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CORPORATE GOVERNANCE PRACTICES AND INVESTMENT RETURNS OF OCCUPATIONAL PENSION SCHEMES IN KENYA

Ogutu Achar Zachayo[1], Patrick Gudda[2], Edmund Gathuru[3]
[1, 2 & 3]*Department of Business Management, Maasai Mara University, 20500-861, Kenya*

***Corresponding Author**: Ogutu Achar Zachayo*

ABSTRACT **DOI No: 10.36713/epra32132** **Article DOI: https://doi.org/10.36713/epra32132**

This study examined the relationship between corporate governance practices and return on investment among occupational pension schemes in Kenya. Specifically, it assessed the relationships between governance structures, compliance with regulations, performance management policies, remuneration policy and investment returns. The study was motivated by the need to understand how governance arrangements contribute to investment performance amid the growth of pension scheme assets and concerns about modest and volatile returns. A cross-sectional explanatory survey design was adopted, targeting 150 occupational pension schemes registered with the Association of Retirement Benefits Schemes as at December 2022. A census approach was used, with data collected through structured questionnaires administered to managing trustees and chief executive officers. The data were analysed using descriptive statistics, and multiple linear regression. The findings showed that the four governance practices jointly explained 40.5% of the variation in return on investment ($R^2 = 0.405$), and the overall regression model was statistically significant ($F=4, 118) = 20.105, p < 0.001$). Governance structures had the strongest positive and statistically significant relationship with investment returns ($\beta = 0.498, p < 0.001$), followed by compliance with regulations ($\beta = 0.239, p < 0.001$). However, performance management policies ($\beta = 0.044, p = 0.237$) and remuneration policy ($\beta = -0.011, p = 0.833$) did not have statistically significant independent relationships with investment returns. The study concludes that effective governance structures and regulatory compliance are the principal governance practices associated with investment returns among occupational pension schemes in Kenya. It recommends strengthening trustee board competence, continuous training, governance audits, risk management and regulatory compliance, alongside improving the alignment of performance management and remuneration policies with the trust-based nature of pension schemes.

KEYWORDS: *Corporate Governance; Governance Structures; Investment Returns; Regulatory Compliance; Remuneration Policy.*

1.INTRODUCTION

Occupational pension schemes form a central pillar of Kenya's retirement system. They are established by employers under irrevocable trusts, funded by contributions from both employers and employees, and administered by boards of trustees who bear legal responsibility for the prudent investment of members' savings. Following the enactment of the Retirement Benefits Act in 1997, these schemes have been regulated and supervised by the Retirement Benefits Authority (RBA). The Authority's mandate includes safeguarding the interests of members and sponsors while promoting the orderly growth of the retirement benefits industry (Government of Kenya [GoK], 1997, 2000).

The Retirement Benefits Authority (RBA) reported that industry assets under management rose from KSh 1.84 trillion in 2023 to KSh 2.23 trillion by December 2024, a growth of 17.5 percent. Schemes holding more than KSh 10 billion in assets accounted for over 62 percent of the total (Retirement Benefits Authority [RBA], 2025). By December 2025, total assets under management had increased further to KSh 2.81 trillion, equivalent to 16.05 percent of gross domestic product (GDP), with 52.14 percent of the portfolio allocated to government securities (RBA, 2026). Because members' retirement income depends directly on the returns generated by these assets, the quality of scheme governance is a matter of both public and private interest.

Corporate governance is defined as the mechanisms through which providers of finance ensure they obtain a return on their investment (Shleifer & Vishny, 1997). More broadly, it comprises the relationships among management, the board,

shareholders and other stakeholders that establish the framework for setting objectives and monitoring performance (OECD, 2023 & Meungwe, 2026). In the context of a pension scheme, the providers of finance are the members and the sponsor, while trustees, administrators and fund managers act on their behalf. Pension fund governance therefore focuses on how the governing body is constituted, how it delegates and monitors, how it complies with the law, and how it is held accountable to members (OECD, 2009; Stewart & Yermo, 2008).

There are strong theoretical and empirical reasons to expect governance quality to influence investment returns. Ambachtsheer et al. (1998) found that, over the period 1993-1996, pension funds underperformed their passive policy benchmarks by approximately 60 basis points a year after adjusting for costs and risk; they identified the quality of a fund's organizational design as one of three key drivers of performance. Clark and Urwin (2008) subsequently argued that effective governance among institutional asset owners contributes significantly to improved long-term risk-adjusted returns. More recently, Ammann and Ehmann (2017) reported that Swiss pension funds in the top quartile of governance quality outperformed those in the bottom quartile by about one percentage point a year.

International evidence reinforces this link. In the United States, the Employee Retirement Income Security Act of 1974 (ERISA) establishes fiduciary duties of care and loyalty for those responsible for managing private pension plans and their assets (Employee Retirement Income Security Act, 1974). Studies of U.S. public plans show that board composition and powers affect investment outcomes. Mitchell and Hsin (1994) found that plans whose boards contained more retiree trustees, and plans required to invest a portion of their assets in-state, earned lower returns. Useem and Mitchell (2000) demonstrated that governance arrangements most notably the use of independent performance evaluations significantly shaped investment strategies and influenced subsequent returns by as much as one to two percentage points a year. Andonov et al. (2018) further showed that boards with a higher proportion of state officials and elected plan participants earned lower returns on private-equity investments, attributing the underperformance partly to political considerations and limited financial experience among elected members.

European evidence reveals a comparable pattern. Ammann and Zingg (2010), drawing on a governance index covering 96 Swiss pension funds, reported a positive association between governance quality and investment performance, while also highlighting deficiencies in organisational structure and the setting of objectives. In Poland, Jackowicz and Kowalewski (2012) found that the chair of the supervisory board exerted a significant influence on the results of privately managed pension funds, and that board composition together with members' expertise helped explain differences in performance. These findings align with the OECD (2009) guidelines on pension fund governance, which emphasise the need for a clearly defined and accountable governing body, sufficient expertise, robust internal controls and systematic performance evaluation.

Across Africa, pension systems have been transitioning from unfunded arrangements toward funded and privately managed schemes, thereby placing greater weight on the quality of scheme governance (Stewart & Yermo, 2009). In South Africa, Hewitt and La Grange (2017) identified insufficient knowledge, limited experience, inadequate independence and weak capacity among trustees as key impediments to good fund governance, noting that successive regulatory changes had increased the complexity of managing retirement funds. In Ghana, following the enactment of the National Pensions Act (Act 766) in 2008 and the establishment of the National Pensions Regulatory Authority (Republic of Ghana, 2008), Akomea-Frimpong et al. (2022) found that effective internal controls, timely oversight by audit committees and board composition were associated with fund performance, although weak investment decisions and market volatility remained significant challenges. In contrast, Afolabi et al. (2024) reported that corporate governance mechanisms did not have a statistically significant impact on the financial sustainability of pension fund administrators in Nigeria. Overall, the regional evidence remains mixed, suggesting that the effect of governance depends on the specific practices examined and on the institutional setting.

In Kenya, the Retirement Benefits Act together with the Retirement Benefits (Occupational Retirement Benefits Schemes) Regulations, 2000 require every occupational scheme to be established under a trust, administered by a board of trustees, to appoint independent service providers, and to invest within the limits prescribed by the RBA's investment guidelines (Republic of Kenya, 1997, 2000). Rono *et al.* (2010) found that Kenyan pension funds complied with the RBA's maximum allocation limits and that weighted returns improved after the guidelines were introduced; however, returns sometimes fell below inflation and long-run performance had slowed. Governance challenges persist. In a survey of 362 Kenyan pension plans, Njuguna (2011) established that the quality of pension governance was significantly shaped by regulatory requirements, plan leadership and the age composition of members. Keyo (2013) reported that scheme members often received inaccurate information, that late remittance of contributions delayed benefit payments, and that many schemes operated with inadequate information systems. Okeyo (2017) found that trustee characteristics such as open-mindedness and commitment to learning were positively related to scheme performance.

Investment outcomes have also been uneven. Data from the ACTSERV survey of segregated schemes show quarterly returns of -2.9 percent in the second quarter of 2022, 0.1 percent in the second quarter of 2023, and 6.6 percent in the second quarters of both 2024 and 2025, yielding an average of only 3.2 percent over the five years to 2025 (Cytonn Investments, 2025). These modest and volatile returns, set against rapid asset growth, raise the question of whether differences in scheme governance help explain variation in the returns earned for members. More recently, Gitonga and Bett (2026) reported that structural arrangements and regulatory compliance exerted positive and statistically significant effects on the performance of a single bank-sponsored scheme. Nevertheless, broader empirical evidence covering Kenya's occupational pension schemes as a whole remains scarce.

Return on investment (ROI) is the gain an investor earns on invested assets relative to the amount invested. For a pension scheme, it reflects the net investment income earned on the scheme's assets over a given period and is commonly evaluated against the scheme's target return, inflation, and the returns of comparable schemes (Hinz et al., 2010 & Wambua et al., 2025). Because scheme-level financial statements are not publicly available for most occupational schemes in Kenya, this study operationalizes ROI through five indicators rated by managing trustees and chief executive officers: growth in net investment income, achievement of the target return stated in the investment policy statement, returns above inflation, growth in net assets, and returns relative to comparable schemes.

Problem Statement

Occupational pension schemes in Kenya manage a rapidly expanding pool of assets that reached KSh 2.81 trillion, or 16.05 percent of GDP, by December 2025 (RBA, 2026). Members rely on the investment returns generated by these assets for adequate retirement income. Yet returns have remained modest and volatile. Segregated schemes recorded a negative return of 2.9 percent in the second quarter of 2022 and averaged only 3.2 percent over the five years to 2025 (Cytonn Investments, 2025), with earlier evidence showing that returns sometimes failed to keep pace with inflation (Rono et al., 2010). Low returns reduce members' retirement benefits, increase deficits for sponsors of defined-benefit schemes, and undermine public confidence in the retirement system. Governance is one of the few factors under the direct control of trustees that may explain why some schemes earn higher returns than others. International studies have linked board composition, performance evaluation, and organizational design to pension fund returns (Ammann & Zingg, 2010; Andonov et al., 2018; Useem & Mitchell, 2000). In Kenya, studies have documented persistent weaknesses in information systems, contribution remittance, and trustee capacity (Keyo, 2013; Okeyo, 2017). However, the evidence on whether governance improves investment returns remains mixed. Some studies report positive effects (Ammann & Ehmann, 2017; Gitonga & Bett, 2026), while others find negative or insignificant effects (Afolabi et al., 2024). Existing Kenyan research has examined isolated aspects of governance such as regulation (Rono et al., 2010), trustee characteristics (Okeyo, 2017), or a single scheme (Gitonga & Bett, 2026) rather than assessing, within one coherent model, how governance structures, regulatory compliance, performance management policies, and remuneration policy jointly influence the return on investment of occupational pension schemes. Without such evidence, trustees and the Retirement Benefits Authority lack a clear basis for prioritizing governance reforms that could improve members' retirement outcomes. This study sought to address that gap.

Objectives of the study

The study sought to:

i. Determine the relationship between governance structures and return on investment of occupational pension schemes in Kenya.

ii. Establish the relationship between compliance with regulations and return on investment of occupational pension schemes in Kenya.

iii. Investigate the relationship between performance management policies and return on investment of occupational pension schemes in Kenya.

iv. Analyze the relationship between remuneration policy and return on investment of occupational pension schemes in Kenya.

Research Hypotheses

The study tested the following null hypotheses at the 5% significance level:

H_{01}: There is no statistically significant relationship between governance structures and return on investment of occupational pension schemes in Kenya.

H_{02}: There is no statistically significant relationship between compliance with regulations and return on investment of occupational pension schemes in Kenya.

H_{03}: There is no statistically significant relationship between performance management policies and return on investment of occupational pension schemes in Kenya.

H_{04}: There is no statistically significant relationship between remuneration policy and return on investment of occupational pension schemes in Kenya.

Justification of the Study

Occupational pension schemes operate as trust-based arrangements in which a small board of trustees makes decisions on behalf of many members who have limited direct control over the investment of their savings. This structure creates agency problems, and international reviews show that trust-based systems are particularly vulnerable to governance weaknesses such as limited trustee expertise and conflicts of interest (Stewart & Yermo, 2008). Similar weaknesses have been documented in Kenya (Keyo, 2013; Okeyo, 2017). At the same time, the rapid growth of scheme assets means that even modest differences in investment returns translate into substantial differences in members' retirement benefits (RBA, 2026). Because governance practices are within the control of trustees and sponsors, identifying which practices are associated with better returns offers a practical route to improving outcomes. The mixed international evidence and the scarcity of comprehensive studies on Kenyan occupational schemes justified an examination of the four governance practices within a single model.

Significance of the Study

The findings are useful to several stakeholders. Trustees and sponsors can use the results to guide board appointments, training, compliance processes, and remuneration policies. The Retirement Benefits Authority can draw on the evidence to refine supervisory priorities, trustee development programme, and governance guidelines. Scheme members gain insight into the governance arrangements that help protect the value of their savings. For scholars, the study contributes evidence from an African emerging market to a literature dominated by studies from the United States and Europe, and it identifies areas for further research.

2. LITERATURE REVIEW

Theoretical Literature Review

i. Financial Intermediation Theory

Financial Intermediation Theory, introduced by Gurley and Shaw (1960), explains the role of financial institutions in

mobilizing savings and channeling them to productive uses. Allen and Santomero (1997) later emphasized risk management and the reduction of participation costs, while Davis (2000) applied the theory to pension funds as intermediaries that pool contributions, diversify risk, and achieve economies of scale.

The theory is relevant because the quality of trustees' oversight and regulatory compliance determines how much of the value created through pooling and diversification reaches members as investment returns. It therefore supports the examination of governance structures and regulatory compliance (Objectives 1 and 2).

The theory assumes imperfect markets, economies of scale for intermediaries, and that intermediaries act in savers' interests. Its main weaknesses are limited attention to conflicts of interest and its original focus on banks rather than trust-based pension schemes (Scholtens & van Wensveen, 2000).

ii. Capital Asset Pricing Model (CAPM)

Developed by Sharpe (1964) and Lintner (1965) on the foundation of Markowitz's (1952) portfolio theory, CAPM posits that an asset's expected return is determined by its systematic risk (beta). Black (1972) later relaxed the risk-free borrowing assumption.

CAPM provides a practical benchmark for evaluating whether returns adequately compensate for risk. Trustees apply this logic through target returns set in the investment policy statement and through performance monitoring. The model therefore informed the measurement of return on investment and supported Objectives 2 and 3.

The model assumes rational, risk-averse investors with homogeneous expectations operating in perfect markets. Its major limitations are that these assumptions rarely hold in practice and that it ignores governance quality, costs, and investment restrictions (Fama & French, 2004).

iii. Agency Theory

Agency Theory, formalized by Jensen and Meckling (1976), describes the relationship in which principals (scheme members) appoint agents (trustees and service providers) to act on their behalf. Because interests may diverge, monitoring and incentive mechanisms are required to reduce agency costs (Fama & Jensen, 1983; Eisenhardt, 1989).

The theory directly explains why governance should affect investment performance. Effective boards, performance evaluation, and appropriate remuneration help align agents' interests with those of members (Clark & Urwin, 2008; Stewart & Yermo, 2008). It therefore forms the primary theoretical foundation of this study and underpins Objectives 1, 3, and 4.

The theory assumes rational, self-interested actors, diverging interests, and information asymmetry. Its main limitations are that it overlooks stewardship behaviour, simplifies multi-agent relationships common in pension schemes, and that evidence on the effectiveness of incentive pay remains mixed (Jensen & Murphy, 1990).

Empirical Review

Governance Structures and Return on Investments

Gitonga and Bett (2026) studied the effect of corporate governance practices on the performance of the employee pension scheme of KCB Bank in Kenya. The study adopted a descriptive research design and gathered questionnaire data from 64 respondents selected through stratified random sampling, including trustees, administrators, fund managers, custodians, secretariat personnel, and scheme members. The data were analyzed using correlation and multiple regression techniques. The results showed that structural factors significantly and positively influenced scheme performance, whereas board composition and stakeholder participation exhibited positive but statistically insignificant effects. The researchers concluded that clearly established scheme structures play an important role in enhancing pension scheme performance.

Afolabi et al. (2024) investigated how corporate governance mechanisms and investment policies affect the financial sustainability of pension fund administrators in Nigeria. The researchers conducted a cross-sectional survey involving 228 respondents from 19 pension fund administration firms and analyzed the data using Partial Least Squares Structural Equation Modeling (PLS-SEM). The results revealed that corporate governance mechanisms did not significantly influence the financial sustainability of pension fund administrators at the 5 percent significance level. The researchers recommended periodic review of governance procedures, enhanced transparency and oversight, and continuous training for board members.

Abdulrauf and Phua (2023) examined the determinants of financial performance among pension fund administrators in Nigeria. The study utilized panel data from 20 of the country's 22 pension fund administrators over the period 2018 to 2020 and analyzed the data using analysis of variance and panel regression techniques. The results revealed that board independence and contribution density significantly influenced financial performance, whereas board size and gender diversity within the board did not have a statistically significant impact. The findings further indicated that the effectiveness of pension fund administrators is more closely associated with board independence than with the number of board members.

Compliance with Regulations and Return on Investments

Gitonga and Bett (2026) examined this relationship within the KCB Bank staff pension scheme by collecting data from 64 respondents and analyzing it through multiple regression techniques. Their findings revealed that regulatory compliance had a positive and statistically significant effect on scheme performance. Consequently, the researchers concluded that strong adherence to regulatory requirements is essential for enhancing the effectiveness and success of pension schemes.

Similarly, Ojwang (2025) assessed risk management practices in individual pension schemes and evaluated the moderating influence of regulatory frameworks. Drawing on data from 47 schemes and applying ordinary least squares regression analysis, the study established that risk avoidance strategies contributed positively to financial performance. The findings further demonstrated that an effective regulatory environment

strengthened this relationship, while compliance with regulatory provisions was closely associated with improved scheme performance. These results suggest that regulations enhance performance when they support prudent risk management practices.

Nyamweya et al. (2023) investigated how financial regulations affect the performance of deposit-taking Savings and Credit Cooperative Societies (SACCOs) in Kisii County, Kenya. The researchers carried out a census of the ten SACCOs licensed by the SACCO Societies Regulatory Authority and utilized both questionnaire-based primary data and secondary performance data. Through descriptive and inferential statistical analysis, the study found that regulations governing assets and credit facilities each exerted a positive and significant influence on SACCO performance. The study therefore concluded that compliance with asset and credit-related regulations plays an important role in improving organizational performance.

Performance Management Policies and Return on Investments

Ndemwa et al. (2025) examined the influence of strategic management practices on the performance of individual pension plans in Kenya. The researchers adopted a quantitative research approach and surveyed investment and risk managers from the 49 individual pension plans registered by the RBA in 2024. A total of 98 valid responses were analyzed using descriptive and inferential statistical techniques in SPSS. The results revealed that investment diversification ($\beta = 0.411$) and resource allocation ($\beta = 0.369$) positively and significantly influenced pension plan performance. The study concluded that strategic management practices play a critical role in enhancing pension plan performance and recommended the adoption of comprehensive strategies aimed at improving governance and operational efficiency.

Bagorogoza et al. (2024) investigated the mediating role of knowledge management in the relationship between the high-performance organization framework and the performance of financial institutions in Uganda. Using data collected from 28 financial institutions, the researchers applied structural equation modeling to analyze the relationship. The findings showed that the high-performance organization framework was positively associated with organizational performance and that knowledge management partially explained this relationship. The study concluded that management practices focused on achieving high performance can enhance organizational outcomes, especially when supported by effective knowledge management systems.

Ng'endo (2023) examined the influence of performance management practices on employee productivity within selected commercial banks in Kenya. The study employed a descriptive research design and gathered Likert-scale questionnaire data from managers and head-office staff of Kenya Commercial Bank and Equity Bank. The data were analyzed using descriptive statistics and multiple linear regression techniques. The results demonstrated that performance planning, performance monitoring, and reward systems each exerted a positive and statistically significant effect on employee productivity. The study concluded that well-structured performance management systems contribute significantly to improved productivity in financial institutions.

Remuneration Policy and Return on Investments

Lawuyi (2026) investigated the threshold effect of executive compensation on the performance of insurance companies in Nigeria. The study analyzed panel data from 16 listed insurance firms covering the period from 2010 to 2022 and applied a dynamic panel threshold regression model estimated using the generalized method of moments. The results showed an inverted U-shaped association between executive remuneration and organizational performance, whereby moderate increases in compensation enhanced profitability and market value, while excessive compensation levels generated diminishing benefits. The study recommended that boards establish well-defined incentive structures and avoid unlimited compensation arrangements.

Esenohor et al. (2023) investigated the effect of directors' remuneration on the financial performance of selected companies listed on the Nigerian Stock Exchange. Employing a correlational research design, the study utilized data obtained from 10 firms covering the period between 2012 and 2021. Correlation analysis and ordinary least squares regression were used to analyze the data. The findings demonstrated that directors' remuneration positively and significantly influenced the financial performance of the firms under investigation.

Lagat (2023) evaluated the association between organizational performance and directors' remuneration in Kenyan commercial banks. The study utilized financial information from annual reports alongside questionnaire data covering the period from 2015 to 2021 and analyzed the data using multiple regression techniques. The findings revealed that return on assets was positively and significantly associated with directors' remuneration, whereas capital adequacy and liquidity exhibited significant negative relationships. In contrast, return on equity showed no statistically significant association with directors' remuneration. The study ultimately concluded that the overall relationship between bank performance and directors' compensation was relatively weak.

Research Gap

Although theory suggests that governance practices should influence pension scheme returns, empirical evidence remains mixed and limited. Most studies have focused on banks, insurers, or single schemes rather than occupational pension schemes, and none known to the researcher has examined governance structures, regulatory compliance, performance management, and remuneration policy together in one model across Kenyan occupational schemes. This study therefore sought to bridge these gaps through a census survey and multiple regression analysis of the four governance practices and return on investment.

Conceptual Framework

A conceptual framework (Figure 2.1) illustrates the anticipated relationships among the variables under investigation, The governance structures, regulatory compliance, performance management policies, and remuneration policies, were hypothesized to influence the return on investment of occupational pension schemes. These four practices were

expected to enhance oversight, promote prudence, align staff efforts with scheme objectives, and reduce agency conflicts, thereby improving investment returns.

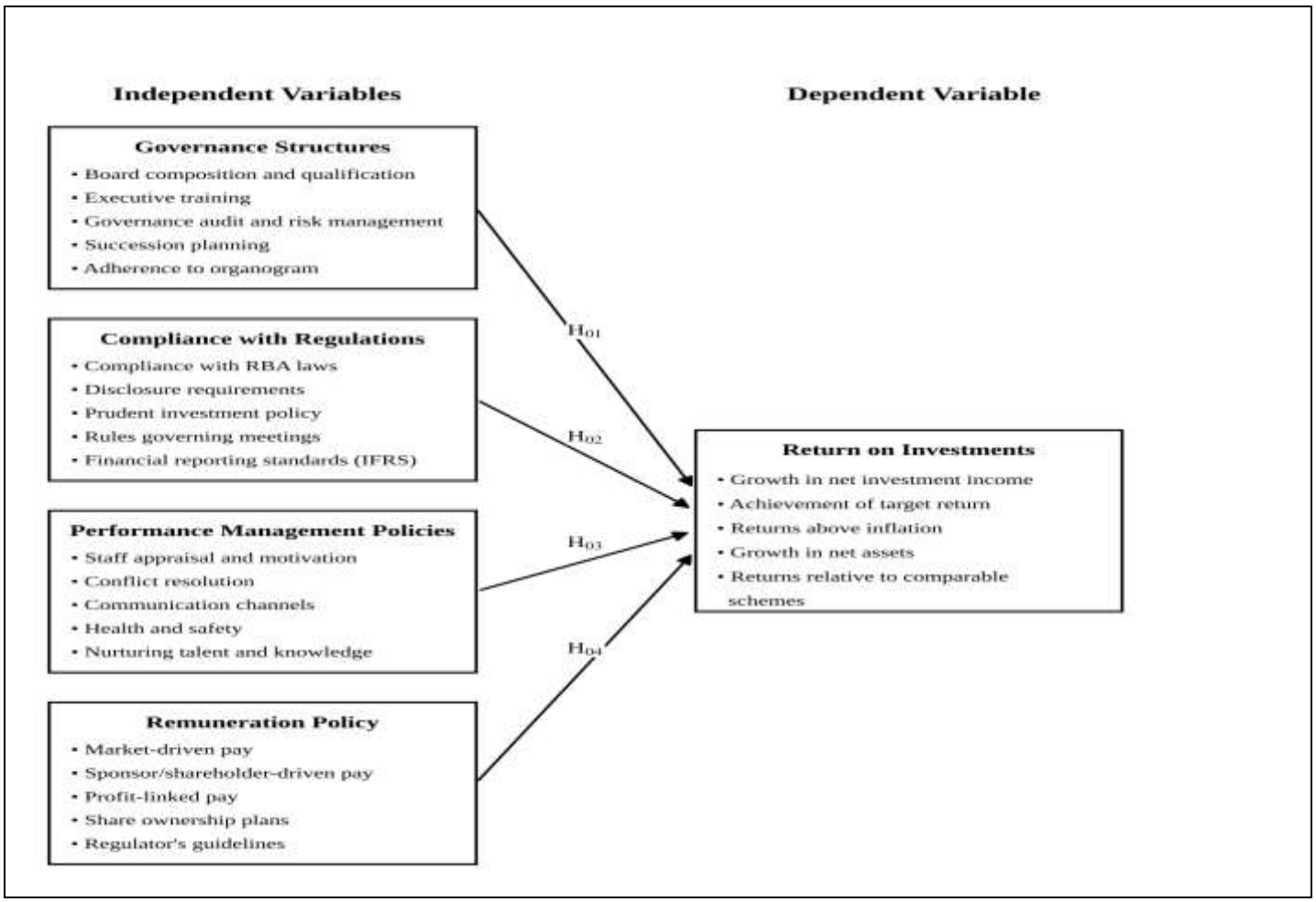


Figure 2.1: Conceptual Framework
Researcher's work, (2026).

3. RESEARCH METHODOLOGY

Research Design

The study adopted a cross-sectional explanatory survey design. Data were collected from all schemes at a single point in time, and the design was explanatory because it sought to examine how differences in governance practices explained variations in return on investment (Kothari, 2004; Saunders et al., 2019). The design permitted the use of multiple regression to test the hypothesized relationships. Because the data were cross-sectional, the results indicate statistical associations rather than causal effects.

Target Population

The target population comprised the 150 occupational pension schemes listed in the Association of Retirement Benefits Schemes (ARBS) register as at December 2022 (Mugenda & Mugenda, 2003). The pension scheme was the unit of analysis, while the managing trustee or chief executive officer served as the unit of observation, being the most knowledgeable respondents on governance practices and investment performance.

Census Approach

A census was used because the population of 150 schemes was small enough to be covered in full, thereby eliminating sampling error (Cooper & Schindler, 2014). One questionnaire was administered to each scheme (46 to managing trustees and 104 to chief executive officers).

Data Collection Instrument and Procedure

Primary data were collected using a structured questionnaire because most schemes do not publicly disclose financial statements. The instrument contained six sections: Section A captured scheme background information, Sections B-E measured the four independent variables, and Section F measured return on investment. Each variable was assessed using five Likert-scale items (1 = strongly disagree to 5 = strongly agree). The returns section was placed last to reduce common-method bias (Podsakoff et al., 2003).

Data Analysis

Data were coded and analysed using SPSS. Descriptive statistics (means, standard deviations, frequencies and percentages) summarized the variables and scheme characteristics. Pearson's correlation assessed the strength and direction of linear relationships, interpreted according to Cohen

(1988). Multiple linear regression was used to determine the unique effect of each governance practice on return on investment while controlling for the other practices. Model fit was evaluated using the ANOVA F-test and the coefficient of determination (R^2). Hypotheses were tested at the 5 percent significance level; a null hypothesis was rejected when the p-value of the relevant coefficient was less than 0.05 (equivalent to t > 1.98 with 118 residual degrees of freedom).

Regression Model

The following multiple linear regression model was estimated:

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

where:

$\boldsymbol{Y}$ = Return on investment (composite score)
$\boldsymbol{X_1}$ = Governance structures
$\boldsymbol{X_2}$ = Compliance with regulations
$\boldsymbol{X_3}$ = Performance management policies
$\boldsymbol{X_4}$ = Remuneration policy
$\boldsymbol{\beta_0}$ = Constant
$\boldsymbol{\beta_1}$-$\boldsymbol{\beta_4}$ = Regression coefficients
$\boldsymbol{\varepsilon}$ = Error term

Coefficients $\boldsymbol{\beta_1}$, $\boldsymbol{\beta_2}$ and $\boldsymbol{\beta_3}$ were expected to be positive, while the sign of $\boldsymbol{\beta_4}$ was left open.

4. RESULTS AND DISCUSSION

Multiple Regression Analysis

Multiple linear regression was used to estimate the combined and individual effects of the four governance practices on return on investments, as specified in Equation 3.1. Table 4.10 presents the model summary, Table 4.11 the analysis of variance, and Table 4.12 the regression coefficients.

Table 4.10: ***Model Summary***

R	R^2	Adjusted R^2	Std. Error of the Estimate	F Change	df_1	df_2	Sig. F Change	Durbin-Watson
0.636	0.405	0.385	0.948	20.105	4	118	< 0.001	1.772

Table 4.10 shows that the four governance practices together explained 40.5% of the variation in return on investments (R^2 = 0.405). After adjusting for the number of predictors, they explained 38.5% (adjusted R^2 = 0.385). The remaining 59.5% of the variation was due to factors not included in the model, such as asset allocation, market conditions, and the size and design of the schemes.

Table 4.11: ***Analysis of Variance (ANOVA)***

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	72.343	4	18.086	20.105	< .001
Residual	106.152	118	0.900		
Total	178.494	122			

Table 4.11 shows that the regression model was statistically significant, F (4, 118) = 20.10, p < 0.001. This means that the four governance practices together explained a significant share of the variation in return on investments, and that the model fitted the data better than a model with no predictors.

Table 4.12*: *Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	***Std. Error***	***Beta***		
(Constant)	0.100	0.308		0.325	0.746
Governance structures	0.498	0.048	0.570	10.364	< 0.001
Compliance with regulations	0.239	0.055	0.216	4.345	< 0.001
Performance management policies	0.044	0.037	0.066	1.189	0.237
Remuneration policy	-0.011	0.052	-0.010	-0.212	0.833

The constant (β_0 = 0.100, p = .746) was not significant, which means that the predicted return on investments score when all four governance scores are zero is not distinguishable from zero. Because the governance scores range from 1 to 5, the constant has no practical interpretation. The fitted model was:

$$Y = 0.100 + 0.498X_1 + 0.239X_2 + 0.044X_3 - 0.011X_4 + \varepsilon \quad (4.1)$$

Where Y is return on investments, X_1 is governance structures, X_2 is compliance with regulations, X_3 is performance management policies, and X_4 is remuneration policy. The effect of each practice is discussed below by objective.

Effect of Governance Structures on Return on Investments

The first objective sought to determine the effect of governance structures on return on investment. As shown in Table 4.12, governance structures had a positive and statistically significant effect on return on investment (β = 0.498, t = 10.364, p < .001). A one-unit increase in the governance structures score was associated with a 0.498-unit increase in the return-on-investment score, holding other variables constant. Governance structures recorded the largest standardized coefficient (Beta = 0.570), making them the strongest predictor among the four practices. Consequently, H_{01} was rejected. The finding aligns with agency theory (Jensen & Meckling, 1976; Fama & Jensen, 1983) and is consistent with previous studies linking board quality and governance structures to improved pension fund performance (Ammann & Ehmann, 2017; Akomea-Frimpong et al., 2022; Gitonga & Bett, 2026).

Effect of Compliance with Regulations on Return on Investments

The second objective examined the effect of regulatory compliance on return on investment. Table 4.12 shows that compliance with regulations had a positive and significant effect ($\beta = 0.239$, $t = 4.345$, $p < .001$). A one-unit increase in the compliance score was associated with a 0.239-unit increase in the return-on-investment score. H_{02} was therefore rejected. The findings are in sync with financial intermediation theory (Allen & Santomero, 1997; Davis, 2000) and aligns with earlier Kenyan evidence that regulatory compliance improves pension scheme performance (Rono et al., 2010; Gitonga & Bett, 2026). The smaller effect relative to governance structures suggests that compliance mainly prevents losses rather than generating superior returns.

Effect of Performance Management Policies on Return on Investments

The third objective investigated the effect of performance management policies on return on investment. Table 4.12 shows that its unique effect was positive but statistically insignificant ($\beta = 0.044$, $t = 1.189$, $p = .237$). H_{03} was therefore not rejected. The non-significant result is largely explained by the substantial overlap between performance management policies and governance structures. Once board-related factors are controlled for, staff-level performance management policies add little additional explanatory power. This finding is consistent with reviews concluding that the link between performance management systems and organizational financial outcomes is often weak (DeNisi & Murphy, 2017; Mashavira, 2020).

Effect of Remuneration Policy on Return on Investments

The fourth objective analysed the effect of remuneration policy on return on investment. Table 4.12 indicates a very small, negative, and statistically insignificant relationship ($\beta = -0.011$, $t = -0.212$, $p = 0.833$). H_{04} was therefore not rejected. The result is consistent with studies that found little or no relationship between directors' remuneration and firm performance in Kenya (Ruparelia & Njuguna, 2016; Lagat, 2023). The low adoption of performance-linked pay and share ownership plans in trust-based pension schemes further limits the potential influence of remuneration policy on investment returns (Stewart & Yermo, 2008).

5. CONCLUSION AND RECOMMANDATIONS

Conclusion of the study

The study concludes that corporate governance practices are important in explaining investment returns among occupational pension schemes in Kenya, accounting for approximately two-fifths of the variation in returns. Governance structures emerged as the strongest contributor, highlighting the importance of competent and well-qualified trustee boards, continuous training, governance audits, risk management, succession planning and clear organizational structures. Regulatory compliance also contributes positively to investment returns, although its influence is comparatively smaller and appears to be more protective than performance-enhancing. Performance management policies and remuneration policies, however, do not independently demonstrate a statistically significant influence on investment returns. Overall, the findings suggest that effective board-level governance and regulatory compliance are the main governance-related factors associated with investment performance.

Recommendations of the study

The study recommends that scheme sponsors and trustees strengthen board composition through appropriate qualifications, experience and continuous professional development. Schemes should also conduct regular governance audits, maintain effective risk management frameworks, establish succession plans and ensure compliance with regulatory requirements. Furthermore, performance management systems should be linked more directly to investment objectives, while remuneration policies should reflect the trust-based nature of occupational pension schemes. The Retirement Benefits Authority (RBA) should strengthen its supervision of trustee boards, enhance trustee development programme and provide clearer guidance on performance monitoring and appropriate remuneration practices.

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