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

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A THESIS SUBMITTED TO THE SCHOOL OF BUSINESS IN THE DEPARTMENT OF BUSINESS ADMINISTRATION IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF DOCTOR OF PHILOSOPHY IN BUSINESS ADMINISTRATION (FINANCE) OF TECHNICAL UNIVERSITY OF MOMBASA

2024

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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Declaration by Supervisors:

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

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ACKNOWLEDGEMENT

My profound gratefulness is to God Almighty, for enabling me to successful undertake this thesis. I sincerely thank my mentors Dr. Banafa Abdulkadir Ali, as well as Dr. Abdullah Ibrahim Ali for their supervision, constructive commentary and guidance in the entire thesis writing period. I would also like to appreciate my spouse Ms. Caroline Kathambi as well as my daughter Reign Amana for their unquenched sustenance, tolerance, supplications as well as encouragement, thank you my family. I would like to appreciate all the pastors who mentored me at various points in my life, specifically, I wish to appreciate Pastor Julius Karisa of Nyari Baptist Church, Pastor Jesse Mung'atia of Life Transforming Center, Pastor Steve Thuku and Ms. Jenifer of Mombasa Light House Church. I also wish to thank all teachers who mentored me throughout my academic journey, specifically, I wish to thank Madam Milicent Baya, Mr. Thomas Kazungu, Mr. Tunje, Mr. Thomas Kathithe and Madam Kombe of Nyari Primary School, Mr. Ngondo, Mr. Mtie, Mr. Shogosho, Mr. Tole, Mr. Kamau, Madam Wanjala and Madam Mwakughu of Kenyatta High School. I also wish to appreciate the late professor Sababu, the late Mr. Ronald Juma, Professor Kahindi and Professor Rajab of Pwani University. I also wish to cordially thank Dr. Kitheka, the dean of the school of business, and Dr Bana, the director of the school of post graduate, studies for their guidance and wisdom which made my PhD dream come true. To all my lecturers at the Technical University of Mombasa who took their time to mentor and guide me in this noble academic journey, I say thank you very much. Special acknowledgement goes to my late aunt Joyce Safari and my cousin Moris Mwazani Shehe for their steadfast support throughout my academic journey. I also wish to thank Mr. Jay Sondhi of Sondhi Trading Limited for his financial support. Finally, I want to acknowledge all and sundry who supported me during the thesis writing period. May the good Lord bless all of you.

DEDICATION

I wish to dedicate this thesis to my parents; the late Mr. and Mrs. Kenga Chai Bendoe and my uncle Mr. Mwarabu Chai for inspiring me "that with payers and determination, everything is possible". I also wish to dedicate this thesis to my parents-in-law Mr. and Mrs. Thuranira for their vast support and prayers. I wish to dedicated this thesis to all my siblings for supporting me in this noble academic journey. Ultimately, I wish to dedicate this thesis to my darling wife Caroline Kathambi as well as my daughter Reign Amana, thank you family for the love and immense support throughout my research works.

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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.