EFFECT OF INVESTMENT DIVERSIFICATION ON THE FINANCIAL PERFORMANCE OF RETIREMENT BENEFITS SCHEMES IN KENYA

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DECLARATION

Declaration By Candidate:

This thesis is my original work and has not been presented for a degree award in any other university.

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This thesis has been submitted with our approval as the university supervisors.

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ACRONYMS AND ABBREVIATIONS

ADFURT: Augmented Dickey Fuller Unit Root Test

ANOVA: Analysis of Variance

APT: Arbitrage Pricing Technique

BOP: Balance of Payments

BPT: Breusch Pagan Test

CBK: Central Bank of Kenya

CMA: Capital Market Authority

CPI: Consumer Price Index

DBA: Department of Business Administration

DV: Dependent Variable

DWT: Durba Watson Test

EA: East Africa

EMH: Efficient Market Hypothesis

ERC: Ethical Review Committee

EUR: Europe currency

FMCG: First Moving Consumer Goods

FP: Financial Performance

FX: Foreign Exchange

GCT: Granger Causality Test

GMM: Generalized Methods of Moments estimator

H_0:	Hypothesis
ISE:	Indonesia Stock Exchange
IV:	Independent Variable
JPY:	Japanese Yen
KES:	Kenya Shilling
KMO:	Keiser-Mayor-Oklin test
KNBS:	Kenya National Bureau of Statistics
LRM:	Linear Regression Model
M:	Million
Max:	Maximum
Min:	Minimum
MLRM:	Multiple Linear Regression Model
MM:	Miller and Modigliani
MMR:	Moderated Multiple Regression
MPT:	Modern Portfolio Theory
MV:	Moderating Variable
N:	Target Population
n:	Sample size
NACOSTI:	National Commission for Science, Technology and Innovation
NSE:	Nairobi Securities Exchange
OLS:	Ordinary Least Squares

PhD:	Doctor of Philosophy
P-P:	Probability to probability plot
PPPT:	Purchasing Power Parity Theory
PU:	Pwani University
PURT:	Panel Unit Root Test
RBA:	Retirement Benefit Authority
RBS:	Retirement Benefits Schemes
REITs:	Real Estate Investment Trusts
ROA:	Return on Assets
ROCE:	Return on Capital Employed
ROE:	Return on Equity
ROI:	Return on Investment
SD:	Standard Deviation
SGS:	Short-Term Government Securities
SLRM:	Simple Linear Regression Model
SMEs:	Small and Medium Enterprises
SPSS:	Statistical Package for Social Sciences
STATA:	Statistical Package
STG Pound:	Starling Pound
T-Bills:	Treasury Bills
TL:	Tolerance Level

TUM:	Technical University of Mombasa
TUM-SERC:	Technical University of Mombasa Scientific and Ethical Review Committee
TUM-SGS:	Technical University of Mombasa School of Graduate Studies
UK:	United Kingdom
US:	United States
USD:	United States Dollar
VIF:	Variance Inflation Factor
ε:	Epsilon term (Error term)
β:	Beta Coefficient

DEFINITION OF TERMS

Foreign Exchange rate	:	It is the conversion rate between two legal tenders such as the USD/KES exchange rate.
Financial Performance	:	This is a determinant of the monetary state of organization through various indicative ratios such as return on investments as well as return on assets.
Investment Diversification in Bonds	:	Bonds are fixed-income securities representing loans advanced by the surplus spending units to the deficit spending units of an economy. A diversified investment portfolio in bonds may comprise Treasury bonds, corporate bonds as well as Eurobonds.
Investment Diversification in Equities	:	Refers to investment in varied shares of companies such as ordinary shares.
Investment Diversification in Short-term Government Securities	:	Refers to investment in securities whose maturity period is short term such as the 91days 182 days, 364 days as well as the 2 years treasury bills.
Investment Diversification in Real estate	:	Refers to the investment in varied financial instruments such as residential, commercial and lands project.
Investment Diversification	:	Refers to the consideration of investing in diverse assets or assets class in an attempt to mitigate inherent investment risks.
Retirement Benefits Schemes	:	They are entities governed and mandated

by the retirement benefits authority to collect and manage employees' contributions for future benefits upon retirement. The retirement benefits schemes constituted the central focus in this thesis where the population of study was constructed from.

Retirement Benefits Authority : This is a regulatory body which governs the affairs of the retirement benefits schemes in Kenya.

ABSTRACT

Prudence investment advocates considering investment diversification so as to mitigate inherent investment risks. This is in the premise that diversified investments can lead into reversing adverse financial performances in entities. The general objective of this study was to investigate the effect of investment diversification on the financial performance of retirement benefits schemes in Kenya. The specific objectives employed in this study comprised of an investigation on the effect of investment diversification in equities, bonds, real estates as well as short-term government securities on the financial performance of the retirement benefits schemes in Kenya. The study further examined the moderating effect of the foreign exchange rate on the relationship between the independent and the dependent variables. The modern portfolio, the liquidity preference, the transaction cost as well as the purchasing power parity theories were used in supporting this study. The study adopted the descriptive research design. The population employed in this study comprised of 87 retirement benefits schemes in Kenya. The stratified random sampling technique used in this study resulted into having 72 units of analysis. Primary as well as secondary quantitative data were employed in this study, and the data was collected through questionnaires and data collection schedules. Data analysis was through the statistical package for social sciences version 20. Pilot study was carried out so as to ascertain the validity and reliability of the research instruments. Test for normality, test for heteroscedasticity, test for linearity, test for outliers, test for autocorrelation, test for multicollinearity, the F-test as well as the R Square tests were conducted on the data prior to running the multiple linear regression model. Descriptive statistics as well as the Pearson's correlation coefficients were generated before running the regression model. The P-value from the regression coefficients were employed in testing the hypothesis and decision made on whether to reject or fail to reject the null hypothesis at 0.05 level of significance. The hypothesis testing for the direct relationship model led to the rejection of H_{01}, H_{02}, H_{03} and H_{04}. This meant that investment diversification in equities, bonds, short-term government securities as well as investment diversification in real estate have a significant positive effect on the financial performance of the retirement benefits schemes in Kenya. The hypothesis testing for the moderated relationship model led to the rejection of H_{05}. The rejection of H_{05} meant that foreign exchange rate has a significant inverse moderating effect on the relationship between investment diversification and the financial performance of the retirement benefits schemes in Kenya. The researcher therefore recommends that the retirement benefits schemes should consider diversifying their investments because it affects their financial performance. The researcher also recommends that the schemes should be vigilant on the volatility of the foreign exchange rate because it has a significant inverse effect on the relationship between investment diversification and the financial performance of the retirement benefits schemes in Kenya.