

# **Effect of Trustee Characteristics on the Performance of Retirement Benefit Schemes in Kenya**

**By**

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**DECLARATION**

I declare that the work in this dissertation has not been previously published or submitted for a degree at any other University. I also declare that this is my original work and contains no material written or published by any other person except where reference is made and duly acknowledged

Signature..... Date.....

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## ABSTRACT

The performance of pension schemes is imperative as they play a very significant role in the economy of any country. Over the few years the role of pension funds has been brought to the fore, specifically on trustee's characteristics. The present study attempted to analyze the effect of trustee's characteristics on the financial performance of retirement benefit schemes in Kenya. Specifically, the study determined the effect of gender diversity, financial expertise, work experience, board of trustee's tenure and fund size. The study was conducted using a descriptive study design. The target population for the study comprised all the 1256 registered occupational pension schemes in Kenya as per the Retirement Benefits Authority (RBA, 2014). A sample size of 100 registered pension schemes was selected for the study through stratified and random sampling. The study used both secondary data and primary data. The data collected was for the period ending December 2016. The quantitative data collected was analyzed using correlation analysis with data presented through tables, charts and figures. The results revealed that open Mindedness and performance of retirement schemes are positively and significantly related ( $r=0.721$ ,  $p=0.00$ ). The study also found that that Learning Commitment and performance are positively and significantly related ( $r=0.348$ ,  $p=0.003$ ). However, the regression results revealed that Financial Expertise and performance were negatively but not significantly related ( $r=-0.077$ ,  $p=0.517$ ). The findings also revealed that Gender diversity has a positive but insignificant effect on the performance of retirement benefit schemes in Kenya. Consequently, the study concludes by recommending that the management of RBS in Kenya should emphasize on constructive debates on any investment decisions made on behalf of the scheme members as a way of enhancing open mindedness among the board of trustees.

## **DEDICATION**

I dedicate this project to my immediate family members. Pauline, Montet and Chris, this is for you.

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## CHAPTER ONE: INTRODUCTION

### 1.1 Background of the Study

Many countries around the world are experiencing rapid establishment and growth of pension funds. The growth of these institutions is one development that countries have given considerable attention because of the sensitivity of the transactions involved in pension funds. Growth of pension funds is also the consequence of a number of non-financial and demand-side features (Davis, 2000).

Pension funds are funds from which pensions are paid, accumulated from contributions by employers and employees. Most countries have public pension funds set up by governments. The demographic changes in developed and developing countries are a major source of concern to most policy makers. Increasing longevity and reduced fertility threaten the sustainability of traditional pay as you go pension systems (GRIPS, 2010). In response most countries are shifting their pension systems to full funding rather than partial funding.

The impact of the recession, the demographic crisis, and the fact that research findings point to the likelihood of most Defined Benefit(DB) plans being susceptible to fiscal deficits and unsustainability in the long-term (Holzmann, Hinz, &Dorfman, 2008), has necessitated the implementation of parametric (e.g. raising contributions rates, retirement age, reducing benefits etc.),systemic (e.g. shift to Defined Contribution (DC) from DB plans), regulatory, and administrative pension reforms (Schwarz,&Karam, 2006).While developing nations especially in Africa, Asia and Latin America are struggling to enhance the adequacy of penetration levels of their pension systems, the systems of industrialized world are threatened by longevity, low birth rates, unending fiscal deficits and public debt problems and bankruptcies (Jack Lachman, 2013)

### **1.1.1 Global Perspective of Pensions**

Globally, 2009 estimates reported that savings held by pension funds under various savings plans amounted to over thirty Trillion US dollars (\$30 TN) (Tower Watson, 2010). Comparatively, this is more than 150% of the total capitalization of the world stock markets (Amenc, Martellini& Senders, 2009). The pension industry is a significant sector in any economy since apart from providing stability to retirees; it is also a source of capital to governments and private sector. Pension fund activities induce capital and financial market development through supplementary roles with other financial institutions mostly commercial and investment banks (Impavido, Musalem, and Tressel, 2002).

Pension funds also provide vital capital for new businesses projects, expansion and public debt financing. Pension funds play a leading role in financing infrastructure, green energy, and supporting the growth of entrepreneurship in promising new projects (Jack Lachman, 2013). The world's infrastructure budgetary needs until 2030 are estimated at \$50 trillion (OECD 2013). In addition, the International Energy Agency predicts that in order to adapt to the negative effects of climate change between now and 2050, the world will be obligated to spend an additional \$50 trillion. It also suffices to say, that the economic recovery in OECD countries and the continued growth in key non-OECD countries (e.g. China, India, South Africa, Kenya, Indonesia, Brazil etc.) presents a great opportunity for both Greenfield and Brownfield enterprise and infrastructure development projects to increase the economies productive capacity (Della Croce, 2011). Among the infrastructure projects suggested that should be initiated and financed by pension funds are: Transport projects (e.g. ports, roads, bridges, railway systems etc.) Utilities (e.g. electricity distribution networks, warehousing, power generation, water and sewerage systems etc.) Communication projects (e.g. telecommunication networks, satellites, towers etc.)

Social/real estate projects (e.g. schools, hospitals, stadiums, malls etc.). It is important to note that most of these projects are technology intensive, requiring long-term commitments and large expenditures. Characterized by prolonged maturity periods, they take longer than an ordinary business to realize profits, and are prone to uncertainties and risks. Consequently, it may be difficult to finance such projects through already constrained fiscal budgets or through the traditional banking system. Therefore, such an infrastructure gap can only be adequately funded through listed equity, fixed income securities, infrastructure bonds, debt financing or alternative asset classes, such as private equity, dedicated infrastructure funds, equity funds, pension funds, mutual funds, insurance companies, and the emerging economies sovereign wealth funds.

Pension funds also have impact on financial innovation, improvement in financial regulation and corporate governance, modernization in infrastructure of securities markets and an overall improvement in financial market efficiency (Davis, 1995). On financial innovation, Pension funds as competing intermediaries for household savings and corporate financing, foster competition that may improve the efficiency of loan and primary security markets (Impavido, Musalem&Tressel, 2002). Such impacts spur higher long term economic growth. In fact, Catalan, Impavido&musalem (2000) concluded in their research that contractual savings including pensions predominantly Granger cause stock market development. Overall, pension fund growth tends to shift financial markets towards a capital market oriented stage of financial development, where the functions of a financial system may at least in some ways be more efficiently fulfilled than in an economy dominated by banks (Phillip Davis, 1998).

More importantly pensions play a role in poverty alleviation by securing and improving the livelihood of older people thus reducing poverty. There is evidence that poverty is generally low among older people in countries where there is a generous pension and safety net coverage

(Barrientos, 2003). Moreover, pensions also go beyond direct beneficiaries and spill over to other members of the household. Children within beneficiary households have a higher school enrolment rates and better health status than those living in the households that do not receive pensions (Duflo, 2003)

### **1.1.2 Retirement Benefit Schemes in Kenya**

Kenyan pension funds are regulated and supervised by the Retirement Benefits Authority (RBA). The authority was established in the year 1997 through an act of parliament. Pension schemes are required to register with RBA after fulfilling a stringent set of requirements. The running and management of pension funds, however, is the onus of scheme trustees. Currently there are four types of pension schemes in Kenya: a) the National Social Security Fund (NSSF), Civil servant pension scheme (CSPS), occupational retirement schemes (ORS) and individual retirement schemes (IRS). All the four types of pension schemes combined represents coverage of about 15% of the Kenya's workforce (KNBS 2015).

In Kenya most workers save for retirement through the compulsory National social security fund, NSSF. The NSSF is a public pension fund that covers persons who are formally employed, self-employed, traders and in some cases informal sector workers. It is mandatory for employers to register their employees with the NSSF who contribute 5% of their basic salary or a maximum of KES 200, whereas the employers match such contributions by a similar rate and remit to the fund. It has been argued that this level of contribution is very low and is the major hindrance to old age independence. This was the main reason for the enactment of the NSSF act 2013.

The second major player is categorized as occupational retirement schemes, ORS. They are established by employers as an investment vehicle for accumulation of retirement savings for employees. These schemes are established through trust deeds that stipulate the purpose of the

scheme and its governance structure. According to (Yermo 2008), most plans are established by a single employer and membership is automatic for the employees. The civil servant pension schemes mostly cover government officials who include the various civil servants, judiciary employees, and teachers. Last but not least are the individual retirement schemes mostly operated by insurance companies. They provide avenue for savings where employers do not have pension schemes and for workers who wish to make additional pension contributions.

The pension industry in Kenya has been expanding rapidly, majorly because of recent reforms in the sectors and proactive action by RBA to encourage individual and group savings. Assets held by pension schemes are growing with the total amount tipping Kes. 1 trillion (RBA, 2016). There are over 1200 schemes in Kenya operated by various employers today. One of the major concerns of RBA is the ability of trustees to run the schemes competently. Consequently, in 2013 the authority ordered mandatory training and Certification of trustees of occupational retirement schemes for every trustee of the schemes. The certification is known as Retirement Benefit Trustee Certification Programme run by Kenya College of insurance in collaboration with Humber center for Employee benefit (Canada). Apart from these certifications RBA also run several seminars for trustees to increase their capacity in managing these funds. These trainings and seminars ensure that the trustees are empowered to carry out their duties effectively and with integrity. It is important to note that the trustees are personally liable for their actions and hence must understand their fiduciary duties.

#### **1.1.4 Pension fund Asset Allocation and Performance**

In the past decade, the role of pension funds as engines of economic growth has been jeopardized by investment risks in periods of economic downturn normally characterized by unstable and

slow recovery. For example, in the 2008 Global financial crisis, it was estimated that pension funds lost on average close to 23%(\$5.4 trillion) of their pre-crisis valuation (Whitehouse 2009). It is important to remain cognizant of the fact that pension funds are by design long term investments and therefore their performance should be evaluated as such. Contrary to 2008 outlook, the rate of return on pension fund investments over 10 years prior to October 2008, recorded positive growth in terms of their share of GDP, asset capitalization and rate of return. For instance, the US pension fund recorded 6.1% rate of return while Sweden recorded 8.5%. It's therefore very important for policy makers not to entirely discount pension fund role in economy and its ability to sustain and generate benefits and annuities on the basis of short run economic fluctuations (Yermo& Salou, 2008)

While Pension schemes are striving to deliver adequate retirement income, aging population driven by increasing longevity and low fertility rates continues to pose a persistent challenge. It is estimated that the share of individuals aged 65 and above will increase from 8% of world population to almost 18% by 2050(Lutz et al, 2001). As such the pension assets need to be invested in a way that assures sustainability. Understanding determinants of performance is key to all investors. For pension funds, the performance affect the amount declared to members on a yearly basis and by extension the amount one gets either as a lump sum upon retirement or as annuity for the purpose of pension.

### **1.1.5 Trustees Characteristics**

The role of a pension scheme trustee is crucial determination of scheme performance and governance. They should be knowledgeable and well versed in investment assets and processes besides having appropriate scheme knowledge and understanding of pension issues to undertake their role competently. In the recent years most pension funds have shifted from DB to defined

contribution DC schemes (Schwarz, & Karma, 2006). Unlike DB schemes where risks of poorly performing investments, inflation and longevity are effectively underwritten by the scheme sponsor, in DC schemes all these risks are borne by the members.

The management of the pension schemes is entrusted in the hands of scheme trustees, who in most cases are members of these schemes by virtue of being in employment of the sponsoring employer. Credit and blame on fund performance and governance, therefore fall squarely on the trustees 'shoulders, individually and collectively. Most schemes employ the services of fund managers to manage investments of their fund and advise them on portfolio allocation. Although fund managers are the experts in investments they act on instructions from the fund trustees. Even in cases where the fund managers have full discretion on the fund, they exercise their discretion on the basis of investment policy statement (IPS) prepared by the trustees. Trustees have full control of the scheme funds since they can hire and fire asset managers based on a number of considerations. Collectively, the trustees pronounce policy that affect how the funds are managed and therefore the benefits derived from the fund by scheme members and beneficiaries. It is therefore important for trustees to know how schemes operate and they should not underestimate the different steps required to manage underlying risks properly.

It has been documented that groups bring out the worst as well as the best in terms of decision making (Janis 1982). Team dynamics are the unconscious, psychological forces that influence the direction of a team's behavior and performance. Considering that pension funds incur risks to generate returns, it is important to appreciate how the group dynamics of the trustees' influence performance of a pension fund. Such dynamics may determine the risk stance of the group. While taking greater risk may results in higher returns, it may also result in the pension incurring funds heavy losses affecting future pension benefits (JankoGorter& Jacob Bikker,

2011). One big factor affecting the quality of decisions is whether a decision involves a group. Group dynamics can make otherwise sensible individual to make decisions they might not come to on their own. Since pension schemes rely on collective decision making, it's important to look out for group characteristics and how they impact the decision making process.

## **1.2 Problem Statement**

Whereas the major objective of a pension scheme is to provide independence of members in retirement, the realization of it depends on the adequacy of funds accumulated. It is thus expected that scheme funds outperform prevailing inflation rates. This implies that the decision makers must be prudent in the investment decision making such as asset allocation and security selection. These decisions are group decisions which are affected by group dynamics. Studies have demonstrated how diversified investment portfolios contribute to performance (Markowitz 1952, Rubenstein, 2006; Fabozzi, Kolm, Pachamanova, &Forcadi, 2007). Research has documented that asset allocation is the biggest determinant of portfolio returns over time (Brown, Gallapi, &Tiu, 2010). Trustees looking for strong performance would therefore look for asset allocation that yields strong performance.

Some trustees, in an effort to attain superior performance, rely blindly in the advice of fund managers or simply imitate better performing funds. To understand performance of pension schemes better, we must look beyond asset allocation and manager selection and examine the behavior, as well as interactive influences of the people who make such decisions. In Kenya a number of studies have been done focusing on performance of pension funds. Oluoch(2013)worked on the determinant of Kenya pension fund performance using age of contributors and fund value as the independent variables. She found no relationship between age and asset value on fund performance. Njeru, Murage&Kasomi (2015) assessed financial



performance of portfolio holdings held by pension funds in Kenya. Their study was majorly on effect of discretionary and nondiscretionary mandates of funds under management. The research revealed that the mandates have effect on fund performance.

Studies in behavioral finance have explored investor characteristics and behaviors that affect individual portfolios (Thaler, 2005; Statman, 2010; Goetzmann& Kumar, 2008), yet relatively little is known about group factors that affect portfolio allocations and performance of institutional investment portfolios such as occupational retirement benefit schemes. Most studies have majorly focused on the investment assets and governance structures as key determinants of performance but have overlooked trustees' board characteristics as a significant determinant of RBS performance. This study will dwell on the group factors that affect performance of RBS in Kenya by investigating how diversity in expertise, gender, learning Commitment of trustees' boards and their open mindedness influence on the performance of occupational retirement schemes in Kenya.

### **1.3 Research Objectives**

The main objective of this paper was to examine the effect of board of Trustees' composition, knowledge and diversity on performance of retirement benefit schemes.

Specifically, this paper sought to determine the effect of:

1. Board of Trustees' gender diversity on performance of Kenyan retirement benefit schemes
2. Board of Trustees' financial expertise on Performance of Kenya retirement benefit schemes
3. Board of trustees' open-mindedness on performance of Kenya retirement benefit schemes
4. Board's learning commitment on performance of Kenya retirement benefit schemes

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

The study is another contribution to existing literature in pension fund governance and performance more so the effects of group dynamics on RBS performance. Most importantly it adds to the scarce literature on the governance of occupational retirement funds by documenting the impact of trustee dynamics and composition on their performance. The findings of this study can be used for policy formulation on RBS governance by the industry regulator especially when formulating curriculum for trustee training.

#### **1.5 Scope of the study**

The research focused on trustees of occupational Pension funds in Kenya. Specifically, performance data was sourced from reports generated from RBA. RBA is responsible for prudential supervision of Kenya pension funds and their regulatory compliance.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1. Introduction**

This chapter provides a discussion on the relevant literature that has been reviewed. Among the issues featured in this chapter are the factors that affect portfolio performance and by extension retirement benefit schemes. Investment decisions are made on group basis for RBS. Each decision made has the impact on fund valuation that affects many people including members and beneficiaries. We also review empirical studies that provide evidence from actual studies that have been carried out as well as summary of the literature.

### **2.2 Theoretical Review**

The study is based on the following three theories: upper Echelon, the resource base and goal setting theories

#### **2.2.1 Upper Echelon Theory**

Upper Echelon theory was put forward by Hambrick&Mason (1984). The theory holds that the demographic characteristics of top management, influence the decisions made and practices adopted by the company. This is because such demographic characteristics are associated with cognitive bases, values and perceptions that affect the decision making process of managers. Consequently, strategic choices that yield competitive advantage are therefore premised upon individual characteristics of the upper echelon i.e. the top management. The trustees as the upper Echelons of the pension Schemes would have a positive influence over the people that work under them. It's important to note that a number of service providers work under trustees to generate benefit for scheme members and beneficiaries. They include fund managers, administrators, actuaries, custodians, consultants and many more. All these services providers would be influenced by the dynamics of the trustees and performance could be generated if the influence was positive. Consequently the trustees right mix of Gender, Expertise, open

mindedness and learning commitment are relevant in explaining the trustees influence in making prudent investment and operational decisions that determine performance of their funds.

### **2.2. 2 Resource Based Theory**

The resource base theory holds that performance stems from inimitable resources peculiar to an organization, and on which an organization derives its competitive advantage. At board level where diverse and complex organizational problems are solved, it would be fool hardy to imagine that persons with similar traits would reach the optimum solution for the complex problems. Different perspectives are required at board level in most cases. Since boards consider diverse aspects of organizations in terms of opportunities and threats, these can only be handled efficiently if diversity of gender and expertise are encouraged at board level. A more diverse team is better equipped to handle opportunities and threats on multiple fronts and possess a broader repertoire of skills and capabilities for superior problem solving and decision making (Krishnan & Park, 2005). Accordingly, diversity leads to more effective problem solving since more diverse boards provide a wide variety of perspectives and hence a higher number of alternatives (Rose, 2007). The optimum balance in the form of gender and expertise diversity in boards of management is an intangible asset or resource to an organization that cannot be imitated by competition. Such a mix allows the firms to derive competitive advantage over the others. This is because each gender and expertise would contribute to management in a complementary manner thereby enhancing performance. Such a mix would form an internal resource to the organization that works towards achieving organizational objectives.

Similarly, commitment to learning and open mindedness among key decision makers would lead to good examples being set to the rest of the organization. Lower carder employees would learn by example while external service providers would also emulate how things are done in the

organization. Therefore, all the variables of gender and expertise diversity, learning commitments and open mindedness when optimally mixed would lead to an internal resource that create competitive advantage to an organization hence higher performance.

### **2.2.3 Goal Setting Theory**

Learning commitment and open-mindedness can be premised on the theory of goal setting. The goal setting theory postulates that goal setting is essentially linked to task performance. It states that specific and challenging goals along with appropriate feedback contribute to higher and better task performance. Every organization operates on some sort of goals. In fact, even individuals set goals for themselves e.g. lose weight, pass exams and so on and these goals motivate them to work hard towards achieving them. In organizations, programs like management by objectives (MBO), benchmarking, strategic planning and the rest all include serious development of goals. Consequently, individuals working on the set goals must then have sufficient ability and accept the goals to achieve them (Latham, 2003). It has been documented that individual who are given specific, difficult but attainable goals perform better than those with easy and non-specified goals. The study links this theory to learning commitment because commitment to learning without goals would yield mediocre performance. In the absence of learning and commitment to learning, many organizations simply resort to repeating the same old practices and therefore make no improvement in either the services or products offered. Scholars view learning as a continuous exercise that evolve overtime and link it with knowledge acquisition and improved performance. Moreover, they have the view that whatever is learnt ought to be easily transferrable for the better good of the organization.

Commitment to learning would be motivated if there were goals to be achieved. It is obvious that if there were clearly defined goals then this will lead to higher performance. Learning

commitment should be backed by clearly defined goals of what is to be learned and achieved. Vague goals lead to mediocre performance. Commitments to learning is linked to the goal setting theory as stipulated by Locke (1993) that is grounded in the belief that conscious goals and intentions drive results.

Goal setting theory can also be viewed as a great enhancer of performance through open mindedness. It is natural that once goals are set, ways are explored on how to achieve them. Open minded managers would then create an atmosphere for robust discussion on how they would achieve their goals. Such discussions would allow managers to explore more options and alternatives that yields better results to their organizations. Open-mindedness breeds ground for critical thinking necessary for analyzing arguments and making inferences using inductive and deductive reasoning for problem solving. Consequently, critical thinking as a component of open-mindedness is essential for getting superior solutions for problems facing organizations. Open mindedness allows boards to go beyond the mental models that limits how they view the world and take action (Senge,1990). Consequently, organization would benefit if members are open minded since alternatives and different perspectives would be considered. Disagreements among board members would result in closer inspection of assumptions made and more alternatives would be considered. As such no one individual would dominate the decision making process. Open mindedness also allows people to face cognitive conflict that generally allow for more alternatives to be considered. Cognitive psychologists tend to focus on how people think versus what they do under ideal condition (Stenberg, 1986). The methods of devil advocacy and dialectical inquiry aid sound decision making in open minded boards thus results to superior solutions for problems facing organizations

## **2.3 Empirical Review**

This section reviews the studies that have been carried out on fund manager characteristics and performance with a focus on the study variables.

### **2.3.1 Gender Diversity and Organizational Performance**

A number of research have been done on the effect of gender diversity and expertise diversity on organizational performance with mixed results. Gender and expertise diversity studies have been done separately and not collectively. Brown et al (2002) found that corporate boards with more women surpassed all-male boards in paying attention to audit risk and oversight. They had done a longitudinal study of 141 Canadian public companies. Claude et al, (2007) used book to equity valuation model as postulated by Fama and French (1992, 1993) to compare performance of a number of firms. The study found a positive and significant abnormal return for companies with high proportion of women officers. The study also observed that a high proportion of women in both management and governance system generate enough value to keep up with normal stock market returns. In Siciliano's (1996) study gender diversity compared favorably to organizational level of social performance. The study also found that gender diverse boards allocate more efforts on monitoring. Dwyer, Richard & Chardwick, (2003) also found that top management team gender diversity while interacting with organizational culture affects organizational performance. However, some studies have yielded different results. Alvarez et al (2010) in their study of Spanish corporations listed on Madrid exchange has reported finding gender diversity as not necessarily linked to corporate performance.

### **2.3.2 Financial Expertise and Organizational Performance**

A number of studies have been carried out on board diversity and its effect on firm performance. Sotaro (2008) examined the effect of diversity on technical innovation of individual researches.

The research found that diversity of expertise in research groups facilitated both radical and incremental innovation of member researchers. The research further noted that when researchers operated in groups with diverse affiliation background, cognitive knowledge learning was facilitated and this in turn improved radical innovation. Grant (2014) found that knowledge based approach to decision making has effect on firm innovativeness and has a far-reaching implication to management practice. Using data collected through survey of nonprofit colleges and universities (Harris, 2014) provided evidence that specific board member characteristics were important in shaping financial and non-financial success of the institutions. The study also found that expert diversity are associated with better performing organizations. Bantel and Jackson, (1992) found that Diversity in terms of education is associated with organizational innovation. Surprisingly some studies on diversity yielded negative relationship with performance. Ancona & Caldwell (1992) in their study of 45 product teams found that diversity had a negative direct effect on innovation and team related performance.

### **2.3.3 Learning Commitment and Organizational Performance**

A number of studies have also been carried out on the effect of learning commitment and open mindedness on performance. Boyton et al (1994) found that the presence of knowledge lead to the utilization of it (knowledge) in their study of information technology usage among IT line managers in large corporations. Presence of knowledge alone does not help. Knowledge need to be used and shared. However, research points to barriers to knowledge transfer. Szulanski, (1996), found that the major barrier to knowledge transfer are related to knowledge related factors such as recipient lack of absorptive capacity, casual ambiguity and an arduous relationship between the source and the recipient.



In another study Roger J. *et al* (2002) used in depth interviews with senior executives of broad spectrum of US industries and reviewed literature where they delineated four components of learning orientation such as commitment to learning, shared vision, open mindedness and organizational knowledge. The study found that learning commitment has an effect on firm innovativeness which in turn affect firm performance.

### **2.3.4 Open Mindedness and Organizational Performance**

Many studies have been carried out on how open-mindedness affect organizational performance. Haran & Miller, (2013) examined whether attributes associated with persistence in information acquisition can predict performance in an estimation task. The study found that if available information is predictive of future outcomes, then actively open minded thinkers are more likely to make accurate forecasts than others. Mitchell, Parker & Giles, (2012) Surveyed data from 218 members of 47 professionally diverse teams. Professional identification and professional salience were found to moderate the relationship with opposing effects. This study, which investigated open mindedness in diverse team found that open-mindedness provides a context that facilitates the open exchange and discussion of diverse ideas and perspectives. The study found significant relationship between open-mindedness and performance.

In another study, Ricardo Et al (2010) through empirical investigation of 133 Small and medium size enterprises tested the role of cultural barriers in the relationship between Open mindedness(OM) and organizational innovation. The results showed that the relationship between OM and organizational innovation is likely to suffer if a firm does not overcome previously its cultural barriers. An explanation for this could be that outdated knowledge can impede the adoption of new configurations. Therefore, it is important for organizations to

provide an appropriate environment for overcoming cultural barriers. Otherwise new knowledge will not be acted on or incorporated into new products and services.

### **2.3.5 Portfolio Size and Fund Performance**

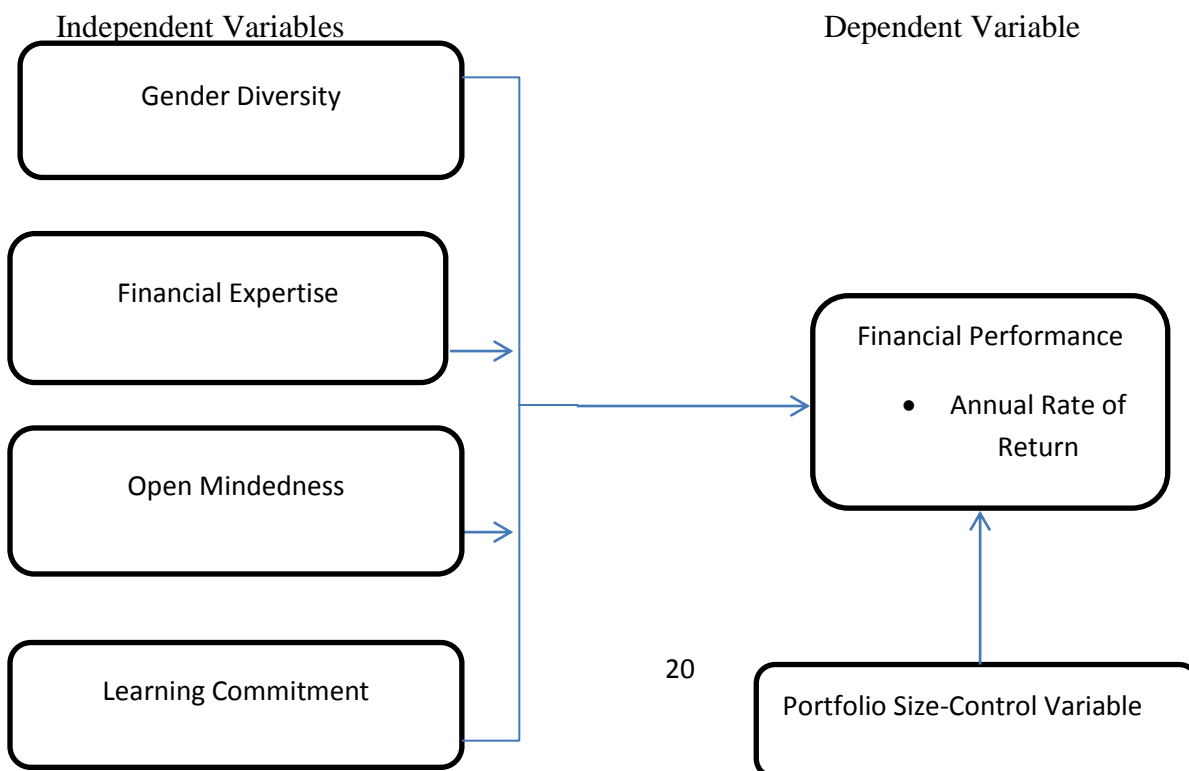
There has been extensive research on the effect of fund size on performance of portfolios. In a sample of 683 non indexed U.S. equity funds over the 1993–95 period, Daniel C. *et al* (1999) found that 20 percent of the mutual funds were smaller than the breakeven-cost fund size and 10 percent of the largest funds overinvested in information acquisition and trading. The study found that fund size (net assets under management) affects mutual fund performance. Mutual funds must attain a minimum fund size in order to achieve sufficient returns to justify their costs of acquiring and trading on information. Furthermore, there are diminishing marginal returns to information acquisition and trading, and the marginal returns become negative when the mutual fund exceeds its optimal fund size.

In another study, using stock transaction data along with detailed stockholdings for comprehensive sample of US actively managed equity mutual funds from 1993to 2002, Xuemin (2006) empirically examined the effect of liquidity and investment style on the relationship between fund size and fund performance. The study found a significant inverse relationship between fund size and fund performance. The study further revealed that the inverse relation is more pronounced among growth and high turnover funds that tend to have high demand for immediacy. The paper suggest that liquidity is an important reason why fund size erodes performance.

## 2.4 Conceptual framework

This study conceptualizes that trustee composition by way of Gender diversity (GM), Financial Expertise (FE), Open mindedness (OM); Learning commitment (LC) and have an effect on the performance (P) of Retirement benefit schemes. The four variables through the application of various theories explain the sources of performance i.e. Gender diversity, open mindedness, learning Commitment and expertise diversity have an effect on the overall performance. As such the study consider the GM, OM, LC and FE as independent variable that explains the dependent variable, performance. in order to identify specific effects of Open mindedness, gender Mix, Learning commitment and Expertise diversity on RBS performance, the study will control for the effect of fund size. Consequently, we adopt industry survey, Alexander Forbes consulting Actuary Scheme Survey 2016, categorization method such that funds less than Kes,100million will be considered small size, those between 100M and 500 Million will be considered medium size, those between KES 500 Million to 2 Billion are categorized as Large size while those in excess of KES2 Billion are categorized as Mega large size funds.

**Figure 1: Conceptual Model**



## 2.5 Operationalization of the Variables

As will be seen elsewhere in the paper, the researcher will use axial coding to explore the relationship between the independent variables and the performance. There are several ways of measuring performance of an organization. First is to look at the financial performance in terms of growth or decline in fund values. Organizational performance can also be measured in terms of customer satisfaction, for instance in the case of RBS, whether members are getting their dues when they fall due and using the most efficient methods of servicing the clients. In the case of independent variables, the researcher will mostly use descriptive narratives as a measure. Since the study is qualitative in nature, a description will be given for all the independent variables and their corresponding bottom and top quartile dependent variable. The following table indicates how the variables will be measured

<b>Variable</b>	<b>Measurement</b>
Gender Diversity	% of Women in the BOT,
Open Mindedness	Assessed using 5-point Likert scale of 5 items; Adapted from Lord, 2010
Learning Commitment	Assessed using 5-point Likert scale of 5 items; Adapted from Lord, 2010
Financial Expertise	proportion of trustees with specific discipline background e.g. Finance Accounting etc.
Portfolio Size (Control Variable)	<250M-Small Size >100<500M-Mid size >500<2Billion-Large Size >2BN-Mega Size
Performance	Annual rate of return of the fund

## **CHAPTER THREE: RESEARCH METHODS**

### **3.0 Introduction**

This chapter presents the method, research design, and data collection methods used.

### **3.1 Research Design**

The primary aim of this study was to examine the impact of trustee dynamics on pension fund financial performance. To achieve this purpose a descriptive research design with a cross-sectional data was employed. Descriptive research design helps to identify and evaluate the influence of relationships between the different variables under consideration (Marczyk et al., 2005). In this study, descriptive research design was employed to examine the relationship between predictor variables of the study and performance of pension funds

### **3.2 Population of Study**

The population for this study was the entire registered occupational retirement benefit schemes in Kenya. There are currently 1256 registered pension schemes in Kenya and this was the target population of the study. The study sampled occupational retirement funds drawn from the 1256 schemes regulated by retirement benefit Authority (RBA, 2015). Occupational retirement funds were selected due to the diversity of the pension schemes, thus allowing for the researcher to determine the moderating effect of fund size.

### **3.2 Sampling Size**

At 90% confidence level the sample size will be 100 pension schemes that were selected through stratified and thereafter random sampling. Stratified sampling was used to cluster the sample based on fund size and thereafter random sampling used to select the 100 sampling units. Stratified random sampling is also advantageous when it can be used accurately because it

ensures each subgroup within the population receives proper representation within the sample. Sample size is calculated using the formula;

$$n = \frac{z^2 pq}{d^2}$$

Where n = required sample size, p = proportion of the population having the characteristic, q = 1-p and d = the degree of precision

### **3.3 Data Collection**

Data for this study was be sourced from RBA. This is because all RBS are by law required to submit all scheme information including performance and declared returns to the authority. We also requested the sampled trustees to provide this data to corroborate the RBA data. Data sourced from RBA are believed to be those that have been verified and or audited. It is also possible to collect this data from the Fund managers; however, this paper deliberately avoided the chance of cherry picking performance information by fund managers which may be the case if data was requested from the fund managers. For this purpose, the study used the recent annual performance returns for the period declared by each scheme as the dependent variable. For this purpose, the 1,3 and 5 year annualized returns for each scheme was used. This is because the period covered is fairly a longer period for stabilization and evaluation of portfolios. The period also covers time periods characterized by both economic booms and recession such that it will be possible to analyze which funds were resilient in both hard and good economic times.

Two explanatory variables of Gender diversity/composition and financial expertise diversity were also being sourced from RBA data. This was also being corroborated by information obtained from trustees of the sampled pension funds. For the explanatory variables, i.e. open mindedness, and learning commitment, the researcher relied on the use of 5-point Likert scale.

The Likert Scale is an ordinal psychometric measurement of attitudes, beliefs and opinions. In each question, a statement is presented in which a respondent must indicate a degree of agreement or disagreement in a multiple-choice type format. One major advantage of using the Linkert scale is that they are universal method of survey collection and therefore easy to understand. The dependent variable, Performance was measured by the declared annual rate of returns for the funds.

Questionnaires was mailed to trustees in sampled RBS in order to get a wider respondent. Questionnaires normally support collection and analysis of large sets of quantitative data collected from multiple sources. Besides they are relatively inexpensive method of quick data collection.

### **3. 4 Validity and Reliability Tests**

Before the questionnaires were administered on the respondents, the researcher tested for Validity and reliability of the said questionnaires. Validity is the ability to measure what the instrument is intended to measure (Smith,1991). The Researcher carried a pilot survey to determine the validity of the survey questionnaire. The researcher also carried face validity to establish the extent to which the questionnaire appears valid on the face. To this end, the researcher assured readability, confirmed layout style, and carried out feasibility and assuring clarity of words in the document. Most importantly the researcher conducted the construct validity of the questionnaire by correlating the performance on the instrument with performance on similar questionnaires.

Having established the instrument validity, the researcher conducted reliability test on the questionnaire in order to reduce bias and ambiguity while ensuring data quality and credibility.

Reliability on an instrument is the ability to create reproducible results. The researcher measured all aspects of reliability of the questionnaire by looking at its stability, internal consistency and equivalence by use of Cronbach's alpha.

### **3.5 Mailing Questionnaires**

The researcher mailed the questionnaires to the sampled trustees and each questionnaire was accompanied by a cover letter. The aim of the cover letter was to persuade the recipient to complete the questionnaire and inform them of the importance of the study. In order to increase the response rate from the recipients the researcher issued notification for the study, then sent the questionnaire accompanied by a cover letter, followed by a reminder letter and a final reminder to all the sampled trustees. Another aspect used in persuading for completion of the questionnaires was assuring anonymity and confidentiality. To this end both the cover letter and the questionnaire contained asked respondents needing the finding of the research to attach their business cards to the questionnaire and this was optional for the respondents. The researcher also issued stamped envelope for mailed questionnaire addressed to the researcher in order to increase response rate. While the questionnaires were mailed to all the sampled trustees, the researcher in some cases administered interview by filling the questionnaire from face to face and or telephone interview for those trustees that found this appropriate.

#### **3.4.1 Data Analysis and Presentation**

The data collected was quantitative in nature and a continuous data. This data was then entered in Microsoft Excel and thereafter cleaned through double entry process. The cleaned data set was then transferred to SPSS software from where it was transformed ready for analysis.



### 3.4.2 Regression model

The study used the following multiple regression model to link the performance of RBS to independent variables. Multiple regression is a statistical analysis technique used to analyze the relationship between one dependent variable and several explanatory variables. SPSS was used to solve the regression equation. The study used regression model as shown below:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$$

Where: - Y = Financial performance of RBS (Dependent variable)

$\varepsilon$  = Unexplained Variation i.e. error term, it represented all the factors that affect the dependent variable but are not included in the model either because they are not known or difficult to measure.

$X_1$  = Gender Diversity

$X_2$  = Open Mindedness

$X_3$  = Learning Commitment

$X_4$  = Financial Expertise Diversity

$X_5$  = Fund size, Moderating variable.

The  $R^2$  measure was used to show how much of the performance percent of variation is explained by board of trustee characteristics. Pearson correlation ( $R^2$ ) was used to measure the correlation between each independent variable and pension fund performance. T test was used to establish if the relationship is significant with p value of less than 0.05 showing significant

relationship. To test for the moderating effect of fund Size, analysis was performed with or without Size variable with the p-values and  $R^2$  observed to check the effect.

## **CHAPTER FOUR: ANALYSIS, RESULTS AND DISCUSSIONS**

### **4.0 Introduction**

This chapter comprised of data analysis, findings and interpretation. Results were presented in tables and diagrams. The analyzed data was arranged under themes that reflected the research objectives.

### **4.1 Response Rate**

The number of questionnaires that were managed was 100. A total of 73 questionnaires were correctly filled and returned. This represented an overall efficacious response rate of 73% as shown on Table 4.1. Mugenda and Mugenda (2003) and Kothari (2004) recommends an answer rate of above 50% as acceptable for descriptive study. From these claims of well-known scholars, 73% got from this study is very convincing. Thus, the response rate of 73% showed a very strong answer rate.

**Table 4. 1: Response Rate**

Response	Frequency	Percent
Returned	73	73
Unreturned	27	27
Total	100	100.0

### **4.2 Demographic Characteristics**

This segment consists of evidence that defines basic characteristics such as gender, age, and level of education of the respondents.

#### 4.2.1 Gender of the respondents

The respondents specified their gender. The male respondents were the majority of the respondents which was 74% of the sample whereas 26% were female. This implies that pension scheme management in Kenya are male dominated.

**Table 4. 2: Gender of Respondents**

Gender	Frequency	Percent
Male	54	74
Female	19	26
Total	73	100

#### 4.2.2 Age of the respondents

Majority of the respondents at 71.2% fall in the bracket of 30-49 years followed by the age bracket of 50- 64 years at 17.8%. The least age bracket was 19-29 years which accounted for only 2.7% of the respondents. This implies that most of the trustees in these organizations expected to be adequately experienced, in the middle of their careers and understand the operations of the pension schemes.

**Table 4. 3: Age of Respondents**

Age bracket	Frequency	Percent
18-29 years old	2	2.7
30-49 years old	52	71.2
50-64 years old	13	17.8
65 years and over	6	8.2
Total	73	100

### 4.2.3 Highest Level of Education

Highest level of education was one of the parameters of the questionnaire. As shown in figure 4.4, 54% of the respondents had post graduate level of education, 30% college graduates qualification and 8.2% had vocational training qualification. The study outcome means that, the respondents have knowledge of the questions and know how to fill the questionnaire and gave effective answer since they understood the scheme operations as shown by their education level. The employees are well educated meaning that the schemes take care of the education of its trustees.

**Table 4. 4 : Highest level of Education of Respondents**

<b>Level of Education</b>	<b>Frequency</b>	<b>Percent</b>
Some college	3	4.1
Trade/technical/vocational training	6	8.2
College graduate	22	30.1
Some postgraduate work	2	2.7
Post graduate degree	40	54.8
Total	73	100

### 4.2.4 Number of women trustees

Most of the schemes had at least two women trustees and not more than three trustees. This seems to suggest that women get to these positions as a matter of compliance with the Kenyan Gender rule rather than other considerations including genuine inclusivity and meritocracy.

**Table 4. 5: number of Women trustees**

No of women on the BOT	Frequency	Percent
one women trustee	5	6.8
two women trustee	27	37
three women trustee	27	37
non-women trustee	14	19.2
Total	73	100

#### **4.2.5 Financial Expertise**

There seems to be a preference for trustees with finance/accounting background to be in the board of trustees. This is perhaps as a result of the belief that they understand the concepts and mechanisms of investing schemes funds. Moreover, sponsor nominated trustees tend to be those in the finance departments of organizations. The table below show that majority of the respondents had finance background and suggesting they had an understanding of the questionnaire and the research being carried out.

**Table 4.6: Highest level of Education of Respondents**

Area of Specialization	Frequency	Percent
Accounting/Finance/Business	48	65.8
Science	11	15.1
Other	14	19.2
Total	73	100

#### 4.2.6 Size of Fund

Majority of the schemes were medium sized i.e. in the range of KES 100 Million to 500 Million representing 56% of the schemes whose trustees responded. This was followed by Mega schemes at 19.2%. The other scheme was the large schemes of size ranging from 500m to 2 Billion at 16.4%. Small schemes accounted for 8.2% of the schemes surveyed as can be seen from table 4.6 below.

**Table 4. 6: Size of the Funds**

Size of Scheme	Frequency	Percent
Under KES 100, Million	6	8.2
Between KES 100 and 500 Million	41	56.2
Between KES 500M and 2 Billion	12	16.4
Over KES 2 Billion	14	19.2
Total	73	100

#### 4.3 Descriptive Statistics

This division represents the descriptive outcomes on learning commitment and open mindedness among the scheme trustees. The use of learning commitment and open mindedness was undertaken in order to determine the extent to which they affect the performance of schemes on a five point Likert scale. The range was ‘strongly disagree (1)’ to ‘Strongly agree’ (5). The scores of disagreeing have been taken to represent a variable which had a mean score of less than 2.5 on the continuous Likert scale. The scores of ‘Neutral’ have been taken to represent a variable with a mean score of 2.5 to 3.4 on the continuous Likert scale while the score of both agree and

strongly agree have been taken to represent a variable which had a mean score of 3.5 to 5.0 on a continuous Likert scale. A standard deviation of  $> 0.9$  implies a significant difference on the impact of the variable among respondents.

#### **4.3.1 Learning commitment**

The assessment of the effect of learning was the one of the variables in determining the performance of the pension schemes. The respondents responded to five set of statements on this variable. Rated on a five Likert scale, the responses were as obtainable in Table 4.8. The respondents were in agreement that they were willing to spend extra time taking part in the internal and external training courses provided by the Firm with a mean of 4.65. The low standard deviation of 0.605 indicated that the variation among the respondents was low. The respondents were further in agreement that attaining more specific knowledge and Skills to achieve the job goals was important(mean=4.13); learning opportunities are advantageous to them (mean=3.80); being able to learn constantly is very important(mean=3.6) however they were neutral as to whether learning opportunities are advantageous to the firm (mean=2.9). The high standard deviation of 1.28 indicates that there was high variation among the respondents.



**Table 4. 7: Responses on Learning Commitment**

**Descriptive Statistics**

	N	Mean	Std. Deviation
I am willing to spend extra time taking part in the internal and external training courses provided by the Firm	73	4.6575	.60597
I am eager to learn more specific knowledge and Skills to achieve the job goals	73	4.1233	.95663
I believe that all the learning opportunities are advantageous to me	73	3.8219	1.08452
I believe that all the learning opportunities are advantageous to the firm	73	2.9178	1.28834
To me, being able to learn constantly is very important	73	3.6438	1.15914
Valid N (list wise)	73		

**4.3.2Open mindedness**

The assessment of the effect of open mindedness among scheme trustees was also the one of the variables in determining the performance of the pension schemes. The respondents responded to five set of statements on this variable. Rated on a five Likert scale, the responses were as obtainable in Table 4.9. The respondents were in agreement that People should take into consideration evidence that goes against their beliefs with a mean of 3.8. The high standard deviation of 1.08 indicates that the variation among the respondents was high. However, there was consensus that Allowing one to be convinced by an opposing argument is a sign of good character with very low variation (std dev 0.82)

**Table 4. 8: Response on Open Mindedness**

<b>Descriptive Statistics</b>			
	N	Mean	Std. Deviation
It is important to persevere in your beliefs even when evidence is brought to bear against them.	73	3.0685	.93287
Intuition is the best guide in making decisions.	73	3.6438	1.07199
People should revise their beliefs in response to new information or evidence	73	3.6575	1.19279
One should disregard evidence that conflicts with one's established beliefs.	73	3.6575	.97495
Changing your mind is a sign of weakness	73	3.6986	1.07606
People should take into consideration evidence that goes against their beliefs.	73	3.8493	1.08872
Allowing one to be convinced by an opposing argument is a sign of good character	73	4.2329	.82530
Valid N (list wise)	73		

#### **4.4 Inferential Statistics**

Correlation results were generated by inferential analysis, model of fitness, and analysis of the regression coefficients and variance.

##### **1.4.1 Correlation Analysis**

The relationship between the dependent and the independent variable indicators were examined using correlation analysis using Pearson correlation coefficient ( $r$ ) and p-value analysis, a correlation was perceived significant when the probability value was below 0.05 ( $p\text{-value} \leq 0.05$ ). Coopers and Schindler (2003) posit that when the correlation coefficient ( $r$ ) =  $\pm 1.00$ , there is a perfect (positive or negative) correlation between the variables. When  $r = 0.01$  it shows that the relationship is quite weak and  $r = 0.9$  indicates very strong correlation between the variables.

When  $r = 0$  it shows that there is no relationship between the variables. A correlation was considered significant when the probability value was below 0.05 ( $p\text{-value} \leq 0.05$ ).

Table 5.0 below represents the results of the correlation analysis. The results revealed that open Mindedness and performance are positively and significantly related ( $r=0.721$ ,  $p=0.00$ ). The table further indicated that Learning Commitment and performance are positively and significantly related ( $r=0.348$ ,  $p=0.003$ ). It was also established that Female trustees and performance were positively but not significantly related ( $r=0.041$ ,  $p=0.73$ ). Similarly, results showed that Financial Expertise and performance were negatively but not significantly related ( $r=-0.077$ ,  $p=0.517$ ). This implies that an increase in any unit other than financial expertise of the variables leads to an improvement in performance.

**Table 4. 9: Correlation Matrix**

		<b>Correlations</b>				
		learning commitment	open mindedness	Female Board members.	Financial Expertise	Fund performance
learning commitment	Pearson Correlation	1				
	Sig. (2-tailed)					
open mindedness	Pearson Correlation	.522**	1			
	Sig. (2-tailed)	0				
Female Board members.	Pearson Correlation	-0.052	-0.132	1		
	Sig. (2-tailed)	0.66	0.264			
Financial Expertise	Pearson Correlation	-.278*	0.064	-.288*	1	
	Sig. (2-tailed)	0.017	0.591	0.014		
Fund performance	Pearson Correlation	.348**	.721**	0.041	-0.077	1
	Sig. (2-tailed)	0.003	0	0.73	0.517	

\*\* . Correlation is significant at the 0.01 level (2-tailed).  
\* . Correlation is significant at the 0.05 level (2-tailed).

#### 4.4.2 Regression Analysis

The results in table 5.1 represent the fitness of model used of the model regression in elucidating the study phenomena. Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (Fund performance) that is explained by all the three independent variables (Gender Diversity, Financial Expertise, Learning Commitment, and Open mindedness). The four independent variables studied explain 55.2% of performance of pension schemes studied. This therefore means that other factors not studied in this research contribute 44.8% of the scheme performance.

**Table 4. 10: Model Fitness**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.743 <sup>a</sup>	.552	.526	.56276

a. Predictors: (Constant), Financial Expertise, open mindedness, Female Board Members. , learning commitment

#### 4.4.3 Analysis of Variance

In statistics significance testing the p-value indicates the level of relation of the independent variable to the dependent variable. If the significance number found is less than the critical value also known as the probability value (p) which is statistically set at 0.05, then the conclusion would be that the model is significant in explaining the relationship; else the model would be regarded as non-significant.

Table 5.2 provides the results on the analysis of the variance (ANOVA). The results indicate that the overall model was statistically significant. Further, the results imply that the independent variables are good predictors of pension scheme performance. This was supported by an F statistic of 20.955 and the reported p value (0.000) which was less than the conventional probability of 0.05significance level.

**Table 4. 11: Analysis of Variance**

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	26.546	4	6.637	20.955	.000 <sup>b</sup>
	Residual	21.536	68	.317		
	Total	48.082	72			

a. Dependent Variable: Fund performance b. Predictors: (Constant), Financial Expertise, open mindedness, Female Board members. , Learning commitment

#### 4.4.4 Regression Coefficients

Table 5.3shows regression of coefficients results in regarding the variables studied. Starting with the number of female trustees, the results show that; T=1.23 and p-value =0.154 since  $p > 0.05$  at the  $\alpha = 0.05$  level of significant there exist enough evidence to conclude that Female trustees is greater than 0.005, hence, the study conclusion that this variable is not useful as a predictor of performance.

Open Mindedness was equally tested and from these result T=8.041, p-value=0.000 at  $\alpha = 0.05$  level of significant; there exist enough evidence to conclude that  $p < 0$  at 0.05 level of significance for open mindedness hence, Open Mindedness standard is useful as a predictor of performance.

As regards, Learning Commitment, the results show that; T=-0.917 and p-value =0.362 since  $p > 0.05$  at 0.05 level of significance, there exist enough evidence to conclude Learning

Commitment is great than 0.005, hence, the study concluded that learning commitment is not useful as a predictor of scheme performance

Finally, Financial Expertise was equally tested from these result T=-1.35 p-value=0.181 then at 0.05 level of significant; there exist enough evidence to conclude that Financial Expertise greater than 0.05 and hence, Financial Expertise is not useful as a predictor of scheme performance.

The multiple linear regression models are as shown below.

**Table 4. 12: Regression Coefficients**

<b>Coefficients<sup>a</sup></b>					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.75	0.519		1.443	0.154
Female Board members.	0.056	0.045	0.105	1.23	0.223
1 open mindedness	0.857	0.107	0.792	8.041	0
learning commitment	-0.113	0.123	-0.094	-0.917	0.362
Financial Expertise	-0.126	0.093	-0.123	-1.35	0.181

a. Dependent Variable: total Fund performance of your fund

From the data, the established regression equation was:

$$Y = 0.75 + 0.857x_2 \text{ where } x_2 = \text{Open Mindedness}$$

The model shows open mindedness as having a positive coefficient, which showed that they were directly proportional to performance. This mean that a unit increase in Open Mindedness increases the performance by 0. 857units.The results obtained in table indicted that when all the variables are zero, that is open mindedness =0, then the performance will increase by unit.0.75

In conclusion, the inferential statistic showed that Scheme performance was explained by independent variable; Open Mindedness, therefore appreciating that open mindedness among scheme trustees were the predictor of Fund performance.

#### 4.4.4 Inclusion of Control variable

The control variable was included in the equation and R2 increased from 55 to 56.7. with an adjusted R2 of 53.5 as can be seen in the table below

**Table 4. 13: Model Summary**

#### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.753 <sup>a</sup>	.567	.535	.55721

a. Predictors: (Constant), Fund Size, Financial Expertise Open mindedness, Female Trustees. ,Learning commitment

## **CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter gives reports on the summary of the findings, the conclusions and the recommendations. This is done with respect to the objectives of the study.

### **5.2 Summary of Findings**

This section provides a summary of the findings from the analysis. This is done in line with the objectives of the study.

#### **5.2.1 Gender Diversity**

The first objective of the study was to establish the effect of gender Diversity on performance of retirement benefit Schemes in Kenya. The findings revealed that Gender diversity has a positive but insignificant effect on the performance of retirement benefit schemes in Kenya. This may confirm why just a few women are appointed or elected to boards of trustees. This finding agree with Alvarez et al (2010) in their study of Spanish corporations listed on Madrid exchange who reported that gender diversity as not necessarily linked to corporate performance.

#### **5.2.2 Open Mindedness**

The second objective of the study was to establish the effect of Open Mindedness on performance of retirement benefit Schemes in Kenya. The results revealed that open Mindedness and performance of retirement schemes are positively and significantly related ( $r=0.721$ ,  $p=0.00$ ). The findings agree with a number of studies including Mitchel, Parker & Gilles (2012) in their study of 47 professionally diverse teams where the study found significant relationship between open-mindedness and performance.



### **5.2.3 Learning Commitment**

The third objective of the study was to establish the effect of Learning Commitment on performance of Retirement Benefits Schemes in Kenya. The study found that that Learning Commitment and performance are positively and significantly related ( $r=0.348$ ,  $p=0.003$ ). This finding agree with that of Roger J. et al (2002) who found that learning commitment has an effect on firm innovativeness which in turn affect firm performance. However, we point out that learning commitment had p value greater than 0.005 and hence concluded that learning commitment is not useful as a predictor of scheme performance. This may be as a result of barriers to knowledge transfers as per Szulanski, (1996), who found that the major barrier to knowledge transfer are related to knowledge related factors such as recipient lack of absorptive capacity, casual ambiguity and an arduous relationship between the source and the recipient.

### **5.2.4 Financial Expertise**

The forth and the last objective was to establish the effect of Financial Expertise among the trustees on performance of retirement benefit schemes in Kenya. The regression results revealed that Financial Expertise and performance were negatively but not significantly related ( $r=-0.077$ ,  $p=0.517$ ). this confirms studies in Ancona & Caldwell (1992) in their study of 45 product teams that found that expertise diversity had a negative direct effect on innovation and team related performance. trustees need not put a lot of emphasis on expertise in the board unless they want to manage their funds by themselves. Fund managed is normally outsourced to qualified fund managers and advisors. It's only where the trustees retain discretion on fund investments where this financial expertise will be required of them.

### **5.3 Conclusions**

The main driver of scheme performance lies on the underlying assets or investment securities. The people charged with the overall responsibilities for the sound investment of these securities are the trustees. Even though in most cases management of scheme funds are outsourced to fund managers, those who determine which fund managers to use and which asset class are permissible are the trustee who are in turn accountable to the members of the fund. It is for this reason why the study focused on the trustees' dynamics. From the findings it is evident that an open minded board of trustees have great impact on the performance of the funds. Learning commitments also have impact on performance even though not a useful predictor of performance. However, this study posit that schemes ought to put mechanisms for learning and orientation for key people involved in the fund. Gender Diversity should also be encouraged not just as a matter of compliance even though the findings do not point to any significant contribution to performance.

### **5.4 Recommendations**

The following recommendations based on the study findings are suggested to help boost the performance of the retirement benefit schemes in Kenya.

The study established that the performance of retirement benefit schemes was affected by open mindedness of trustees. It is therefore recommended that the management of RBS in Kenya should emphasize on constructive debates on any investment decisions made on behalf of the scheme members. This include thorough analysis of fund managers being hired on any asset class being considered because these have long term effect on the fund values and performance.

### **5.5 Limitations of the study**

The major limitation of the study was that it focused only on one type of pension funds i.e the occupational retirement benefit schemes in Kenya . There are other types of pension funds including the national pension fund NSSF. This study did not dwell on other types including guaranteed schemes and umbrella funds.

The study was limited to the management(trustees) of the retirement schemes who are charged with implementation of the Schemes' management strategies so most of them were too busy to bother with the questionnaire. It is also not easy to find all the trustees at ago to get the perspective of the whole board.

### **5.6 Areas for Further Studies**

The study sought to find the effects of trustee Characteristics on the performance of the retirement benefit schemes in Kenya. This called for the analysis of retirement benefits Schemes only, thus area for further studies could consider all or other players in the investment chain for purpose of making a comparison of the findings with those of the current study.

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## **APPENDIX 1: Letter of Notification**

July 26, 2017

Dear .....,

### Notification: Research on Board Dynamics in Kenyan Pension Funds

In about a week 's time a research questionnaire will be sent to you to be completed on the above subject matter. It would be greatly appreciated if you could spare some of your valuable time to participate in the study.

This research is being undertaken by Joshua Okeyo of the KCA University School of Business and Public Management as part of his Master's programme. The aim of the project is to understand, document and operationalize board Dynamics and Fund Performance in the Kenyan Pension Funds. The study will contribute to a better understanding of board dynamics and give some insight on what should be taken into consideration in the appointment of Pension Fund Trustees in Kenya.

Your views and comments will be invaluable to the success of the study.

Thank you in advance for your support.

Yourstruly,

Joshua Okeyo



## **APPENDIX 2-Questionnaire**

### **Effect of Trustee Characteristics on the Performance of Retirement Benefit Schemes**

#### **Questionnaire**

This is a research project is being undertaken by Joshua Okeyo of KCA University School of Business and Public Management, as part of his Master's program. The main objective of the project is to understand better, document and operationalize board of Trustees' variables and Fund performance in emerging markets like Kenya. It is aimed at getting a more profound insight into the concept of board dynamics as key determinant of fund performance in Kenya and will have a significant impact on the state of pension fund governance and hence, the need to understand the key factors that make these boards effective is a pressing one.

Your co-operation is critical to the success of this project. Kindly answer all the questions as fully and honestly as possible. Please note that there are no —right or —wrong answers to any of the questions and it is your initial impression and candid response which the researcher is looking for.

**All the information provided in this questionnaire remains confidential and would only be seen by the academic researchers involved in this study. Neither your name nor that of your organization will be mentioned in the report.**

**Section A**

**(Questions 1-7). In this section, we seek to understand the composition of your Board of Trustees. This help in quantifying the variables of Gender Diversity, Financial expertise and the controlling variable of fund size.**

**1. What is the total number of Board of Trustee of the Scheme?**

**2. Please indicate below the number of your Board members that are female.**

**3. What is your gender?**

- Male
- Female

**4. What is your age?**

- 18-29 years old
- 30-49 years old
- 50-64 years old
- 65 years and over

**5. What is the highest level of education you have completed?**

- Some high school
- High school graduate
- Some college
- Trade/technical/vocational training
- College graduate
- Some postgraduate work
- Post graduate degree

**6. What is your area of Specialization?**

- Accounting/Finance/Business
- Science
- Other

**7. What is the size of your Fund?**

- Under KES 100 Million

- Between KES 100 and 500 Million
- Between KES 500M and 2 Billion
- Over KES 2 Billion

**SECTION B**

**8. Learning Commitment.** Please rate your view on each of the statements using the scale of 1-5 provided, where 1 = Strongly Disagree, 2 = Disagree, 3= Neutral, 4 = Agree and 5 = Strongly Agree by placing an X or ✓ in the appropriate box.

Adapted from Tsai et al (2007)

<b>Learning Commitment</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
1. I am willing to spend extra time taking part in the internal and external training courses provided by the Firm					
2. I am eager to learn more specific knowledge and Skills to achieve the job (trustee) goals					
3. I believe that all the learning opportunities are advantageous to me					
4. I believe that all the learning opportunities are advantageous to the firm(Scheme)					
5. To me, being able to learn constantly is very important					

**SECTION C**

**9. Open Mindedness:** Please rate your view on each of the statements using the scale of 1-5 provided, where 1 = Strongly Disagree, 2 = Disagree, 3= Neutral, 4 = Agree and 5 = Strongly Agree by placing an X or ✓ in the appropriate box.

Adapted from Uriel et al (2013)

Open-mindedness	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1. Allowing myself to be convinced by an opposing argument is a sign of good character.					
2. I should take into consideration evidence that goes against my beliefs.					
3. I should revise my beliefs in response to new information or evidence					
4. Changing my mind is a sign of weakness					
5. Intuition is the best guide in making my decisions.					
6. It is important to persevere in my beliefs even when evidence is brought to bear against them.					
7. I should disregard evidence that conflicts with my established beliefs.					

**SECTION D**

**10. Please indicate the recent total Fund performance of your Fund.**

Periodic performance	Returns in percentage
1-year Return	
3-year Annualized Return	
5-year Annualized Return	
10-year Annualized Return	

### Appendix III: Study Work Plan

Activity	Month 1				Month 2				Month 3				Month 4			
	Week				Week				Week				Week			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Topic selection & approval	■															
Supervisor appointment		■														
Produce draft proposal			■	■												
Incorporate supervisors reviews				■	■	■										
Proposal ready for presentation							■	■								
Incorporation of panel comments									■	■						
Pilot testing of questionnaire											■					
Data collection												■	■	■		
Data processing and analysis														■	■	
Review of draft by supervisor															■	■
Incorporate supervisor comments															■	■
Submit project to board of postgraduate studies																■

### Appendix IV: Estimated Research Budget

Item Description	Quantity Description	Quantity	Unit Price - Kshs	Cost- Kshs
Stationery	pieces	1	3,000	2,000
Photocopying Services	Pages	2000	5	10,000
Spiral binding	pieces	20	200	4,000
Book binding	pieces	15	400	6,000
Research Assistants for data collection	person	2	25,000	50,000
Research Assistants for data analysis	person	2	30,000	60,000
Contingency				30,000
<b>Total</b>				<b>162,000</b>

