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The Intervening Effect of Investment Policies on the Relationship between Pillars of Corporate Governance and Performance of Pension Fund Managers in Kenya

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Abstract

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. Pension fund performance has received increased attention across the world with public pension fund performing dismally when compared to private pension fund. This 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. 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 corporate governance on the performance of pension fund managers in Kenya. The study findings 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 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.

Keywords: *Investment Policies, Pillars of Corporate Governance, Performance & Pension Fund Managers.*

1.0 Introduction

1.1 Background of the Study

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, 2008). Although various economic issues arise due to various developments of pension schemes it is notable that similar issues also arise in least developed countries. 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, 2007). 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.

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). 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 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.

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 (2007), until 1997,

the pension industry in Kenya was largely 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 thus given mixed results in different countries, with OECD countries recording positive real net investment returns in 2014, 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 2014. These include Armenia, Nigeria among other countries in sub-Saharan Africa (Andonov, 2014). 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 2014 showing a decline to average pension return of 15.5%. Financial performance for most pension schemes have posted negative performance. This has been attributed to many people in Kenya not having much faith in the pension schemes and their concepts (Asogwa, 2016). This has to a large extent been perceived to be due to the increasing reports of unpaid claims, circulating in the market. 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. 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, 2016). 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.

The pension industry has had its share of corporate governance related challenges in spite of the fact that pension funds have an organizational structure in which the interests of the stakeholders are well-aligned; with a majority of pension funds being governed by representatives of employers and employees, which is deemed to encourage decisions that are in the best interests of members (NSSF Act, 2016). 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 2002; Bebchuk, Cohen & Ferrell, 2004; Kihara, 2006) yet, other studies including (Lamport, Latona, Seetanah, & Sannassee, 2011) have found no significant difference in the performance of firms with poor corporate governance practice and those with excellent quality of governance practises. Hence, no significant relationship exists between the variables. Piesses, (2005) also obtained conflicting results on his empirical research on corporate governance and firm performance. These varied findings therefore imply that the relationship between corporate governance and performance may not be consistent across firm specific context or for all types of corporate governance structures.

There a number of research studies that have been done in Kenya, mentioning a few, Ng'etich (2015) did a study of on the effect of corporate governance and the performance of state owned

corporations focusing on the water companies in Kenya while Guzeh (2012) also did a study on the effect of corporate governance of financial performance of Kenyan Parastatals generalizing all State- Owned Corporations. A few other studies have been in financial services sector and quite a number focusing on specific institutions, however very few studies have been done on the categorization of RBAs. This research is 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 and investment policies on performance.

1.3 Objective of the Study

To establish the intervening effect of investment policies on the relationship between pillars of corporate governance and performance of pension fund managers in Kenya.

1.4 Hypotheses of the Study

H0: 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.

2.0 Literature Review

2.1 Theoretical Framework

2.1.1 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, 2013). 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, based on 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.

According to the theory, investment decisions depend on the marginal Q level, defined as the imminent investment marginal returns over the existing marginal investment cost. The Q theory also argues that if 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 (Warström & Niemelä, 2015). In this study, the Q theory of investment was explored to explain whether the investment policies chosen by a firm maximizes its current value.

2.2 Empirical Review

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.

Omonyo (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, 2013), 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 influenced 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 (2012) 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 based on 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. Such a reaction is called the sensitivity of asset prices. 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 (2013) 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 (2012) 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 (2013), 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 (2012) 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 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.

2.3 Conceptual Framework

The study's conceptual framework is conceptualized by pillars of corporate governance was used as an intervening variable. The dependent variable is performance of pension fund managers in Kenya. The study's conceptual framework is illustrated in Figure 1.

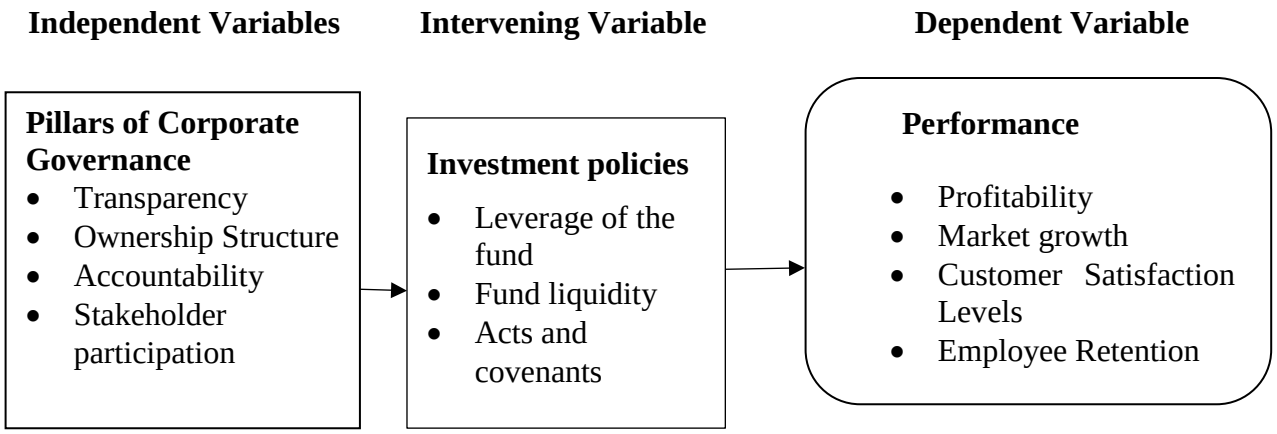

Figure 1: Conceptual Framework

3.0 Research Methodology

This study adopted a positivist research philosophy. Positivist approach research is based on knowledge gained from positive verification of observable experience rather than introspection or intuition. 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 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 corporate governance influences performance of Fund managers in Kenya. 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. The unit of analysis for this study was the 31 Fund Pension Managers in Kenya. The unit of observation was the 2200 employees drawn from the 31 Fund Managers. The study used primary and secondary data sources. 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. Quantitative data was analyzed using Statistical Package for Social Sciences (SPSS). To test the various hypotheses, regression was used to determine the influence of the predictor/independent variables on the predicted/dependent variables.

4.1 Descriptive Statistics

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 corporate governance and performance of pension fund managers. The results are as depicted in Table 1.

Table 1: 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 1 shows the descriptive statistics that indicates central tendency and dispersion of all the measures 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.

Descriptive Statistics for Investment Policies

The second objective of the study was to evaluate the intervening effect of investment policies on the relationship between 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 2.

Table 2: Descriptive Statistics for Investment Policies

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

The results from the Table 2 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.

Descriptive Statistics for Performance

Descriptive statistics were carried out on performance of pension fund managers in Kenya and the results are shown in Table 3.

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Table 3: Descriptive Statistics for Performance of Pension Fund Managers

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

The results from the Table 3 shows the descriptive statistics for performance in chartered universities. 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 chartered universities 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.

4.2 Correlation Analysis

Table 4 below presents the results of the correlation analysis.

Table 4: Correlation Matrix

Variables	**Performance**	pillars of **Corporate Governance**	**Investment Policies**
Performance	1.000		
pillars of Corporate Governance	.743** 0.000	1.000	
Investment Policies	.728** 0.000	.816** 0.000	1.000

The results in Table 4 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 corporate governance had a positive and significant effect thus an improvement

will 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 also implied that since Investment policies had a positive and significant effect thus its improvement will lead to improvement in performance of pension fund managers. In addition, this was an indication that corporate governance and investment policies portrayed a strong connection with and performance of pension fund managers.

4.3 Hypothesis Testing

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

H_{02}: 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 corporate governance and performance of pension fund managers in Kenya was analysed in 4 steps.

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

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 corporate governance (CG) remains significant after controlling investment policies (IP). If investment policies (IP) is not significant when corporate governance (CG) is controlled, there is full mediation, and if both corporate governance (CG) and investment policies (IP) significantly predict performance of pension fund managers (P) there is partial mediation.

Table 5: R^2 Outputs

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
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 5 shows that the Rsquare for the mediating effect had varying values. The first step for regressing corporate governance against performance of pension fund managers had 55.2% while the second step of regressing 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 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 between the variables.

Table 6 shows ANOVA for corporate governance, investment policies and performance of pension fund managers.

Table 6: 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	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 corporate governance, investment policies and performance of pension fund managers are as shown in Table 7.

Table 7: Regression of Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	2.827	0.037		77.094	0.000
	Corporate Governance	0.222	0.012	0.743	19.029	0.000
2	(Constant)	0.593	0.107		5.566	0.000
	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
	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 corporate governance was significant with β=0.222, p=0.000<0.05) and supported by $T_{Calculated}$ =(1, 295)= 19.029> $T_{Critical}$ (0.05, 295)= 1.658.

In step two, the results show that the regression model of corporate governance on investment policies was significant with β=0.821, p=0.000<0.05) and supported by $T_{Calculated}$ =(1, 295)= 24.172> $T_{Critical}$ (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 β=0.217, p=0.000) and supported by T Calculated = (1, 295)= 18.224> T Critical (0.05, 295)= 1.658.

In step four, the results show that the regression model of corporate governance and investment policies on performance of pension fund managers was significant with (β_1=0.133, p=0.000<0.05: β_2=0.109, p=0.000<0.05) and supported by $T_{Calculated}$ =(2, 294)= 6.934, 5.701> $T_{Critical}$ (0.05, 294)= 1.658.

The fitted modes 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 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 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 corporate governance and performance of pension fund managers in Kenya.

4.4 Discussions

The objective of the study was to evaluate the intervening effect of investment policies on the relationship between 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 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.

The Rsquare for the mediating effect had varying values. The first step for regressing corporate governance against performance of pension fund managers had 55.2% while the second step of regressing 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 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 between the variables.

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 regression of coefficients results shows that in step one, the regression model of performance of pension fund managers on corporate governance was significant with β=0.222, p=0.000<0.05) and supported by $T_{Calculated}$ =(1, 295)= 19.029> $T_{Critical}$ (0.05, 295)= 1.658. In step two, the results show that the regression model of corporate governance on investment policies was significant with β=0.821, p=0.000<0.05) and supported by $T_{Calculated}$ =(1, 295)= 24.172> $T_{Critical}$ (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 β=0.217, p=0.000) and supported by T Calculated = (1, 295)= 18.224> T Critical (0.05, 295)= 1.658. In step four, the results show that the regression model of corporate governance and investment policies on performance of pension fund managers was significant with (β_1=0.133, p=0.000<0.05: β_2=0.109, p=0.000<0.05) and supported by $T_{Calculated}$ =(2, 294)= 6.934, 5.701> $T_{Critical}$ (0.05, 294)= 1.658.

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 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 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 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 (2012) 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 impacted on their financial performance. The study by Njuguna (2012) 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 their 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

5.0 Conclusions

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.

6.0 Recommendations

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.

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