory, Q-theory, contingency theory and resource dependency theory. This study was anchored on agency theory, and two complimentary theories namely: Stakeholders theory and resource dependency theory. Pillars of corporate governance and investment policy was anchored on agency theory. Stakeholders' theory supported agency conflicts and government regulations, while resource dependency theory anchored pillars of corporate governance and performance. Agency theory was supported by Neoclassical and Q-theories. These theories were interlinked and complements each other towards exemplifying the overall greater picture of firm performance. The assumptions and limitations of one theory was supplemented by other theories.

##### **2.1.1 Agency Theory**

Agency theory was formed in 1973 by Stephen Ross and Barry Mitnick (Mitnick, 1973). Creation of the theory was due to separation of ownership and control which leads to a n agency problem whereby management operates the firm aligning with their own interests, not those of the shareholders (Nyamongo & Temesgen, 2019). Advocates of agency theory argue that separation of the stipulating clear guidelines on agency conflict does maximize corporate performance since the managers are guided on do's and don'ts of using organizations resources for self-aggrandizement.

Similarly, a study conducted by Pi and Timme (2019) noted that in the banking industry, in the period between 1990- 2019, non-duality firms outperformed duality firms because agency conflict

issues were eliminated. Where a manager has authority to set organizations agenda, chair the board's agenda, approve and operationalize the same agenda, is a recipe for performance problems (Bonn, Yoshikawa, & Phan, 2014). In such cases, it is difficult to hold managers to accountability standard that are in line with corporate code of conduct. When managers are the bosses of themselves, levels of accountability become weak, and opportunities for agency conflict increase threatening the organizational performance.

Jensen and Meckling (1976) built on the Modigliani and Miller theory model by theorizing the relationship between the principal (shareholder) and the agent (manager). The agency concept arose out of the need for separation of ownership and control, whereby the principal (shareholder) appoints an agent (manager) to act on their behalf. This contractual relationship involves the principal (s) engaging the agent to perform some service with delegated decision-making authority. Agents are engaged in the daily operation of organizations thus have undue information advantages. This results in information asymmetry in the agency relationship. The principal- agent relationship results in monitoring costs employed by principals to reduce the opportunistic behavior and expropriation by managers (Jensen & Meckling, 1976).

Agency theory is the most dominant theoretical underpinning documented in corporate governance research (Jensen & Meckling, 1976). According to Syriopoulos and Tsatsaronis (2012), conflict of interest arising out of separation of ownership and control is minimized by entrenching corporate governance mechanisms. Although Agency theory is the dominant perspective in corporate governance studies, researchers have criticized its limitation to explain the inherent principal-agent interactions as relates to sociological mechanisms. The theory identifies shareholders as the only interest group in the agency relationship and does not provide for the interests of other stakeholders.

The fundamental premise of agency theory is that conflicts of interest arise in corporate relationships due to the divergence of the interests of managers and shareholders (whereby the agents are assumed to be rational but opportunistic). The core assumptions of agency theory are that: managers may maximize their own utility instead of enhancing shareholder value (Jensen & Meckling, 1976); contracts are not costless when writing and enforcing (Fama & Jensen, 1983); information is distributed asymmetrically between principals and agents; and (4) the parties have limited or bounded rationality. Consequently, the theory holds that due to the asymmetric information distribution between managers and shareholders, principals cannot correctly measure the efforts of managers who know the details of the operations of the firm.

Agency costs include monitoring costs, bonding costs and residual losses (Jensen & Meckling, 1976). Monitoring costs are the costs incurred by shareholders for monitoring the conduct of managers. Bonding costs are financial or non-financial costs of setting up systems or structures intended to ensure that managers act in the best interests of the shareholders or compensate them accordingly if they do not (Jensen & Meckling, 1976). Residual losses occur due to the mismatch of actions promoting the self-interest of the principal and the agent, despite (i.e. due to the failure of) monitoring and bonding activities. Fama and Jensen (1983) stated that residual loss is in fact the value of profit lost because the contract's full enforcement costs exceed its benefits.

The agency theory views the relationship between shareholders and managers as the classical principal-agent relationship, in which owners hire managers to run the firm in the best interests of the former, while the latter is rewarded for their effort (Jensen & Meckling, 1976). The performance or outcome depends on the extent of the agent's efforts and the risks involved, but the efforts of the agent are not fully observable to the principal, thus information asymmetry makes it difficult for the principal to measure the efforts made by and to correspondingly compensate the agent, which implies greater reward for the risk-averse agent due to less incentive to make effort. In this incentive-risk puzzle inherent in the agency relationship; the relevant issue is how to determine the optimal balance between efficiency and risk-bearing. The principal might thus employ other monitoring schemes in order to control the desired action of the agent and incur monitoring costs to reduce information asymmetry (Arnorld & De Lange, 2014).

The problem of information asymmetry itself is related to adverse selection and moral hazard problems. Principals face adverse selection problem because they cannot correctly verify the skills or abilities the agent claims to possess at the time of contracting (i.e. hiring), thus they might not be able to select the best applicant or to know whether the agent is performing the related duties properly or not (Eisenhardt, 1989). The moral hazard agency problems, first proposed by Jensen and Meckling (1976), arise when managers might not make the required managerial efforts in the best interests of the principal. Since the principal might not know this fully, they need information to monitor the effort level and measure it in order to reward it correctly.

According to literature, the sources of such problems are related to numerous factors, such as managers' investment decisions (under- or over-investments), free cash flow, earning retentions and shirking that diverge from the positive net present value rule (Jensen, 1993). In practice, both principals and agents face a trade-off between incentives, whereby the agent should be motivated by creating attractive performance-based rewards; and risk sharing, whereby the agent needs to be

protected from risk by low performance based incentive. Therefore, agency problem stems from the incentive-risk sharing puzzle (Hart, 1995).

Jensen and Meckling (1976) defined the principal-agent relationship and explored the ownership structure of corporation, especially the role of equity ownership of managers as a mechanism to align the manager's interest with that of owners. Moreover, Fama and Jensen (1983) described the role of the board of directors in monitoring the potential opportunism of executive managers in large corporations. Thus agency theory is mainly concerned with the institutional arrangements (ownership structure and organisational structures) that affect agency conflicts. This closely relates it to property rights, since the effects of the distribution of property rights are important in analysis of principal-agent relationships.

In terms of corporate governance mechanisms of the board of directors (board size, CEO duality and NEDs), agency theory proposes that NEDs play an important role in monitoring and supervising executives, due to the assumption that they are independent and concerned with their own reputations (Fama and Jensen, 1983). NEDs can thus add value to firms due to their external knowledge and expertise as well as their monitoring function (Fama, 1980; Fama and Jensen, 1983). Similarly, resource dependency theory attributes improved firm performance to NEDs due to their input for decision making (e.g. investment and strategic planning decisions), and their networking value with the external environment and other stakeholders. Thus, both agency theory and resource dependency theory predict a causal, positive relationship between firm performance and the presence of NEDs (i.e. board independence), while stewardship theory conversely holds that insider directors can better monitor management than NEDs due to their enhanced knowledge of firm operations (Baysinger & Hoskinsson, 2016). Additionally, stewardship theory holds that the part-time/ceremonial position of NEDs in many cases inhibits their monitoring function and renders their contribution to decision making negligible.

On the other hand, when considering the ownership structure mechanisms, agency theory posits that incentives for agents are necessary to align their interest with principals (i.e. to encourage managers to prioritize the maximization of shareholder value). As managerial ownership increases the interests of the shareholders and managers become more aligned, thus the incentive for opportunistic behavior decreases, thus agency problems decreased (Jensen, 1993; Jensen & Meckling, 1976). Furthermore, large and controlling shareholders contribute to the mitigation of the agency problems because they have the incentives, motivations and capacity to monitor the managers for the shared benefit of control (Vishny & Shliefer, 2017). Conversely, resource dependency and stewardship theories provide no testable hypothesis concerning the ownership

structure. Therefore, resource dependency and stewardship theory will be included only where testable hypotheses are pertinent, while agency theory will be employed as the main theory guiding this analysis.

The agency theory suggests that due to the separation of ownership and control in modern firms, agents are less likely to always work in the interests of principals. To reduce this divergence of interests, shareholders will have to use internal corporate governance mechanisms to monitor managers and thus induces rational managers to fulfil their function of maximising the value of shareholders, improving firm performance. This latent structural factor must be complemented by deliberate efforts to monitor and control managers, with corporate governance mechanisms that identify any potential problems as well as rewarding positive behaviours and good performance by managers. The resultant costs of residual loss, bonding and monitoring agents (managers) are known as agency costs. Presuming that agency costs ensure that managers do not pursue their self-interest while neglecting shareholders' interests, agency costs reduce the agency problem and contribute to improved firm performance.

Arising from criticism of the Agency theory, Donaldson and Davis (1991) conceptualized the stewardship theory that assumes that the interest of shareholders and the interest of management are aligned and therefore management is motivated to take decisions that would maximize performance. This theory has its roots from psychology and sociology as a steward protects and maximizes shareholders wealth through firm performance and in effect maximizing the steward's utility. The stewardship theory therefore postulates that stewards are satisfied and motivated when organizational success is attained. The theory therefore argues that the effective control held by managers empowers them to maximize firm performance and corporate profits through autonomous behavior and not necessary control mechanisms put in place as in the case of the agency theory.

This study is therefore anchored on Agency as the dominant theory underpinning the need to entrench pillars of corporate governance practices as an essential monitoring device to ensure principal agent conflict is minimized and profits maximized.

### **2.1.2 Stakeholder Theory**

The stakeholders' theory was developed by Edward Freeman in 1984 to fill the observed gap created by omission found in the agency theory which identifies shareholders as the only interest group of a corporate entity. Within the framework of the stakeholders' theory the problem of agency has been widened to include multiple principals (Sand, Garba & Mikailu, 2011).

Proponents of this theory assert that organization performance depends on how well an Organization manages and satisfies its stakeholders and builds closer customer relationships (Njoroge, Machuki, Ongeti & Kinuu, 2015). Managers are agents who manage the organization on behalf of and for the benefit of stakeholders.

Organizational performance is an indication of how well the organization has served the various stakeholders (Freeman & Ehrhardt, 2012). Stakeholder theory has revolutionized performance measurement from the conventional economic prosperity measures of return on assets (ROA), return on equity (ROE), sales growth to non-financial measures which include environmental integrity and social equity (Freeman & Ehrhardt, 2012). The interconnected network of stakeholders affects the procedure for making decision of the Organization, its effectiveness and performance.

De Villiers and Van Staden (2011) stated that managers disseminate information to shareholders and also other stakeholders. Managers are duty – bound to disclose information and engage with the stakeholders in order to gain access to the resources they control (Hill & Jones, 1992). The resource dependency therefore gives the stakeholders other than shareholders a legitimate claim on a firm's resources (Kock *et al.*, 2012). The principal – agent relationship within the stakeholder framework is therefore extended to mean the relationship that exists between a manager and stakeholders (Kock *et al.*, 2012).

The stakeholder theory therefore takes into account a wider group of constituents comprising of stakeholders rather than focusing on shareholders (Mallin, 2016). The relevant stakeholders for an organization are creditors, customers, employees, banks, governments and society. Kay (2014) defines the key assets of a firm as largely intangible assets that are managed by the informed members of staff. Governance structures are therefore aimed at maximizing the total wealth of organizations to benefit all stakeholders that contribute to firm specific assets such as skills, competencies and knowledge. Stakeholder theory better conceptualizes the role of corporate governance compared to the agency theory by highlighting the different constituents that have an interest in the firm (Coleman, 2018). The stakeholder theory presupposes that the interests of all stakeholders in decision making is fundamental and that none of the interests are presumed to be controlling (Abdullah & Valentine, 2019).

Mackenzie (2017) asserts that the absence of or poor governance structures results in organization objectives or stakeholders demands not being met. In furtherance, Watkins (2014) also link the corporate scandals leading to failure of giants Enron and WorldCom to failure by management

to take into account stakeholders views in their decision making. Elsewhere Spitzbeck (2019) found that involving stakeholders in the decision-making process in organizations improves effectiveness, profitability and reduces conflicts. Similarly, Wheelen and Hunger (2018) argued that for organizations to gain dominance in the competitive arena they have to complement their vision, strategy and tactics with engagement of all players.

The stakeholder theory is relevant and informs on the variable government regulations. Managers are the stakeholders and they are bound to abide the governed regulations on behalf of other stakeholders. Stakeholder leaders are known to support government regulations as their goals are aligned with those of the principal agent and thus Stakeholder theory informs the variable on government regulations. The theory further sensitizes on the idea of involving all the stakeholders and people who have interest and are affected by the business decisions, therefore the manager should not only consider their shareholders but also all the stakeholders in their decision making.

### **2.1.3 Neoclassical Theory**

This theory originates from Jorgenson (1963). The theory draws its fundamentals from the maximization of utility and wealth of a firm over time (Warström & Niemelä, 2015). In the neoclassical theory, investment is seen as a distributed lag function of variations in the required capital. The required or desired capital here acts as a function to the output level, user capital cost and output price (Twine, Kiiza, & Bashaasha, 2015). The theory presupposes that investment is a function of cost of capital and the firms output. Additionally, the theory contends that the capital and labour ratios adapt to the relative changes in prices (Virlics, 2019). The neoclassical theory of investment is premised on preposition that agents can make numerical probabilities and probability distribution of the expected returns. In the investment models, the firm is seen to be neutral to risks, and capital cost causes the risk (Virlics, 2019).

To understand the implications of behavioral economics for corporate governance, one must first understand explicitly what the traditional model of governance entails and the nature of its neoclassical economic roots. The Neoclassical Economic Theory spawned a neoclassical governance model to explain, why organizations exist and how to best govern such organizations (Twine, Kiiza, & Bashaasha, 2015). This model consists of three major conceptual building blocks: the assumption of an agency problem, transactions costs economics (TCE), and contracting theory. These three blocks make up the neoclassical corporate governance stool from which most of the major corporate governance devices used today have their intellectual origins (Warström & Niemelä, 2015).

The neoclassical argument assumes that firm managers act in the best interest of firm stakeholders. It also assumes managers and external suppliers of funds have the same information regarding the quantity and quality of investment opportunities available to the firm. These assumptions serve as a point of departure for models that demonstrate the potential importance of internal funds in the investment decision (Twine, Kiiza, & Bashaasha, 2015).

The neoclassical theory of investment is relevant to the study as it preposition that agents can make numerical probabilities and probability distribution of the expected returns. In the investment models, the firm is seen to be neutral to risks, and capital cost causes the risk. Investment is seen as a distributed lag function of variations in the required capital. The neoclassical theory was employed to explore whether investments policies maximize the wealth and utility of the owners of the firm.

#### **2.1.4 The Q Theory of Investment**

This theory originated from Tobin and Brainard (1968) and Tobin (1969). The Q-theory is an extension of the neoclassical theory since it incorporates the adjustment costs as an explanation for output losses. According to the theory, firms choose investment levels, which maximize the estimated current firm value (Twine, Kiiza, & Bashaasha, 2015). The theory presupposes that the market estimation of equities is the major element of investment by firms. Thus, investment decisions are stirred when financing sources are highly priced in the market place than it would cost to create it. This theory relates to investment rate as a Q function where Q refers to market value ratio of new added investment resources to their replacement cost.

This investment theory suggests the metric q, which is the ratio between a unit of physical capital's market value and its value of replacement, done to recap the existence/absence of opportunities for investments for a precise firm (Eklund, 2019). Tobin reasons that, when the capital adds marginal units to a firm value more than it costs to obtain it, that is, q is greater than 1, installing new capital will be profitable to the precise firm. Hence  $1 < q$  indicates that the firm should accrue more capital (i.e. embark on extra investment) and vice versa (Balfoussia & Gibson, 2016).

The Q-theory of investment states that all fluctuations in investment are related to marginal Q, such as the ratio of the shadow value to the market price of a unit of capital. One of the advantages of the Q-theory of investment is that it explicitly considers expected future profitability, and hence should account for the effect of uncertainty embedded in the future variables that are relevant to investment decisions (Twine, Kiiza, & Bashaasha, 2015). The standard Q-theory of investment implies that all factors, including different aspects of uncertainty, affect corporate investment

through Q. However, the empirical performance of the standard Q-model of investment is disappointing. The explanatory power of the Q-model is often very low; the unexplained part of investment is usually highly serially correlated.

Poterba and Summers (1983) examined the relationship between marginal Q and average Q when both investment decisions and financial decisions are taken into account simultaneously. Both Hayashi and Poterba and Summers find that the Q- theory of investment does not hold for the financing regime where incremental investment is entirely debt-financed. On the other hand, on the basis of empirical evidence, Chirinko concludes that the source of the misspecification in the standard Q-model of investment is not related to the treatment of financial policies. More recently, Scaramozzino (1997) explains the unsatisfactory performance of the Q-model of investment by pointing at the irreversibility of investment and the existence of capital market constraints. Another direction of re-examining the Q-model of investment is to modify the adjustment cost function that is used in deriving the standard Q-model of investment. This theme of research is within the framework of irreversible investment under uncertainty. Abel and Eberly (1994) introduce the fixed cost of capital and irreversibility (the difference between the purchase price and the resale price of capital) into the traditional adjustment cost function. They show that the relationship between investment and Q is no longer linear.

The Q Theory of Investment is relevant to the study and informs the variable on investment policies. When the firm's value of market is more than the cost of replacement of capital firms will choose to invest until the value of capital equals the replacement cost, thus optimizing capital stock. In this study, the Q theory of investment was explored to explain whether the investment policies chosen by a firm maximizes its current value.

### **2.1.5 Resource Dependency Theory**

This theory originated from Pfeffer and Salancik (1978). The proponents of resource dependency theory argue that there is need to have environmental linkages between the firm and outside resources (Wan & Idris 2012). These environmental linkages can help the firm reduce the levels of transaction costs associated with environmental interdependency. Several factors have been known to intensify the character of these dependences. They include: the importance of the resource, the relative shortage of the resource and the extent to which the resource is concentrated in the environment (Wan & Idris, 2012). Resource dependency theory strongly emphasizes the role of the board in providing the much needed resources to move the firm to the next level. The

theory further recognizes the role of the administrative arm as a link between the firm and the resources required to accomplish its goals.

Resource dependency theory further points to the fact that organizations tend to reduce the risks of external influences by ensuring that resources are available for their survival and growth. Therefore, the issue of effectiveness of the executive and non-executive directors on firm performance is irrelevant. What is relevant is the directors' of the firm's presences on the board of many other companies. This enables companies establish relationships that can help them access information that can be utilized to their advantage. In view of the fact that much of these resources are scarce and unevenly distributed, it is only through inter-dependent organizational relationships that organizations can share these benefits (Hitt *et al.* 2012). This implies that, boards of directors in a company are an important mechanism that absorbs critical elements of environmental uncertainty that can help reduce transaction costs associated with environmental interdependency. Taking into account the fact that substantial amounts of resources available in a country are either directly or indirectly controlled by the government, appointing directors to the company's board who have influence and are able to access key policy-makers and government offices is seen as an important milestone for the company's survival and success.

The perspective of the resource dependence theory is more materialist and less organization-centred. It is primarily concerned with firm access to resources, such as expertise and capital. According to resource dependence theory, structures of corporate governance such as the board of directors affect firm's access to resources essential for firm performance (Pfeffer, 1978). Resource dependence theory particularly favours boards with a high composition of NEDs, due to the wider expertise and knowledge they can provide, as well as improved networking with the external environment and a generally improved reputation (Haniffa and Cooke, 2002; Haniffa and Hudaib, 2006). Thus NEDs can facilitate access to the political and business contacts, capital and information (Nicholson & Kiel, 2003), by enhancing networking with external stakeholders, including customers, governments and other companies (e.g. creditors, suppliers and buyers); thus NEDs improve access to resources (Nicholson and Kiel, 2003), which put simply enables cheaper access to inputs and thus positively affects firm performance.

Pfeffer and Salancik (1978) argued that the diversity of the board size and the background of the outside directors are very important elements in managing the company needs for any capital in the future or to manage environment contingency. Pearce and Zahra (2012) also assert that diversifying the board will help the company to survive by benefiting from the exchange of company resources and its external environment. In addition, they report that the presence of the

outside directors will result in improving the organization efficient strategies by providing the firm with new viewpoints and perspectives, which will ultimately improve the financial performance.

In addition, the resource dependence theory clarifies the methods that firms use in order to gain access to financial resources. In terms of solvency problems companies are highly advised to appoint representatives of the financial institutions on their boards (Mizruchi & Stearns, 2018). However, if the firm is in high levels of bank debt, it is likely they will appoint an officer of the creditor bank inside the board to facilitate access to finance. Stearns and Mizruchi (2019) report that there is a significant relationship between the identities of the financial representatives and a firm's borrowing strategy.

Moreover, Kaplan and Minton (1994) identified that firms often wish to appoint financial directors on the board if the prices of the stocks or the performance of the company deteriorate. In addition, inside directors are recommended to be replaced with experienced outside directors when the firm performance worsens. The resource dependence theory uses the external linkages of the board in order to add value to the firm and improve the firm performance. Hitt *et al.* (2012) argued that emerging market countries suffer from low availability of capital, high costs, poorly developed financial markets and volatility in economic development. These conditions produce a resource gap between firms in emerging markets and those in developed markets. Therefore, companies are forced to find a creative way to benefit from the external links of the board. In other words, in developing countries it is always important for companies to have links with external resources.

The resource dependence theory is relevant and informs the variable on pillars of corporate governance. The theory holds that the operational environment of the firm is reflected in its board structure, which entails that directors are selected according to their ability to facilitate access to required resources. Thus, it should be possible to identify firm dependencies from the board composition; for example, the presence of financiers in the board of directors suggests that firms seek cheap access to capital, from which it can be inferred that they plan large investment or that they are in financial difficulty. Generally, a board with diverse members with varied links to external resources can be expected to have greater access to such resources, which enhances firm performance and value.

## **2.2 Empirical Review**

This section covered recent academic literature on pillars of corporate governance, investment policies, and government regulations and highlights the major determinants of firm's performance. This section reviewed literature from prior scholars regarding the contribution of pillars of

corporate governance on performance of pension fund managers in Kenya. A review of the pillars of corporate governance, investment policies, government regulations and performance was provided. Furthermore, the literature review focused on the contribution of pillars of corporate governance, investment policies and government regulations and performance of registered pension fund managers in Kenya.

### **2.2.1 Pillars of Corporate Governance and Firm Performance**

Ujunwa (2019) in Nigeria sampled data from 122 listed firms in the country between 1991 and 2008. The research findings showed that the board size, duality of the CEO and the diversity of was negatively correlated to the firm performance, while nationality of the board, ethnic diversity and the number of board members who had doctorate qualification positively influenced firms' performance. Duality of the board was also linked to this good performance of the board. This study addressed the major components of corporate governance and their relationship to the performance of a firm but did not take into account firms that are not listed and the different observations across industries.

Al Manaseer, Al-Hindawi, Al-Dahiyat and Sartawi (2019), in their study on the effect of corporate governance on bank performance used earnings per share, profit margin ROA and ROE as key performance measures. However, earnings per share are not the best measure of comparative performance because different banks have different capital structures. At the same time, it is difficult to obtain the company's number of outstanding shares at a given period in time to enable one ascertain the firms EPS precisely because trading cannot be stopped. Profit margin on the other hand is derived from profitability figures of firms hence suffers from the setbacks profit as a measure of performance suffers. These include though not limited to: profit in absolute terms is not a proper guide to decision making because it leaves considerations of timing and duration undefined since there are no guidelines for comparing profit streams of different periods. This study adopted Tobin's Q as a market measure of performance that Al-Manaseer et al. (2019) failed to adopt; in addition to ROA and ROE that represent accounting and financial measures of performance respectively as dependent variables. Institutional ownership, board independence, board size and block ownership were employed as independent variables whereas bank size was adopted as a control variable. Al-Manaseer et al. (2019) failed to adopt institutional ownership as an independent variable too. They adopted bank size as a proxy for corporate governance when indeed it should be adopted as a moderating variable or a control variable as was adopted in the current study

Kiruri (2019) studied effects of ownership structure on bank profitability in Kenya. Profitability was used as a measure of performance in his study. However, use of profit as a measure of performance suffers from the following limitations; profit in absolute terms is not a proper guide to decision making for it leaves considerations of timing and duration undefined. These setbacks definitely had some effects on the findings. This study also adopted institutional ownership in addition to ownership concentration as proxies of corporate governance and bank size as a control variable that Kiruri, (2019) failed to adopt. The study found that ownership concentration and state ownership had negative and significant effects on bank profitability while foreign ownership and domestic ownership had positive and significant effects on bank profitability. The research is significant to the current study in that unlike the other researches reviewed, survey design and quantitative analysis were used to study relationship between various constructs of corporate governance and performance.

Mwanja *et al.*, (2014) examined the relationship between corporate governance and performance of Savings and Credit Cooperative Organizations (SACCOs) where the constructs for corporate governance were; transparency, accountability, involvement of shareholders, organization guidelines and policies, while performance was measured by turnover, customer satisfaction, share capital and growth in membership. The study adopted descriptive survey design and correlational survey research design. Primary data was gathered by use of a questionnaire and document review. The study findings revealed that corporate governance positively influences the performance of SACCOs. The study was limited to SACCOs in Kakamega County and focused on different constructs of corporate governance other than the constructs the current study is looking at namely; ownership structure, transparency, and board responsibility. The current study focused on all the insurance companies in Kenya.

Amba (2014) finds a positive correlation between financial performance and proportion of institution ownership among firms trading New York. The researcher looked at the influence of corporate governance variables namely ownership structure, non-executive directors, CEO duality, audit committee, institutional investors on financial performance. Multiple regression analysis was used to analyze the financial performance measured by return on assets on corporate governance variable. The study also finds that CEO duality and proportion of non – executive directors have a negative influence on performance.

Zaman *et al.*, (2014) conclude that financial performance was positively related to transparency and disclosure among the banks in Pakistan. The study constructs a transparency index for the period 2007–2011 using board structure disclosure, ownership disclosure and financial

transparency disclosure as proxies. The study reveals a negative relation between ownership structure and ROA and ROE. The study reviewed was limited to one corporate governance construct namely transparency and disclosure and was also conducted in Pakistan which is an emerging economy.

Ullah *et al.*, (2019) study the effect of corporate accountability and transparency on performance of manufacturing firms in Pakistan. The researchers find a positive relationship between accountability, transparency and organizational performance. The study findings also illustrated that accountability and transparency had a significant impact on the firm performance. The study reviewed was limited to one of the corporate governance constructs corporate accountability and transparency and was also conducted among manufacturing firms in Pakistan.

Waithaka *et al.*, (2017) established a negative and significant relationship between social performance and board remuneration. The study looked at the effect of board characteristics on social performance of microfinance institutions (MFIs) in Kenya. The researchers used survey research design, descriptive and inferential statistics. Multiple directorship and existence of board committees were positively related with social performance. The results indicated that MFI's in Kenya could enhance their performance by having the appropriate board mix. The study was limited to finding out the effect of one corporate governance construct; board characteristics on social performance and was conducted in Microfinance institutions therefore the results cannot be generalized to other industries.

Akshita and Chandan (2016) find mixed results in their study on corporate governance and performance of Indian manufacturing companies. The study findings indicated that larger boards have greater access to information which enhances making of informed decisions and performance the results indicated that return on equity and profitability was not related to corporate governance indicators. The study found mixed results for different constructs of corporate governance such as CEO duality which had no effect on firm performance while large boards had a positive influence on performance.

Lasisi (2017) find a positive but not statistically significant relationship between corporate governance mechanisms and financial performance of non - financial firms listed on the Nigerian stock exchange. The corporate governance dimensions studied were board independence, audit committee independence, board size, number of board meetings, and executive compensation. The study utilized secondary data which was gathered from financial statements for the period 2011–2015. The study used Tobin's Q, capital and asset returns as proxies of financial performance. This

study looked at different constructs for corporate governance as compared to the current study which could have led to the positive but insignificant relationship. The study was carried out in the Nigerian context hence the results cannot be generalized. The current study was carried out in Kenya in the pension fund managers which have different operating environment as compared to non-financial firms in Nigeria.

Mang'unyi (2011) established a positive relationship between ownership structure and financial performance of selected banks in Kenya. The study posits the need for promoting corporate governance to attract potential investors. The study was however limited to only one of the corporate governance constructs, ownership structure and was also conducted in commercial banks hence it is difficult to generalize. A study conducted by Mokaya and Jagongo (2015) finds a significant positive association between financial performances, ownership structure and ownership concentration of firms listed at the NSE. The study population consisted of all the 63 firms listed at NSE and relied on secondary data which was gathered from the annual financial statements. Regression analysis results show a significant association between financial performance, ownership structure and ownership concentration. The study was limited to only one corporate governance construct that is ownership structure and was also conducted in listed firms at NSE which a different context is.

Surya (2016) finds a negative correlation between large board size, ownership structure and firm performance of firms listed in the stock exchange in India. The study employed panel data for all listed companies during the period 2008-2012. The study revealed a positive relationship between board independence and number of board committees. The researcher concludes the existence of reverse causality between corporate governance and financial performance and hence further research is required to investigate the reverse causality. The reviewed study was conducted in India and focused on different constructs of corporate governance which may have different influence on the relationship with firm performance and thus the need to carry out research using other constructs of corporate governance to establish if there is any relationship.

Allen (2015) argue that corporate governance in emerging markets has lately attracted much attention due to the weaknesses of corporate governance in developing countries, which was an important reason for a series of economic crises that affected these countries. Emerging markets tend to have quite well-developed physical financial infrastructure including central banks, commercial banks and stock exchanges, but to have less well-developed processes and systems of accounting, governance, regulation and other financial infrastructure, and less efficient markets with less liquidity than the world's most advanced systems. These differences lead to greater

uncertainty and risk, and they enhance the international diversification possibilities for investors from all countries in the world.

Tsamenyi *et al.* (2017) have argued that there are a multitude of problems facing developing economies, including risk and uncertainty, political instability, weak legislation, high levels of government intervention and low levels of protection for investors. As such, there is a necessity for effective structures of corporate governance to be adopted. There have been a number of suggested measures to help improve governance structures including improving the strength and transparency of capital market structures to increase the overall confidence of investors, improving the performance of domestic firms, and encouraging growth through the use of equity instead of debt. Furthermore, the poor corporate governance and the close relationship between business, banks and government are one of the major problems that have led to crony capitalism. Nenova (2019) points out that the main challenges in terms of corporate governance for the developing countries are: (1) value transfer (from non-controlling shareholders or stakeholders) to dominate large shareholders; (2) ineffective disclosure practices; (3) weak legal framework; and (4) audit problem.

Shleifer and Vishny (2017) argued that the concentration of ownership is high in emerging markets, where the rights of the shareholders is weak due to the lack, or inadequacy, of the regulations provided by the relevant laws. In countries where ownership is concentrated among just a handful of major shareholders, agency problems occur because of a misalignment of interests between managers and owners and, thus, agency problems are inherent with large or small shareholders. Agency problems can exist between one or more owners and managers and, furthermore, even if it is assumed that managers and large shareholders are the same person, as is common in family companies, conflict still exists because of the potential misalignment of interests between managers and owners. Therefore, if it is assumed that the ownership is concentrated then agency theory can explain the conflict between managers and owners. Shleifer and Vishny (2017) argued that when the ownership structure is concentrated, large and controlling shareholders contribute to the mitigation of the agency problems because they have the incentives, motivations and capacity to monitor the managers for the shared benefit of control (i.e. to the mutual benefit of all shareholders, whether large or small). On the other hand, large controlling shareholders might collude with managers to expropriate the firm resources and work for their own benefit, which will result in increasing the agency problems leading to lower firm performance.

According to Claessens and Yurtoglu (2019), the ability of a board to act on behalf of the shareholders and monitor managers effectively is of crucial importance for a corporation in emerging markets where corporate governance mechanisms tend to be weak. In listed firms in emerging economies, it is common for controlling families to occupy key managerial posts, and the succession planning of a firm is usually focused upon the appointment of other family members to managerial roles rather than external professionals.

According to Fan *et al.*, (2011), the presence of family members on a company board, especially the founder, has been associated with better performance levels within certain countries; relationships can be of prime importance with tight connections amongst the business elite within countries such as Thailand. On the other hand, a more positive effect upon performance from the presence of outsiders has been shown within other markets, such as that in the Korean Republic. A high degree of independence for the board has been commonly recommended within corporate codes for governance, such as the UK Combined Code, and in the Cadbury Report. It is considered that there ought to be a high level of independence from the management within a board, with non-executive directors forming a high proportion of the members and the roles of chair and Chief Executive Officer being split, so that monitoring can improve and agency problems can reduce.

Ararat and Dallas (2017) have also argued that when family members dominate boards they can become ineffective as there is not enough constructive criticism directed at the controlling shareholders. Controlling shareholders can be inclined to pursue agendas that are of little or no benefit to shareholders, with poor strategic decision-making having a negative impact upon the company.

Singh (2019) reports that most emerging markets are imperfect. He points that these markets suffer from information asymmetry, accounting transparency, governance and corruption to a much greater extent than markets in developed countries. Further, one of the most substantial reasons for the economic crises in the emerging markets is the weakness of the corporate governance practices. Singh and Zammit (2016) asserted that the most important imperfections of the emerging business are: poor state of competition; poor corporate governance; and the close relationship between business, government and banks. Singh (2019) believes that it necessary for emerging markets to improve their standards of corporate governance. They recommend that these markets to encourage companies to have good corporate governance practice.

Apadore and Zainol (2014) argued that some principles to be complied in the construction of boards, to ensure the best structure: meeting frequently, effective communication between board

members and shareholders, willingness to consider suggestions from each other, high level of integrity, concern about financial risks and awareness and rationale to solve financial problems, and to take any course of action to improve the efficiency of the company. They stated that a significant concern to which attention should be given in the construction of a board structure is the appropriate appointing and compensation of directors. Ingely and Walt (2014) supported the promotion of the diversity of the board by focusing on some criteria to select the appropriate directors: qualified individuals of both genders, and members with diversity of experience. The effectiveness of a board is measured by the extent to which it adds value to the company.

Yermack (2016) found a negative relationship between the board size and firm performance, measured by Tobin's Q for 452 large US public firms during the period 2004 to 2010. He omitted the utility and financial companies from his sample because of the government regulations adopted by boards of directors in such companies. The study found that a small board has more favourable values for financial ratio. Also, Yermack (2016) stated that the incremental cost will increase as long the number of board members increases, and the company will have higher market value if the number of the board is smaller. He proved that corporations and companies are more valued in the capital markets by testing different independent variables, for instance board composition, the presence of growth opportunities, diversification and company age. All of those independent variables did not change the result that the small boards are better from the large ones in improving firm performance. Small boards have been found to be more productive than large ones, evidenced by decreased efficiency when board size increases, which is attributed to barriers in coordination and processes.

Sheikh *et al.* (2019) found that when the board size increases the market responds favorably. In their study they report that large boards provide better monitoring for companies with poor operating performance due to their diversity of backgrounds and communications skills. The study established a positive correlation between the board size and the firm profitability as measured by return on equity (ROE). Their results support that large boards have better access than smaller ones to the external environment by offering better chances to have wide resource for finance and raw materials. This is in line with resource dependence theory that large boards offer greater access to their firm external environment, which facilitate and secure critical resources (e.g. raw materials and finance) and reduces uncertainties.

Haniffa and Hudaib (2016) found a positive relationship between the board size and the firm performance as measured by ROA, which is in contrast with their prior finding of a negative relationship between board size and the firm performance measured by Tobin's Q. This divergence

takes place because of the perceptions of the investors and the management for the large boards which is based on large boards enhancing the knowledge of the business. The study found that the wider knowledge base inherent in larger boards facilitates better business decisions to reduce the agency problem. They demonstrated that their results stayed fixed and unchanged even if using inflation adjusted data. This indicates that large boards provide important role of effective monitoring in uncertain economic and political periods to reduce agency problems and improve firm performance.

Rechner and Dalton (2017) in their study of 141 large companies (Fortune 500 firms) used accounting measurements such as ROE, Profit Margin PM and ROI from 1978 to 1983 and found that firms with separated boards perform better than firms that have CEO duality in their boards. They found the stock market is more favourable when the two roles are split from each other. Chahine and Tohme (2019) in their study of 127 initial price offerings (IPOs) firms used a sample from the Middle East and North Africa to investigate the relationship between initial underpricing and the CEO duality, finding that firms that combine the two roles in same person have more potential to face underpricing. These findings support the agency view that splitting the two roles will remove the constraints on the board members to perform their role effectively to monitor the management opportunistic behavior. In other words, splitting the two roles will reduce the CEO power to take advantage for his own interests rather than the interests of the shareholders interests or the company.

According to Jensen and Meckling (1976), the agency theory posits that managers are agents of shareholders (principals) and they run the firm on behalf of the owners, thus engaging in a principal-agent relationship. Extensive literature indicates that there is an intrinsic conflict of interest between shareholders and managers, because the latter being engaged by the former to serve their own objectives of value maximization. It has been frequently observed that managers diverge from shareholders' interest and reduce and/or appropriate shareholders wealth for their own interests.

Shleifer and Vishny (2017) argued that when the ownership structure is concentrated, large and controlling shareholders contribute to the mitigation of the agency problems because they have the incentives, motivations and capacity to monitor the managers for the shared benefit of control (i.e. the mutual benefit of all shareholders, whether large or small). Moreover, Baysinger and Butler (2015) observed that as ownership concentration increases, the degree to which benefits and costs are borne by the same owner increases, hence it can be inferred that large shareholders are more likely to be active in corporate governance to prevent information asymmetry between principals

and agents due to their larger stakes in firms due to the greater risk incurred by their larger ownership. Thereby, if agency costs decreased it is more likely shareholders will get higher returns on their shares and more profit.

However, Jensen and Meckling (1976) argued that according to agency theory, major shareholders with high ownership concentration can prioritise their own interests, which can cause agency problems between managers and shareholders. Jensen and Meckling (1976) suggested that managerial ownership can be a solution to this agency problem, circumventing conflicts between management and shareholders by rendering both parties a single entity. Managerial interests can clearly be presumed to achieve greater alignment with those of shareholders with significant managerial ownership. However, Demsetz (2019) cautioned that when managers own a large stake this could lead them to take decisions preferential to their own individual interests as a large shareholder rather than in the interests of other (smaller) shareholders (entrenchment effect).

Grossman and Hart (2016) suggested that large shareholders bear monitoring costs, and their share of benefits will be proportionate to their cash flow rights (dividends or capital gains), and the pursuant benefits of monitoring by large shareholders is accrued by all shareholders proportional to cash flow rights. Other factors being constant, a rise in block holder stake endows large shareholders with a greater interest in increasing firm value. Indeed, it has even been argued that in such situations small shareholders free-ride firm success achieved by larger shareholders while bearing no monitoring costs, thus obtaining benefits disproportionate with their input to the firm. Different studies in developed and developing countries found a positive relationship between concentrated ownership and firm performance. Since the investor protections is weak in emerging markets, ownership concentration might play an alternative corporate governance mechanism in these markets. Therefore, concentrated ownership means more control in the hands of large shareholders, which translates into better monitoring of managers in the interest of all shareholders.

According to Vo and Nguyen (2014), the major concerns of corporate governance are related to the structures and processes for the business directions and management of firms. Thus, they claim that it concentrates on the relationships between company' controlling system, shareholders, stakeholders and functions of board of directors. They conclude that board of directors is seen as the most important factor in corporate governance, which affects the whole business and owners' interests.

Wu and Li (2015) clarifies the effectiveness of adding more outside directors by assessing the overall quality of board monitoring, which leads to better firm performance. This could be

measured by reducing the probability of those events that cause the decrease in firm valuation. For example, the researchers show that there are three types of events, which include financial statement fraud, asset misappropriation and auditor's negative opinion on firm's financial report. They indicate that there is a positive relationship between an increase in board independence and firm performance measured by either in accounting return (ROA) or in stock market return. Thus, adding more independent directors would increase firm performance and improve corporate governance because of high quality of board monitoring (Wu & Li, 2015).

Chugh (2017) studied the relationship between shareholder rights and corporate performance in US corporations. Defining shareholders' rights, he highlighted several provisions that are associated with this concept, on the basis that the corporate governance ideal embodies the concept that stockholders own the corporation. In accordance, they are entitled to share in the profits and the future of the company through their voting rights. Every national legal framework prescribes the presence of a shareholder meeting, which is called to ratify some resolutions of primary importance for the company. These matters are the ones of crucial importance for the life of the company: Mergers and acquisitions, financial statement approval, election of the board members, and so forth. The circumstances in which the decision power is awarded to shareholders are defined by law. To this extent, shareholder rights are characteristic of a given legal framework rather than of a single company. However, the company can put in place some lawful measures that indirectly impede the exercise of these rights. These could include takeover defenses that might entrench management or the introduction of misalignment between ownership and voting power in the bylaws.

Allen (2015) described the shareholder rights' which standard, which prescribes equal voting rights for all shareholders (without dual/multi-classes) and absence of takeover defenses, and restrictions on changing corporations' by-laws or limiting shareholder proposals. The shareholders should have the right to elect the full board each year, without the limitation of staggered terms. The shareholders should have the right to an independent nominating committee. Essentially, the standard implies that the firm's management is not entrenched and can be replaced. Moreover, shareholders are free to sell the firm to outside parties without any limitation.

Gompers, Ishii and Metrick (2019) evaluated shareholder rights at about 1500 large US-based firms during the 1990s, and found that firms with strongest rights would have earned abnormal returns of 8,5% per year. Furthermore, they proved that the same companies had higher firm value, higher profits, higher sales growth, lower capital expenditures and made fewer acquisitions. They found that firms with greater shareholder rights performed better in absolute terms, but when

adjusted for volatility firms with lower shareholder rights performed better. Other streams of empirical literature demonstrate that greater shareholder rights generally are associated with higher share prices, higher growth rates, higher profitability and lower volatility in share prices.

Wang and Xiao (2016) investigated the relationship between CG characteristics and the risk of financial distress in the context of the Chinese transitional economy. They used a sample of 96 financially distressed companies and 96 healthy companies. They found that large shareholder ownership, state ownership, and the proportion of independent directors are negatively associated with the probability of distress. Additionally, managerial agency costs are badly detrimental to a company's financial status. The results also indicate that the degree of balanced ownership, managerial ownership, board size, and CEO duality do not significantly affect the probability of default.

Gulpinar *et al* (2019) studied the US investment market following the infamous collapse that led to the Oakley-Sarbanes law to control the investment market. In their sample of 23 blue chip companies, the scholars used financial accounting reports and compared them with returns of those companies on Wall Street to conclude that various accounting systems were in use to give different results. However the scholars were convinced that the system of US accounting would still lead to suspicions from clients even though the market information was more and more open than in previous periods. The study concluded that the accounting regimes should be investigated further for results of those blue chip companies.

Manyuru (2017) found out that most of the companies quoted at the NSE practised high level corporate governance. The results further revealed that generally there is a correlation between performance and corporate governance. The strength of correlation however varied depending on the market segment considered and the performance measure used. Manyuru then recommended that the Kenya government and other stakeholders in companies should demand high levels of corporate governance as a way of enhancing performance in the long run and safeguarding the shareholders' interests. This study however focused on investing companies which in this case can be said to be the clients whereas the present study is focused on the investment managers.

Ndungu (2019) evaluated the effect of corporate governance on financial performance of insurance companies in Kenya. The study found that a weak relationship exist between the Corporate Governance practices under study and the firms' financial performance. The number of Board subcommittee members, number of dependent directors and the age of the company were found to affect the financial performance of insurance companies positively. The financial performance was

however affected negatively by the Board size, number of Board meetings, number of independent directors and the asset value of the firms. Otieno (2019) examined the effect of corporate governance on financial performance of Commercial Banks in Kenya. From the findings, it was found out that corporate governance play an important role on bank stability, performance and bank's ability to provide liquidity in difficult market conditions. From the findings, corporate governance factors accounts for 22.4 % of the financial performance of commercial banks, derived from adjusted R square value of the regression test.

Wandabwa (2016) reviewed the relationship between corporate governance and financial performance among broadcasting stations in Kenya. From the findings the study revealed that limited partnership agreements at the top level that prohibit headquarters from cross-subsidizing one division with the cash from another. There is high equity ownership on the part of managers and board members; board members who in their funds directly represent a large fraction of the equity owners of each subsidiary company. The board size and composition, splitting of the roles of chairman and chief executive, optimal mix of inside and outside directions and number board of directors affected the financial performance of the companies.

Munyao (2019) reviewed the effects of corporate governance practices on the financial performance of Forex Bureaus in Kenya. The finding of this study suggests that established corporate governance practices in forex bureaus in Nairobi, includes the existence of the board of directors that also comprise independent board members, composition of the board of directors and the existence of internal controls. In addition, the study has established the effects and weaknesses of corporate governance practices in forex bureaus in Nairobi, Kenya. The effects include improved profitability, return on investment and reduced business risk, while the weaknesses includes irregular external audits, adequacy of staff rewards and internal controls in place.

Qureshi and McKay (2007) indentify three broad approaches of viewing pension governance in the context of multi-national companies namely: decentralized governance where the pension governance is exercised in different pension plans in the same country, compliant governance, which implies following the law and efficient governance, which refers to making financial and operational efficiency gains. Quresh and McKay (2017) recommend the efficient governance option as it acts as a complacence to other approaches. In other words, efficient governance should enable pension plan to achieve compliance with the pension law and control of the decentralized units that eventually contributes to increased efficiency in operations. Arun and Turner (2019) contended that there exists a narrow approach to corporate governance, which views the subject

as the mechanism through which shareholders are assured that managers will act in their interests. They observed that there is broader approach, which views the subject as the methods by which suppliers of finance control managers in order to ensure that their capital cannot be expropriated and that they earn a return on investment.

Okoye and Eze (2019) in a study of pension reform, ownership structure and corporate governance in Sweden, found out that firm performance improves if large independent private pension funds and public pension funds increase their equity stakes in the firm, but not if smaller pension funds and pension funds related to financial institutions and industrial groups increase their shareholdings. Augusto (2019) studied pension reform and corporate governance in Chile, and found that companies where pension funds have been invested are under close public scrutiny because of corporate governance and that capital market growth has also had positive consequence on corporate governance. Saona (2019) used ordinary least square method to determine corporate governance, stock market and economic growth in Brazil. By the methodology adopted, there are evidences that companies who adopt better practices of corporate governance have better performances in the economic growth cycle than those companies that do not adopt them.

Yang and Mitchell (2015) investigated the effect of several organizational and structural pension fund features on the investment performance. They find evidence that the composition of the board of trustees as well as the reporting practices influence the investment performance of public pension funds. The study confirms that the composition of public pension fund boards is significantly associated with the performance. Useem and Mitchell (2016), in contrast, find no direct relation between the governance qualities the governance quality and the investment performance. However, they show that governance has a direct effect on how pension funds invest their assets. The investment strategy, in turn, directly affects the investment performance. The authors conclude that governance quality indirectly affects the investment performance of pension funds.

Turnbull (2019) stated that Corporate Governance has become a key focus in the business around the world not only for corporations, but also of Government and Quasi Government authorities. The study argued that sudden collapse of business giants like Enron and World Com around the world sent shockwaves to the International business community on the very basis of governance of these corporations, which were key motivators for the heightened interest in Corporate Governance. The study added that integrity of corporations, financial institutions and markets is essential to maintaining confidence and economic activity, and to protecting the interests of stakeholders.

Manville and Ober (2019) conducted a study in Asia, in their study they conclude that Corporate Governance gained momentum, since the Asian financial crisis in 1997, and thus a good Corporate Governance is a source of competitive advantage and critical to economic and social progress. The study stated that Corporate Governance is the system of rights, structure and control mechanism established internally over the management of a listed public limited company, with the objective of protecting the interests of the various stakeholders.

Himmelberg, Hubbard and Palia (2019) argued that Corporate Governance is an indirect mechanism in reducing agency costs and transaction costs imposed by managers acting in their own interests at the expense of companies and stakeholders. The study suggested that Corporate Governance is the system of checks and balances, both internal and external to companies which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas in their business activity. Corporate Governance structure specifies the distribution of rights and responsibilities among different participants in the corporations, such as the board, managers, shareholders and other stakeholders and spells out the rules and procedure for making decisions on corporate affairs. In this way, Corporate Governance is a philosophy by which companies are directed, monitored, managed and controlled. However, the consequence of the separation of ownership and management was ownership dispersion and that such dispersion made subsequent monitoring and discipline of management difficult.

Nguyen, Locke and Reddy (2015) revealed a divergent position from the effect of ownership concentration on earnings quality of companies in Singapore and Vietnam, using a dynamic framework by focusing on two different types of national governance systems. The findings show a positive effect of concentrated ownership on earnings was persists in these markets even after the dynamic nature of the ownership concentration–performance relationship is taken into consideration. Reyna (2019) examined the relationship between ownership concentration and earnings quality of companies quoted on the Mexican Stock Exchange. The study used random sampling and regression model. The study covers a period of five years from 2005 to 2009. The findings show that ownership concentration has significant positive relationship with earnings quality of companies quoted on the Mexican Stock Exchange.

Ehikioya (2019) investigated the effect of ownership concentration on earnings quality of listed companies in Nigeria. The study used a sample of 107 companies for a period of five years. The study also used multiple regressions to analyze the data. The findings revealed that ownership concentration has significant positive effect on earnings quality. Conyon and Mallin (2019) stated that Corporate Governance is different from corporate management, as the former is more ethical

oriented and the later on operations specific. Management has the specific connotations of using the available resources comprising time, resources finance and human, physical to get the result delivered. Corporate Governance is needed to create a corporate culture of consciences, transparency and operations.

Fodio, Ibikunle and Oba (2019), they investigate the effect of corporate governance mechanisms on reported earnings quality of listed Insurance companies in Nigeria. Using 25 listed insurance companies covering 4 years period and multiple regressions were adopted for the study. The finding shows that board size negatively and significantly associated with earnings management in listed insurance companies in Nigeria. Del Guercio, Dann and Partch (2003) examined the effect of board size and board structure on earnings quality of closed –end investment. The study used regression analysis on 506 closed-end investment for a period of ten years. The outcome shows that companies with small board size have significant effect on earnings quality of the companies. In another study in the financial sector. Onakoya, Fasanya, and Ofoegbu (2014) examined the effect of board size on earnings quality of banks in Nigeria. The study covers 5 years from 2006 to 2010. It used ordinary least square (OLS) regression analysis to test the data collected from a sample of 9 banks using random sampling. The finding shows that board size on has significant positive influence on earnings quality of banks in Nigeria.

Wang (2019) studied 1618 companies for a period of twelve years, the study adopted unbalanced panel data to investigate the impact of board size on earnings quality and financial performance, the findings reveal that firms with smaller boards invest more heavily in risky assets which eventually led to loss of assets and reduction in profitability and poor earnings quality. While Huang and Wang (2015), a study on corporate governance in china, the findings show that board size has a positive impact on the earnings quality of the companies used in the study over a period of ten years. The convergence in this finding is intuitively attributable to the corporate governance systems in China.

Isik and Ince (2016) examined the impact of board size on earnings quality and firm profit margin (PM), using a sample of 30 Pakistani listed firms for two years. The findings show that large board size does not have any significant influence over earnings quality. Also, finding shows that large board size among listed companies in the United State of America only adds to the cost of overheads without corresponding benefit to earnings quality companies. In similar study, Aljifri and Moustafa (2017) examined the effect of board size on earnings quality of companies in the United Arab Emirate. The study employs simple linear regression to test the variables, also the study use random sampling to select fifty-one companies. The research outcome revealed that the

null hypothesis was not rejected implying that board size do not have significant effect on earnings quality.

Chaghadari (2017) investigated the influence of board size on earnings quality of firms quoted on Malaysia Stock Exchange. The study employs multiple linear regressions. The findings show that there is no significant effect of board size on earnings quality of firms in Malaysia. This findings is collaborated by Kajola (2018), the study examined the relationship between board size and earnings quality of twenty companies quoted on Nigeria Stock Exchange. The study employs random sampling and simple linear regression analysis to test the data. The result shows that board size do not have significant relationship with earnings quality.

Nam and An (2017) suggest that the existence of interlocking directors affects firm earnings quality. In addition, the interlocking director network has significant and negative effects on firm earnings quality and firm values. In a similar study, Rommens, Cuyers and Deloof (2019) posit that companies belonging to a group have much more interlocking directorates than stand-alone companies. In addition, it was observed that interlocking directorates have negative effects on earnings quality of companies in Belgium. Furthermore, Drago, Millo, Ricciuti and Santella (2015) argued that negative correlation exists between the interlocking directors and earnings quality of Italian companies. The study is in agreement that New Zealand firms are highly interlocked and that interlocking negatively impacted firm earnings quality in New Zealand and firms were significantly interlocked under two-fold approaches of board and company level, which resulted in negative firm's earnings quality.

De Toledo (2017) examined the effect of interlocking directorship as a component of corporate governance variable on earnings quality. The study employs random sampling method and multiple regressions, the study used a sample of 97 Spanish non-financial quoted firms. The results revealed that interlocking directorship has a significant positive effect on earnings quality of non-financial quoted Spanish firms. Ur Rehman and Mangla (2019) examined the relationship between interlocking directorship and earnings quality of banks in Pakistan. The study used multiple regression models to test the data of sampled banks. The study employs random sampling and a total sampled size of 30 banks. The study covers a period of nine years from 2001 to 2009. The finding of the study shows that interlocking directorship has significant positive relationship with earnings quality of banks in Pakistan. In addition, in a similar study, Ivashkovskaya and Stepanova (2011) investigated the effect of interlocking directorship and earnings quality in European, Russian and other emerging market's firms. The study employs multiple regression model and purposive sampling. The covers ten years period from 2001 to 2010, the findings revealed

interlocking directorship has a significant positive effect on earnings quality of the various markets.

Moradi Aldin, Hevrani and Iranmahd (2019) examined the relationship between interlocking directorship and earnings quality of eighty- four companies quoted on Tehran Stock Exchange. The study employs random sampling and simple linear regression analysis to test the data, the study covers a period of five years from 2007 to 2011. The result shows that interlocking directorship has significant relationship with earnings quality of companies quoted on Tehran Stock Exchange. Increased monitoring through the presence of interlocking director is expected to result in a reduction of information asymmetry and reduction in agency costs, thereby causing an increase in earnings quality, market share and profitability (Nelson, Gallery & Percy, 2019).

Nuryanah and Islam (2017) examined the effect of interlocking directorship on corporate earnings quality of emerging market and Indonesia. The study employs multiple regression model and random sampling, the study covers ten years. The findings revealed that interlocking directorship has a significant positive effect on earnings quality of both emerging market and Indonesia. Lama (2019) investigated the relationship between interlocking directorship and earnings quality of Mid-sized Australian companies. The study employs simple regressions and Pearson correlation to analyze the data. In addition, the study used purposive sampling of Mid-sized Australian companies, the study cover a period of 5 years. The result revealed that interlocking directorship has significant relationship with earnings quality of Mid-sized Australian companies.

Smith (2019) research documents prove that certain ownership structure characteristics, such as the proportion of institutional holdings or the level of ownership concentration, were associated with the shareholders' willingness and ability to monitor the management. Navissi and Naiker (2017) argued that the principal-agent relationship that exists between owners and managers of a firm gives rise to agency conflicts as the interests and incentives of the two parties become misaligned and eventually affect the company performance. Freeman (2010) noted that some shareholders choose to actively monitor the affairs of a corporation themselves. He further stated that directors of listed stock companies, however, being the managers rather of other people's money than their own, could not well be expected, that they could watch over it with the same anxious vigilance as stockholders.

Shleifer and Vishny (2019) argue that the presence of large institutional investors will have a positive effect on the market value of the firm because of the more effective monitoring. The study provided evidence of positive excess returns around the announcement date when institutional

investors acquire large equity positions. They predicted that large institutional investors have a positive influence on the value of the firm arises from the assumption that these investors have an incentive to and can efficiently monitor the company board of directors. They noted that this efficient monitoring reduces the likelihood that board of directors would make sub-optimal decisions or collude with the company managers. It is evident that institutional ownership is an interest of the shareholders, the board of directors and the management directors as each team has a share on the company performance.

According to Saidi and Shammari (2015), there are two types of ownership concentration, pyramidal and cross-ownership where pyramidal ownership is the process of controlling firms by the head of a group through a chain of ownership relations, whereas cross-shareholding is the process of controlling firms by having some shares in another firm in the same business. It is evidenced that ownership concentration is characterized by firm size, value and industry affiliation, which contribute to company performance. The study reported that the ownership structure of Sri Lankan listed companies was characterised by extensive family ownership, pyramid structure and concentrated ownership and contributed to good company financial performance and shareholders returns.

Ashenafi *et al.* (2019) examined corporate governance mechanisms and their impact on performance of commercial banks in absence of an organized stock exchange in Ethiopia. The study assessed the relationship between selected internal corporate governance mechanisms (board of directors structure, board size, audit existence, bank size, and ownership type) and external corporate governance mechanism (government regulation and supervision, capital adequacy ratio, loan loss provision allowance) that were adopted as independent variables. Data on commercial banks performance was collected from annual audited financial statements for the period 2005 to 2011 that were at the National Bank of Ethiopia whereas data on board characteristic was obtained from individual banks. The study was undertaken on nine commercial banks of which two were state owned and seven were privately owned. Data was analyzed using both qualitative and quantitative methods. The findings of the study indicated that: board size and existence of audit committee in the board had statistically significant positive effect on bank performance. Similarly, capital adequacy ratio as a proxy of external corporate governance had statistically significant positive effect on bank performance and absence of organized stock exchange, high government intervention, lack of corporate governance awareness, absence of national standards of corporate governance, absence of accounting and auditing and weak legal framework to protect shareholder rights adversely impacted on corporate governance and bank performance in Ethiopia.

Kiruri (2019) sought to investigate the effects of ownership structure on bank profitability in Kenya. Primary data was obtained through questionnaire administration. The study used annual reports that were available from commercial banks websites and Central bank of Kenya website. Commercial banks profits were adopted as a dependent variable, whereas ownership concentration, state ownership, foreign ownership and domestic ownership were adopted as independent variables. The findings of the study indicated that ownership concentration and state ownership had negative and significant effects on bank profitability while foreign ownership and domestic ownership had positive and significant effects on bank profitability. The study concluded that higher ownership concentration and state ownership lead to lower profitability in commercial banks while higher foreign and domestic ownership lead to higher profitability in commercial banks.

Nyarige (2019) examined how corporate governance structures of commercial banks in Kenya affect their financial performance. The focus of the study was on the nine commercial banks listed on NSE between 2005 and 2010. Board size, board meetings, board independence and executive compensation were adopted as independent variables while Tobin q ratio was adopted as proxy for financial performance (dependent variable). The research was conducted using a Cross-sectional survey that sought to identify differences in corporate governance structures between listed banks facing a decline in values, those facing appreciating values and those with stable value on calendar years 2005 to 2010. The findings of the study indicated that board size negatively affects the banks market performance while board independence affects the banks' market performance positively.

Khatab *et al.* (2017) investigated the relationship between corporate governance and firms' performance the case of twenty firms listed at Karachi Stock Exchange. The study used Pooled Ordinary Least Square estimation method with panel data set that covered the five years period; data from a sample of twenty firms was collected. Tobin's q, return on asset and return on equity were adopted as performance measures (dependent variables) whereas firm size, leverage and growth were adopted as independent variables. The findings of the study indicated that leverage positively and significantly impacts on Tobin's q and return on asset and leverage positively and significantly influenced return on equity. However, growth had a negative and significant impact on return on equity while the size of firms remained insignificant.

Shleifer and Vishny (2017) argued that the concentration of ownership is high in emerging markets, where the rights of the shareholders is weak due to the lack, or inadequacy, of the regulations provided by the relevant laws. In countries where ownership is concentrated among just a handful of major shareholders, agency problems occur because of a misalignment of interests

between managers and owners and, thus, agency problems are inherent with large or small shareholders. Agency problems can exist between one or more owners and managers and, furthermore, even if it is assumed that managers and large shareholders are the same person, as is common in family companies, conflict still exists because of the potential misalignment of interests between managers and owners. Therefore, if it is assumed that the ownership is concentrated then agency theory can explain the conflict between managers and owners. Shleifer and Vishny (2017) argued that when the ownership structure is concentrated, large and controlling shareholders contribute to the mitigation of the agency problems because they have the incentives, motivations and capacity to monitor the managers for the shared benefit of control (i.e. to the mutual benefit of all shareholders, whether large or small). On the other hand, large controlling shareholders might collude with managers to expropriate the firm resources and work for their own benefit, which will result in increasing the agency problems leading to lower firm performance.

Yermack (2016) found a negative relationship between the board size and firm performance, measured by Tobin's Q for 452 large US public firms during the period 2004 to 2010. He omitted the utility and financial companies from his sample because of the government regulations adopted by boards of directors in such companies. The study found that a small board has more favourable values for financial ratio. Also, Yermack (2016) stated that the incremental cost will increase as long the number of board members increases, and the company will have higher market value if the number of the board is smaller. He proved that corporations and companies are more valued in the capital markets by testing different independent variables, for instance board composition, the presence of growth opportunities, diversification and company age. All of those independent variables did not change the result that the small boards are better from the large ones in improving firm performance. Small boards have been found to be more productive than large ones, evidenced by decreased efficiency when board size increases, which is attributed to barriers in coordination and processes.

Sheikh *et al.* (2019) found that when the board size increases the market responds favorably. In their study they report that large boards provide better monitoring for companies with poor operating performance due to their diversity of backgrounds and communications skills. The study established a positive correlation between the board size and the firm profitability as measured by return on equity (ROE). Their results support that large boards have better access than smaller ones to the external environment by offering better chances to have wide resource for finance and raw materials. This is in line with resource dependence theory that large boards offer greater access to

their firm external environment, which facilitate and secure critical resources (e.g. raw materials and finance) and reduces uncertainties.

Haniffa and Hudaib (2016) found a positive relationship between the board size and the firm performance as measured by ROA, which is in contrast with their prior finding of a negative relationship between board size and the firm performance measured by Tobin's Q. This divergence takes place because of the perceptions of the investors and the management for the large boards which is based on large boards enhancing the knowledge of the business. The study found that the wider knowledge base inherent in larger boards facilitates better business decisions to reduce the agency problem. They demonstrated that their results stayed fixed and unchanged even if using inflation adjusted data. This indicates that large boards provide important role of effective monitoring in uncertain economic and political periods to reduce agency problems and improve firm performance.

Rechner and Dalton (2017) in their study of 141 large companies (Fortune 500 firms) used accounting measurements such as ROE, Profit Margin PM and ROI from 1978 to 1983 and found that firms with separated boards perform better than firms that have CEO duality in their boards. They found the stock market is more favourable when the two roles are split from each other. Chahine and Tohme (2019) in their study of 127 initial price offerings (IPOs) firms used a sample from the Middle East and North Africa to investigate the relationship between initial underpricing and the CEO duality, finding that firms that combine the two roles in same person have more potential to face underpricing. These findings support the agency view that splitting the two roles will remove the constraints on the board members to perform their role effectively to monitor the management opportunistic behavior. In other words, splitting the two roles will reduce the CEO power to take advantage for his own interests rather than the interests of the shareholders interests or the company.

Oyoga (2016) examined whether the performance of financial institutions listed on the NSE is affected by the corporate governance practices they have put in place. Board independence, shareholding compensation, board governance disclosure and shareholders rights were adopted as independent variables. Whereas the corporate governance index constructed as per Globe and Mail rankings using data from financial institutions and performance measures drawn from annual financial reports was adopted as a dependent variable. The findings of the study revealed that there is a positive relationship between boards composition with performance of financial institutions listed on NSE. On overall the study found that financial institutions listed on NSE should endeavor to attain the highest possible level of corporate governance.

### **2.2.2 Pillars of Corporate Governance, Investment Policies and Performance**

Mukarushema, Kule and Mbabazize (2016) examined the effect of financial statements analysis in investment decision making by commercial banks. They employed 18 detailed survey design and sampled 110 respondents using stratified random sampling. Data for the research was collected using a questionnaire. Through the regression model, findings of the research indicated that financial statement analysis is the single most important statement in investment decision making. The research concluded that, a combined 82% of the investment decision making by commercial banks are based on financial statements analysis. The study focused on impact of financial statement analysis on investment by banks.

Rop, Kibet and Bokongo (2016) researched on the effect of portfolio diversification on the financial performance of Kenyan commercial banks. The study used an exploratory design and the population consisted of 40 commercial banks. Through descriptive statistical analysis, the study found that average capital structure for banks in the banking sector was 64.040 with a standard deviation of 3.87239. The study arrived to a conclusion that many banks over the years have in practice employed the use of insurance investment on the financial performance of commercial banks. The study was however based on portfolio diversification and not investments.

Machuki (2014) studied the effect of investment decision on the performance of listed firms in the Securities Exchange Nairobi. The study employed a descriptive research design and obtained secondary data from the 61 companies at the Nairobi Securities Exchange, under the main segment. The study utilized panel data methodology, which consisted of cross-sections and time series. The findings of the study revealed a significant and positive correlation between ROA and investment decision, financial leverage and liquidity. The context of the study was all firm listed at NSE and not commercial banks. The significance of the findings to the current study is that it highlights the interaction of various factors that influence the contribution of investment policies to performance. However, the previous study failed to introduce the moderating and mediating variables, which the current study introduced to assess the relationship between corporate governance and performance.

Omony (2018) observed that risk and return are the key considerations in investment practices of Pension Fund Managers in Kenya. Current income is not their fund objective; however, the most predominant objective will be capital preservation. Pension schemes also differ from collective investment schemes as they have a minimum funding requirement and they are established to

invest funds to meet pension liabilities. That is they are invested with the expectation that they will be sufficient to pay pension entitlements when these are due.

Mugo (2017) observed that factors identified in finance literature are considered in investment decision by institutional investors at the NSE. However, the relevance of the factors is different as insurance companies and fund management companies consider company factors more important while Retirement Benefits Schemes consider industry factors more relevant. However, institutional investors should not be looked at as homogeneous and therefore these findings cannot be generalized for Collective Investment Schemes.

Nguthu (2019) in his research to establish how much asset allocation policy contributed to the returns level retirement benefit fund in Kenya found that the variation in returns over time for pension schemes is explained up to 62.4% by investment policy adopted by the trustees of the scheme. Other factors such as securities selection, timing of investments and managers' selection explained the remainder. The study was done on 40 segregated occupational schemes in Kenya and returns analyzed using regression analysis and descriptive statistics. In a study carried out on the relationship between asset allocation and financial performance of pension funds (Omondi, 2019), made the following conclusions: Asset allocation explains 28% of the variability of fund returns. The study also established that of all the asset classes permitted by the Retirement Benefits Authority (RBA), investments in equities was relatively more important than investments in fixed deposits in determining the overall performance of the pension funds.

Blake, Lehmann and Timmermann (2019) examined the asset allocation decisions of 364 individual, UK company pension schemes using data that spanned the period from 2006 to 2017. The criterion they used in identifying the sample was that each fund should have been managed by the same manager over this period, and that this manager should also have been responsible for the asset allocation of the fund over this uninterrupted period, in other words these were balanced mandates. Using this sample Blake et al found little variation in the performance of these schemes, or in the strategic asset allocation decisions that they made over time. In addition, they found that the vast majority of time variation in returns was due to the strategic asset allocation decisions, very little of the variation was due to stock selection. They concluded that the empirical regularities that they observed were most likely due to the legal and economic environments under which these managers operated.

Kimeu (2015) determined the effect of portfolio composition on financial performance of investment companies listed in Nairobi Securities Exchange. The study found that investment in

bonds positively influences the financial performance of investment companies listed in the Nairobi Securities Exchange. The study also found that investment in real estate and equity by investment companies positively impacted on their financial performance. Owino (2015) established the extent to which management competence impact on the overall performance of public service vehicle SACCOs in Nairobi County. The study findings revealed that there exist a positive relationship between management competence and SACCO performance.

Njuguna (2019) sees the influence of risk factor as of great concern especially in the bearish financial times. The study recognized three dimensions of Pension funds risks; namely default risks from the employers, market price volatility, Operational risks and liquidity risks. The Post-Modern portfolio theory indicates that the prices of financial asset move together either in a certain way or in the opposite way. These prices of assets were either positively or negatively correlated. For better financial Returns, the theory recommended investment in a number of financial categories that have negative relationship (co-variance) between the securities. Ideally, the choice of investments should be on the basis of how they interact with one another rather than how they perform in isolation. The Post-Modern Portfolio Theory asserts that Asset prices react differently in relation to the market performance. According to this theory, there is a linear relationship between returns and the risks associated with those returns. Thus, a higher demand for returns requires taking higher risks. Occupational Pension scheme managers will react differently in such cases depending on their attitude towards risks, thus affecting the financial performances of those schemes.

Osano (2019) study sought to identify investment strategies adopted by investment funds in Kenya and their effect on financial performance of the funds. The study concluded that investment funds in Kenya take an active investment strategy. Ngetich (2019) investigated the factors influencing the growth of individual pension schemes in Kenya. The study findings revealed that fund regulation exerts a significant relationship on the growth of individual pension schemes. Kamwaro (2019), sought to determine the impact of investment portfolio choice on financial performance of investment companies. The study revealed that investment portfolio choice affects the financial performance of investment companies listed in the Nairobi Securities Exchange.

Thomas and Tonks (2019) investigated the performance of equity portfolios managed by investment managers. The variety of techniques used to assess the quality of fund performance all suggested a very narrow cross-sectional dispersion in returns, which suggested that the managers were all closet trackers. They also concluded that on the whole there were negative returns to both selectivity and to market timing.

Mirchell and Hsin (2017) argue that a possible explanation as to why the investment portfolios of U.S. public pension plans yield consistently lower rates of return than portfolios of the private sector pension fund is that the two sets of funds operate under different rules. Private sector funds are managed by professional and qualified governors, with a clear economic mandate, while public pension funds are managed by staff responding to economic as well as political pressures. It is thus hypothesized that the better performance of private pension fund results from professional nature of their governing fiduciaries. Mitchell and Hsin (2017) then tested the hypothesis on relationship between presence of active employees and retired beneficiaries in Board and performance. They found that the presence of retired beneficiaries on the governing body is associated with lower returns and conclude that either the type or the inappropriate selection of governors negatively affects performance consequently.

Cyrus *et al.* (2015) in their study on the effect of corporate governance practices on earnings management of companies stated that there was need for effective corporate governance practices at senior managerial level of companies in Kenya to contribute to improvement on actual firm liquidity and avert possible collapse of public organizations in Kenya. According to Ogoye (2019), the increasing number of corporate failures and financial scandals had been caused by incompetence, fraud and abuse of office by the agents running the corporations in Kenya. The study conclude that that a unit increase in ownership concentration will cause a decrease in earnings management, a unit increase in board size will lead to a decrease in earnings management, a unit increase in board independence will lead to a decrease in earnings management, a unit increase in board activity will lead to an increase in earnings management and a unit increase in CEO duality will further lead to an increase in earnings management.

Kaboyo (2014) in their research on the effect of corporate governance on earnings management of listed companies looked at the factors motivating earnings management and the relationship between macro-economic variables and earnings management for listed firms at the NSE. Unlike most corporate governance studies, this study focused on the control aspect of corporate governance rather than the performance enhancing aspect. The study focused on a period when managers in Kenya had an incentive to manage earnings due to the effect of macroeconomic factors in the country. Sicily and Gladys (2017) in their study on the Influence of Corporate Governance on the performance of public organization in Kenya posits that the relevance of corporate governance cannot be over-emphasized since it constitutes the organizational climate for the internal activities of a company.

Patrick (2015) in his study on the relationship between corporate governance and financial performance of parastatals in Kenya found that good corporate governance practices were positively correlated to the financial performance of parastatals in Kenya. The study also found that audit committee, a major component of the board in exercising control through monitoring of financial and operational activities through internal and external audit mechanisms as well as monitoring compliance to ensure efficiency and effectiveness of operations, showed that their exist a positive but weak relationship to financial performance.

Njuguna (2019) examined the relationship between the financial returns of Pension Schemes and the agency costs. The study argued that agency costs comprise the costs paid to service providers as well as the Trustees allowance. The paper sampled and analyzed, using Data Envelopment Analysis (DEA) approach, 749 pension schemes which were in operation between 2001 up to 2008. The study concluded that there is a significant influence of agency cost on Operational costs and thus on the financial returns of the Pension Schemes. In the absence of operational efficiency, money meant to benefit members goes to other unintended beneficiaries.

Miriti (2014) studied the relationship between Retirement benefits Authority guidelines and financial returns of Pension Schemes in Kenya. The paper observed that fixing quantitative restriction is a global phenomenon. Countries, all over the world, have set up regulatory bodies to offer guidelines on the management of Pension Funds as well as controlling their financial activities. Some regulatory Authorities offer excessive controls while others such as USA, apply the prudent man rule where Pension Funds have no set regulations on the investments. The study found that there was a positive relationship between investment guidelines by RBA and the financial performance.

Mutula (2018) did a study on the determinants influencing pension fund investment performance in Kenya. The study concluded that diversification decisions, management competency, investment strategies, and regulation compliance have a positive and significant association with the investment performance of pension funds. Based on the findings, the study recommended that pension funds management should be composed of people with high managerial competence. Further, the study recommended that pension funds should incorporate investment literacy and capability programs in their organizations. Additionally, the study recommended that pension funds should continue adhering to the set regulations. The study had very strong and comprehensive recommendations on investment management matters for pension funds but did not investigate the influence of other financial management practices on sustainability of pension funds administrators.

Osano (2019) did a study with an objective of seeking to identify investment strategies adopted by investment funds in Kenya and how they affect the financial performance of the funds. The population of study was all investment funds in Kenya and census was carried out on the nineteen investment funds since they are not many as given by Capital Market Authority Cap. 485A as of 2013. Primary data was collected through personal interview by use of interview guide to a total of ten investment managers. Secondary data was also collected from respective investment funds financial reports for the year 2012. Descriptive analysis was used and classified them either active investment strategy or passive investment strategy. The study concluded that investment funds in Kenya takes an active investment strategy and found out to be integrated into operation investment funds in Kenya; financial performance is of positive influence to investment funds performance and greatly so is liquidity which probably means the investment firms utilize liquid assets to make quick investment which translates to good returns. From inferential statistics, a positive relationship was established between ROA and investment strategy, Leverage, Liquidity, age and size. Chi square test results showed that companies with high liquidity could be said to be better performing as compared to those without or with lower liquidity. However, the study did not concern itself with how investment activities affect sustainability of pension funds administrators in Kenya.

Kiplagat (2014) researched the impact of asset allocation on the financial performance of pension funds in Kenya. The study revealed that there is a linear correlation between fund performance and the weights of asset classes with the strongest correlation being between fund performance and asset weights of cash deposits, quoted shares, Government securities, and property. His study further established that 58% of the variability among fund performance is due to policy differences in the asset allocation of the various funds. The balance of about 42% is due to other factors such as the manager's selection, the timing of investments and securities selection within an asset class and whether the manager adopts an active style of management of the fund. However, this was a case study as opposed to the whole industry analysis which did not look at the factors contributing to profitability and therefore sustainability.

Sau and Njeru (2018) did a study on determinants of financial growth of occupational retirement benefits scheme in Kenya. The study found out that investment strategy, members' contribution, and regulatory framework were key determinants of financial growth of occupational retirement schemes in Kenya. The three determinants were found to have a positive and significant relationship with the financial growth of occupational retirement schemes. The study concluded that investment strategies employed by the schemes have the potential to enhance financial

efficiency and generate high returns in the pension fund. Members' contributions were also found to be a major determinant of financial growth of retirement benefits. The study recommended that assets and members' contributions should be invested more productively to generate returns for the pensioners but failed to demonstrate how investment management practice influenced the sustainability of funds administrators.

Namusonge, Sakwa and Gathogo (2017) did a study on the impact of asset mix on the financial performance of occupational pension schemes in Kenya. The study found that the asset mix has an immensely positive influence on the financial performance of occupational pension schemes. From the study findings, the independent variable (Asset mix) revealed that 66.1% of the variation in the financial performance of pension schemes could be explained by the independent variable.

Kiprotich (2019) did a study on the determinants of retirement benefits schemes financial performance in Kenya. The study used regression model that related the determinants and retirement benefits schemes to financial performance. The findings showed that portfolio management strategies, the risk of asset class, selectivity and timing had a positive relationship with the schemes financial performance. This implies that good management of portfolios and risks, and choice of the investment and their timing determines the performance and growth of the schemes. However, the study did not investigate how performance evaluations of the pension funds and investment risk management strategies influence sustainability of PFAIs yet these institutions facilitate implementation of risk management processes for pension funds.

Muia (2015) did a study on the effect of asset allocation on the financial performance of pension funds in Kenya which established that financial performance of the pension funds was explained by approximately 82.7% of the independent variables of the different asset classes. Muia (2015) study found out that there is a linear correlation between investment returns and the returns of the various asset classes with the strongest correlation being between fund performance and returns from offshore investments and government securities. The balance of about 17.3% was attributed to other factors such as the manager's selection, the timing of investments and securities selection within an asset class and whether the manager adopts an active style of management of the fund.

Kyanda (2014) carried out a study on the effect of corporate governance practices on administrative efficiency of Kenya power pension fund which revealed that the internal control systems to monitor and mitigate risks had improved the mechanism for members to make complaints regarding service provision which had improved. The study also revealed that corporate financial management practices affect the administrative efficiency of Kenya power

pension fund. The study further revealed that the fund conducted AGMs for its members annually, prepared audited financial statements and made them available to members' which improved its administrative efficiency. The study determined that communication channels had improved interactions with members and regular updates on services offered by the fund had improved as evidenced improved reporting on the status of investments.

Okeyo (2019) conducted a study on the effects of corporate governance practices on the growth of pension schemes in Kenya. The findings showed that the members of the pension schemes receive inaccurate information which led to inappropriate decisions. Late payment of contributions was also evidence which led to delay or inaccuracies in payment of benefits. In addition, the existing IT system was found to be insufficient to handle the financial transactions effectively.

Nyongesa (2017) did a study on the effect of financial management practices on the financial performance of insurance companies in Kenya. The study sought to establish the effect of financial management practices on the financial performance of insurance companies in Kenya. The study found that working capital management, capital budgeting techniques, capital structure decisions, claims management policies and corporate governance had a positive and statistically significant effect on the financial performance of insurance companies in Kenya. It also established that firm characteristic had a moderating effect on the relationship between working capital management, capital budgeting techniques, capital structure decisions, claims management policies, corporate governance and financial performance of insurance companies in Kenya. The study recommended that the management of insurance companies should ensure that their financial management practices are improved for the financial performance of insurance companies in Kenya.

Mohammad (2014) study on effect of American financial management practices on business enterprises in Mumbai city, India found that factors of financial management are good tools for improving enterprise's profitability. The study concluded that the efficiency of financial management practices and characteristics could bring about higher profitability. The study recommended that business organizations could improve profitability by raising the efficiency of financial management practices and characteristics. Sound financial management is essential to the success of businesses organizations. Successfully managing financial resources was important in both new and expanding business. Therefore, time should be taken to develop and implement financial management practices that ensure success of business enterprises. Additionally, the study suggested that a more comprehensive survey throughout the country in future so as to come up with country level conclusion.

Tijjani (2014) did a study on the determinants of financial sustainability of pension fund administrators in Nigeria. The study findings revealed that the age, size, net income, contribution, and board size are positive revealing a strongly significant positive relationship respectively. The study recommended that financial sustainability needed to be ensured and monitored throughout the lifetime of PFAs. Tijjan (2014) recommended that swift actions should be monitored to remedying possible weakness in the Pension Funds Administrators adding that more efforts to increase contributions should be made.

According to Kyereboah and Biekpe (2016) corporate governance may be about many things, but the essence of corporate governance is about how owners (principals) of firms can ensure that the firm's assets (and the returns generated by those assets) are used efficiently and in their best interests by managers (agents) delegated with powers to operate those assets. This problem is intrinsic to any arrangement where owners themselves do not undertake the management function directly.

According to Mcconnell and Servaes (2017), the corporate governance standards speak to a typical premise that nations consider discriminating for the improvement of good governance rehearses. This work, then again, gives a monetary reason to why corporate governance matters and investigates the relationship between corporate governance, corporate execution, financial development, and, where important, industry structure. The quest for good corporate governance hones in this connection, subsequently, is taking into account a recognizable proof of what works in diverse nations and circumstances, to perceive what lessons can be gotten from these encounters, and to inspect the conditions for transferability of these practices to different nations. Preceded with work around there, accordingly, will plan to discover the key elements that shape the adequacy of diverse corporate governance instruments and to focus the key approach alterations that are most required in individual frameworks of corporate governance.

Mcconnell and Servaes (2018) indicate the corporate governance principles address a regular introduce that countries consider separating for the change of good organization practices. This work, of course, gives a fiscal motivation to why corporate organization matters and explores the relationship between corporate organization, corporate execution, budgetary advancement, and, where imperative, industry structure. The journey for good corporate organization sharpens in this association, thusly, is considering a conspicuous evidence of what works in assorted countries and circumstances, to see what lessons can be gotten from these experiences, and to review the conditions for transferability of these practices to diverse countries. Gone before with work around there, as needs be, will plan to find the key components that shape the ampleness of different

corporate organization instruments and to center the key methodology adjustments that are most needed in individual structures of corporate organization.

Feldstein (2015) shows that investment risks can be reduced by the incorporation of Treasury Inflation Protected Securities (TIPS) into the asset allocation. The risk-return of this financial instrument can reduce the overall risk of the funds, although with a higher proportion invested in the equity market. Samwick (2019) recommends an alternative approach to reduce the investment risk of the defined contribution scheme, namely to increase the progressivity of basic social security provisions. The high progressivity of the pay as you go benefits implies that there will be higher wealth transfer from the wealthy to the poor. Part of the investment risk of low-income members of the society in the defined contribution account is absorbed by the government and wealthier members of the society. Therefore, the optimal investment allocation of defined contribution accounts can consist of a higher allocation on the equity investment, and the expected average returns from the defined contribution account can be increased.

Shiller (2015) simulates portfolio wealth at the retirement date for different lifecycle portfolios, finding that the probability of negative terminal pension wealth is high at around 30 to 70 per cent, depending on the assumptions which inform future expected investment returns. The study incorporated utility functions to estimate certainty equivalent wealth for different lifecycle portfolios. They find that the optimal strategy largely depends on the assumptions about expected returns, risk aversion coefficients, other wealth outside the defined contribution accounts and the investment fees pertaining to different strategies.

Goyal (2014) indicated that cash payout policies are positively related to the proportion of retirees. Higher cash payouts from dividend and share repurchases will further reduce expected equity returns. Even though he finds a strong relationship between financial asset returns and demographic variables, the economic effects are not large enough to drastically influence asset prices. Davis and Lastra (2018) points out that the nature of the liabilities is the key to understanding how institutions differ in their operations. In the banking and securities industry on the one hand, risk is in general perceived to be mainly on the active side of the balance sheet, in form of credit or market risk. On the other hand, the basic risk at insurance companies and defined benefit pension funds is connected to the passive side. While in banking risk usually denotes risky assets or off-balance-sheet derivatives, in the jargon of a life insurance industry, the term risk is used to refer to a single contract on the liability side meaning a client. Whereas a bank aims at securing sufficient funding for the assets, insurance companies accumulate contributions in form of assets on the active side to secure the fulfilment of the liabilities. Liabilities differ in certainty

and timing, ranging from fixed amount and timing in the case of banks, to fixed amounts but unknown timing as for traditional life insurance contracts to unknown amounts and unknown timing in the case of defined benefit pension funds and more complex life insurance products.

According to Campbell (2016), pension funds conduct efficient frontier analysis based on Markowitz' mean-variance model focusing on improving the efficiency of their investments. The shortcomings of this analysis is the focus on assets only and the short-term investment horizon. Tracking error which is the traditional risk measure at asset managers is also widely used by Dutch pension funds for monitoring their external investment managers. Tracking error gets also applied in a risk budgeting concept. The pension fund allocates a strategically defined risk budget in a first step among asset classes and subsequently among the single investment managers compared to the chosen benchmark. The pension fund monitors the investment manager in terms of both performance and risk taking. The rigor with which risk management approaches are applied differs mainly with the size of the fund and the available resources. The large industry-wide Dutch pension funds were at the fore front of developing sophisticated ALM models. The Anglo-American countries traditionally took a more lenient view on risk-management at the level of the pension fund itself as it is more closely integrated into the risk management of the sponsoring company.

According to Cowling and Wright (2019), since the pension promise is not dependent on the investment returns the employer alone bears the investment risk. When the investment returns are worse than expected, the employer has to compensate the shortfall. When the investment returns are better than expected the employer is rewarded by contribution holidays. In this case, risk and reward is symmetrically distributed. The investment decisions are made by a board of trustees which is composed of representatives of the employer. The trustees are bound by fiduciary duty to act in the interest of the beneficiaries but can also consider the interest of the employer as long as it is not detrimental to the interests of the beneficiaries. They are also bound by the prudent expert rule to diversify the portfolio and to maximise risk-adjusted returns. The argument can be made that the trustees err on the higher spectrum of possible risk taking as lower funding cost enhance the economic well-being of the employer and this also serves best the interest of the beneficiaries. Trustees can be expected to follow an active risk-adjusted return optimization.

Zhang (2020) study on the financial behavior pension funds confirms that pension funds do not reduce the risk of their portfolio after a deterioration of their financial position. Rebalancing behavior, such as restoring a strategic asset allocation by net purchases or sales to balance price movements, was found especially for the large industry-wide pension funds, whereas company-pension funds, on the other hand, are faster at adjusting contributions. These finding are in line

with what would be expected built on intuition, as companies are more committed to their own pension funds where they are the only sponsor than in case of an industry-wide pension fund, where they are just one under many, and are hardly able to influence the decision-making process. The difficulty to organize the consent to increase contributions rises with the number of parties involved.

Cyrus *et al.* (2015) in their study on the effect of corporate governance practices on earnings management of companies stated that there was need for effective corporate governance practices at senior managerial level of companies in Kenya to contribute to improvement on actual firm liquidity and avert possible collapse of public organizations in Kenya. According to Ogoye (2019), the increasing number of corporate failures and financial scandals had been caused by incompetence, fraud and abuse of office by the agents running the corporations in Kenya. The study conclude that that a unit increase in ownership concentration will cause a decrease in earnings management, a unit increase in board size will lead to a decrease in earnings management, a unit increase in board independence will lead to a decrease in earnings management, a unit increase in board activity will lead to an increase in earnings management and a unit increase in CEO duality will further lead to an increase in earnings management.

Kaboyo (2014) in their research on the effect of corporate governance on earnings management of listed companies looked at the factors motivating earnings management and the relationship between macro-economic variables and earnings management for listed firms at the NSE. Unlike most corporate governance studies, this study focused on the control aspect of corporate governance rather than the performance enhancing aspect. The study focused on a period when managers in Kenya had an incentive to manage earnings due to the effect of macroeconomic factors in the country. Sicily and Gladys (2017) in their study on the Influence of Corporate Governance on the performance of public organization in Kenya posits that the relevance of corporate governance cannot be over-emphasized since it constitutes the organizational climate for the internal activities of a company.

Patrick (2015) in his study on the relationship between corporate governance and financial performance of parastatals in Kenya found that good corporate governance practices were positively correlated to the financial performance of parastatals in Kenya. The study also found that audit committee, a major component of the board in exercising control through monitoring of financial and operational activities through internal and external audit mechanisms as well as monitoring compliance to ensure efficiency and effectiveness of operations, showed that their exist a positive but weak relationship to financial performance.

Njuguna (2019) examined the relationship between the financial returns of Pension Schemes and the agency costs. The study argued that agency costs comprise the costs paid to service providers as well as the Trustees allowance. The paper sampled and analyzed, using Data Envelopment Analysis (DEA) approach, 749 pension schemes which were in operation between 2001 up to 2008. The study concluded that there is a significant influence of agency cost on Operational costs and thus on the financial returns of the Pension Schemes. In the absence of operational efficiency, money meant to benefit members goes to other unintended beneficiaries.

Osano (2019) did a study with an objective of seeking to identify investment strategies adopted by investment funds in Kenya and how they affect the financial performance of the funds. The population of study was all investment funds in Kenya and census was carried out on the nineteen investment funds since they are not many as given by Capital Market Authority Cap. 485A as of 2013. Primary data was collected through personal interview by use of interview guide to a total of ten investment managers. Secondary data was also collected from respective investment funds financial reports for the year 2012. Descriptive analysis was used and classified them either active investment strategy or passive investment strategy. The study concluded that investment funds in Kenya takes an active investment strategy and found out to be integrated into operation investment funds in Kenya; financial performance is of positive influence to investment funds performance and greatly so is liquidity which probably means the investment firms utilize liquid assets to make quick investment which translates to good returns. From inferential statistics, a positive relationship was established between ROA and investment strategy, Leverage, Liquidity, age and size. Chi square test results showed that companies with high liquidity could be said to be better performing as compared to those without or with lower liquidity. However, the study did not concern itself with how investment activities affect sustainability of pension funds administrators in Kenya.

McConnell and Servaes (2017), the corporate governance standards speak to a typical premise that nations consider discriminating for the improvement of good governance rehearses. This work, then again, gives a monetary reason to why corporate governance matters and investigates the relationship between corporate governance, corporate execution, financial development, and, where important, industry structure. The quest for good corporate governance hones in this connection, subsequently, is taking into account a recognizable proof of what works in diverse nations and circumstances, to perceive what lessons can be gotten from these encounters, and to inspect the conditions for transferability of these practices to different nations. Preceded with work around there, accordingly, will plan to discover the key elements that shape the adequacy of diverse

corporate governance instruments and to focus the key approach alterations that are most required in individual frameworks of corporate governance.

According to D'Amico, Lika and Petroni (2019) investment costs are an important determinant of pension fund performance. High costs and persistent inefficiencies can significantly impact operational efficiency and thereby beneficiaries' wealth and consumption, as they reduce the net rate of return on investments and subsequently raise the costs of providing pensions. This is even more relevant in recent years, as many pension funds around the world face significant challenges following the financial crisis and the ageing of society. As a result, pension funds are confronted with public and political pressure to operate more efficiently and show greater transparency to beneficiaries and the general public regarding their cost structure. Understanding investment costs is also interesting from a broader financial markets perspective. Investment costs form a key parameter for pension funds when they determine their optimal asset allocation. These decisions can significantly impact market liquidity and asset prices in general, as pension funds are among the largest institutional investors in the world.

### **2.2.3 Pillars of Corporate Governance, Government Regulations and Performance**

Lydia (2019) investigated the effect of interest rates on demand for credit by small medium enterprises in Nairobi County, in Kenya. The period of study was between 2008 to 2012. The study used descriptive statistics and SPSS in the analysis of interest rates demand and credit. The study found that at 95% confidence level, the variables produced statistically significant values and can be relied on to explain demand for loans by SMEs from lending institutions. The findings further revealed that effective interest rates, annual profits and owners' equity explained demand for loans in that order. The research findings were presented in pie charts, bar graphs, and tables for clarity. The findings of the current study was be of great use to the government, lending institutions in formulating credit policies so as to promote the uptake of credit facilities in Kenya.

Akowuah (2019) studied interest rates and the demand for credit in Ghana. Qualitative data was analyzed using Statistical Packages for Social Science (SPSS) version 20, while qualitative data was analyzed using content analysis. The results indicates that interest rates have a positive impact on the domestic demand for credit in the short run and a negative relationship in the long run. While increases in the real lending rate may not immediately hamper the demand for credit, it may eventually lead to a fall in the demand for credit in the long run and vice versa. In that direction, if market forces tend to put an upward pressure on prices, authorities should take advantage of that and make more credit available. Alternatively, if authorities want to reverse the negative short run

or positive long run link between the real lending rate and the demand for credit, emphasis should be placed on price stability.

Njuguna (2019) conducted a study on strategies to improve pension fund efficiency in Kenya. The findings from the study indicate that fund size is as a significant determinant of the financial efficiency of pension funds. Empirical results also established that those smaller funds are perceived to be more financially efficient than bigger ones. It was however clear that the size of the pension fund did not have any significant influence on the operational efficiency of pension funds. It was also evident that that fund regulations influence how funds are governed and led. Adherence to the identified fund regulations were shown to improve fund governance and leadership. The limitation of the study is the complexity of the methodology which is not easy to replicate in another study. The current study employed a cross-sectional survey which is less complex and allows data to be collected less expensively and within a short time.

MacNaughton (2017) examined the impact of governing structure and pension funds. The twelve members of the board of the Canada Pension Plan Investment are selected for their investment and business expertise in areas such as economics, accounting, actuarial science, finance, investing, banking, and business in general. The requirement, for relevant expertise and experience is set out in legislation. This is quite different from most of the public pension funds around the world, which typically are governed by nominees or representatives from government, unions, and employers. MacNaughton (2017) proposed a governing body and structure consisting of qualified and independent governors, a transparent and credible mechanism for appointing governors and an open and transparent process in which the sponsor consults independent bodies, such as the parliament or other expert committees.

Klapper (2014) argues that better firm level governance mechanism can improve the investor's protection to a certain degree but firms alone cannot fully compensate the absence of strong legal system. The legal and regulatory framework for Corporate Governance in Tanzania is generally regarded as weak because of the poor enforcement of laws and regulations. In addition, some laws are outdated. However, this is not a problem unique to Tanzania. Poor laws and regulations, and the poor enforcement of existing laws and regulations, are generic problems in developing countries.

According to Fasterling (2015), performance is enhanced when regulations and guidelines have been adhered to. Investors, regulators and other stakeholders clearly consider compliance to be important. In addition to regulation, corporate governance practices are also reflected in different

factors such as culture, traditional financial options, corporate ownership patterns and legal origins. It is generally accepted that the purpose of regulations concerning corporate governance is not to increase the value of a firm but to enhance investors' confidence. Consequently, pressure from the regulatory authorities will encourage firms to comply with voluntary codes of best practice.

Chohan (2017) suggest that regulatory compliance and corporate governance act in a complementary manner to resolve the agency problem. Regulations reduce management dominance in the firm by increasing the influence of external parties such as auditors and shareholders. Conversely, deregulation increases the influence of management. The study found evidence of higher valuation, measured by Tobin's Q, of firms in 27 wealthy countries with better protection of minority shareholders. This evidence indirectly supports the negative effects of expropriation of minority shareholders by controlling shareholders in many countries, and for the role of the law in limiting such expropriation.

According to Matsunaga and Wang (2019), the internal control system of firms is expected to be secure, whereas monitoring costs are higher if the environment is deregulated because firms need to regularly monitor management activity for the sake of shareholders investment and return. Therefore, it can be argued that a regulated environment ensures better monitoring and lower agency costs. Moreover, regulations ensure a unique system or standard in the economy and enable the comparison of industry level practice, and the business environment will be unstable in the absence of regulations. Corporate governance evolved due to the existence of the agency problem associated with the separation of owners and managers, and regulation can mitigate the conflicts that arise as a result.

Allen (2015) argue that corporate governance in emerging markets has lately attracted much attention due to the weaknesses of corporate governance in developing countries, which was an important reason for a series of economic crises that affected these countries. Emerging markets tend to have quite well-developed physical financial infrastructure including central banks, commercial banks and stock exchanges, but to have less well-developed processes and systems of accounting, governance, regulation and other financial infrastructure, and less efficient markets with less liquidity than the world's most advanced systems. These differences lead to greater uncertainty and risk, and they enhance the international diversification possibilities for investors from all countries in the world.

Shleifer and Vishny (2017) argued that the concentration of ownership is high in emerging markets, where the rights of the shareholders is weak due to the lack, or inadequacy, of the

regulations provided by the relevant laws. In countries where ownership is concentrated among just a handful of major shareholders, agency problems occur because of a misalignment of interests between managers and owners and, thus, agency problems are inherent with large or small shareholders. Agency problems can exist between one or more owners and managers and, furthermore, even if it is assumed that managers and large shareholders are the same person, as is common in family companies, conflict still exists because of the potential misalignment of interests between managers and owners. Therefore, if it is assumed that the ownership is concentrated then agency theory can explain the conflict between managers and owners. Shleifer and Vishny (2017) argued that when the ownership structure is concentrated, large and controlling shareholders contribute to the mitigation of the agency problems because they have the incentives, motivations and capacity to monitor the managers for the shared benefit of control (i.e. to the mutual benefit of all shareholders, whether large or small). On the other hand, large controlling shareholders might collude with managers to expropriate the firm resources and work for their own benefit which will result in increasing the agency problems leading to lower firm performance.

Yermack (2016) found a negative relationship between the board size and firm performance, measured by Tobin's Q for 452 large US public firms during the period 2004 to 2010. He omitted the utility and financial companies from his sample because of the government regulations adopted by boards of directors in such companies. The study found that a small board has more favourable values for financial ratio. In addition, Yermack (2016) stated that the incremental cost will increase as long the number of board members increases, and the company will have higher market value if the number of the board is smaller. He proved that corporations and companies are more valued in the capital markets by testing different independent variables, for instance board composition, the presence of growth opportunities, diversification and company age. All of those independent variables did not change the result that the small boards are better from the large ones in improving firm performance. Small boards have been found to be more productive than large ones, evidenced by decreased efficiency when board size increases, which is attributed to barriers in coordination and processes.

Ashenafi *et al.* (2019) examined corporate governance mechanisms and their impact on performance of commercial banks in absence of an organized stock exchange in Ethiopia. The study assessed the relationship between selected internal corporate governance mechanisms (board of directors structure, board size, audit existence, bank size, and ownership type) and external corporate governance mechanism (government regulation and supervision, capital adequacy ratio,

loan loss provision allowance) that were adopted as independent variables. Data on commercial banks performance was collected from annual audited financial statements for the period 2005 to 2011 that were at the National Bank of Ethiopia whereas data on board characteristic was obtained from individual banks. The study was undertaken on nine commercial banks of which two were state owned and seven were privately owned. Data was analyzed using both qualitative and quantitative methods. The findings of the study indicated that: board size and existence of audit committee in the board had statistically significant positive effect on bank performance. Similarly, capital adequacy ratio as a proxy of external corporate governance had statistically significant positive effect on bank performance and absence of organized stock exchange, high government intervention, lack of corporate governance awareness, absence of national standards of corporate governance, absence of accounting and auditing and weak legal framework to protect shareholder rights adversely impacted on corporate governance and bank performance in Ethiopia.

According to Conyon (2017), regulatory compliance plays a significant role in determining the success of a corporate governance system and a good corporate governance is more likely to be associated with countries that have a strong legal system. Corporate governance encompasses rules and regulations as well as the framework of relationships and processes designed to ensure that the Board of Directors (BOD) acts in the interest of the company and shareholders. The regulatory and corporate governance framework influences the way boards function and how effective the board engage with the company shareholders. The regulatory framework for companies in EAC countries are centered on the Company's Act, Capital Markets Authority Act and securities exchange regulations of the respective countries.

According to Musaali (2019), the Companies Act is the principle legislation regulating companies and it includes the framework surrounding the formation and duties of directors. The listing rules deal with the requirements for listing and quotation, market information, trading and supervisory matters. These rules apply to all companies listed at the securities exchanges. The Codes of Corporate governance (CCG) compliments the statutory law requirements and it gives guidelines on reporting and encourages, comply or explain type of reporting. EAC countries have adopted codes of corporate governance that have borrowed presumably from more developed countries. EAC countries have legislations that govern corporate governance, regulatory bodies overseeing the securities exchanges, and have developed codes of best practice.

According to Klapper and Love (2014) corporate governance takes various forms as a result of differences in the structure of corporate organizations in difference countries especially in the area of regulation by the state and various professional bodies, the ownership structure, control, board

composition and structure tend to be different. The corporate governance structure relies on the legal, regulatory, and institutional environment. Moreover, factors like business ethics and corporate awareness of the environment and societal interest of the communities in which the company is operating can also affect its reputation and the long-term success. In addition, corporate governance is also affected by the relationships among those that are involved in the governance system, controlling shareholders, which can be individuals, family holding block alliance, cross shareholding, and other companies acting through a holding company. Creditors play the role of external monitors on corporate performance, while employee and other stakeholders contributing to the long-term success and performance of the company and the role of the government create the overall institutional and legal structure for corporate performance.

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Mallin, Mullineux and Wihlborg (2015) explained that in US, the Enron failure brought a number of legislative initiatives. The main motivation was to coordinate and strengthen corporate governance through the improvement of shareholder protection and restoring confidence in the system. Comply or explain is a regulatory approach used in the field of corporate governance and financial supervision. Rather than setting out binding laws, regulators set out codes which listed companies may either comply with, or if they do not comply, explain publicly why they do not. The purpose of comply or explain is to let the market decide whether a set of standards is appropriate for individual companies. Since a company may deviate from the standard, this approach rejects the view that one size fits all, but because of the requirement of disclosure, market

investors anticipates that if investors do not accept a company's explanations, then investors will sell their shares, hence creating a market sanction, rather than a legal one.

#### **2.2.4 Pillars of Corporate Governance, Government Regulations, Investment policies and Performance**

Maranga (2014) conducted a study on effects of corporate governance on financial performance of SMEs in Nairobi County. The main objective of this study was to investigate the effect of corporate governance on financial performance of Small and Medium Enterprises in Nairobi County, Kenya. Specifically, the study examined existence of the various corporate governance practices in the sampled SMEs in Nairobi County such as CEO duality, size of the board, number of board sub-committees, number of subcommittee meetings, size and age of the SMEs and how they affect their financial performance. The performance of SMEs was measured using Return on Assets (ROA). The study adopted descriptive research design. The population included all the SMEs in Nairobi County operating as at December 2013 and a sample from each category of business was identified and used to collect information. The study made use of primary data collected using the questionnaires. Data was analyzed using a multiple linear regression model. The study found that there is a significant strong relationship between the SME's financial performance and corporate governance. The number of Board meetings, number of board sub-committees' meetings, and the size, age of the SMEs were found to significantly affect the financial performance of SMEs in a positive direction. The CEO duality was however noted to be common in most SMEs. The study recommends that the government of Kenya be supportive to the SMEs by providing incentives to help them in implementing the corporate governance practices. SMEs are also encouraged to embrace corporate governance to the fullest to achieve better financial performance. SMEs are also recommended to consider financial monitoring to be done by the board of managers and board sub-committees. The board and managers also need to be enlightened on the importance of corporate governance.

Dempsey (2019) studied the impact of government policy on pension profitability in Tennessee. The study found that the pension funds are impacted by regulation in the United States, and that this impact has a negative correlation with the profitability of fund managers. Through this determination, it can be concluded that regulation has an inherent inefficiency, and this inefficiency has been a factor in the decreased stability of the pension industry. Regulations' negative impact on profitability suggests that the government is not accurate when conducting cost analyses prior to the implementation of new regulations. According to Bennett and Meerten (2018), various types of, and approaches to, regulatory and legal structures directly and indirectly

affect the time horizons of organizations in different ways. Licensing procedures, patent lives, work place safety regulations, and environmental regulations can either extend or constrain the time horizons of organizations depending on the situation and the manner in which government laws and regulations are implemented.

Rudolph and Sabat (2016) find that product liability concerns are often cited as a legal constraint that can indefinitely lengthen the payback time for new product development projects by creating significant uncertainty about a company's ability to recover investments. When this happens the increased risk to an investment increases a company's cost of capital. A legal system that inhibits longer-term investments because of its unpredictability, delays, and punitive treatment of product liability issues will hamper economic growth. It is impossible to foresee all circumstances in which a new product will be used; technological and economic advances must depend to some degree on caveat emptor. On the other hand, an effective product-liability system can offer customers redress against genuinely fraudulent or unsafe products that make it to the marketplace a safety net that will make customers more likely to trust producers' explicit or implicit claims and therefore more quickly create a predictable market for a product. In short, effective tort law is a balancing act, which, depending on its implementation, can lengthen or shorten corporate time horizons.

According to Musaali (2019), the government policies and actions are the most consistently damaging to long time horizons are those, which create disincentives for long-term planning and investment. Late or uncertain promulgation of environmental and workplace standards often unnecessarily diverts company investment capital from longer-term technology development. Similarly, the inability of companies to plan on predictable and rapid resolution of licensing, plant siting or environmental or health and safety clearances creates greater uncertainty for companies, delays returns on investments, and decreases company's willingness to take longer-term investment risks. Slow or inefficient government regulatory processes discourage otherwise productive investments by the private sector.

D'Amico and Petroni (2019) finds that among the ways in which governments promote long-term investment is the role they play in the creation of markets or marketplaces. The government's considerable buying power has created predictable markets for public goods, some of which have become private goods. Additionally, markets for private-sector weather prediction and monitoring, environmental monitoring and waste disposal, public health systems, or large-scale satellite, computer, or networking systems are based on, or were supported by, markets created by government purchases, often in combination with government research and development.

According to Biondi and Boisseau-Sierra (2017), the use of regulation to create or stabilize markets is an important public role in encouraging long-term investment. Government regulation plays an important role in creating safe and reliable financial and air transport markets, albeit the definition of safety in the two markets is quite different. Government's ability to create a monopoly during certain stages of an industry's development is another tool to promote long-term investment.

The government plays a crucial role in the creation of stable markets through its role in setting formal or de facto standards FASTERLING (2015). As new markets and technologies emerge and develop, standards are often unclear or in constant flux. At some point when necessary standards and potential technologies become clear government helps establish formal standards, or participates in setting de facto standards, by becoming a buyer and thereby promoting long-term investments in the developing industry. Such interventions must be carefully timed to avoid freezing the system too soon or too late, but they can be enormous successes. The government-created regulatory and legal environment has a substantial impact on time horizons of companies, but the impact is complex and multidimensional; some regulations and legal procedures can lengthen corporate time horizons, while other regulations, or legal constraints that introduce substantial unpredictability, can shorten time horizons (Conyon, 2017)

According to Campbell (2016), pension funds conduct efficient frontier analysis based on Markowitz' mean-variance model focusing on improving the efficiency of their investments. The shortcomings of this analysis is the focus on assets only and the short-term investment horizon. Tracking error which is the traditional risk measure at asset managers is also widely used by Dutch pension funds for monitoring their external investment managers. Tracking error is also applied in a risk budgeting concept. The pension fund allocates a strategically defined risk budget in a first step among asset classes and subsequently among the single investment managers compared to the chosen benchmark. The pension fund monitors the investment manager in terms of both performance and risk taking. The rigor with which risk management approaches are applied differs mainly with the size of the fund and the available resources. The large industry-wide Dutch pension funds were at the forefront of developing sophisticated ALM models. The Anglo-American countries traditionally took a more lenient view on risk-management at the level of the pension fund itself as it is more closely integrated into the risk management of the sponsoring company.

According to Mallin, Mullineux and Wihlborg (2015), although pension funds are heavily regulated the rationale for pension fund regulation is usually not very clear. In most countries, pension fund regulation actually started as a side activity in the respective Treasury Departments. As the provision of occupational pension is subsidized, the state is seen to have a legitimate interest

in overseeing the process of pension provision to make sure that public money is employed in an efficient way. Comprehensive pension regulation was in most countries introduced in the early 1970s mostly driven by a major crisis, the most famous are Studebaker in the United States and Maxwell in the United Kingdom. Today's mantra of pension fund regulators is usually the protection of member's benefits. In economic terms, the rationale for regulating pension funds is consumer protection based on asymmetric information and the principal-agent problems, which is basically the same as for regulating insurance companies. Unlike insurance companies, pension funds are usually not in the proprietary business. Maximizing shareholder value is not a valid business proposition for pension funds. Unlike insurance companies, pension funds have a sponsor as guarantor and protector. There is consensus that opposite banks, pension funds do not pose a systemic risk. Nor is there the need to protect against monopolies. Regulation of pension funds is still conducted mainly on a national scale.

The European Union (EU) introduced the first supranational regulation of pension funds in June 2003 with the directive on the activities and supervision of institutions for occupational retirement provision'. This directive allowed cross-border provision of occupational pensions but apart from formulating some rather broad regulatory principles, regulation remained mainly with the national regulatory agencies. As the ultimate goal of pension regulation is formulated as the protection of member's benefits, safety aspects rank high in all jurisdictions. But there remains the efficiency argument: Employing pension contributions in an efficient way is not only in the interest of Governments aiming at minimizing tax subsidies but even more so in the interest of employers and employees aiming at minimizing the cost for providing a defined benefit or maximizing the benefits from a given contribution. Investment is a core function of pension funds (Davis 2001).

Bonizzi and Churchill (2017) find that as the investment return on pension funds' assets determines the costs of providing a defined-benefit pension plan, the efficiency argument requires efficiency of the investment process. The European Union states in the preamble to the pension fund directive that the investment policy of an institution is a decisive factor for both security and affordability of occupational pensions. Security and affordability can be seen as constituting the two main goals in pension regulation. Pension fund regulators recognize the risk-return trade off which is inherent in the pension fund system, but regulators attitude towards risk differs. Anglo-American regulators were traditionally more lenient on pension funds risk-taking than their continental European counterparts. It was argued that these differences in the approach to pension fund regulation mirror the differences in the conceptualization of pension fund systems.

Woods (2017) asserts that regulation of the asset investment of pension funds is generally classified along two broad concepts. The prudent person principle as the qualitative regulatory principle requiring diversification of assets and the limit setting of the quantitative regulatory approach. The prudent person principle is deeply embedded in the principle of fiduciary duty, which forms a fundamental aspect of the Anglo-American regulatory approach. Fiduciaries are required to act with prudence. Although the United Kingdom and the United States share these basic principles, the understanding of what constitutes prudent investment differs. Under UK law trustees are not requested to have professional investment knowledge but only to obtain proper advice about it'. This rule paved the way for the huge influence of investment consultants in the United Kingdom. In the United States, the prudent person rule was over time further developed into the prudent expert rule. A pension fund manager's decisions are compared to those of investment professionals. In the United States, prudence is interpreted along the lines of financial-economics, such as maximizing risk-adjusted returns. This is consistent with the traditional focus on affordability in US pension regulation. Prudent investment requires a well diversified portfolio. It seems doubtful if the heavily bond-gearred portfolios of some continental European pension funds would pass the prudence test in the United States.

Mallin, Mullineux and Wihlborg (2015), although pension funds are heavily regulated the rationale for pension fund regulation is usually not very clear. In most countries, pension fund regulation actually started as a side activity in the respective Treasury Departments. As the provision of occupational pension is subsidized, the state is seen to have a legitimate interest in overseeing the process of pension provision to make sure that public money is employed in an efficient way. Comprehensive pension regulation was in most countries introduced in the early 1970s mostly driven by a major crisis, the most famous are Studebaker in the United States and Maxwell in the United Kingdom. Today's mantra of pension fund regulators is usually the protection of member's benefits. In economic terms, the rationale for regulating pension funds is consumer protection based on asymmetric information and the principal-agent problems, which is basically the same as for regulating insurance companies. Unlike insurance companies, pension funds are usually not in the proprietary business. Maximizing shareholder value is not a valid business proposition for pension funds. Unlike insurance companies, pension funds have a sponsor as guarantor and protector. There is consensus that opposite banks, pension funds do not pose a systemic risk. Nor is there the need to protect against monopolies. Regulation of pension funds is still conducted mainly on a national scale.

Regulation became more risk aware and safety-focused demanding higher funding levels and often encouraging pension funds to lower the risk profile of their portfolios (Biondi & Boisseau-Sierra, 2017). As a general trend, policy makers focus much closer on the funding of pension funds. Shortfall risk is perceived as central risk factor threatening benefit security. Many countries have introduced pension reforms in recent years encouraging higher funding ratios, so that in a balance sheet perspective assets are sufficient to cover liabilities. Solvency became the core regulatory instrument. Whereas this approach is consistent with the general concept of pension funds as stand-alone companies in continental Europe it is questionable in the Anglo- American world where the safety of the pension promise is mostly based on the sponsor's covenant. Regulation in the United Kingdom has started to take the sponsor's covenant into consideration; the United States strengthened the funding rules instead (Autenne, 2017).

Clarke and Branson (2018) study show that prevention of corporate failure was not the only reason that led to the adoption of corporate governance ideals, as there was a growing acknowledgement of the role played by improved corporate governance practices on the growth and development of the whole economy of a country. Gompers, et al. (2019) study found the contribution of institutional ownership and ownership concentration as a strong correlation between good corporate governance practices and company performance. However, Wanyama and Olweny (2019) did not find any significant relationship between the performance of firms and the governance practices of their boards. Solomon (2019) study has indicated that countries adopt corporate governance practices and policies, which are favourable to their environment for their companies' performance. In his case, corporate governance is supposed to ensure that corporations achieved the objectives set by their owners and shareholders should hold a firm's management responsible for attaining the firm's goals. From the studies then it can be deduced that corporate governance structures for another country cannot be necessary applicable to another country and therefore every country is required to establish suitable corporate governance structures for their company performance.

### **2.3 Literature and Knowledge Gaps**

The study reviewed expansive literature on pension funds managers. Not so much focus was made on the investment policies, government regulations, Pillars of corporate governance and performance of pension fund managers in Kenya hence the study. The contextual gaps relate to the pension fund managers in Kenya. The gaps identified during literature review are as summarized in Table 1 below.

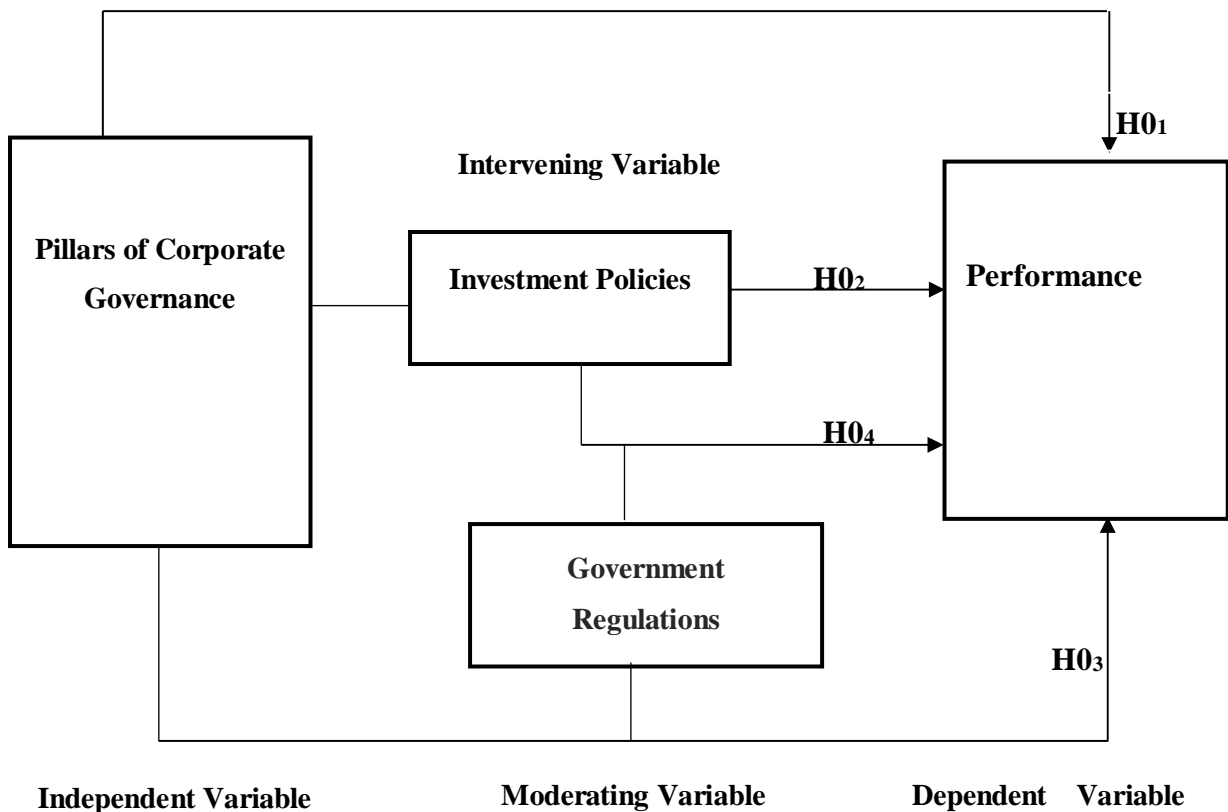
**Table 1: Summary of Knowledge Gaps**

<b>Authors</b>	<b>Study</b>	<b>Methodology</b>	<b>Findings</b>	<b>Knowledge gaps</b>	<b>How to address the gaps</b>
Mukarushema, Kule & Mbabazize (2016)	Examined the effect of financial statements analysis in investment decision making by commercial banks	Survey design	Through the regression model, findings of the research indicated that financial statement analysis is the single most important statement in investment decision making	The study did not look at the various attributes of investment policies but rather focused only on investment decision making	This study evaluated major attributes of investment policies and assess the relationship with the financial performance.
Ujunwa (2019)	Board characteristics and the financial performance of Nigerian quoted firms	The study employed generalised least squares (GLS) regression to test the six hypotheses	The research findings showed that the board size, duality of the CEO and the diversity of was negatively correlated to the firm performance	The study did not take into account firms that are not listed and the different observations across industries.	This was addressed by incorporating corporate governance, control variables and organizational performance.
Maranga (2014)	Effects of Corporate governance on financial performance of SMEs in Nairobi County	Descriptive research design	The study found that most SMEs, CEO duality prevailed predominantly though separation would result in better financial performance.	This study narrowly focused on CEO duality only- one component of corporate governance	This study evaluated major components of corporate governance structures and practices
Kiruri, (2019)	Effects of ownership structure on bank profitability in Kenya.	Descriptive design	The study found that ownership concentration and state ownership had negative and significant effects on bank profitability while foreign	The study narrowly focused on financial performance only by	This study non-financial measures of organization performance.

			ownership and domestic ownership had positive and significant effects on bank profitability.	limiting itself to profit as a measure of performance.	
Rop, Kibet & Bokongo (2016)	Effect of portfolio diversification on the financial performance of Kenyan commercial banks	Exploratory design	The study found out that many banks employed the use of insurance investment on the financial performance of commercial banks.	The study was based on portfolio diversification and not investments.	This study looked at the investment policies in relation to performance.
Delima (2017)	Corporate governance impact on performance in financial institutions in Sri Lanka	Univariate analysis	The study found that there was a strong positive relationship between corporate governance and performance of financial institutions. 72.7% of variation in Performance was explained by the dimension, Corporate Governance	Univariate analysis was used while the current study used multivariate analysis thus presented a methodological gap.	The current study adopted a cross sectional research design
Kiratu (2016)	The influence of corporate governance on performance in Kenya with a case of Agricultural State Corporations.	Correlational design	Board structure, organizational culture and customer relation management were positively correlated to performance.	The study adopted a correlational design. The study creates a methodological gap by use of a correlational design while the current study adopted a cross sectional survey design	The current study adopted a cross sectional research design
Akshita and Chandan (2016)	Corporate governance and performance of Indian manufacturing companies	Desktop review	Larger boards have greater access to information which enhances making of informed decisions and performance. The results indicated that return on equity and profitability was not related to corporate governance indicators	The study was based on empirical literature review and thus presented a methodological gap since statistical analysis was not conducted	The current study used primary data for statistical analysis.

## 2.4 Conceptual Framework

Figure 1 depicts the interactions of the independent variable, intervening variable, moderating variable, and dependent variable in a conceptual framework. It is conceptualized that pillars of corporate governance is the independent variable and performance is the dependent variable. Investment policies is considered as an intervening variable in relationship between pillars of corporate governance and performance. Government regulations is a moderating variable in the relationship between the pillars of corporate governance and performance. The framework also depicts the moderation– mediator interactions on the relationship between pillars of corporate governance and performance.



**Figure 1: Conceptual Model**

## 2.5 Hypotheses of the Study

The study tested the following hypotheses to achieve the objectives:

**H0<sub>1</sub>:** There is no significant relationship between pillars of corporate governance and performance of pension fund managers in Kenya.

**H0<sub>2</sub>:** There is no significant intervening effect of investment policies on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.

**H0<sub>3</sub>:** There is no significant moderating effect of government regulations on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.

**H0<sub>4</sub>:** There is no significant moderation – mediator effect on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.

## 2.6 Operationalization of Variables

**Table 2: Operationalization of Study Variables**

Variable Category	Study Variables	Indicators	Measurement scale	Questionnaire Section
Independent Variable	Pillars of Corporate Governance	<ul style="list-style-type: none"> <li>• Transparency</li> <li>• Ownership Structure</li> <li>• Accountability</li> <li>• Stakeholder participation</li> </ul>	Interval	Section B
Moderating Variable:	Government Regulations	<ul style="list-style-type: none"> <li>• RBA/CMA guidelines</li> <li>• Taxation</li> <li>• Inflation</li> </ul>	Interval	Section C
Intervening Variable:	Investment policies	<ul style="list-style-type: none"> <li>• Leverage of the fund</li> <li>• Fund liquidity</li> <li>• Acts and covenants</li> </ul>	Interval	Section D
Dependent Variable	Performance	<ul style="list-style-type: none"> <li>• Profitability</li> <li>• Market growth</li> <li>• Customer Satisfaction Levels</li> <li>• Employee Retention</li> </ul>	Interval	Section E

## 2.7 Summary of Literature Review

The focus of this chapter was review of literature on effects of pillars of corporate governance, investment policies and government regulations on performance of pension fund managers in Kenya. The chapter also contains the theories that the study is anchored on. These theories include; neoclassical theory, Q-theory, contingency theory, stakeholder theory and agency

theory. The review discussed relationship between pillars of corporate governance and performance, effects of investment policies on performance, effects of government regulations on performance and discussed the dimensions of pillars of corporate governance. Chapter summary was also included.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

This chapter discussed the research methodology that was followed in the study. It examined and justified the research design that was applied in the study herein as well as stating the population of interest for the study. The data collection methods and how the data was validated were provided while the data analysis technique applied and the justification for its use were also given.

#### **3.1 Research Philosophy**

Research philosophy is a belief about the way in which data about a phenomenon should be gathered, analyzed and used. In social sciences, the key concepts of philosophy includes ontology, epistemology, methodology, methods and paradigm (Scotland, 2012). Ontology assumes that reality is subjective and understood based upon individual's perceptions and experiences. Epistemology on the other hand, is concerned with nature of knowledge and how it can be acquired, either through positivism or interpretivism. Positivism perspective believes that the world is real and exists independent of researchers, hence the resulting knowledge is objective and true. Interpretivism contradicts this view and argues that the world is social hence, researcher impacts study subjects (Aliyu, Bello, Kasim & Martin, 2014).

This study adopted a positivist research philosophy. Mwaniki (2015), Bryman (2015) and Levin (2019) argued that positivist approach research is based on knowledge gained from positive verification of observable experience rather than introspection or intuition. May (2019) stated that the positivist philosophy presupposes that there is an objective reality that people can know reality and that symbols can accurately describe and explain this objective reality. Cohen and Crabtree (2015) and Creswell (2019) holds the beliefs that the positivist approach that there are general patterns of cause and effect that can be used as a basis for predicting and controlling natural phenomena and the goal is to discover this phenomena (prediction and control); that a researcher could rely on perceptions of observations or measurements of the world to provide accurate data (empirical verification) and; that provided a strict methodological protocol is followed, research could be free of subjective bias and objectivity could be achieved (research was value free). Mwaniki (2015); Keraro (2014); Schiffman and Kanuk (2019) observed that principal positivist methods often involve statistical analysis in order to generate findings and to test hypotheses.

### **3.2 Research Design**

A cross-sectional survey design is the specific design that was used in the research. This design has been used by several authors in their research in Kenya (Uzel et al., 2019 ;) Fwaya et al., 2019; Wadongo et al., 2019; Oduon et al., 2019; Kingi, 2019, Sasaka et al, 2016). A cross sectional survey design was therefore be appropriate as data collected to help answer research questions related to only one point in time. The study adopted a cross-sectional survey design. A cross sectional survey design is more appropriate than others are since the data collected help answer research questions related to only one point in time (Hair, Money, Samouel, & Page, 2010). Cross sectional survey design applies quantitative approaches of research. Cross sectional survey design enables researchers to obtain data about practices, situations or views at one point in time through questionnaires. The technique also seeks to obtain information that describes existing phenomena (Cooper & Schindler, 2013).

Cross sectional survey design enables researchers to obtain data about practices, situations or views at one point in time through questionnaires and interviews. The technique also seeks to obtain information that describes existing phenomena (Cooper & Schindler, 2014). The cross-sectional survey design is adopted for this study because it provided relevant information of the extent to which pillars of corporate governance influences performance of Fund managers in Kenya is intervened by investment policies and moderated by government regulations.

### **3.3 Target Population**

The population of interest of the study was 31 Fund Managers in Kenya licensed by RBA /CMA as at January 2019. To increase the accuracy of data collected in this research, a census survey was adopted. Census refers to data collection about everyone or everything in a group or population and has advantages such as accuracy and detail. Considering that the population is finite and is also small, adoption of sampling less than population would consequently lead to higher probability of error. The unit of analysis for this study was the 31 Fund Pension Managers in Kenya (See Appendix III). The unit of observation was the 2,200 employees drawn from the 31 Fund Managers (RBA 2019).

### **3.4 Sample and Sampling Techniques**

Sampling techniques allow random isolation of a representative sample from a target population for study or investigation. Stratified random sampling was used in this study as described by Slovin (1960) and Tongco (2007) respectively. Slovin (1960) formula may be used in deriving a sample size,  $n$ , from a target population (Wachiuru, 2015): Sample size  $n =$

$N / 1 + N (e)^2$ . Where: n= unknown sample size; N= Target population size; e: significance level at 0.05 confidence level for this model. Therefore, for this study a farmer/follower target population of 2,200 a respondent sample size is 400:  $n = 2200 / 1 + 2200(0.05)^2 = 338$ . The sample should generate a normal distribution of observations.

### **3.5 Data Collection Instruments**

Data collection methods refer to the process of gathering data after the researcher has identified the types of information needed which is, the investigative questions the researcher must answer, and has identified the desired data type (Cooper & Schindler, 2014). This can include ratios and ordinal scales for each of these questions and ascertained the characteristics of the sample unit that is, whether a participant can articulate his or her ideas, thoughts, and experiences. Primary data was obtained from the selected respondents of the thesis. Primary data was collected through questionnaire. The study was quantitative in nature. Quantitative data was obtained through close-ended questions.

The closed ended questions was structured on a 5 (five) point Likert type scale with options ranging from not at all to a great extent answer options for the respondents to choose from. The questionnaire contained close ended questions aimed at giving respondent an opportunity to choose from listed alternatives. The researcher clustered the respondents into management levels namely; top management, middle management and lower level management of the pension fund managers. The researcher acknowledged the various options available as data collection methods, each with its advantages and disadvantages. This study used primary data to analyze the relationship between pillars of corporate governance, investment policies, government regulations and performance.

### **3.6 Pilot Study**

According to Cooper and Schindler (2014), a good measurement tool should be an accurate counter or indicator of what we are interested in measuring also known as validity. A pilot study was carried out to ensure that the questionnaires met the set objectives. As Koopman (2015) suggest, pilot studies are often recommended by researchers since they help address a variety of concerns ranging from item clarity and discrimination, internal inconsistencies and checking on possible response rates. It is always desirable to pre-test the data collection instruments before they are finally used for the study purposes (Kothari & Garg, 2014).

The data collection phase of a research process typically begins with pilot testing. This is a pre-test done prior to the commencement of data collection to determine the accuracy of the

research instruments (the questionnaires) that was applied in obtaining desired information (Cooper & Schindler, 2014). Pre-testing the instrumentation and the entire research design permits refinement before the commencement of the study. In particular, pilot testing helps to detect weaknesses in design and instrumentation and provide proxy data for selection of a sample. A sample equivalent to 10% of the study population as suggested by Koopman (2015) was used to obtain a pilot group hence two pension fund managers was realised. The 2 pension fund managers were randomly selected from the 31 pension fund managers. Kothari and Garg (2014) direct that the pilot group should not be allowed to participate in the main study because they could bring biased outcome and replications.

### **3.6.1 Reliability**

Reliability is the extent to which a measure consistently produces similar results over time, in running several tests at different instances. This is also viewed as the consistency and stability of a measurement over time (Lameck, 2019). Tests for reliability includes test-retest, parallel reliability, alternative forms, Inter-rater, split- halves and internal consistency. The test-retest, entails administering the same test twice, parallel reliability involves administering different versions of an assessment to test the same construct.

To achieve reliability in this study, the researcher used inter-ratter reliability. This was achieved by issuing the data collection tools or questionnaires to different senior executives of the same organizations to gauge how their judgement of same constructs would produce similar results. This research also used Cronbach's alpha coefficient of reliability to test internal consistency.

Reliability and validity are means of evaluation of research instruments (Flick 2014). Reliability, according to Eriksson and Kovalainen (2015), is the extent to which a measure, procedure or instrument yields the same result on repeated trials. Cooper and Schindler (2014) define reliability as a measure of the degree to which a research instrument yields consistent results or data after repeated trials. Internal consistency method was tested using Cronbach's Alpha. Cronbach's alpha is a measure of internal consistency, that is, how closely related a set of items are as a group. A "high" value of alpha is often used as evidence that the items measure an underlying (or latent) construct (Warmbrod, 2014). To ensure reliability a predetermined threshold of 0.7 is needed. A computed alpha coefficient varied from 1 to 0. Most studies have adopted the recommended level of 0.70 and above and therefore the specified indicators was considered sufficient in their representation of the constructs.

### **3.6.2 Validity**

Validity is the meaningfulness of a test to measure what it was intended to measure, which can be internal, external, construct or discriminant. External validity is data's ability to be generalized while internal validity is the ability of a research instrument to measure what it is purported to measure (Zohrabi, 2019). Convergent validity is the degree to which scores on one scale correlate on other scales designed to assess the same construct. Discriminant validity assumes the scale do not correlate with scores from scales designed to measure different constructs (Lameck, 2019). Content validity was measured by use of factor analysis. Content validity is concerned with sample-population representativeness. In this study, validity entailed testing how the results obtained can be generalized to all pension fund managers in Kenya and become applicable to other institutions. To achieve this, the researcher ensured all management level units are well represented. In addition, the researcher ensured measurements are as defined in the study and not generated by the research process, and that research design provides credible conclusions and interpretation (Zohrabi, 2019).

### **3.7 Data Collection Procedure**

The study used primary data which was collected by use of questionnaires. Questionnaires were suitable for a descriptive study as they are easy to administer, ensure fast delivery and the respondent can answer at their convenience. Before the data collection, the researcher sought permission/authorization letter from the firms' authority to collect data after having taken the introductory letter from the University. To enhance the response rate, the study put into consideration the research ethical issues. The researcher explained to the respondent the importance of the study and remind them (informed permission). The researcher assured the respondents of the confidentiality and anonymity of their identities.

The researcher sought for consent form from the respondents and also debrief them about the questions. The researcher administered questionnaires through drop and pick-later method and request the respondents to complete the questionnaires and return in time owing that it is for academic purpose. One set of the questionnaire per respondent was administered. Primary data provided original raw evidence on study variables interactions.

Primary data was collected using a questionnaire in Appendix I. It was structured into five sections, namely: General information, pillars of corporate governance, investment policies, government regulations and performance. Pillars of Corporate governance section captured the various structures and practices especially on board. On investment policies, the questions

sought to establish manifestation, acts and covenants of its various forms. Government Regulations section identified the various factors that organization needs to adjust itself to (taxation and inflation). These include the CEOs, company secretaries or others playing similar roles. Follow up was done through telephone calls, emails and visits to the financial institutions was done to enhance a high response rate.

### **3.8 Data Analysis and Presentation**

The data collected in this study was organized and classified based from the research design and the problems formulated. The data was coded, tallied and tabulated to facilitate the presentation and interpretation of results using the following: The percentage and frequency distributions was used to classify the respondents and presented the actual response of the respondents to a specific question or item in the questionnaires.

Quantitative data was analysed using Statistical Package for Social Sciences (SPSS version 22). The study conducted diagnostic tests to confirm data normality, linearity, and multicollinearity before actual data analysis. For normality, Shapiro-Wilk's W test was used. Multicollinearity, was tested by examining tolerance and the variance inflation factor (VIF) and finally linearity, was tested using scatterplots and analysis of variance (ANOVA) (Ghasemi & Zahediasl, 2019). Multicollinearity is the study of the relationship between independent variables in a study. It is also viewed as the absence of a strong correlation between two or more independent variables. The aim of performing multicollinearity test was to ascertain that there is no collinearity problem of the predictor variables having some explanatory power over each other. According to Field (2013), presence of multicollinearity is deduced by Variance Inflation Factor (VIF) of greater than 10 indicating the presence of multicollinearity. Multicollinearity reduces the reliability of multiple regressions models because the standard error of coefficients increases with increase in collinearity.

On heteroscedasticity, Breusch-Pagan/Godfrey test was used to test whether the error terms are correlated across observations in the cross sectional of the data (Long & Ervin, 2000). Heteroscedasticity describes the case where the variance of errors or the model is not the same for all observations, while often one of the basic assumptions in modelling is that the variances are homogeneous and that the errors of the model are identically distributed across all observations. The analytical procedures, inspection visually from the plotted residuals and the fitted values as recommended by Williams (2015) and Gujarati (2010).

The ANOVA test of linearity was used to check for linearity of the relationships between the independent and the dependent variables data. The test computed both the linear and nonlinear components of a pair of variables. Nonlinearity was considered significant if the computed F value for the nonlinear component is below 0.05. The presence of multicollinearity was tested by computing the Variance Inflation Factors (VIF) with any variable with VIF values greater than 10 considered as indicative of presence of multicollinearity as recommended by Robinson and Schumacker (2009). Multicollinearity occurs when the explanatory variables are highly correlated.

Further, the study used several analytical models to interpret the data. These included simple regression for establishing the relationship between pillars of corporate governance and performance. Multiple regression analysis assessed the moderating effect of government regulations on the relationship between pillars of corporate governance and performance. Stepwise regression, both simple and multiple examined the mediating effect of investment policies on the relationship between pillars of corporate governance and performance. To further analyze the moderating and mediating effect of government regulations and investment policies respectively on pillars of corporate governance and performance, multiple and stepwise regression was used respectively. This was necessary for providing estimates of the magnitude and significance of the hypothesized causal connections between variables. This was achieved through conducting series of regressions and analyzing their influence on dependent variable. To test the various hypotheses, regression was used to determine the influence of the predictor/independent variables on the predicted/dependent variables. A summary of specific analysis to be carried out is summarized in Table 3.1.

The regression model was of the form;

$$Y = b_0 + b_1X_1 + b_2X_2 \dots\dots b_nX_n$$

Where Y represent the dependent variable,  $X_1, X_2, \dots, X_n$  represents independent variables

**Table 2: Summary Analytical Model**

Objective	Hypotheses	Analytical Model	Interpretation
To determine the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.	<b>H<sub>1</sub>:</b> There is no significant relationship of pillars of corporate governance and performance of pension fund managers in Kenya.	Regression Analysis $Y = \alpha_0 + \beta_1 X_1 + e$ Where P= Performance $\beta$ = Regression Constant $X_1$ = pillars of Corporate Governance $\epsilon$ = Error Term	R <sup>2</sup> - to determine by how much change in Performance is attributable to CG. $\beta$ - The contribution of each variable to the model
To find out the mediating effect of investment policies on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.	<b>H<sub>2</sub>:</b> There is no significant mediating effect of investment policies on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.	Stepwise Regression Step 1: $P = \beta + \beta_{CG} + \epsilon$ Step 2: $IP = \beta + \beta_{CG} + \epsilon$ Step 3: $P = \beta + \beta_{IP} + \epsilon$ Step 4: $P = \beta + \beta_{CG} + \beta_{IP} + \epsilon$ Where: P= Performance $\beta$ =Regressions Constants IP= Investment Policies CG= pillars of Corporate governance $\epsilon$ = Error Term $\beta_{31,41,51,61,62}$ are coefficient's	R <sup>2</sup> - Determines how much change in performance is attributable to CG and IP F - tests overall statistical significance of the model P Value (determines the significance of the model) To assess intervening effect, step 1 to 3 needs to be significant i.e. $p < .05$ ; and step 4 when controlling for mediating (Investment Policies), the influence of independent variable (pillars of corporate governance) needs to be insignificant. If CG is not significant when IP is controlled, there is full mediation, and if both CG and IP significantly predict P, there is partial mediation.
To establish the moderating effect of government regulations on the relationship between pillars of corporate governance and performance of	<b>H<sub>3</sub>:</b> There is no significant moderating effect of government regulations on the relationship between pillars of corporate	Hierarchical regression (i) $P = \alpha_0 + \beta_{CG} + \epsilon$ (ii) $P = \alpha_0 + \beta_{CG} + \beta_{GR} + \epsilon$ (iii) $P = \alpha_0 + \beta_{CG} + \beta_{GR} + CG * GR + \epsilon$ Where: P= Performance $\beta_0$ =Regression Constant GR = Government Regulations	R <sup>2</sup> - Determines how much change in performance is attributable to CG and GR F-tests overall significance of the model $\beta$ - The contribution of each variable to the model

Objective	Hypotheses	Analytical Model	Interpretation
pension fund managers in Kenya.	governance and performance of pension fund managers in Kenya.	CG= pillars of corporate governance $\varepsilon$ = Error Term $\beta$ CG*GR=Interaction effect of GR on CG & FP	
To determine the moderation - mediator effect on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.	<b>H4:</b> There is no significant moderation – mediator effect on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.	Stepwise regression analysis: $P = \alpha + \beta_1CG + \varepsilon$ $P = \alpha + \beta_1CG + \beta_2GR + \beta_3IP + \beta_3GR*IP + \varepsilon$ Where P=Organizational Performance $\beta$ =Regression Constant CG= Pillars of Corporate Governance IP= Investment Policies GR = Government Regulations GR*IP= interaction for Government Regulations and Investment Policies $\varepsilon$ = Error Term	R <sup>2</sup> Coefficient of 1 indicated a perfect predictability of the model p-Value $\leq$ 0.05 shows a significant correlation between the variables ANOVA-F-test with a p value $\leq$ 0.05 showed that the model has predictive ability Reject H <sub>0</sub> if $p \geq 0.05$

### 3.9 Ethical Considerations

The researcher ensured adherence to ethical standards thus providing assurance about the integrity of the study. Proper referencing was made where the researcher cited and used previous authors' ideas and concepts to safeguard the issue of plagiarism. In addition, the researcher followed ethical guidelines which involves adherence to informed consent, confidentiality, voluntary engagement of participants and anonymity factors among other ethical issues as explained in this section.

#### 3.11.1. Informed consent of participants

A letter of authority for the researcher was obtained from the Management University of Africa stating the topic of research and purpose of the same. Secondly, the researcher obtained the requisite permission to conduct research in Kenya from the National Council for Science, Technology and Innovation (NACOSTI). All approvals for the study were availed to the

participants. Participants were also made aware about the purpose of the study and their role in the research exercise. The foregoing information enabled participants give consent while having all information necessary. The research team were taken through this procedure before the beginning of the exercise to enhance compliance.

### **3.11.2. Voluntary engagement of participants**

The researcher ensured that participants were informed from the onset that their involvement in the research was voluntary and without any persuasion or coercion. The participants were free to withdraw from the exercise. Free participation generates goodwill from the participants and thus helps enhance level of participation and objectivity.

### **3.11.3. Confidentiality of participants**

Another important issue that was observed during the study was the aspect of confidentiality. In the letter of introduction attached to the questionnaire, it was clearly stated that the information the participants were to provide will remain confidential and will only be used for purposes of research. They were also informed that as a matter of professional ethics, the researcher is personally responsible on the issue of confidentiality. This helped build trust and provide assurance to the participants on confidentiality.

### **3.11.4. Anonymity of participants**

The study entailed administering of questionnaires and thus cannot be considered entirely anonymous. However, to mitigate on any potential risk related to anonymity, the research instruments were developed to ensure that the participants names, telephone numbers and email addresses were not documented. In addition, data collection instruments were coded and only accessible to the researcher. This made it difficult for anyone to identify participants involved in the study thus giving some level of assurance on anonymity to participants who were involved in the research activity.

## **3.10 Summary**

This chapter explained the research design, target population, instruments, pilot study, data collection and procedure used in the study. The operationalization of the research variables has also been evaluated. In this chapter, reliability and validity of the research instrument was justified. Subsequently, the data analysis of the study has been assessed. The chapter also discussed types of data available and data presentation in detail.

## CHAPTER FOUR

### DATA ANALYSIS AND RESEARCH RESULTS

#### 4.1 Introduction

The section of the thesis provides research study findings as outlined in the study questionnaires to meet the study objectives. The chapter is sectioned into respondent's demographic information, responses on study variables and limitations of the study. Data was collected by the researcher from the field and were analyzed using simple descriptive statistics and SPSS Version 24 and the finding of the tests of the hypothesis. The study used Pearson's product moments and regression analysis; therefore, this chapter presents results of the research in different sub-sections as provided in study main variables.

#### 4.2 Response Rate

The response rate was analyzed to show the representative from the sample size. A response rate is very important to the credibility of the research results. A low response rate may decrease the statistical power of the data collected and undermine the reliability of the results. It may also undermine the ability of the researcher to generalize the results to the larger target audience. This is further complicated by the fact that a low response rate can be indicative of a non-response bias within the sample. A low response rate can give rise to sampling bias if the non-response is unequal among the participants regarding exposure and/or outcome.

The sample size was 338 and 38 (10%) was used for the pilot analysis. 300 questionnaires were administered to the respondents in the fund managers and the results are as shown in Table 4.

**Table 4: Response Rate**

<b>Response</b>	<b>Frequency</b>	<b>Percent</b>
Returned	296	98.66%
Unreturned	4	1.34%
<b>Total</b>	<b>300</b>	<b>100%</b>

The results indicate that 296 (98.66%) of the questionnaires were fully filled up while (4) 1.34% were not fully filled, therefore they were not considered for the study analysis. This response rate was favorable according to Kothari (2009) who indicated that 50% response rate is adequate, 60% good and above 70% rated very well. This implies that the response rate was adequate to be used in the analysis.

### 4.3 Demographic Characteristics of Respondents

Demographics are characteristics of a population. Demographic information provides data regarding research participants and is necessary for the determination of whether the individuals in particular studies are representative sample of the target population for generalization purposes. Demographic analysis was done to study the nature in which the population changes over time, and this is important as it allows us to study how changes to the population. The demographics characteristics included gender, level of education, age bracket and duration of working in this agency. Each of the demographic characteristic is discussed on the subsequent sections.

#### 4.3.1 Gender of Respondents

The study conducted demographics on gender for the respondents to establish the gender diversity. The respondents were asked to indicate their gender. The results are as shown in Table 5. The results show that majority of members were male represented by 58.4% and male at 41.6%.

**Table 5: Gender of Respondents**

<b>Gender</b>	<b>Frequency</b>	<b>Percentage</b>
Male	173	58.4%
Female	123	41.6%
Total	296	100

This implies that gender representation was evenly propositional and the views under the study were representative of both genders, nonetheless male respondents were slightly more than their female counterparts with an 8% difference. The findings shows that there is good distribution of genders in pension fund managers in Kenya and the can be interpreted to mean the universities of equal opportunity to all genders. Kothari (2009) indicates that respondent's gender is one of the most important characteristics in understanding their views about particular issues. gender shows the level of commitment, technical skills and nature of energy required carry out specific functions.

#### 4.3.2 Age of Respondents

The respondents were asked to indicate their age brackets. The results are shown in Table 6.

**Table 6: Respondents Age Brackets**

<b>Age</b>	<b>Frequency</b>	<b>Percentage</b>
18-25 Years	25	8.4%
26-30 Years	48	16.2%
31-35 Years	132	44.6%
Above 36	91	30.75%
Total	296	100

The results indicated that majority of the respondents were aged 31-35 years as indicated by 132 (44.6%); followed by respondents whose age was above 36 years as indicated by 91 (30.75%), respondents aged between 26 and 30 years were 48(16.2%), while the respondents aged between 18 and 25 years were 25(8.4%). The response represents a good dispersion of the respondents in terms of the age bracket. According to Kothari (2009), respondent's age is one of the most important characteristics in understanding their views about particular issues and mostly age indicates the level of maturity of a person in that sense of it becomes important to examine the response.

#### **4.3.2 Level of Education**

Education level refers to the academic credentials or degrees an individual has obtained. The variability of education level of the respondents was investigated and data pertaining to their education level is presented in Table 7.

**Table 7: Level of Education**

<b>Academic Qualification</b>	<b>Frequency</b>	<b>Percentage</b>
Diploma	35	11.8%
Undergraduate Degree	92	31.1%
Master's Degree	111	37.5%
PhD	58	19.6%
Total	296	100

The respondents were asked to indicate their level of education. Majority of the respondents had attained master level of education at 111(37.5%), followed by respondents with Undergraduate Degree at 92(31.1%), followed by respondents with PhD at 58(19.6%) while diploma was at 35(11.8%). This implies that respondents' education level was adequate to comprehend the research questions. As echoed by Kothari (2009), education is one of the most important characteristics that might determine and affect individual attitudes and the way of looking and understanding any particular social phenomenon. In a way, the response of an individual is likely to be determined by one's educational status and hence it becomes imperative to know the educational background of the respondents.

#### 4.3.4 Duration of Service

The respondents were asked to indicate their duration at pension fund managers. The results are shown in Table 8.

**Table 8: Respondents Years in Service**

<b>Duration</b>	<b>Frequency</b>	<b>Percent</b>
0– 5 years	30	10.1%
6 – 10years	132	44.6%
11 – 15years	103	34.8%
16 – 20years	31	10.5%
Total	296	100

The results indicated that the majority had worked for 6 to 10 years at 132(44.6%) in the pension fund manager followed by 11 to 15 years at 103 (34.8%). Those who had worked for 16 to 20 years were at 31(10.5%) and the least was 0– 5 years were 30(10.1%). The years spent in a particular organization can be used to determine the experience gained over the years.

#### 4.3.5 Employee Size of Pension Fund

The study sought to determine the number of employee's in the pension fund managers used in the study. This was determined using the number of employees in the 31 pension fund managers. The results are shown in Table 9.

**Table 9: Size of Pension Fund Managers**

<b>Size of Employees</b>	<b>Frequency</b>	<b>Percent</b>
1 -50 employees	110	37.2%
51-100 employees	150	50.7%
101-200 employees	24	8.1%
Above 200	12	4.1%
Total	296	100

The results indicated that majority of pension fund managers had 51 to 100 employees represented by 150 (50.7%) followed by 1 to 50 employees represented by 110(37.2%). The pension fund managers with 101 to 200 employees were represented by 24 (8.1%). The least was those with more than 200 employees represented by 12 (4.1%).

#### **4.4 Results of the Pilot Study**

Pilot testing is the initial evaluation of the interview guide to find out its feasibility before embarking on the research project. Pilot testing the research instrument helps provide feedback as to the clarity of the respondents' understanding of the questions, and indeed also aids in determining whether the instrument responds, as envisaged, to the research questions. The questionnaires for this study were subjected to a pilot test on a sample of 34 respondents that represent 10% of the study population. The pilot tests included validity and reliability tests.

##### **4.4.1 Reliability Test**

Reliability is broadly defined as the degree to which measures are free from error and therefore yield consistent results (Zikmund, Babin, Carr, & Griffin, 2003). Reliability is the consistency of responses; the degree to which an instrument measures in the same way each time under the same conditions. Cronbach alpha was calculated for all statements in the questionnaire. Cronbach alpha is a correlation coefficient between two sets of data. Field (2013) posits that scores of between 0.4 and 0.7 are considered to be of normal consistency while scores higher than 0.7 are considered of high consistency. For this study, reliability was calculated using Cronbach's alpha formula and results generated with the aid of SPSS.

**Table 10: Reliability Test**

No	Variables	Items	Cronbach Alpha	Remark
<b>Export Strategy</b>				
1	Pillars of Corporate governance	32	0.890	Reliable
2	Investment policies	26	0.955	Reliable
3	Government regulations	12	0.741	Reliable
4	Performance	27	0.877	Reliable

The findings in Table 10 show that cronbach's alpha for all the items were all above 0.7 indicating that the instrument was adequately reliable for measurement and therefore were acceptable. Since all the variables measured had a cronbach's alpha above 0.7, they were all reliable and thus accepted

#### **4.4.2 Validity Testing Using Factor Analysis**

According to Comrey and lee (2013), factor analysis is a term that represents a large number of different mathematical procedures for analyzing the interrelationships among a set of variables and for explaining these relationships in terms of a reduced number of variables, called factors. In this case factor analysis was conducted on all items for each of the study variables.

Cooper and Schindler (2011) suggest that variables with factor loading 0.7 are acceptable. However a minimum of 0.4 value of factor loading is allowed as suggested by other researchers. Similarly, Tabachinick and Fidell (2007) described factor loading as follows 0.32 (poor), 0.45 (fair), 0.55 (good), 0.63 (very good) or 0.7 (excellent). Factor analysis for the study was carried out in order to check for any correlated variables for redundancy in data to be reduced. It also helps to analyze the ownership structure of the interrelationships by defining the factors. The study used a factor loading value of 0.5.

##### **4.4.2.1 Factor Analysis for Pillars of corporate governance**

Factor analysis was carried out on the statements of pillars of corporate governance. Pillars of corporate governance was categorized into transparency, ownership structure, accountability and participation. Factor analysis was done by subjecting the statement to dimension reduction in SPSS where any sub variable with a value less than 0.5 was removed. Table 11 shows the set of sub variables under the pillars of corporate governance.

**Table 11: Factor Loading for Pillars of corporate governance**

<b>No.</b>	<b>Transparency</b>	<b>Factor Loading</b>
1	The board discloses the corporation's independent auditors	0.850
2	There is equal access to information for all stakeholders	0.848
3	The board discloses managerial ownership and compensation	0.628
4	Board guidelines on Corporate Governance are published in the firm proxy statement	0.609
5	Board guidelines on the code of ethics and conduct are published in the firm's proxy statement	0.692
6	The Fund manager prepares audited financial statements and makes them available to members	0.813
<b>Ownership Structure</b>		
7	There is an established audit committee in my organization	0.883
8	The Audit Committee is composed of only nonexecutive directors who are independent of the company	0.972
9	Members of the Audit committee possess certain level of financial competency	0.942
10	There is a procedure to assesses the performance of the audit committee chair	0.845
11	The audit committee has effective working relationships with senior management	0.950
12	The Audit Committee meets at least 3 times in a year	0.815
13	The Fund conducts AGM's for its members annually	0.972
14	There is clear remuneration package for the Directors	0.942
15	The remuneration committee is composed solely of independent directors	0.911
16	Non-employees do not participate in the company pension plans	0.937
17	In the organization Incentive plans are used to improve Directors monitoring of performance	0.948
18	Directors receive all or a portion of their fees in Bonuses	0.930
19	The Company does not provide any loans to executives for exercising options	0.915
<b>Accountability</b>		
20	The Fund manager has developed and adopted a code of corporate governance practices	0.941
21	The Fund manager has formed board committees to deal with specialized matters such as audit, investments, governance, staff and administration.	0.934

22	The Fund manager has appointed an organisation and/or persons to carry out internal audits	0.933
23	The Fund manager publicly announces the biodata and qualifications of the Trustees	0.907
24	Audit committee members are carefully recruited and retired	0.937
25	The independence of the audit committee is real as well as perceived	0.948
<hr/>		
<b>Participation</b>		
26	The Fund manager has a set quota for meetings of Trustees	0.930
27	The Fund manager has the conflict management process	0.915
28	The board has an effective remuneration committee.	0.941
29	There is an elaborate policy on executive remuneration.	0.934
30	Executives are subject to annual appraisals	0.863
31	Directors are subject to annual appraisals	0.927
32	Executive and Directors long term compensation is tied to shareholder returns	0.946
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Results on Table 11 show that all the statements on transparency, structure, accountability and participation had factor loading values greater than 0.5 and therefore they were accepted and thus no sub variable was dropped.

#### **4.4.2.2 Factor Analysis for Investment Policies**

Factor analysis was conducted on the statements on investment policies. This was done by subjecting the statement to dimension reduction in SPSS where any sub variable with a value less than 0.5 was removed. Table 4.9 shows the set of sub variables under the investment policies.

**Table 12: Factor Loading for Investment Policies**

<b>No.</b>	<b>Statements</b>	<b>Factor Loading</b>
1	Our pension plan rules do not restrict investments in any company	0.931
2	We have a pension investment committee that makes investment decisions	0.898
3	Trustees are covered by liability insurance	0.868
4	We have invested more in fixed interest investments (bonds and Treasury bills) over the past two years	0.922
5	RBA rules on investment restrictions have a negative impact on our investment decisions	0.970
6	We conduct independent evaluations of our pension fund performance to confirm the rates given by the fund administrators	0.966
7	We have a clear investment policy that is strictly implemented	0.881
8	Trustees give total investment discretion to the fund managers	0.601
9	We have an investment risk management policy for our pension plan	0.762
10	Our investment strategies are based on findings of market research conducted by fund managers	0.931
11	We set quarterly targets on investment returns and strategize to achieve them	0.898
12	Fund manager has increased its reliance on relevant professional advisors in making investment policies.	0.868
13	Fund manager's assets are more diversified in different asset classes as compared to the past	0.922
14	members receive satisfactory responses to queries regarding investment performance of the Scheme	0.970
15	Fund manager has improved on reporting on the status of investments	0.966
16	Pension benefits paid by the fund have improved over the years	0.880
17	The level of pension benefits paid by the fund are better than those paid by other pension schemes	0.887
18	The investment returns reported by the fund have improved over the years	0.919
19	The fund's AGM's are characterized with positive feedback from members regarding investment returns	0.813
20	Rules and procedures for transactions are in place	0.630
21	Commercial laws, rules and regulations are in place	0.922
22	Laws and rules for appointing and removing auditors are in place	0.970

23	Government agencies responsible for enforcement of corporate laws are in place	0.966
24	Inspectors investigate non-compliance with statutory requirements	0.880
25	Inspectors investigate complaints by stakeholders about mismanagement	0.887
26	Actions are taken against auditors' failure to report improper financial records	0.919

The outputs in Table 12 show that all the statements on investment policies had factor loading values greater than 0.5 and therefore they were accepted and thus no sub variable was dropped.

#### 4.4.2.3 Factor Analysis for Regulations

Factor analysis was carried out on the statements of government regulations. According to Tabachinick and Fidell (2007), factor loading of 0.45 as fair measure of real life data. Table 13 shows the factor loading for regulations.

**Table 13: Factor Loading for Regulations**

No.	Statements	Factor Loading
1	Regulation affects compliance costs of the fund managers	0.778
2	The Government regulation limits the number of trustees to 10 (regardless of the size of the scheme)	0.909
3	Tax on non-exempt incomes of pension fund members as imposed by the Kenyan Revenue Authority	0.818
4	The government regulations controls fund managers compliance with RBA levies	0.765
5	The regulatory meetings (4 per year) with the service providers as stipulated by RBA	0.903
6	The risk based approach adopted by RBA in the supervision of pension funds	0.937
7	The Government controls risk tolerance limits imposed by the RBA	0.798
8	Government ensures adherence RBA financial reporting regulations to which pension funds should adhere to	0.783
9	Government Regulations promotes solvency	0.937
10	Government regulations limits competition hence making it hard for it to compete in the market.	0.903
11	The government regulations are conducive.	0.937
12	Government regulations promote equity and similarity	0.798

The outputs in Table 13 show that all the statements on ma government regulations had factor loading values greater than 0.5 and therefore they were accepted and thus no sub variable was dropped.

#### 4.4.2.4 Factor Analysis for Performance

Factor analysis was carried out on the statements of performance. According to Tabachinick and Fidell (2007), factor loading of 0.45 as fair measure of real life data. Table 14 shows the factor loading for performance.

**Table 14: Factor Loading for Firm Performance**

<b>Statements</b>	<b>Factor Loading</b>
1 Our administration costs have decreased over the years	0.956
2 Benefits processing period has decreased	0.978
3 We have improved our internal control system	0.845
4 The time we spend in trustee meetings has decreased	0.768
5 Our records processing system has improved	0.897
6 Time taken reporting to members has decreased	0.974
7 Our compliance costs have decreased	0.830
8 Our rate of investment has increased	0.990
9 Member involvement in decision-making in our plan has increased	0.994
10 Sponsor involvement in our pension plan has decreased significantly	0.992
11 We have experience less under-funding (pension liabilities exceed pension assets) in our pension fund over the years	0.972
12 We have been appointing service providers on competitive bidding over the years	0.956
13 We have been successfully complying to RBA regulations over the years	0.978
14 Continuous finance education to trustees by the pension fund	0.994
15 The pension fund using an internal control system of documenting, monitoring and reporting its operations	0.897
16 Effective communication to members by the pension fund	0.974
17 The pension fund clearly defining the roles of trustees	0.830
18 Adhering to RBA's regulation of fees charged by service operators	0.990
19 Our pension fund faces bankruptcy if our employers cease to exist	0.994
20 Our investment strategies are based on findings of market research conducted by fund managers	0.992

The outputs in Table 14 show that all the statements on performance had factor loading values greater than 0.5 and therefore they were accepted and thus no sub variable was dropped.

#### **4.4.3 Diagnostics Tests**

The study conducted different diagnostic tests to make sure that the postulations of Classical Linear Regression Model (CLRM) are not contravened and to select the appropriate models for investigation in the event (CLRM) postulations are violated. Thus, prior to running a regression model pre-estimation and post estimation tests have been conducted. The pre-estimation tests conducted in this case are the normality test, multicollinearity, and heteroscedasticity and linearity tests. Each of them is discussed in the subsequent sections.

##### **4.4.3.1 Normality Test**

Test for normality determines if the data is well modeled and normally distributed (linear). It is an assessment of the normality of data in statistical tests. Avioli (2012) showed that descriptive, normality, and verification tests could be assessed with the normal distribution. Singh and Masuku (2014) posit that if these tests are non-normality, then the data has either outliers, multiple modes, incorrect measuring tools, incorrect distributions, zero/infinite limits, or scanty collections. In order to fit a linear model, the variables has to be normally distributed.

To test the normality, Shapiro–Wilk test was used as it has the highest power among all tests for normality. The hypothesis was tested at a critical value at 0.05, where the rule is that reject  $H_0$  if the probability (P) value is less than 0.05 or else do not reject. The variable should be normally distributed because the study was analyzed using a multiple regression model where the condition of normality must be satisfied (Quataroli & Julia, 2012). The hypothesis was that;

$H_1$ : The data is normal.

The results for normality are as shown in Table 15.

**Table 15: Test for Normality**

	<b>Shapiro-Wilk</b>		
	<b>Statistic</b>	<b>df</b>	<b>Sig.</b>
Pillars of corporate governance	0.898	296	0.290
Investment policies	0.885	296	0.141
Government regulations	0.901	296	0.724
Performance	0.977	296	0.160

Table 15 indicates that using the Shapiro-Wilk test of normality, the data is normal since the p-values are above 0.05 for all the variables and thus we do not reject the alternative hypothesis ( $H_1$ ). The study concluded that pillars of corporate governance, investment policies, government regulations and performance are normal in distribution and hence subsequent analysis can be carried out.

#### 4.4.3.2 Test for Multicollinearity

Multicollinearity is usually a situation in which there is a high degree of association between independent variables and dependent variable. The study used large samples to solve the problem, as Multicollinearity is not known to exist in large samples. Multicollinearity was tested using variance inflation factor VIF in all the analysis and it ranged from 1 to 4 which would not be a cause of concern, according to Myres (2015) who indicated that where  $VIF \geq 10$  indicate presence of Multicollinearity.

Multicollinearity test was done where tolerance of the variable and the VIF value were used. Values more than 0.2 for Tolerance and values less than 10 for VIF means that there is no multicollinearity. Results for multicollinearity are as shown in Table 16.

**Table 16: Multicollinearity Test Using Tolerance and VIF**

<b>Variable</b>	<b>Collinearity Statistics</b>	
	<b>Tolerance</b>	<b>VIF</b>
Pillars of corporate governance	0.24	4.161
Investment Policies	0.258	3.872
Government Regulation	0.212	4.72

From the findings above all the variables had tolerance values  $>0.2$  and VIF values  $<10$  as shown in Table 16 and thus according to Myres (2015) who indicated that where  $VIF \geq 10$  indicate presence of Multicollinearity, there was no multicollinearity among the independent variables.

#### 4.4.3.3 Test for Heteroscedasticity

Heteroscedasticity is the circumstance in which the variability of a variable is unequal across the range of values of a second variable that predicts it. Running a regression model without accounting for heteroscedasticity would lead to unbiased parameter estimates. To test for heteroscedasticity, the Breusch-Pagan/Godfrey test was used. Heteroscedasticity test was run using Breusch-Pagan / Cook-Weisberg test in order to test whether the error terms are correlated across observations in the cross sectional of the data (Long & Ervin, 2000). The hypothesis was that;

$H_0$ : Data does not suffer from Heteroscedasticity.

If the p-value is less than 0.05, the null hypothesis is rejected. Results are presented in Table 17.

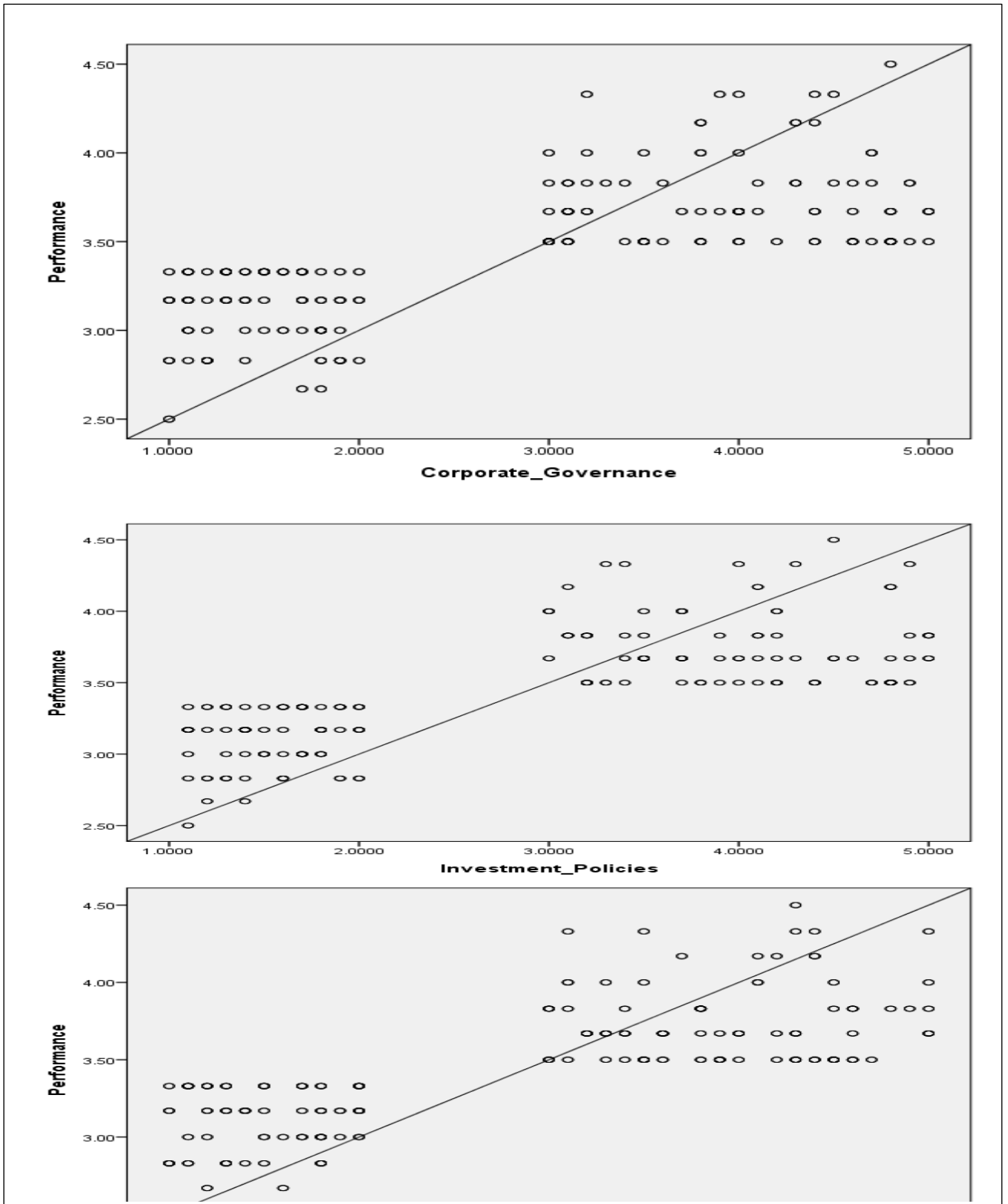
**Table 17: Heteroscedasticity Results**

Breusch-Pagan / Cook-Weisberg test for heteroscedasticity		
Ho: Constant variance		
Variable: fitted values of Performance		
chi2(1)	=	10.05
Prob > chi2	=	0.150

Results in Table17 show that the p-value is greater than the 5%. Then the alternative hypothesis was rejected at a critical p value of 0.05 since the reported value was  $0.150 > 0.05$  and thus the data did not suffer from heteroscedasticity.

#### 4.4.3.4 Test for Linearity

Linearity assumes a straight-line relationship between the predictor variables and the criterion variable. This was assessed by examination of a scatter plot of all the independent variables against the dependent variable to measure if there is a straight-line relationship. All the independent variables depicted a straight-line relationship with the dependent variable as shown in Figure 2.



**Figure 2: Linearity for pillars of corporate governance, investment policies and government regulation**

Figure 2 shows that the independent variables pillars of corporate governance, investment policies and government regulation depicted a straight-line relationship with the dependent variable performance.

#### 4.5 Descriptive Statistics

The purpose of descriptive statistics was to enable the study to meaningfully describe a distribution of scores or measurements using indices or statistics. The type of statistics or indices used depends on the type of variables in the study and the scale of the measurements. This section contains descriptive analysis for pillars of corporate governance, investment policies, government regulations and performance.

##### 4.5.1 Descriptive Statistics for Pillars of corporate governance

The descriptive statistics were analysed using the mean statements on transparency, structure, accountability and participation. The descriptive statistics were run using SPSS software. The first objective of the study was to establish the relationship between pillars of corporate governance and performance of pension fund managers. The results are as depicted in Table 18.

**Table 18: Descriptive Statistics for Pillars of corporate governance**

	Transparency	Ownership Structure	Accountability	Participation
N	296	296	296	296
Mean	3.073	3.107	3.156	3.043
Median	3.200	3.100	3.100	3.100
Std. Deviation	0.098	0.203	0.134	0.160
Skewness	-0.166	-0.035	-0.209	-0.230
Kurtosis	-0.918	-1.225	-0.929	-1.149

The results from the Table 18 shows the descriptive statistics that indicates central tendency and dispersion of all the measures of pillars of corporate governance. The total number of respondents in each measured was 296. Distribution of data was measured using skewness and kurtosis whereas central tenancy was measured using mean, median and mode. The standard deviation was used to measure dispersion. The results show that transparency had a mean of

3.073 and median of 3.2. The standard deviation of 0.098 showed that the members of the group differed from the mean value of 3.07 for the group in the observation.

The measures of kurtosis and skewness are used to determine if indicators met normality assumptions (Kline, 2005). According to Bai and Ng (2005), if skewness is less than -1 or greater than 1, the distribution is highly skewed, if skewness is between -1 and -0.5 or between 0.5 and 1, the distribution is moderately skewed, if skewness is between -0.5 and 0.5, the distribution is approximately symmetric. Skewness for transparency was -0.166. Since the values were between -0.5 and 0.5, we thus conclude that the distribution is approximately symmetric. Kurtosis results showed that Idealized Influence had -0.918. Thus, we can conclude that the values were platykurtic since they are less than 3 and thus had a broad tail distribution and no outliers.

The results indicated that corporate structure had a mean of 3.107 and a median of 3.1. The standard deviation of 0.203 showed that the members of the group differed from the mean value of 3.107 for the group in the observation. Skewness for corporate structure was -0.035. Since the values were between -0.5 and 0.5, we thus conclude that the distribution is approximately symmetric. Kurtosis results showed that corporate structure had -1.225. Thus, we can conclude that the values were platykurtic since they are less than 3 and thus had a broad tail distribution and no outliers and met normality assumptions.

Further, the results indicated that participation had a mean of 3.156 and a median of 3.1. The standard deviation of 0.160 showed that the members of the group differed from the mean value of 3.156 for the group in the observation. Skewness for participation was -0.209. Since the values were between -0.5 and 0.5, we thus conclude that the distribution is approximately symmetric. Kurtosis results showed that participation had -0.929. Thus, we can conclude that the values were platykurtic since they are less than 3 and thus had a broad tail distribution and no outliers and met normality assumptions.

Lastly, the results indicated that accountability had a mean of 3.043 and a median of 3.1. The standard deviation of 0.160 showed that the members of the group differed from the mean value of 3.156 for the group in the observation. Skewness for accountability was -0.230. Since the values were between -0.5 and 0.5, we thus conclude that the distribution is approximately symmetric. Kurtosis results showed that accountability had -1.149. Thus, we can conclude that the values were platykurtic since they are less than 3 and thus had a broad tail distribution and no outliers and met normality assumptions.

#### 4.5.2 Descriptive Statistics for Investment Policies

The second objective of the study was to evaluate the intervening effect of investment policies on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya. Descriptive statistics were carried out on investment policies and the results are shown in Table 19.

**Table 19: Descriptive Statistics for Investment Policies**

	<b>Investment Policies</b>
N	296
Mean	3.928
Median	3.200
Std. Deviation	0.337
Skewness	0.078
Kurtosis	-1.552

The results from the Table 19 shows the descriptive statistics for investment policies. The total number of respondents in each measured was 296. Distribution of data was measured using skewness and kurtosis whereas central tenancy was measured using mean, median and mode. The standard deviation was used to measure dispersion. The results show that investment policies had a mean of 3.928 and median of 3.2. The standard deviation of 0.337 showed that the members of the group differed from the mean value of 3.928 for the group in the observation. The standard deviation of 0.337 further implies that the data points tend to be very close to the mean of the data and a high standard deviation implies that the data points are spread over a wide range of the values.

Skewness for investment policies was 0.078. Since the values were between -0.5 and 0.5, we thus conclude that the distribution is approximately symmetric. Kurtosis results showed that investment policies had -1.552. Thus, we can conclude that the values were platykurtic since they are less than 3 and thus had a broad tail distribution and no outliers and met normality assumptions. Investment policies was evenly distributed and the measure between the high and low score was small and exhibits normality in investment policies.

### 4.5.3 Descriptive Statistics for Regulation

The third objective of the study was to assess the moderating effect of government regulations on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya. Descriptive statistics were carried out on government regulations and the results are shown in Table 20.

**Table 20: Descriptive Statistics for Regulation**

	<b>Government Regulation</b>
N	296
Mean	3.865
Median	3.100
Std. Deviation	1.291
Skewness	0.010
Kurtosis	-1.514

The results from the Table 20 shows the descriptive statistics for government regulations. The total number of respondents in each measured was 296. Distribution of data was measured using skewness and kurtosis whereas central tenancy was measured using mean, median and mode. The standard deviation was used to measure dispersion. The results show that government regulations had a mean of 3.865 and median of 3.1. The standard deviation of 1.291 showed that the members of the group differed from the mean value of 3.865 for the group in the observation. The standard deviation of 1.291 further implies that the data points tend to be very close to the mean of the data and a high standard deviation implies that the data points are spread over a wide range of the values.

Skewness for government regulations was 0.01. Since the values were between -0.5 and 0.5, we thus conclude that the distribution is approximately symmetric. Kurtosis results showed that government regulations had -1.514. Thus, we can conclude that the values were platykurtic since they are less than 3 and thus had a broad tail distribution and no outliers. Government regulations was evenly distributed and the measure between the high and low score was small and exhibits normality in government regulations.

#### 4.5.4 Descriptive Statistics for Performance

Descriptive statistics were carried out on performance of pension fund managers in Kenya and the results are shown in Table 21.

**Table 21: Descriptive Statistics for Performance of Pension Fund Managers**

	<b>Performance</b>
N	296
Mean	3.460
Median	3.500
Std. Deviation	0.398
Skewness	0.187
Kurtosis	-0.219

The results from the Table 21 shows the descriptive statistics for pension fund managers in. The total number of respondents in each measured was 296. Distribution of data was measured using skewness and kurtosis whereas central tenancy was measured using mean, median and mode. The standard deviation was used to measure dispersion. The results show that performance of pension fund managers had a mean of 3.46 and median of 3.5. The standard deviation of 0.398 showed that the members of the group differed from the mean value of 3.46 for the group in the observation. The standard deviation of 0.398 further implies that the data points tend to be very close to the mean of the data and a high standard deviation implies that the data points are spread over a wide range of the values.

Skewness for performance in pension fund managers was 0.187. Since the values were between -0.5 and 0.5, we thus conclude that the distribution is approximately symmetric. Kurtosis results showed that performance of pension fund managers had -0.219. Thus, we can conclude that the values were platykurtic since they are less than 3 and thus had a broad tail distribution and no outliers. Performance of pension fund managers was evenly distributed and the measure between the high and low score was small and exhibits normality in performance of pension fund managers.

#### 4.6 Correlation Analysis

Correlation analysis was carried out to determine the association between the variables; pillars of corporate governance, investment policies, Government regulations and performance. The mean score for each of the independent variables was calculated and the Pearson's correlation

obtained using SPSS. The correlations were done at 0.05 significance level with one asterisk (\*) or a 0.01 significance level with two asterisks. To determine whether the correlation between variables is significant, one needs to compare the p-value to the significance level used. A significance level (denoted as  $\alpha$  or alpha) of 0.05 works well. An alpha of 0.05 indicates that the risk of concluding that a correlation exists when, actually, no correlation exists is 5%. The p-value indicate whether the correlation coefficient is significantly different from 0 or not. When the p-value is less than or equal to 0.05 the correlation is statistically significant. However, if the p-value is greater than 0.05 or the significant level then correlation is not statistically significant (Statistics Solution, 2018). The correlation results are presented in Table 22.

**Table 22: Correlation Matrix**

Variables		Performance	Pillars of corporate governance	Investment Policies	Government Regulation
Performance	Pearson Correlation	1.000			
	Sig. (2-tailed)				
Pillars of corporate governance	Pearson Correlation	.743**	1.000		
	Sig. (2-tailed)	0.000			
Investment Policies	Pearson Correlation	.728**	.816**	1.000	
	Sig. (2-tailed)	0.000	0.000		
Government Regulation	Pearson Correlation	.759**	.852**	.840**	1.000
	Sig. (2-tailed)	0.000	0.000	0.000	

The results in Table 22 indicated that pillars of corporate governance was positively and significantly associated to performance of pension fund managers ( $r= 0.743^{**}$ ,  $p=0.00<0.05$ ). This implied that since pillars of corporate governance had a positive and significant effect thus an improvement would lead to improvement in performance of pension fund managers. Investment policies was positively and significantly associated to performance of pension fund managers ( $r= 0.728^{**}$ ,  $p=0.00<0.05$ ). This meant that since Investment policies had a positive and significant effect thus its improvement would lead to improvement in performance of

pension fund managers. Lastly, Government regulation was positively and significantly associated to performance of pension fund managers ( $r= 0.759^{**}$ ,  $p=0.00<0.05$ ). This was an indication that an improvement in Government regulations will lead to improvement in performance of pension fund managers. In addition, this was an indication that pillars of corporate governance, investment policies and Government regulations portrayed a strong connection with and performance of pension fund managers.

#### **4.7 Hypotheses Testing**

This section presents the findings of tests of hypotheses of the study. The hypotheses describe the relationship between variables of the study as conceptualized and presented in the conceptual model. The study focused on four objectives and four corresponding hypotheses. The hypotheses which were tested related to the influence of pillars of corporate governance (independent variable) on performance of pension fund managers (dependent variable); the intervening effect of investment policies on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya; the moderating effect of government regulations on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya; and establishing if the moderation - mediator effect on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.

The first hypothesis was tested using simple regression model. While the second and third hypotheses for mediation and moderation models respectively were tested using stepwise regression as suggested by Baron and Kenny (1986). Lastly, the fourth hypothesis was tested using step wise simple regression models with the last step being a multiple regression model. The tests were done at 5% significance level ( $\alpha = 0.05$ ). The evaluation focused on the hypotheses derived from the objectives of the study.

##### **4.7.1 Pillars of corporate governance and Performance of Pension Fund Managers**

The first objective of the study was to establish the relationship between pillars of corporate governance and performance of pension fund managers. A simple regression model was used to test the statistical significance of the independent variable (pillars of corporate governance) on the dependent variable (performance) of pension fund managers in Kenya. The first hypothesis stated in the null form is as follows:

**H<sub>01</sub>: There is no significant relationship between pillars of corporate governance and performance of pension fund managers in Kenya.**

Hypothesis 1 sought to establish the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.

**Table 23: Model Fitness for Pillars of corporate governance and Performance**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.781a	0.61	0.605	0.25002

As presented in the Table 23 the coefficient of determination R Square is 0.61. The model indicates that pillars of corporate governance explains 61% of the variation in performance of pension fund managers. The adjusted R squared value considered only those independent variables which actually have an effect on the performance of the model.

**Table 23: ANOVA for Pillars of corporate governance and Performance**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	28.479	4	7.12	113.898	.000b
	Residual	18.191	291	0.063		
	Total	46.67	295			

As shown in Table 23,  $F_{\text{Calculated}}(4, 295) = 113.898$  which is greater than  $F_{\text{Critical}}(4, 295) = 3.96$  at 95% confidence level. Results also show that  $p\text{-value} = 0.000 < 0.05$ . This further confirms that pillars of corporate governance positively and significantly influences performance of pension fund managers.

**Table 24: Regression of Coefficients for Pillars of corporate governance and Performance**

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	2.539	0.047		54.336	0.000
Pillars of corporate governance	0.065	0.023	0.178	2.855	0.005

Findings presented in Table 24 show that when pillars of corporate governance, is held constant, performance of pension fund managers will remain at 2.539. At the same time, an increase in Pillars of corporate governance by one unit leads to an increase in performance of pension fund managers by 0.065 units with a p-value of  $0.000 < 0.05$ . The study thus, rejected

the null hypothesis and adopted the alternative hypothesis that there is significant relationship between corporate governance and performance of pension fund managers in Kenya.

This can be summarized by the following model:

$$P = 2.539 + 0.065CG$$

Where;

P= Performance of Pension Fund Managers

CG= Pillars of corporate governance

#### **4.7.2 Intervening Effect of Investment Policies**

The second objective of the study was to evaluate the intervening effect of investment policies on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya. The second hypothesis stated in the null form is as follows:

**H<sub>02</sub>: There is no significant intervening effect of investment policies on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.**

The intervening effect of investment policies was assessed and results explained using coefficient of determination (R-Square), Analysis of Variance (ANOVA) and the regression coefficients. The intervening effect of investment policies on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya was analysed in 4 steps.

- i) Step 1:  $P = \beta + \beta CG + \epsilon$
- ii) Step 2:  $IP = \beta + \beta CG + \epsilon$
- iii) Step 3:  $P = \beta + \beta IP + \epsilon$
- iv) Step 4:  $P = \beta + \beta CG + \beta IP + \epsilon$

Steps 1-3 was used to establish that zero-order relationship existed among the variables. Situations where one or more of the relations is non – significant depicts no possibility of mediation (Baron & Kenny, 1986). If they are significant relationships from step 1 through 3, one proceeds to step 4 where mediation is supported if the effect of pillars of corporate governance (CG) remains significant after controlling investment policies (IP). If investment policies (IP) is not significant when pillars of corporate governance (CG) is controlled, there is

full mediation, and if both pillars of corporate governance (CG) and investment policies (IP) significantly predict performance of pension fund managers (P) there is partial mediation.

**Table 25: R<sup>2</sup> for Pillars of corporate governance, Investment Policies and Performance**

<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
1	.743a	0.552	0.55	0.26671
2	.816a	0.665	0.664	0.77508
3	.728a	0.530	0.529	0.27302
4	.772a	0.597	0.594	0.25348

The results in Table 25 shows that the Rsquare for the mediating effect had varying values. The first step for regressing pillars of corporate governance against performance of pension fund managers had 55.2% while the second step of regressing pillars of corporate governance against investment policies had 66.5%. The third step which regressed investment policies against performance of pension fund managers had 53% and lastly the step that regressed pillars of corporate governance, investment policies against performance of pension fund managers had 59.7%. The Rsquares for all the steps were above 50% and thus indicated a high level of variation. The adjusted R squared value considered only those independent variables which actually have an effect on the performance of the model.

Table 26 shows ANOVA for pillars of corporate governance, investment policies and performance of pension fund managers.

**Table 26: ANOVA for Pillars of corporate governance, Investment Policies and Performance**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	25.756	1	25.756	362.084	.000b
	Residual	20.913	294	0.071		
	Total	46.67	295			
2	Regression	351.017	1	351.017	584.299	.000b
	Residual	176.62	294	0.601		
	Total	527.637	295			
3	Regression	24.755	1	24.755	332.109	.000b
	Residual	21.915	294	0.075		
	Total	46.67	295			
4	Regression	27.845	2	13.922	216.689	.000b
	Residual	18.825	293	0.064		
	Total	46.67	295			

The ANOVA results indicated that all the four models were significant at  $0.000 < 0.05$ . The F-Statistic for model one was ( $F=362.084$ ,  $p = 0.000 < 0.05$ ), the F-Statistic for Model two was ( $F=584.299$ ,  $p = 0.000 < 0.05$ ), the F-Statistic for model three was  $F=332.109$ ,  $p = 0.000 < 0.05$  and the f-Statistic for model four was ( $F=216.689$ ,  $p = 0.000 < 0.05$ ).

The results for the regression of coefficients for pillars of corporate governance, investment policies and performance of pension fund managers are as shown in Table 27.

**Table 27: Anova for Pillars of corporate governance, Investment Policies and Performance**

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	2.827	0.037		77.094	0.000
	Pillars of corporate governance	0.222	0.012	0.743	19.029	0.000
2	(Constant)	0.593	0.107		5.566	0.000
	Pillars of corporate governance	0.821	0.034	0.816	24.172	0.000
3	(Constant)	2.826	0.038		73.875	0.000
	Investment Policies	0.217	0.012	0.728	18.224	0.000
4	(Constant)	2.763	0.037		75.395	0.000
	Pillars of corporate governance	0.133	0.019	0.445	6.934	0.000
	Investment Policies	0.109	0.019	0.366	5.701	0.000

The regression of coefficients results shows that in step one, the regression model of performance of pension fund managers on pillars of corporate governance was significant with  $\beta=0.222$ ,  $p=0.000<0.05$ ) and supported by  $T_{\text{Calculated}}=(1, 295)= 19.029> T_{\text{Critical}} (0.05, 295)= 1.658$ .

In step two, the results show that the regression model of pillars of corporate governance on investment policies was significant with  $\beta=0.821$ ,  $p=0.000<0.05$ ) and supported by  $T_{\text{Calculated}} = (1, 295) = 24.172> T_{\text{Critical}} (0.05, 295) = 1.658$ .

In step three, the results show that the regression model of investment policies on performance of pension fund managers was significant with  $\beta=0.217$ ,  $p=0.000$ ) and supported by  $T_{\text{Calculated}} = (1, 295) = 18.224> T_{\text{Critical}} (0.05, 295) = 1.658$ .

In step four, the results show that the regression model of pillars of corporate governance and investment policies on performance of pension fund managers was significant with ( $\beta_1=0.133$ ,  $p=0.000<0.05$ ;  $\beta_2=0.109$ ,  $p=0.000<0.05$ ) and supported by  $T_{\text{Calculated}} =(2, 294)= 6.934, 5.701> T_{\text{Critical}} (0.05, 294)= 1.658$ .

The fitted models were:

$$P = 2.827 + 0.222CG$$

$$IP = 0.593 + 0.821CG$$

$$P = 2.826 + 0.217IP$$

$$P = 2.763 + 0.133CG + 0.109IP$$

Where;

P = Performance of pension fund managers

CG = Pillars of corporate governance

IP = Investment Policies

Thus, step 1, 2 and 3 were met as the P-value were below 0.05. However, step 4 was not met as the p value for pillars of corporate governance was below 0.05. Therefore, this indicated that there exists a partial mediation effect on the mediating role of investment policies on the relationship between pillars of corporate governance and performance of pension fund managers. Partial mediation implies that there is not only a significant relationship between the mediator and the dependent variable, but also some direct relationship between the independent and dependent variable. The study thus, rejected the null hypothesis and adopted the alternative hypothesis that there is a partial intervening effect of investment policies in the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.

#### **4.7.3 Moderating Effect Government Regulation**

The third objective was to establish the moderating effect of government regulations on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya. The third hypothesis stated in the null form is as follows:

**H<sub>03</sub>: There is no significant moderating effect of government regulations on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya**

The moderating effect of government regulations was assessed and results explained using coefficient of determination (R-Square), Analysis of Variance (ANOVA) and the regression coefficients. Hierarchical regression analysis was performed with an interaction term (a product of pillars of corporate governance and government regulations) introduced as an

additional predictor. The moderating effect was analyzed in 3 models as guided by the following models:

$$P = \beta_0 + \beta CG + \varepsilon$$

$$P = \beta_0 + \beta CG + \beta GR + \varepsilon$$

$$P = \beta_0 + \beta CG + \beta GR + \beta CG * GR + \varepsilon$$

**Table 28: R<sup>2</sup> for Pillars of corporate governance, Government Regulations on Performance**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.743a	0.552	0.550	0.26671
2	.781a	0.610	0.607	0.24924
3	.792a	0.627	0.623	0.24414

The results in Table 28 shows that the R squared for the moderating effect had varying values. The first step for regressing pillars of corporate governance against performance of pension fund managers had 55.2% while the second step of regressing pillars of corporate governance and government regulations against supply performance of pension fund managers had 61%. The third step which regressed pillars of corporate governance, government regulations and the interaction term CG\*GR against performance of pension fund managers had 62.7%. The Rsquare for model increased from 55.2% to 61% and 62.7% after the interaction term. The adjusted R squared value considered only those independent variables which actually have an effect on the performance of the model.

ANOVA results for pillars of corporate governance, government regulations and performance of pension fund managers are as shown in Table 29.

**Table 29: ANOVA for Pillars of corporate governance, Government Regulations on Performance**

<b>Model</b>		<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
1	Regression	25.756	1	25.756	362.084	.000b
	Residual	20.913	294	0.071		
	Total	46.67	295			
2	Regression	28.468	2	14.234	229.137	.000b
	Residual	18.201	293	0.062		
	Total	46.67	295			
3	Regression	29.266	3	9.755	163.67	.000b
	Residual	17.404	292	0.06		
	Total	46.67	295			

The ANOVA results indicated that all the three models were significant at  $0.000 < 0.05$ . The F-Statistic for model one was ( $F=362.084$ ,  $p = 0.000 < 0.05$ ), the F-Statistic for Model two was ( $F=229.137$ ,  $p = 0.000 < 0.05$ ), the F-Statistic for model three was  $F=163.67$ ,  $P = 0.000 < 0.05$ .

The regression of coefficients for pillars of corporate governance, government regulations and performance of pension fund managers are as shown in Table 30.

**Table 30: Regression Coefficients for Moderating Model**

Model		Unstandardized		Standardized		
		Coefficients		Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	2.827	0.037		77.094	0.000
	Pillars of corporate					
	governance	0.222	0.012	0.743	19.029	0.000
2	(Constant)	2.755	0.036		76.553	0.000
	Pillars of corporate					
	governance	0.105	0.021	0.351	5.042	0.000
	Government Regulation	0.142	0.021	0.46	6.607	0.000
3	(Constant)	2.742	0.035		77.392	0.000
	Pillars of corporate					
	governance	0.070	0.023	0.234	3.110	0.002
	Government Regulation	0.111	0.023	0.361	4.928	0.000
	Pillars of corporate					
	governance*					
	Government Regulation	0.018	0.005	0.245	3.657	0.000

The regression of coefficients results shows that in step one, the regression model of pillars of corporate governance on performance of pension fund managers was significant with  $\beta=0.222$ ,  $p=0.000<0.05$ ) and supported by  $T_{\text{Calculated}}=(1, 295)= 19.029> T_{\text{Critical}} (0.05, 295)= 1.658$ .

In step two, the results show that the regression model of pillars of corporate governance and re government regulations on performance of pension fund managers was significant with ( $\beta_1=0.105$ ,  $p=0.000<0.05$ :  $\beta_2=0.142$ ,  $p=0.000<0.05$ ) and supported by  $T_{\text{Calculated}}=(2, 295)= 5.042, 6.607> T_{\text{Critical}} (0.05, 295)= 1.658$ .

In step three, the results show that the regression model of pillars of corporate governance, government regulations and the interaction term CG\*GR on performance of pension fund managers was significant with ( $\beta_1=0.070$ ,  $p=0.002<0.05$ :  $\beta_2=0.111$ ,  $p=0.000<0.05$ :  $\beta_3=0.018$ ,  $p=0.000<0.05$ ) and supported by  $T_{\text{Calculated}}=(3, 295)= 3.110, 4.928, 3.657> T_{\text{Critical}} (0.05, 295)= 1.658$ .

The fitted models were:

$$P = 2.827 + 0.222CG$$

$$P = 2.755 + 0.105CG + 0.142GR$$

$$P = 2.742 + 0.070CG + 0.111GR + 0.018CG*GR$$

Where;

P = Performance of Pension Fund Managers

CG = Pillars of corporate governance

GR = Government Regulations

CG\*GR = Interaction effect of GR on Pillars of corporate governance and Government Regulations

Since the P value of the interaction term (CG\*GR) is  $0.000 < 0.05$  and the  $R^2$  increased from 55.2% to 61% and 62.7% after the interaction term and thus, we conclude that government regulations moderates the relationship between pillars of corporate governance and performance of pension fund managers in Kenya. The study thus rejected the null hypothesis and adopted the alternative hypothesis that there is a significant moderating effect of government regulations on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.

#### **4.7.4 Moderation – Mediator Effect**

The fourth objective of the study was to determine moderation - mediator effect on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya. The fourth hypothesis stated in the null form is as follows:

**H04: There is no significant moderation – mediator effect on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.**

Hayes and Rockwood (2020) model for moderated mediation was adopted:

$$\text{Model 1: } P = \alpha + \beta_1CG + \varepsilon$$

$$\text{Model 2: } P = \alpha + \beta_1CG + \beta_2GR + \beta_3IP + \beta_3 GR*IP + \varepsilon$$

The effect was assessed, and results explained using coefficient of determination (R-Square), Analysis of Variance (ANOVA) and the regression coefficients. Analysis of Variance consists

of calculations that provide information about levels of variability within a regression model and form a basis for tests of significance. The  $R^2$  for are as shown in Table 31.

**Table 31: Model Summary for Moderation – Mediator Effect**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.743a	0.552	0.550	0.267
2	.805a	0.647	0.639	0.239

The first model for regressing pillars of corporate governance against performance of pension fund managers in Kenya had 52.5% as shown in Table 31, while the second step of regressing pillars of corporate governance, investment policies, government regulations, and investment policies\*government regulations against performance of pension fund managers in Kenya had 64.7%. The R squared for model increased from 55.2% to 64.7% after the moderation – mediator effect. The ANOVA results are presented in Table 32.

**Table 32: ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	25.756	1	25.756	362.084	.000b
	Residual	20.913	294	0.071		
	Total	46.67	295			
2	Regression	30.215	2	4.316	75.547	.000b
	Residual	16.455	293	0.057		
	Total	46.67	295			

Analysis of Variance in Table 32 consists of calculations that provide information about levels of variability within a regression model and form a basis for tests of significance. The F-Calculated for model one was  $(1, 276) = 383.86$ ,  $p=0.000 < 0.05$ , which is greater than F-Critical  $(1, 348) = 3.84$  at 95% confidence level. The F-Calculated for model two was  $(4, 276) = 230.24$  which is greater than F-Critical  $(4, 276) = 2.371$  at 95% confidence level. Therefore, the results confirm that the regression models one and two are significant.

**Table 33: Regression Coefficients for Moderation – Mediator Effect**

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	2.827	0.037		77.094	0.000
	Pillars of corporate governance	0.222	0.012	0.743	19.029	0.000
2	(Constant)	2.627	0.047		55.848	0.000
	Pillars of corporate governance	0.031	0.011	0.103	2.770	0.020
	Investment Policies Government	0.019	0.023	0.063	2.809	0.041
	Regulation	0.060	0.026	0.195	2.335	0.020
	GR*IP	0.013	0.005	0.177	2.598	0.010

The fitted model was:

$$\text{Model 1: } P = 2.827 + 0.222CG$$

$$\text{Model 2: } P = 2.627 + 0.031CG + 0.019GR + 0.060IP + 0.013GR*IP$$

Where:

P=Organizational Performance, CG=Pillars of corporate governance, IP= Investment Policies, GR = Government Regulations, GR\*IP= interaction for Government Regulations and Investment Policies

The regression of coefficients results depicted in Table 33 shows that in step one, the regression model of Pillars of corporate governance on performance was significant with  $\beta=0.222$ ,  $p=0.000<0.05$ . In step two, the results show that the regression model of pillars of corporate governance, investment policies, government regulation, GR\*IP on performance of pension fund managers in Kenya was significant with  $\beta_1=0.031$ ,  $p=0.020<0.05$ ;  $\beta_2=0.019$ ,  $p=0.041<0.05$ ;  $\beta_3=0.060$ ,  $p=0.020<0.05$ ,  $\beta_4=0.013$ ,  $p=0.010<0.05$ . Since, the p value for the Moderation mediating term (GR\*IP) was significant  $0.000<0.05$  was less than the critical value 0.05, the study rejected the null hypotheses that there no significant moderation – mediator effect on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.

#### 4.8 Chapter Summary

This chapter presented the analysis of the data collected and discussion of the findings. The study utilized descriptive statistics, correlation analysis and regression analysis. The chapter also presented the findings and summary of the hypotheses. Correlation and regression analysis results confirmed a significant relationship between pillars of corporate governance and

performance of pension fund managers in Kenya, and the intervening effect of investment policies on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya. The moderating effect of government regulations on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya was confirmed. Lastly, the moderation – mediator effect on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya was confirmed to be significant.

## CHAPTER FIVE

### FINDINGS AND DISCUSSION

#### 5.1 Introduction

This chapter explains the findings of the study and discusses the study results describing the consistencies and contradictions of the findings with the findings of previous studies in regard to the issues investigated.

#### 5.2 Discussion of the Hypotheses Tests and Research Findings

The study sought to establish the relationship between Pillars of corporate governance, Government Regulations and Investment Policies on Performance of Pension Fund Managers in Kenya. The tests were carried out using simple regression analysis, multiple regression analysis, correlation analysis and stepwise regression analysis. The tests were done at 5% significance level ( $\alpha = 0.05$ ). The evaluation focused on the hypotheses derived from the objectives of the study.

##### 5.2.1 Pillars of corporate governance and Performance of Pension Fund Managers

The first objective of the study was to establish the relationship between pillars of corporate governance and performance of pension fund managers. A simple regression model was used to test the statistical significance of the independent variable (pillars of corporate governance) on the dependent variable (performance) in of pension fund managers in Kenya. The first hypothesis stated in the null form is as follows:

**H<sub>01</sub>:** There is no significant relationship between pillars of corporate governance and performance of pension fund managers in Kenya.

Hypothesis 1 sought to establish the relationship between pillars of corporate governance and performance of pension fund managers in Kenya. This hypothesis was tested by regressing composite index pillars of corporate governance (CG) and performance (P) guided by the equation  $P = \beta_0 + \beta_1 CG$ , where CG represented composite pillars of corporate governance and P denoted performance of pension fund managers. The findings indicated that the coefficient of determination R Square was 0.61. The model indicated that pillars of corporate governance explains 61% of the variation in performance of pension fund managers. This implied that there exist a significant relationship between pillars of corporate governance and performance of pension fund managers. The findings showed that  $p\text{-value} = 0.000 < 0.05$ . This further confirmed that pillars of corporate governance positively and significantly influences

performance of pension fund managers. The study thus, rejected the null hypothesis and adopted the alternative hypothesis that there is significant relationship between corporate governance and performance of pension fund managers in Kenya.

This is consistent with Ujunwa (2019) whose findings indicated that the board size, duality of the CEO and the diversity of was negatively correlated to the firm performance, while nationality of the board, ethnic diversity and the number of board members who had doctorate qualification positively influenced firms' performance. Duality of the board was also linked to this good performance of the board. This study addressed the major components of corporate governance and their relationship to the performance of a firm but did not take into account firms that are not listed and the different observations across industries.

The findings are also in line with Kiruri (2019) who found that ownership concentration and state ownership had negative and significant effects on bank profitability while foreign ownership and domestic ownership had positive and significant effects on bank profitability. Further Amba (2014) found a positive correlation between financial performance and proportion of institution ownership among firms. The study also finds that CEO duality and proportion of non-executive directors have a negative influence on performance. On the other hand, Zaman *et al.*, (2014) conclude that financial performance was positively related to transparency and disclosure among the banks. The findings also agree with Ullah *et al.*, (2019) who established a positive relationship between accountability, transparency and organizational performance. The study findings also illustrated that accountability and transparency had a significant impact on the firm performance.

The findings are also in line with Mang'unyi (2019) who established a positive relationship between ownership structure and financial performance of selected banks in Kenya. The study posits the need for promoting corporate governance to attract potential investors. Mokaya and Jagongo (2015) finds a significant positive association between financial performances, ownership structure and ownership concentration of firms. Their study regression analysis results show a significant association between financial performance, ownership structure and ownership concentration.

The findings are in tandem with Claessens and Yurtoglu (2019) who posited that the ability of a board to act on behalf of the shareholders and monitor managers effectively is of crucial importance for a corporation in emerging markets where corporate governance mechanisms tend to be weak. In listed firms in emerging economies, it is common for controlling families

to occupy key managerial posts, and the succession planning of a firm is usually focused upon the appointment of other family members to managerial roles rather than external professionals. This is also in agreement with Ararat and Dallas (2017) study who argued that when family members dominate boards they can become ineffective as there is not enough constructive criticism directed at the controlling shareholders. Controlling shareholders can be inclined to pursue agendas that are of little or no benefit to shareholders, with poor strategic decision-making having a negative impact upon the company.

The findings are also consistent with Haniffa and Hudaib (2016) who found a positive relationship between the board size and the firm performance as measured by ROA, which is in contrast with their prior finding of a negative relationship between board size and the firm performance measured by Tobin's Q. This divergence takes place because of the perceptions of the investors and the management for the large boards which is based on large boards enhancing the knowledge of the business. The study found that the wider knowledge base inherent in larger boards facilitates better business decisions to reduce the agency problem. They demonstrated that their results stayed fixed and unchanged even if using inflation adjusted data. This indicates that large boards provide important role of effective monitoring in uncertain economic and political periods to reduce agency problems and improve firm performance. The study by Apadore and Zainol (2014) argued that some principles to be complied in the construction of boards, to ensure the best structure: meeting frequently, effective communication between board members and shareholders, willingness to consider suggestions from each other, high level of integrity, concern about financial risks and awareness and rationale to solve financial problems, and to take any course of action to improve the efficiency of the company.

### **5.2.2 Pillars of corporate governance, Investment Policies and Performance**

The second objective of the study was to evaluate the intervening effect of investment policies on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya. The second hypothesis stated in the null form is as follows:

**H<sub>02</sub>:** There is no significant intervening effect of investment policies on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.

The intervening effect of investment policies was assessed and results explained using coefficient of determination (R-Square), Analysis of Variance (ANOVA) and the regression coefficients. The intervening effect of investment policies on the relationship between pillars

of corporate governance and performance of pension fund managers in Kenya was analysed in 4 steps. Steps 1-3 was used to establish that zero-order relationship existed among the variables. Situations where one or more of the relations is non – significant depicts no possibility of mediation (Baron & Kenny, 1986). If they are significant relationships from step 1 through 3, one proceeds to step 4 where mediation is supported if the effect of pillars of corporate governance (CG) remains significant after controlling investment policies (IP). If investment policies (IP) is not significant when pillars of corporate governance (CG) is controlled, there is full mediation, and if both pillars of corporate governance (CG) and investment policies (IP) significantly predict performance of pension fund managers (P) there is partial mediation.

Step 1, 2 and 3 were met as the P-value were below 0.05. However, step 4 was not met as the p value for pillars of corporate governance was below 0.05. Therefore, this indicated that there exists a partial mediation effect on the mediating role of investment policies on the relationship between pillars of corporate governance and performance of pension fund managers. The study thus, rejected the null hypothesis and adopted the alternative hypothesis that there is a partial intervening effect of investment policies in the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.

The findings are consistent with Mutula (2018) who found that diversification decisions, management competency, investment strategies, and regulation compliance have a positive and significant association with the investment performance of pension funds. This is also in line with Sau and Njeru (2018) who found out that investment strategy, members' contribution, and regulatory framework were key determinants of financial growth of occupational retirement schemes in Kenya. The three determinants were found to have a positive and significant relationship with the financial growth of occupational retirement schemes. Further, the findings agree with Kiprotich (2019) whose findings showed that portfolio management strategies, the risk of asset class, selectivity and timing had a positive relationship with the schemes financial performance. This implies that good management of portfolios and risks, and choice of the investment and their timing determines the performance and growth of the schemes.

The findings are in tandem with Kimeu (2015), study that found that investment policies positively influences the financial performance of investment companies listed in the Nairobi Securities Exchange. The study also found that investment in real estate and equity by investment companies positively affected their financial performance. The study by Njuguna (2019) also found that the influence of risk factor as of great concern especially in the bearish financial times. Ideally, the choice of investments should be on the basis of how they interact

with one another rather than how they perform in isolation. Nguthu (2019) in his research to establish how much asset allocation policy contributed to the returns level retirement benefit fund in Kenya found that the variation in returns over time for pension schemes. Blake, Lehmann and Timmermann (2019) also found that the vast majority of time variation in returns was due to the strategic asset allocation decisions, very little of the variation was due to stock selection.

Patrick (2015) in his study on the relationship between corporate governance and financial performance of parastatals in Kenya found that good corporate governance practices were positively correlated to the financial performance of parastatals in Kenya. The study also found that audit committee, a major component of the board in exercising control through monitoring of financial and operational activities through internal and external audit mechanisms as well as monitoring compliance to ensure efficiency and effectiveness of operations, showed that there exist a positive but weak relationship to financial performance. Namusonge, Sakwa and Gathogo (2017) also indicated that the asset mix has an immensely positive influence on the financial performance of occupational pension scheme

### **5.2.3 Pillars of corporate governance, Government Regulation and Performance**

The third objective was to establish the moderating effect of government regulations on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya. The third hypothesis stated in the null form is as follows:

**H<sub>03</sub>:** There is no significant moderating effect of government regulations on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya

The moderating effect of government regulations was assessed and results explained using coefficient of determination (R-Square), Analysis of Variance (ANOVA) and the regression coefficients. Hierarchical regression analysis was performed with an interaction term (a product of pillars of corporate governance and government regulations) introduced as an additional predictor. The moderating effect was analyzed in 3 models

Since the P value of the interaction term (CG\*GR) is  $0.000 < 0.05$  and the R<sup>2</sup> increased from 55.2% to 61% and 62.7% after the interaction term and thus, we conclude that government regulations moderates the relationship between pillars of corporate governance and performance of pension fund managers in Kenya. The study thus rejected the null hypothesis and adopted the alternative hypothesis that there is a significant moderating effect of

government regulations on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.

This is in line with Klapper (2014) who found that better firm level governance mechanism can improve the investor's protection to a certain degree but firms alone cannot fully compensate the absence of strong legal system. Further, FASTERLING (2015) found that performance is enhanced when regulations and guidelines have been adhered to. Investors, regulators and other stakeholders clearly consider compliance to be important. In addition to regulation, corporate governance practices are also reflected in different factors such as culture, traditional financial options, corporate ownership patterns and legal origins. CHOHAN (2017) also found that regulatory compliance and corporate governance act in a complementary manner to resolve the agency problem. Regulations reduce management dominance in the firm by increasing the influence of external parties such as auditors and shareholders. Conversely, deregulation increases the influence of management

This is in agreement with ALLEN (2015) who found that corporate governance in emerging markets has lately attracted much attention due to the weaknesses of corporate governance in developing countries, which was an important reason for a series of economic crises that affected these countries. Emerging markets tend to have quite well-developed physical financial infrastructure including central banks, commercial banks and stock exchanges, but to have less well-developed processes and systems of accounting, governance, regulation and other financial infrastructure, and less efficient markets with less liquidity than the world's most advanced systems. These differences lead to greater uncertainty and risk, and they enhance the international diversification possibilities for investors from all countries in the world. CONYON (2017) also established that regulatory compliance plays a significant role in determining the success of a corporate governance system and a good corporate governance is more likely to be associated with countries that have a strong legal system. NJUGUNA (2019) also found that fund regulations influence how funds are governed and led. Adherence to the identified fund regulations were shown to improve fund governance and leadership.

The findings also are consistent with MUTULA (2018) who established that regulation compliance have a positive and significant association with the investment performance of pension funds and also posited that pension funds should continue adhering to the set regulations. BENNETT and MEERTEN (2018) found various types of, and approaches to, regulatory and legal structures directly and indirectly affect the time horizons of organizations in different ways. Licensing procedures, patent lives, work place safety regulations, and environmental regulations can

either extend or constrain the time horizons of organizations depending on the situation and the manner in which government laws and regulations are implemented. The use of regulation to create or stabilize markets was an important public role in encouraging long-term investment. Government regulation plays an important role in creating safe and reliable financial and air transport markets, albeit the definition of safety in the two markets is quite different. Government's ability to create a monopoly during certain stages of an industry's development is another tool to promote long-term investment (Biondi & Boisseau-Sierra, 2017).

However the findings are in contradiction with Dempsey (2019) on the impact of government policy on pension profitability found that pension fund are impacted by regulation in the United States, and that this impact has a negative correlation with the profitability of pension fund managers. Through this determination, it can be concluded that regulation has an inherent inefficiency, and this inefficiency has been a factor in the decreased stability of the aviation industry. Regulations' negative impact on profitability suggests that the government is not accurate when conducting cost analyses prior to the implementation of new regulations. Biondi and Boisseau-Sierra (2017) also found that the use of regulation to create or stabilize markets is an important public role in encouraging long-term investment. Government regulation plays an important role in creating safe and reliable financial and air transport markets, albeit the definition of safety in the two markets is quite different.

#### **5.2.4 Moderation – Mediator Effect**

The fourth objective of the study was to determine the moderation - mediator effect on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya. The fourth hypothesis stated in the null form was as follows:

**H04:** There is no significant moderation – mediator effect on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.

Hayes and Rockwood (2020) model for moderation - mediator was adopted. The effect was assessed, and results explained using coefficient of determination (R-Square), Analysis of Variance (ANOVA) and the regression coefficients. Analysis of Variance consists of calculations that provide information about levels of variability within a regression model and form a basis for tests of significance. The regression of coefficients results shows that in step one, the regression model of pillars of corporate governance on performance was significant. In step two, the results show that the regression model of pillars of corporate governance, government regulation, investment policies and the interaction term government

regulation\*investment policies on performance of pension fund managers was significant. Since, the p value for the Moderation - mediating term (CS\*ER) was significant  $0.000 < 0.05$  was less than the critical value 0.05, the study rejected the null hypotheses that there is no significant moderation – mediator effect on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.

The findings agree with Amba (2014) who found a positive correlation between financial performance and proportion of institution ownership among firms. On the other hand, Zaman *et al.*, (2014) conclude that financial performance was positively related to transparency and disclosure among the banks. The findings also agree with Ullah *et al.*, (2019) who established a positive relationship between accountability, transparency and organizational performance. The study findings also illustrated that accountability and transparency had a significant impact on the firm performance. The findings are also in line with Mang'unyi (2019) who established a positive relationship between ownership structure and financial performance of selected banks in Kenya. The study posits the need for promoting corporate governance to attract potential investors. Mokaya and Jagongo (2015) finds a significant positive association between financial performances, ownership structure and ownership concentration of firms. Their study regression analysis results show a significant association between financial performance, ownership structure and ownership concentration. Further, the findings agree with Kiprotich (2019) whose findings showed that portfolio management strategies, the risk of asset class, selectivity and timing had a positive relationship with the schemes financial performance. This implies that good management of portfolios and risks, and choice of the investment and their timing determines the performance and growth of the schemes.

Bonizzi and Churchill (2017) found that as the investment return on pension funds' assets determines the costs of providing a defined-benefit pension plan, the efficiency argument requires efficiency of the investment process. Woods (2017) found that regulation of the asset investment of pension funds is generally classified along two broad concepts. The prudent person principle as the qualitative regulatory principle requiring diversification of assets and the limit setting of the quantitative regulatory approach. Gompers, *et al.* (2019) study also found the contribution of institutional ownership and ownership concentration as a strong correlation between good corporate governance practices and company performance. Njuguna (2019) also found that the influence of risk factor as of great concern especially in the bearish financial times. Ideally, the choice of investments should be on the basis of how they interact with one another rather than how they perform in isolation. Nguthu (2019) in his research to

establish how much asset allocation policy contributed to the returns level retirement benefit fund in Kenya found that the variation in returns over time for pension schemes. Blake, Lehmann and Timmermann (2019) also found that the vast majority of time variation in returns was due to the strategic asset allocation decisions, very little of the variation was due to stock selection.

The findings are also consistent with Haniffa and Hudaib (2016) who found a positive relationship between the board size and the firm performance as measured by ROA, which is in contrast with their prior finding of a negative relationship between board size and the firm performance measured by Tobin's Q. This divergence takes place because of the perceptions of the investors and the management for the large boards which is based on large boards enhancing the knowledge of the business. The study found that the wider knowledge base inherent in larger boards facilitates better business decisions to reduce the agency problem. They demonstrated that their results stayed fixed and unchanged even if using inflation adjusted data. This indicates that large boards provide important role of effective monitoring in uncertain economic and political periods to reduce agency problems and improve firm performance. The study by Apadore and Zainol (2014) argued that some principles to be complied in the construction of boards, to ensure the best structure: meeting frequently, effective communication between board members and shareholders, willingness to consider suggestions from each other, high level of integrity, concern about financial risks and awareness and rationale to solve financial problems, and to take any course of action to improve the efficiency of the company.

### **5.3 Summary of Research Findings**

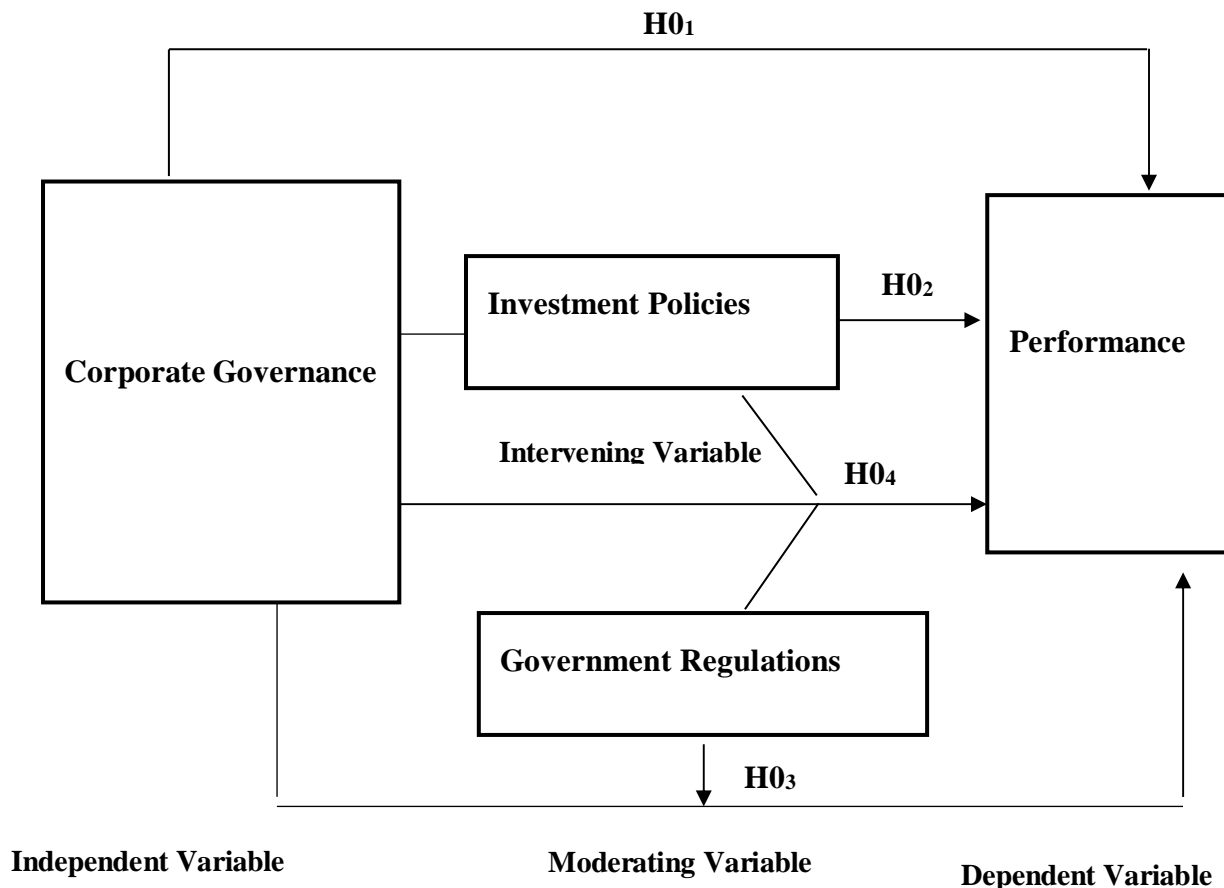
Chapter five presented discussions of the findings of the study. The discussions and interpretations have been made using statistical knowledge and the existing body of theoretical and empirical literature. Based on the findings, hypotheses one, three and four were not confirmed, while hypothesis two presented partial mediation. The summary of the results is outlined in Table 34.

**Table 34: Summary of Key Findings**

<b>Objective</b>	<b>Hypotheses</b>	<b>Acceptance / Rejection criteria</b>	<b>Hypotheses Test Results</b>
To determine the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.	<b>H<sub>1</sub></b> : There is no significant relationship of pillars of corporate governance and performance of pension fund managers in Kenya.	Rejection if $p < 0.05$	Rejected
To find out the mediating effect of investment policies on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.	<b>H<sub>2</sub></b> : There is no significant mediating effect of investment policies on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.	Rejection if $p < 0.05$	Partial Mediation confirmed
To establish the moderating effect of government regulations on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.	<b>H<sub>3</sub></b> : There is no significant moderating effect of government regulations on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.	Rejection if $p < 0.05$	Rejected
To determine the moderation - mediator effect on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.	<b>H<sub>4</sub></b> : There is no significant moderation – mediator effect on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.	Rejection if $p < 0.05$	Rejected

### 5.4 Optimal Model

Based on the study findings, a model optimization was conducted. The aim of model optimization was to guide in derivation of the optimal model where only the significant variables are included for objectivity. Results were arrived at through running multiple regressions. Results of the new conceptual framework are presented in Figure 3.



**Figure 3: Optimal Conceptual Model**

As shown in Figure 3, no variable was dropped since all the variables were significant. The optimal model depicts a significant relationship between pillars of corporate governance and performance of pension fund managers in Kenya, partial intervening effect of Investment Policies on the relationship between pillars of corporate governance and performance, a significant moderating effect of Government Regulations on the relationship between pillars of corporate governance and performance of pension fund managers and significant moderation-mediator effect on the relationship between pillars of corporate governance and performance.

## CHAPTER SIX

### SUMMARY AND CONCLUSION

#### 6.1 Introduction

This chapter presents a summary of the findings and conclusions for the study. The chapter gives summary of the key findings and also presents the relationships among the variables.

#### 6.2 Summary of Findings

The main objective of the study was to establish the relationship between pillars of corporate governance, government regulations and investment policies on performance of pension fund managers in Kenya. A survey was carried out and the questionnaire administered to respondents whom it was deemed could facilitate the objective of the study. The administration of the questionnaire achieved a response rate of 98.66%. The findings were arrived at by testing both the general and specific objectives and application of statistical techniques.

##### 6.2.1 Pillars of corporate governance and Performance of Pension Fund Managers

The first objective of the study was to establish the relationship between pillars of corporate governance and performance of pension fund managers. A simple regression model was used to test the statistical significance of the independent variable pillars of corporate governance on the dependent variable performance of pension fund managers in Kenya. The model proved significant in enhancing performance of pension fund managers. The theory and empirical literature were supported by the findings. The study indicated that increase in Pillars of corporate governance by one unit leads to an increase in performance of pension fund managers by 0.065 units with a p-value of  $0.000 < 0.05$ .

##### 6.2.2 Pillars of corporate governance, Investment Policies and Performance of Pension Fund Managers

The second objective of the study was to evaluate the intervening effect of investment policies on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya. The study found that step 1, 2 and 3 were met as the P-value were below 0.05. However, step 4 was not met as the p value for pillars of corporate governance was below 0.05. Therefore, this indicated that there exists a partial mediation effect on the mediating role of investment policies on the relationship between pillars of corporate governance and performance of pension fund managers.

### **6.2.3 Pillars of corporate governance, Government Regulation and Performance of Pension Fund Managers**

The third objective was to establish the moderating effect of government regulations on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya. The moderating effect of government regulations was assessed and results explained using coefficient of determination (R-Square), Analysis of Variance (ANOVA) and the regression coefficients. Hierarchical regression analysis was performed with an interaction term (a product of pillars of corporate governance and government regulations) introduced as an additional predictor. The moderating effect was analyzed in 3 models. Since the P value of the interaction term (CG\*GR) is  $0.000 < 0.05$  and the  $R^2$  increased after the interaction term and thus, we conclude that government regulations moderates the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.

### **6.2.4 Moderation - Mediator Effect**

The fourth objective of the study was to determine the moderation - mediator effect on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya. The fourth hypothesis was stated in the null form that: **H<sub>04</sub>**: There is no significant moderation – mediator effect on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.

Hayes and Rockwood (2020) model for moderated mediation was adopted. The results indicated that in step one, the regression model of pillars of corporate governance on performance was significant. In step two, the results show that the regression model of pillars of corporate governance, government regulation, investment policies and the interaction term government regulation\*investment policies on performance of pension fund managers was significant. Since, the p value for the Moderation mediating term (CS\*ER) was significant  $0.000 < 0.05$  was less than the critical value 0.05, the study rejected the null hypotheses that there is no significant moderation - mediator effect on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya. The study adopted the alternative hypothesis that there is a significant the moderation - mediator effect on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.

### **6.3 Conclusion**

This section draws conclusion from findings from the study. The section is divided into sections based on the research objectives in conclusion all the study objectives were achieved.

#### **6.3.1 Pillars of corporate governance and Performance of Pension Fund Managers**

The study concluded that there is significant relationship between pillars of corporate governance and performance of pension fund managers in Kenya. The study determined that the pillars of corporate governance practices being implemented had been incorporated in the Pension Fund's investment management decisions with its assets being more diversified and having enhanced reporting on investments. The Pension Fund had also increased its reliance on professional advisors and had a statement of investment principles, which was reviewed annually to determine its continued relevance. The study further determined that investment performance had improved over the years with benefits paid to members and investment returns reported improving. It was also confirmed through a regression test that pillars of corporate governance practices had a positive effect on performance of the Pension Fund managers. Thus, the pillars of corporate governance practices that have been implemented have improved performance of the Pension Fund managers.

Good governance can also bring indirect benefits to pension funds. It can spare them the costs of overregulation and it can facilitate supervision by the authorities. In particular, as pension fund supervisors adopt a risk-based approach to supervision, pension fund governance has become central to deciding whether or not an institution should be closely monitored. The stronger the governance of the fund, the better risks was managed and controlled. The supervisory approach is increasingly dictated by their assessment of a pension fund's risk profile, with funds judged to pose less risk likely to receive a lighter supervisory touch. This could mean that more of the day to day governance or supervision of the fund is left to the governing board itself.

#### **6.3.2 Pillars of corporate governance, Investment Policies and Performance of Pension Fund Managers**

The study concluded that there is a partial intervening effect of investment policies in the relationship between pillars of corporate governance and performance of pension fund managers in Kenya. The investment policy must be developed observing any legislative requirement in addition to prescribed fiduciary standards. The Trustees of the plan must recognize the importance of keeping investment choices consistent with the plan's current and

expected future liabilities; this asset-liability management must be central to the investment policy and principles and the trustees must ensure that the plan is consistent with the stated risk tolerances. A pension plan may also be segmented on the basis of active lives and retired lives. The study found that the description of liabilities included the expected short and long term growth of the segments of the fund or scheme. Cash flow characteristics was described in terms of their predictability and the size of contributions, benefit payments and expenses. Factors impacting cash flow such as member options, pricing horizon and interest costs were also be described.

### **6.3.3 Pillars of corporate governance, Government Regulation and Performance of Pension Fund Managers**

The study concluded that there was a significant moderating effect of government regulations on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya. This implied that the adoption of the regulations from the regulatory bodies such as number of trustees, tax on non-exempt incomes of pension fund members, regulatory meetings, risk tolerance limits imposed by the RBA, competition as stipulated by RBA led to better performance. Regulation aspect are key in the performance of the fund managers. This is because pension funds are controlled by a governing body that is responsible for the operation and oversight of the pension fund. The governing body may also be responsible for other aspects of the administration of a pension plan. Thus, it is important that Trustees and their agents are aware of and understand the provisions of the Act and Regulations as failure to invest pension funds accordingly constitutes an offence. Professional advice must be sought by Trustees prior to making decisions on matters for which they do not have the requisite knowledge or expertise.

### **6.3.4 Moderation - Mediator Effect**

The study concluded that there is a significant moderation – mediator effect on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya. This was because the overall effect of pillars of corporate governance, investment policies and government regulations contributed toward improving performance for the pension fund managers. Thus, central to the achievement of good governance is the establishment of structures to ensure that a business is well run. Central to the achievement of accountability is ensuring, by creating compatible incentives, that those governance structures are effective. There are many issues that exist in the gray area between governance and accountability. The

preceding sections of this paper identify the structures that, according to best practice, should be in place for good governance. In addition, with regard to the implementation of the investment policy must be clearly defined. Setting long-term targets and selecting a tolerance for risk involve strategic decisions that are fundamental to the viability of the scheme as a source of income replacement in retirement. The long-term strategy should identify whether the risk tolerance and performance targets are capable of producing outcomes that will meet the objectives of the scheme. In general, the investment policy should seek to minimize investment in illiquid assets.

## **CHAPTER SEVEN**

### **RECOMMENDATIONS**

#### **7.1 Introduction**

The study examined the interactions between pillars of corporate governance, government regulation and investment policy on performance of pension fund managers in Kenya. The recommendations described in this chapter are derived from the interpretation of findings and conclusions of the study. The adoption and implementation of the recommendations which also includes areas requiring further research will contribute towards the growth and development of theory, policy and practice

#### **7.2 Recommendations**

The study made various recommendations in line with the objectives, findings and conclusions of the study.

On pillars of corporate governance, the study recommends on pension reforms, by creating a new class of potential activist shareholders in the form of pension funds, could in principle improve pillars of corporate governance and increased shareholder discipline. The governments as well as supervisors should consider a more active role in the selection process of the board members, while reducing their choices to professional beneficiaries of the pension funds. On the other hand, this selection process should also take into account the interests of the owners, who provide the capital but are not carrying the risk in pension funds. A board dominated only by trustees may discourage further investments in the industry, which could negatively affect market competitiveness. Further the study recommends on regular assessment of the performance of the persons and entities involved in the operation and oversight of the pension fund, Regular review of compensation mechanisms, in order to ensure that they provide the correct incentives for those responsible for the operation and oversight of the pension fund; Regular review of information processes, operational software systems, and accounting and financial reporting systems; Identification, monitoring, and, where necessary, correction of conflicts of interest situations. A policy for dealing with conflicts of interest situations should be in place.

On government regulation, the study recommend that the pension fund managers must work with stakeholders to bring about a harmonized, workable and transparent legislative and institutional framework for the retirement benefits industry. This was through enactment of

adequate legal framework to strengthen the fiduciary responsibilities of pension funds trustees and to improve the financial soundness of pension funds. It will also involve bringing all stakeholders into full compliance with the Retirement Benefits Act. The regulation of pension fund asset management should be based on the basic retirement income objective of a pension fund and assure that the investment management function is undertaken in accordance with the prudential principles of security, profitability, and liquidity using risk management concepts such as diversification and asset-liability matching. The governing body of the pension plan or fund and other appropriate parties should be subject to a standard such that the investment of pension assets is undertaken with care, the skill of an expert, prudence and due diligence.

Where they lack sufficient expertise to make fully informed decisions and fulfil their responsibilities the governing body and other appropriate parties should be required to seek the external assistance of an expert. The governing body of the pension plan or fund and other appropriate parties should be subject to a fiduciary duty to the pension plan or fund and its members and beneficiaries. This duty requires the governing body and other appropriate parties to act in the best interest of plan members and beneficiaries in matters regarding the investment of pension plan assets and to exercise due diligence in the investment process. The legal provisions should require the governing body of the fund to establish a rigorous process by which investment activities are carried out, including the establishment of appropriate internal controls and procedures to effectively implement and monitor the investment management process.

On the investment policy, the study recommends that the governing body of the pension fund should set forth in a written statement and actively observe an overall investment policy. The investment policy should establish clear investment objectives for the pension fund that are consistent with the retirement income objective of the pension fund and, therefore, with the characteristics of the liabilities of the pension fund and with the acceptable degree of risk for the pension fund, the plan sponsor and the plan members and beneficiaries. The approach for achieving those objectives should satisfy the prudent person standard taking into account the need for proper diversification and risk management, the maturity of the obligations and the liquidity needs of the pension fund, and any specific legal limitations on portfolio allocation. The investment policy should at a minimum identify the strategic asset allocation strategy for the pension fund, the overall performance objectives for the pension fund, and the means of monitoring and, when necessary, modifying allocations and performance objectives in the light

of changing liabilities and market conditions. The investment policy should also include any broad decisions regarding tactical asset allocation, security selection and trade execution.

The investment policy for pension programmes in which members make investment choices should ensure that an appropriate array of investment options, including a default option, are provided for members and that members have access to the information necessary to make investment decisions. In particular, the investment policy should classify the investment options according to the investment risk that members bear. There should be procedures and criteria by which the governing body or other responsible party periodically reviews the effectiveness of their investment policy and determines whether there is a need to change the policy, its implementation procedures, the decision-making structure, as well as the responsibilities linked to its design, implementation, and review.

### **7.3 Implications of the Study**

The findings of the current study gave support to theoretical, conceptual and empirical foundation of literature

#### **7.3.1 Implication for Theory**

The study found that pillars of corporate governance significantly influenced the performance of the pension fund managers. Thus, this is in line with the agency theory due to separation of ownership and control which leads to an agency problem whereby management operates the firm aligning with their own interests, not those of the shareholders. The agency theory adoption in the pension fund facilitates the pension fund conduct their activities with minimal conflict of interest.

#### **7.3.2 Implication for Practice**

The study found that pillars of corporate governance practices significantly improve the performance of Pension Fund Managers in Kenya. This was empirically ascertained through hierarchical multiple regression analysis with investment polices as well as government regulations influencing the relationship between pillars of corporate governance, investment policies and government regulations. These findings can therefore be adopted in the other financial institutions such as banks and insurance.

#### **7.3.3 Implication for Policy**

The findings from this study are of assistance in educating the pension fund members on what the investment policies need to be incorporated to ensure the performance of the pension fund

managers. The contributors will also have access to extra knowledge while engaged in pension fund contribution.

#### **7.3.4 Implication for Methodology**

The findings of this study pose some implications for methodology. Operationalization of the variables points the new direction of future research. For instance, the four components of corporate governance received a contemporary perspective relevant to pension funds. This was done intentionally to achieve the broad objective of the study. Lastly, both quantitative and qualitative study on the topic can boost the knowledge and empirical literature in future.

#### **7.4 Suggestions for Further Research**

The current study has attempted to identify variables which determine performance of pension fund managers by using the three variables under the study. The future studies should use different variables and different approaches. Secondly, the same study can use the interaction term on different variable and establish whether the relationship would be the same as what was established in the current study. Additionally, new knowledge should be directed in the current issues like the technology integration and Blue economy as it was the case in Japan and other current issues.

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## APPENDICES

### Appendix I: Letter of Introduction

The Management University of Africa,  
Nairobi.

9<sup>th</sup> May, 2019.

Dear Respondent.

I am a post graduate student at Management University of Africa pursuing a Doctor of Philosophy in Management and Leadership. The subject of my research is *Effect of Pillars of Corporate governance, Investment Policies, Government Regulations on Performance of Pension Fund Managers in Kenya*.

I am humbly requesting your assistance in this study by providing answers to the questions on the attached questionnaire. Please be assured that all the information provided will be treated with confidentiality and will be used for academic purposes only.

Your assistance will be highly appreciated.

Yours faithfully,

DEROW ADEN ALI

PhD.

## **Appendix II: Questionnaire**

### **INSTRUCTIONS:**

- Fill only one set of the questionnaire per individual.
- Please answer each question as completely and clearly as possible by ticking appropriately on only one answer (unless otherwise advised) from the choices given or writing your response as appropriate in the space provided.

### **SECTION A: DEMOGRAPHIC INFORMATION**

#### **Tick where appropriate**

1. Please indicate your sex?

Male ( ) Female ( )

2. Which is your age bracket?

18-25 Years ( ) 26-30 Years ( ) 31-35 Years ( ) 36Years and above ( )

3. Which is your highest certificate qualification?

Diploma ( ) Undergraduate Degree ( ) Master's Degree ( ) PhD ( )

4. How many years have you worked in this organization?

0– 5 years ( ) 6 – 10years ( ) 11 – 15years ( ) 16 – 20years ( ) 21 years and above ( )

5. What is the size of your organization in terms of number of employees?

1 -50 employees ( ) 51-100 employees ( ) 101-200 employees ( ) Above 200 ( )

**SECTION B: PILLARS OF CORPORATE GOVERNANCE IN PENSION FUND MANAGERS**

6. Using a scale of 1 to 5 tick the appropriate answer from the alternatives provided for each of the questions

**(1=Strongly Agree, 2=Agree, 3=Neutral, 4 =Disagree, 5=Strongly Disagree)**

	<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
	<b>Transparency</b>					
1	The board discloses the corporation’s independent auditors					
2	There is equal access to information for all stakeholders					
3	The board discloses managerial ownership and compensation					
4	Board guidelines on Corporate Governance are published in the firm proxy statement					
5	Board guidelines on the code of ethics and conduct are published in the firm’s proxy statement					
6	The Fund manager prepares audited financial statements and makes them available to members					
	<b>Structure</b>					
7	There is an established audit committee in my organization					
8	The Audit Committee is composed of only nonexecutive directors who are independent of the company					
9	Members of the Audit committee possess certain level of financial competency					
10	There is a procedure to assesses the performance of the audit committee chair					
11	The audit committee has effective working relationships with senior management					
12	The Audit Committee meets at least 3 times in a year					
13	The Fund conducts AGM’s for its members annually					
14	There is clear remuneration package for the Directors					

15	The remuneration committee is composed solely of independent directors					
16	Non-employees do not participate in the company pension plans					
17	In the organization Incentive plans are used to improve Directors monitoring of performance					
18	Directors receive all or a portion of their fees in Bonuses					
19	The Company does not provide any loans to executives for exercising options					
	<b>Accountability</b>					
20	The Fund manager has developed and adopted a code of corporate governance practices					
21	The Fund manager has formed board committees to deal with specialized matters such as audit, investments, governance, staff and administration.					
22	The Fund manager has appointed an organisation and/or persons to carry out internal audits					
23	The Fund manager publicly announces the biodata and qualifications of the Trustees					
24	Audit committee members are carefully recruited and retired					
25	The independence of the audit committee is real as well as perceived					
	<b>Participation</b>					
26	The Fund manager has a set quota for meetings of Trustees					
27	The Fund manager has the conflict management process					
28	The board has an effective remuneration committee.					
29	There is an elaborate policy on executive remuneration.					
30	Executives are subject to annual appraisals					
31	Directors are subject to annual appraisals					
32	Executive and Directors long term compensation is tied to shareholder returns					

**SECTION C: INVESTMENT POLICIES IN PENSION FUND MANAGERS**

7. Kindly indicate the extent to which the following attributes of investment policies affect your firm’s financial performance. Please (y) tick appropriately on a scale of 1-5.

**(1=Strongly Agree, 2=Agree, 3=Neutral, 4 =Disagree, 5=Strongly Disagree)**

	<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1.	Our pension plan rules do not restrict investments in any company					
2.	We have a pension investment committee that makes investment decisions					
3.	Trustees are covered by liability insurance					
4.	We have invested more in fixed interest investments (bonds and Treasury bills) over the past two years					
5.	RBA rules on investment restrictions have a negative impact on our investment decisions					
6.	We conduct independent evaluations of our pension fund performance to confirm the rates given by the fund administrators					
7.	We have a clear investment policy that is strictly implemented					
8.	Trustees give total investment discretion to the fund managers					
9.	We have an investment risk management policy for our pension plan					
10.	Our investment strategies are based on findings of market research conducted by fund managers					
11.	We set quarterly targets on investment returns and strategize to achieve them					

12.	Fund manager has increased its reliance on relevant professional advisors in making investment policies.					
13.	Fund manager's assets are more diversified in different asset classes as compared to the past					
14.	members receive satisfactory responses to queries regarding investment performance of the Scheme					
15.	Fund manager has improved on reporting on the status of investments					
16.	Pension benefits paid by the fund have improved over the years					
17.	The level of pension benefits paid by the fund are better than those paid by other pension schemes					
18.	The investment returns reported by the fund have improved over the years					
19.	The fund's AGM's are characterized with positive feedback from members regarding investment returns					
20.	Rules and procedures for transactions are in place					
21.	Commercial laws, rules and regulations are in place					
22.	Laws and rules for appointing and removing auditors are in place					
23.	Government agencies responsible for enforcement of corporate laws are in place					
24.	Inspectors investigate non-compliance with statutory requirements					
25.	Inspectors investigate complaints by stakeholders about mismanagement					
26.	Actions are taken against auditors' failure to report improper financial records					

## SECTION D: GOVERNMENT REGULATIONS IN PENSION FUND MANAGERS

8. Please indicate the extent to which you agree with each of the following statements using a scale of 1-5 in relation to your firm's financial performance.

(1=Strongly Agree, 2=Agree, 3=Neutral, 4 =Disagree, 5=Strongly Disagree)

	Statement	1	2	3	4	5
1.	Regulation affects compliance costs of the fund managers					
2.	The Government regulation limits the number of trustees to 10 (regardless of the size of the scheme)					
3.	Tax on non-exempt incomes of pension fund members as imposed by the Kenyan Revenue Authority					
4.	The government regulations controls fund managers compliance with RBA levies					
5.	The regulatory meetings (4 per year) with the service providers as stipulated by RBA					
6.	The risk based approach adopted by RBA in the supervision of pension funds					
7.	The Government controls risk tolerance limits imposed by the RBA					
8.	Government ensures adherence RBA financial reporting regulations to which pension funds should adhere to					
9.	Government Regulations promotes solvency					
10.	Government regulations limits competition hence making it hard for it to compete in the market.					
11.	The government regulations are conducive.					
12.	Government regulations promote equity and similarity					

**SECTION E: PERFORMANCE OF PENSION FUND MANAGERS**

9. Please indicate your response to the following questions by ticking the appropriate corresponding choice.

**(1=Strongly Agree, 2=Agree, 3=Neutral, 4 =Disagree, 5=Strongly Disagree)**

	<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1.	Our administration costs have decreased over the years					
2.	Benefits processing period has decreased					
3.	We have improved our internal control system					
4.	The time we spend in trustee meetings has decreased					
5.	Our records processing system has improved					
6.	Time taken reporting to members has decreased					
7.	Our compliance costs have decreased					
8.	Our rate of investments have increased					
9.	Member involvement in decision-making in our plan has increased					
10.	Sponsor involvement in our pension plan has decreased significantly					
11.	We have experience less under-funding (pension liabilities exceed pension assets) in our pension fund over the years					
12.	We have been appointing service providers on competitive bidding over the years					
13.	We have been successfully complying to RBA regulations over the years					
14.	Continuous finance education to trustees by the pension fund					
15.	The pension fund using an internal control system of documenting, monitoring and reporting its operations					

16.	Effective communication to members by the pension fund					
17.	The pension fund clearly defining the roles of trustees					
18.	Adhering to RBA's regulation of fees charged by service operators	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
19.	Our pension fund faces bankruptcy if our employers cease to exist					
20.	Our investment strategies are based on findings of market research conducted by fund managers					

### Appendix III: List of Pension Fund Managers in Kenya

S/N	REGISTERED FUND MANAGERS - 2019	TELEPHONE	POSTAL ADDRESS	PHYSICAL LOCATION
1	African Alliance Kenya Investment Bank Limited	2762000	27639-00506, NAIROBI	4th Floor, Kenya Re Towers, Upper Hill
2	Allan Gray Kenya Limited	20 5147016	3946-00619, NAIROBI	2nd Floor, Eaton Place, United Nations Crescent
3	Alpha Africa Asset Managers Limited	2595448	34530-00100, NAIROBI	Crawford Business Park, 4th Floor Suite 26, State House Road
4	Altree Capital Kenya Limited	20 7605650	13442-Westlands, NAIROBI	4th Floor, Cavendish Block, 14 Riverside Business Park
5	Amana Capital Limited	2351738	9480-0100, NAIROBI	Block C, Suite C5, Saachi Plaza, Argwings Kodhek Rd
6	Apollo Asset Management Company Limited	3641000	30389-00100, NAIROBI	Apollo Centre, Ringroad, Westlands
7	Britam Asset Managers Kenya Limited	2833000	30375-00100, NAIROBI	Britam Centre, Upper Hill
8	CBA Capital Limited	2884444	30437-00100, NAIROBI	CBA Centre, Mara & Ragati Roads
9	CIC Asset Management Limited	2823000	59485-00200, NAIROBI	8th Floor, CIC Plaza II , Mara Road
10	Co-op Trust Investment Services Limited	3276000	48231-00100, NAIROBI	Co-operative Bank House, Haile Selassie Avenue
11	Cytonn Asset Managers Limited	20 3929000	20695-00200, NAIROBI	4th Floor, Mebank Tower, Milimani Road
12	Dry Associates Limited	4450520	684-00606, NAIROBI	Dry Associates House, Brookeside Groove, Waiyaki Way

13	Fusion Investment Management Limited	2738460	47538-00100, NAIROBI	1st Floor, ACK Garden House, 1st Ngong Avenue
14	Genafrica Asset Managers Limited	2323343	79217-00200, NAIROBI	1st Floor, Arlington Block, 14 Riverside Drive, Westlands
15	Genghis Capital Limited	709185000	9959-00100, NAIROBI	1st Floor, Purshottam Place, Westlands Road
16	ICEA Lion Asset Management Limited	2221652	46143-00100, NAIROBI	ICEA Lion Centre, 4th Floor, Riverside Park, Chiromo Road
17	Kenindia Asset Management Company Limited	316099	44372-00100, NAIROBI	Kenindia House, Loita Street
18	Madison Asset Management Services Limited	2864502	20092-00100, NAIROBI	Madison Insurance House, Upper Hill Road
19	Nabo Capital Limited	2286000	10518-00100, NAIROBI	7th Floor, International House, Mama Ngina Street
20	Natbank Trustees and Investment Services Ltd	2828356	72866-00200, NAIROBI	13th Floor, National Bank Building, Harambee Avenue
21	Old Mutual Investment Group Limited	2829000	11589-00400, NAIROBI	Old Mutual Building, Corner, Mara/Hospital Road
22	Sanlam Investments East Africa Limited	4967000	67262-00200, NAIROBI	Africa Re Centre, Hospital Road, Upper Hill
23	Stanlib Kenya Limited	3268508	30550-00100, NAIROBI	Liberty House, Mamlaka Road
24	Zimele Asset Management Company Limited	2246273	76528-00508, NAIROBI	Fedha Towers, Muindi Mbingu Street
25	Abraaj Kenya Advisers Limited	2228870	19556-00100, NAIROBI	Norfolk Towers, Kijabe Street

26	Canon Asset Manager Limited	2362545	30216-00100, NAIROBI	Gateway Park, Mombasa Road
27	FCB Capital Limited	2843000	26219-00100, NAIROBI	Prudential Assurance Building Kaunda Street
28	Old Mutual Investment Services (K) Limited		30059-00100, NAIROBI	Old Mutual Building, Mara Rd/ Hospital Rd
29	Standard Chartered Investment Services Limited	3293900	30003-00100, NAIROBI	48 Westlands Road, Nairobi
30	Seriani Asset Managers Limited	0708758978	21986-00200, NAIROBI	Marsabit Plaza, Ngong Road
31	Watu Capital Limited	0790000999	13606-00800, NAIROBI	Avenue Plaza, Nyali Mombasa

Source: RBA (2019)

## Appendix IV: Plagiarism Index



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