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Code of Governance for Kenya's Occupational Retirement Benefit Schemes

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Abstract
Empirical studies on governance recommend the need to develop codes of governance to guide managerial behaviour and enhance institutional management. In this vein, various codes of governance such as the Cadbury Code and the Kings Code have been developed to steer governance in the corporate world. On the other hand the Organisation for Economic Co-operation and Development (OECD) and International Organisation of Pension Supervisors (IOPS) have issued guidelines with regard to governance in the pension fund industry. This paper develops a code of governance for Kenyan retirement benefit schemes. Multiple approaches namely document review, interviews with regulators and service providers (fund managers, actuaries, custodians and administrators) and survey with trustees and members of retirement benefit schemes are used to draw inferences and develop the code. The study uses the population of service providers and a sample of 314 trustees and 1106 members. Qualitative data is transcribed and recorded in to coherent themes to address the study objective. Data reduction was carried out by use of Exploratory Factor Analysis (EFA) while factor extraction was done using the Maximum Likelihood approach available in SPSS 21. Principal Components Analysis (PCA) was used to extract maximum variance from the data set with each component thus reducing the large number of variables to in to smaller set of variables. The results yield eleven blocks that are used to build the code of governance. The blocks are; compliance with regulatory framework, information control systems, decision taking, managing conflicts of interest, monitoring, oversight and performance management, documentation of trustee responsibilities, risk management, transparency and accountability, competence of trustees, trustees' responsibilities to members and providing relevant information to members. Trustees are urged to use these blocks and the factors that loaded on them to construct customized code of governance for their retirement benefit schemes. Regulators are also urged to use the code while developing pension governance regulations.
Keywords: code of governance, pension governance, retirement benefit schemes

1.0 Introduction

Proper corporate governance contributes to efficient management that result to investor confidence, market integrity, protection of minority interests and maximization of shareholder value (Abu-Tapanjeh, 2006; OECD 2009) and reduces the agency problem. As a result, investors devote to pay a premium for investment in firms with good governance (Mckinsey, 2002).

Governance lapses have been noted in both developed and developing countries. Developing countries have specifically been on the spot light due to weak laws and regulations (Rossouw, 2005) corruption and bureaucracy (Deflem, 1995; Kaufmann, Kraay & Mastruzzi, 2009) and lack of enforcement mechanisms (Okpara, 2011).

World Bank (1988; 1989; 2013) attributes poor corporate and economic governance to bad governance practices that create "severe institutional and managerial weaknesses in the public and private sectors." As a result, focus has shifted to the improvement of governance to strengthen firms in both the private and public sectors. For instance, the World Bank was dynamically involved in over 600 governance programs in 95 countries and public sector reforms in over 50 countries in less than five years effective 1996 (Santiso, 2002). In a nutshell, good governance at the country and company level is essential for the flow of both domestic and foreign investments (OECD, 2004; Claessens & Fan, 2003), which should be embodied in governance codes.

Codes of governance have been formed as a reaction to financial crises and corporate failures and impulsion by international organizations such as World Bank and OECD as alternatives to hard laws (for instance the Sarbanes-Oxley Act 2002 in the United States of America). The Cadbury Report of 1992 was necessitated by the Black Monday (19 October 1987) when the US stock market lost 25% of its aggregate value in a few hours, collapse of BCCI in 1991 and the corporate responsibility scandal relating to the Mirror Group and its founder – Robert Maxwell. Further developments in the UK code of governance issued by the Financial Reporting Council in 2010 was reactionary to the 2008 financial crisis.

Initial corporate governance codes were formulated in developed countries (North, 1990; La Porta, Florencio & Shleifer, 2008), which have since been mimicked by developing countries (Hearn, 2011) with suboptimal results as developing countries have different market structures, weaker regulatory enforcement mechanisms and opposing corporate cultures.

Codes of governance developed in different jurisdictions are relatively similar (Cromme, 2005) and have led to establishment of independent non-executive directors, preservation of minority rights in corporates,

diversification of skills in the boards, reduction of conflicts of interest, oversight over management, establishment of board and audit committees, lesser losses to shareholders and more disclosures in the financial reports. Governance codes have however been criticized as they are reactionary to market wobbles, their success at corporate level depend on the strength of the country's laws, contributes to organizational bureaucracy and cannot stop corporate mishaps in the absence of personal commitments by the directors.

For a code of governance to be effective, attention must be paid to both the spirit and letter of the code and must be enhanced through interaction between the boards and shareholders and enforced through laws and regulations (La Porta *et al,* 2000; Werder, Talaulicar, & Kolat, 2005; Berglöf & Claessens, 2006; Aguilera & Cuervo-Cazurra, 2009). Effectiveness of a governance code can only be measured by considering its ability to steer relationships amongst the stakeholders, which must be enforced through regulation otherwise implementation on its own does not work. For instance Mulili and Wong (2011) document that the institutionalization of a supervisory body the Capital Markets Authority (CMA) in Kenya in 1990 did not lead to "fundamental" changes in corporate governance.

Pension governance has gained increased attention due to the dominance of the pension fund industry across the World (Njuguna, 2011; 2016). Arguably then, trustees deal with momentous funds in a multifarious investment world where uncertainty and volatility are the norm and not exception. Notably, pension funds are economic entities that exemplify long-term commitments that outlive the sponsors and current managers (Clark, 2004). Clark thus argues that the pension systems should be robust, adaptive to the future circumstances and innovative to identify future governance gaps primarily because in the future, employers will play less significant roles in pension plan systems. For this reason, governance systems need to be documented and strictly enforced to ensure that the costs of running the pension systems are managed, relationships between the main stakeholders (sponsors, members, external service providers and trustees) are managed, risks are considered and managed, regulations are complied with and the welfare of the members is maximized. Moreover, the centrality of pension funds makes them face increasing pressures, which are not clearly understood (Miller & Funston, 2014).

This paper uses postulates in other studies, an exploratory study and triangulation with stakeholders in the development of a pension code in a developing market that is relatively younger compared to the developed jurisdictions. Moreover lots of attention is directed to corporate governance codes and the effects they have on performance, whose principles are not explicitly applicable to pension plans and retirement benefit schemes that are principally formed to provide retirement benefits to the members – who may not have the traditional shareholder activism principles of loyalty, voice and exit. There is therefore a lacuna on the codes of pension governance more specifically in developing countries.

The paper is structured as follows; section 2 details the theoretical foundations of governance and codes of governance, section 3 discusses the research methodology, section 4 gives the findings of the study, section 5 discusses the results while section 6 states the conclusions and recommendations of the study.

2.0 LITERATURE REVIEW

2.1 Theoretical foundation of the study

Scholars agree that the foundation of corporate governance primarily lies in the agency, stakeholder and stewardhip theories. These theories are discussed in sections 2.1.1, 2.1.2 and 2.1.3.

2.1.1 Agency theory

Agency theory postulates the conflicts of interest stemming from separation of ownership and management in contexts where human beings are self-centered and fail to act in the best of the interests of others (Berle & Means, 1932) granted that the firm is a nexus of contracts (Alchian & Demstez, 1972; Jensen & Meckling, 1976; Jensen, 2001). In this context, corporate governance is viewed as the framework that addresses how the inherent conflicts arising out of the agency problem are addressed within the firm and the inherent cost of managing such conflict. Figure 1 depicts the agency model.

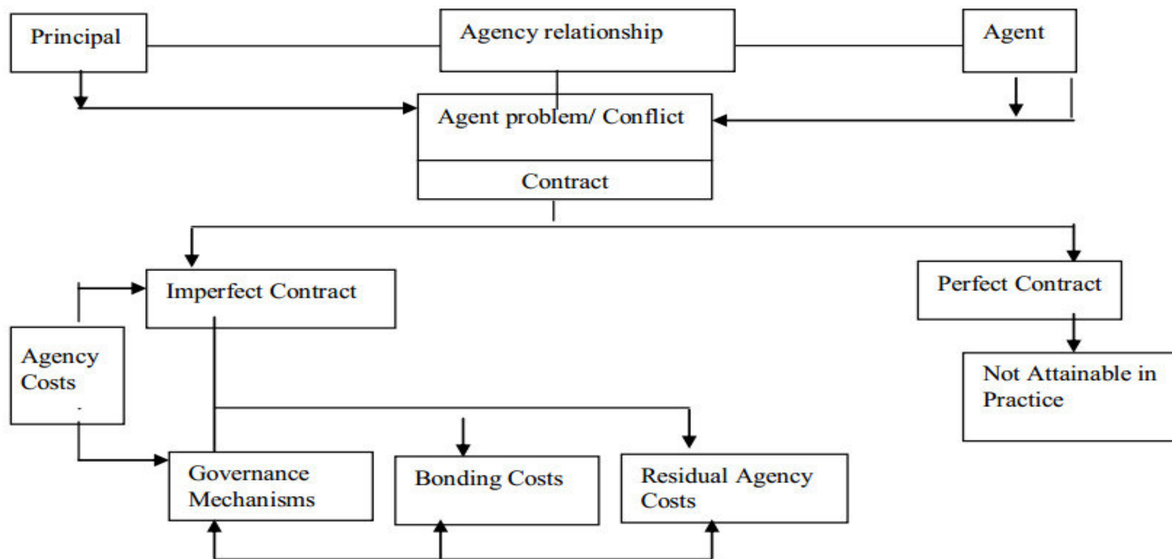

Figure 1: The Agency Model

2.1.2 Stakeholder theory

The *stakeholder theory* is based on the notion that a corporate entity exists to serve its broad range of stakeholders who are primarily the shareholders (Abrams, 1951) granted that the firm impacts on parties who are external to it either directly or indirectly (McDonald & Puxty, 1979; Freeman, 1984; Clarkson, 1995; Sundram & Inkpen, 2004). Firms therefore have an obligation to identify the stakeholders (whether consubstantial, contextual or contractual) and their specific needs (Lashgari, 2004; Coleman, Hacking, Stover, Fisher-Yoshida & Nowak, 2008) and develop policies to address these concerns. Corporate governance from this perspective is the framework that ensures that the often conflicting interests of all the stakeholders are addressed in a fair manner by the firm. Pension plans are organizations created to benefit current members, future pensioners, beneficiaries of current members (in the event that current members are incapacitated or deceased), the plan sponsor and the investors in the company. Figure 2 depicts the stakeholder model.

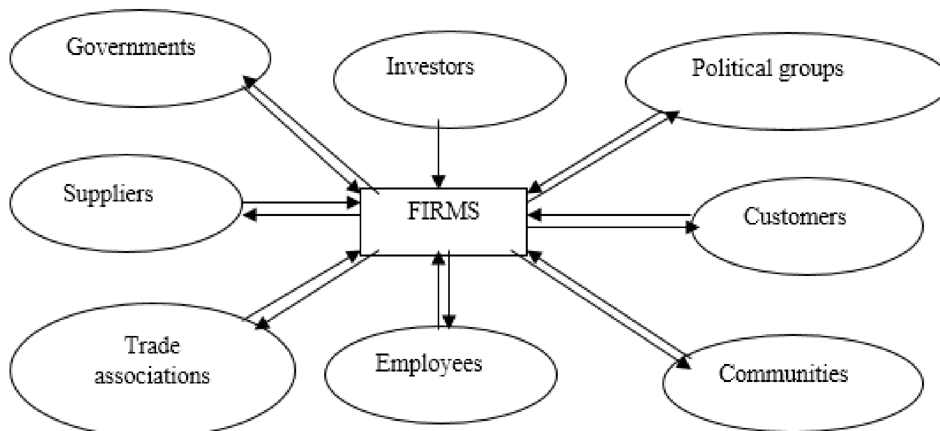

Figure 2: The stakeholder model (Donaldson & Preston (1995, p. 69)

2.1.3 Stewardship theory

Stewardship theory emphasizes the absence of conflict between managers and owners (Donaldson & Davis, 1991) emphasizing that the goal of governance is to find mechanisms and structures that coordinate the managers and the owners. Hence the authors do not see the problems of executive control expounded by Jensen and Mecklin in their 1976 agency theory. As such, alignment of the manager's interests with those of the firm are prerequisite to application of stewardship (Van Slyke, 2006). The theory is however static and reviews managerial behaviour one point in time and fails to take in to account the evolution of managerial behaviour occasioned by market dynamics (Pastoriza & Arino, 2009). Additionally, Turnbull (1997) disapproves the "naturally trustworthy" manager as simplistic assumption that may not be generalized in a context of cultural and institutional turbulences that have challenged the status quo.

2.2 Corporate governance codes

Globally, corporate codes of governance are provided within the company law framework within the jurisdiction

in which the company operates. The codes are formulated by the government, embodied in legislation and generally guide professional bodies and the corporate boards. Aguilera & Cuerro-Cazurra (2009) document the pioneers of codes of governance as the United States (1978), Hong Kong (1989) and United Kingdom (1992) and report an additional 196 distinct codes in 64 countries by mid-2008. Broadly the codes address six major themes namely; balance of executive and non-executive directors, segregation of duties, timely provision of information, transparency, understandable financial reporting and maintenance of a sound internal control framework (Gregory, 1998; Gregory & Simmelkjael, 2002). Over the years, the codes of governance have expanded to include relationships with stakeholders outside the firm in line with the stakeholder's theory.

The United Kingdom code of governance issued by the Financial Reporting Council in 2010, code has five main areas namely; Leadership, Effectiveness, Accountability, Remuneration and Relationships with Shareholders.

2.3 Pension codes of governance

Various studies have pointed to the need for enactment of code of governance applicable to the pension industry. For instance, Gregory (1998) stated that the purpose of pension fund governance in the United States was more on responsibility refraction rather than creation of value to stakeholders; Ambachtsheer, Capelle & Scheibelhut (1997) discovered governance lapses in US pension funds; Ambachtsheer, Capelle & Lum (2008) observed weak oversights, conflicts of interest and competing financial interests of different stakeholder groups. Additionally, Clark, Caerlewy-Smith and Marshall (2006) suggest governance deficits in UK.

The principal pension governance lapses established in these studies are; unique agency problems of pension funds (balancing interests of different stakeholders and regulatory issues), oversight responsibilities of trustees, skills and knowledge possessed by trustees, investment and risk management aspects and trustee effectiveness (in formulation of strategic direction of the fund and maintenance of effective systems of risk management).

3.0 METHODOLOGY

3.1 Research design

To develop a code of governance, it was imperative that both qualitative and quantitative approaches be used. The qualitative approach involved comprehensive document reviews (RBA Act, Companies Act Cap 486 and internationally accepted good pension governance practices such as those issued by IOPS and OECD) and interviews with key informants in the industry (regulators, administrators, fund managers, actuaries and custodians). The quantitative approach used a questionnaire survey with the dispersed stakeholders (trustees and members). Eventually a communicative validity of the results was done with all the stakeholders at different levels.

3.2 Population and sampling design

The sampling frame for service providers in the Kenyan retirement benefits industry was obtained from the RBA website (www.rba.go.ke) with the intention of conducting a census. Introductory letters were sent to the CEOs of these organizations asking them to nominate individuals who directly deal with retirement benefit schemes to participate in the Focus Group Discussions. In total 42 respondents were nominated from all the service providers and six focus group discussions were conducted with the different clusters of respondents. The findings of the discussions informed the composition of the sample for the trustees and members. Specifically, the findings pointed to a survey of large and small retirement benefit schemes and retirement benefit schemes that have invested in alternative assets (real estate and unquoted equity) and schemes where the government is a sponsor as schemes with special governance challenges and hence the need to delve deeper in to them in addition to the other schemes. For the questionnaire survey, the population consisted of 1996 retirement benefit schemes. Forty six schemes were first identified as they were considered large, had invested in alternative assets or were sponsored by the Kenyan government. Random sampling was used to select an additional 255 retirement benefit schemes (5% margin of error). The sample consisted of 1202 members (response rate = 92%, n=1106) and 350 trustees (response rate = 90%, n=314) who were all randomly selected from the sampled schemes to participate in the survey.

3.3 Data collection tools

3.3.1 Interview guides

The Focus Group Discussions used a set of open ended questions that were developed to using the results of document reviews and preliminary discussions with the regulators. The questions specifically sought answers on; the current state of governance in retirement benefit schemes with regard to risk management, conflicts of interest, internal controls, fiduciary duties of trustees, decision making, accountability and transparency of operations; compliance with the regulations; governance gaps and practical recommendations to solve the governance gaps that were identified. Respondents were allowed to delve in to other issues relevant to the study but were not adequately captured by the interview guides. Comprehensive results of the outcomes of these focus group

discussions are documented in Njuguna (2016).

3.3.2 Questionnaires

Two sets of questionnaires were developed to enhance a 360-degree understanding of all the issues raised during the Focus Group Discussions with the service providers. The questions consisting of the thematic areas identified in section 3.3.1 asked respondents to indicate the extent to which they agreed or disagreed with the propositions of governance with regard to the current state, the gaps and recommendations that were stated in a likert scale. The questionnaires also had open ended questions that allowed the respondents to make comments on issues that they felt were important and could have been omitted from the questionnaire.

3.4 Research procedures

3.4.1 Focus group discussions

Separate focus group discussions were conducted with the different constituents namely; fund managers, custodians, administrators and actuaries. The respondents were made aware of the ethical issues that the researchers subscribe to namely; confidentiality, fair treatment, right to withdraw from the interview if they felt offended, not to be recorded without consent and freedom of expression and thought. After introduction, the respondents were split in to manageable groups (minimum 4 and maximum 6). The research team guided the interviews and consequently moderated the debate. In total 7 Focus Group Discussions were conducted with 42 respondents.

3.4.2 Questionnaire survey

Consent was first sought from the CEOs of the companies of the sampled occupational retirement benefit schemes, those who failed to give consent to participate in the study were omitted and the sample unit (scheme) replaced. Respondents (members and trustees) were then selected randomly from the schemes that consented to participate in the study.

Pilot tests were first done with 30 schemes that were randomly selected. The results of the pilot test were used to improve the questionnaires making them easy to administer and apply. The drop and pick approach was used to elicit responses, again maintaining confidentiality, fair treatment and freedom of expression and thought. The data obtained was cleaned and analyzed accordingly to draw the inferences in this study.

3.5 Data Analysis

3.5.1 Qualitative data

Qualitative data obtained from document reviews and Focus Group Discussions with the key informants was transcribed and arranged in specific themes that emerged. These themes formed the basis of development and refinement of the questionnaires that were administered to the trustees and members of the retirement benefit schemes.

3.5.2 Quantitative data

Quantitative data from the member and trustee surveys was first summarized using frequency distributions and descriptive statistics. Further analysis was conducted using Exploratory Factor Analysis (EFA) that is widely considered to be a data reduction tool that eradicates redundancy from a set of correlated variables thus forming latent and observed variables that are relatively independent of one another (Kline, 1994; Child, 2006; Bartholomew, Knott & Moustaki, 2011).

To use EFA, it was necessary to ensure that the data fitted the assumptions stated in Costello & Osborne (2005) and Field (2009). Specifically, the sample sizes in both the member and trustee surveys exceeded 300, the variables were not inter-correlated (there was little multi-collinearity as all the variables, had correlation coefficients less than 0.6) and the variables have a roughly normal distribution. Additionally other conditions for use of EFA were fulfilled, namely; linear relationship between the factors and the variables (Gorsuch, 1983), each factor of analysis having at least 5 to 10 observations (Comrey & Lee, 1992) and at least 10:1 ratio of respondents to variables (Yong & Pearce, 2013). The application of EFA was validated by examining the Kaiser-Meyer-Olkin Measure (KMO) of sampling adequacy. The KMO was 0.96 and 0.94 for the member and trustee determined variables hence the two were suitable for EFA.

Factor Extraction was then done using the Maximum Likelihood approach available in SPSS. Principal Components Analysis (PCA) was used to extract maximum variance from the data set with each component thus reducing the large number of variables to in to smaller number of variables as recommended in Tabachnick and Fidell (2007). Varimax rotation was then applied to enhance an optimal simple structure that ensured that each variable loaded on a few factors but maximized the number of high loadings for each factor.

Lastly, the factor loadings were interpreted by identifying the largest loadings to form the variables that formed the pillars of a code of governance for Kenyan retirement benefit schemes. Using the recommendations in Tabachnick and Fiddell (2007) to the effect that a rotated loading for a sample size of at least 300 would need to be 0.32 to be considered statistically meaningful. To identify the factors to retain, the Kaiser's Criterion was used that require retention of all factors that are above an eigen value of 1 (Kaiser, 1960) and complemented with the

scree tests to minimize overestimation as recommended in Costello and Osborne (2005).

4.0 FINDINGS

4.1 Particulars of the respondents

4.1.1 Service providers

Table 1 shows the composition of the service providers and the number of respondents who informed the findings of the study. It shows that the responding firms were; actuaries (100%), custodians (82%), custodians (50%), fund managers (48%) and administrators (48%). The 42 respondents involved in the focus group discussions were drawn from these constituents.

Table 1: Composition of the service providers

Service providers	Total firms in the industry	Firms that responded		Number of respondents
		n	%	
Fund managers	20	10	50	12
Administrators	29	14	48.2	15
Custodians	11	9	81.8	9
Actuaries	4	4	100	6
Total				**42**

4.1.2 Gender of the responding trustees and members

Table 2: Gender composition of the respondents

	Members		Trustees	
	n	%	n	%
Female	460	45.2	132	42
Male	556	54.6	182	58
Total	**1016**	**100**	**314**	**100**

In both the member and trustee samples, the number of male respondents was higher than that of the female respondents but the mean composition was not significantly different. Table 2 shows the gender composition of the responding members and trustees.

4.1.3 Age of the respondents

Table 3: Age composition of the respondents

	Members		Trustees	
	n	%	n	%
18-23	33	3.2	2	0.6
24-29	211	20.8	33	10.5
30-35	252	24.8	51	16.2
36-41	178	17.5	63	20.1
42-47	156	15.4	62	19.7
48-52	114	11.2	59	18.8
More than 52	72	7.1	44	14.0
Total	**1016**	**100**	**314**	**100**

Sixty six percent of the members (n=674 were within the 18-41 years range compared to 47.4% of the trustees who were in the same age bracket. The mean difference in the age of members and trustees was statistically significant ($p<0.01$) with trustees being older.

4.1.4 Highest education level of the respondents

Table 4: Highest education level of the respondents

	Members		Trustees	
	N	%	n	%
Primary	11	1.1	3	1.0
High school	53	5.3	15	4.8
College or polytechnic	335	33.4	71	22.6
University first degree	417	41.6	110	35.0
University masters' degree	177	17.7	106	33.7
University doctorate degree	9	0.9	9	2.9
Total	**1002**	**100**	**314**	**100**

In both the member and trustee samples, 94% had pursued their education beyond high school as indicated in table 3. There was no significance statistical difference in the education level of members and trustees.

4.1.5 Work experience

Table 5: Work experience of the respondents

Years	Members		Trustees	
	n	%	n	%
Less than 5	336	33.1	72	22.9
6-10	354	34.8	97	30.9
11-15	126	12.4	52	16.6
16-20	93	9.2	49	15.6
21-25	62	6.1	29	9.2
More than 25	45	4.4	15	4.8
Total	**1016**	**100**	**314**	**100**

Most of the members (68.6%, n=697) had work experience of 15 years or less compared to 51% (n=158) of the trustees who had similar work experience. A statistically significant difference in the mean number of years of experience between the members and trustees was noted. Members who had trustees' responsibility had more years of experience compared to the other members.

4.1.6 Membership in retirement benefit schemes

Eighty percent of the members sampled had been members of respective retirement benefit schemes for 15 years or less. Seventy percent of the sampled trustees had been members of retirement benefit schemes for 15 years or less. Additionally, 74% of the members sampled had never held trustee positions while 26% were former trustees. The sample of trustees consisted of 68.5% elected by members and 31.5% nominated by the sponsors.

4.2 Substantive findings on governance

4.2.1 Service provider perspectives

The service providers were in agreement that all schemes have been established as trusts and hence have trust deeds that govern the schemes. The trust deeds may however need to be reviewed to determine whether they are aligned with current regulations, industry dynamics and changing worker demographics. The trustees are appointed in accordance with the law (50% sponsor and 50% members) for defined contribution schemes and (33% member and 67% sponsor) for defined benefit schemes except schemes that have internal administrators. Most of the trustees are however lay, a circumstance that can impair decision making and effective operation of the schemes. Main areas of expertise where trustees have inadequacies are investment management and evaluation of risks and returns.

All the schemes have engaged external consultants and advisors as recommended by the industry regulator but conflicts of interest cannot be overruled in some of the appointments.

Trustees receive reports from the service providers on quarterly basis. The competence with which most trustees provide oversight on the service providers and ask "the right questions" is however doubtful.

Large schemes tend to have better structures and consequently higher levels of governance compared to the smaller schemes. However some of the schemes are already "over size" as a result of which diseconomies of scale are being realized. Similarly there are also small inefficient schemes that have very high administrative and investment management costs per participant.

Schemes that are sponsored by the public sector face special challenges in the appointment of trustees, timely submission of contributions and active participation of the trustees in the board meetings.

Trustee training and development program implemented jointly by the industry regulator and association has achieved benefit in making trustees more aware of their roles. It is however a one off training. Respondents felt that continuous education of the trustees was needed.

Annual financial reports and statements are submitted to the members of the schemes; however the attendance to the annual general meetings and member training sessions is dismal. It is not clear whether the members of the schemes really understand the importance of the savings they make in retirement benefit schemes.

Trustee elections and appointments are conducted in accordance with the regulations. It is however not apparent how the proper and fit test is enforced by the industry regulator, the sponsor or the schemes before the appointment.

The rules on the operation of schemes as independent entities are enforced and both the sponsor's and member's rights are represented in the board of trustees.

The respondents stated the need to focus on the following areas that are seen as emerging governance gaps; coordination of investment management function where the scheme has co-fund managers, investment in alternative assets (private equity, real estate investment trusts, derivatives and other innovative financial products), governance practices of service providers, examination of solvency risk of service providers, reserves maintained by the retirement benefit schemes, participation of members in the governance of retirement benefit schemes, conflicts of interest, governance of schemes with foreign branches, lay trustees and governance of the schemes

that have changed their designs from defined contribution to defined benefit.

4.2.3 Trustee perspectives

Table 6: Rotated Component Matrix from the results of the trustee survey

	Component						
	1	2	3	4	5	6	7
Having a trust deed to guide the operations of the scheme	0.899						
Following provisions stated in the trust deed	0.787						
Complying with the RBA Act	0.754						
Appointing service providers who are registered by RBA and other professional bodies	0.739						
Ensuring that the scheme has legally binding service level agreement with external service providers	0.689						
Clearly stipulating the consequences of breach of trust or regulations by trustees or service providers	0.632						
The scheme should document its procedures, policies and processes		0.875					
The scheme should automate its processes		0.868					
The control system should address all the foreseeable operational risks		0.657					
Only trustees should access certain information relating to the members		0.654					
Define what constitutes conflict of interest and communicate to all trustees			0.877				
Having a written policy on how to identify and deal with conflicts of interest			0.872				
Ensuring that external service providers perform only one of the separate professional services to the scheme (custody of assets, fund management, administration, Actuarial review, legal and audit)			0.776				
Chair of the board of trustees is not a sponsor appointed trustee			0.723				
Providing legal or other sanctions to where conflicts of interests result to losses to the scheme			0.689				
Objectivity in decision making is critical				0.897			
All resolutions made by the board of trustees should be documented and communicated to all the trustees				0.833			
Trustees should hold regular meetings				0.824			
The board of trustees should have sub committees to deal with specialized issues				0.747			
Trustees should be allowed to seek professional advice from external consultants if the skills are lacking within the board				0.740			
Decisions taken by the trustees should be subjected to ethical tests before implementation				0.638			
Liability insurance for trustees is essential to protect trustees against litigation for decisions taken in good faith				0.586			
Trustees should take strategic decisions and recognize the impact of present decisions on the future of the scheme				0.556			
Monitor external service providers keenly					0.892		
Track the implementation of the investment policy					0.886		
Provide sanctions to external service providers					0.879		
Develop a framework for measuring performance of every external service provider					0.872		
Monitor the risk-return and asset-liability structure of the scheme continuously					0.698		
Conduct cost benefit analysis for every decision					0.638		
Use conventionally accepted bench marks for performance measurement					0.551		
Monitoring of schemes with co-fund managers					0.501		
The following responsibilities due to trustees should be documented:							
Keeping proper scheme records						0.816	
Evaluating Asset-liability structure of the scheme						0.783	

	Component						
Devise proper investment strategies						0.775	
Duty to appoint external service providers						0.771	
Identifying risks and manage them effectively						0.689	
Monitoring external service providers						0.615	
Extra diligence when dealing with specialized asset classes such as private equity and derivatives						0.604	
Assessment of regulatory compliance of the scheme							0.647
Review of audit queries and responding accordingly to those queries							0.632
Having a documented risk management framework							0.558
Setting risk preferences for the scheme and prioritizing risks							0.516
Setting risk tolerance levels							0.501

Extraction method: Principal Component Analysis
Rotation Method: Varimax with Kaiser Normalization
Rotation converged in 9 iterations

Table 6 shows the rotated component matrix for the trustee survey. The questions loaded on seven factors that are inferred to be the pillars on which the code of governance are developed. The factors form common themes that I label accordingly.

The questions in the first component namely; having a trust deed, following the stipulations of the deed, complying with the RBA Act, appointing registered service providers, having legally binding service level agreements and stating the consequences of breach of trust and regulations are therefore labelled as *compliance with regulatory framework.*

The questions in the second component namely; documenting or recording policies and procedures, automating processes, having a system that foresees operational risks and restricted access to certain information are labelled as; *information and control systems*.

The factors in the third component seem to address *conflicts of interest* as they relate to; definition of conflicts of interest, having written policies to deal with conflicts of interest, separation of duties, chair of the board of trustees not being a sponsor appointed trustee and legal restitution in case of loss due to conflicts of interest.

The questions in the fourth component namely; objectivity in decision making, documenting and communicating board resolutions, holding regular meetings, having sub committees in the board, seeking independent professional advice on specialized matters, ethical tests for board decisions, having liability insurance for the decision makers and analyzing the impact of current decisions on the future of the scheme are labelled as *decision taking.*

The factors that load on the fifth component namely; keen monitoring of external service providers, implementation of the investment policy, providing sanctions to external service providers, developing a performance measurement framework for external service providers, monitoring the risk-return and asset-liability structure of the scheme, conducting a cost benefit analysis for decisions taken, using conventionally accepted bench marks for performance measurement and monitoring schemes with co-fund managers are labelled as; *Monitoring, oversight and performance management*.

The factors that load on the sixth component relate to documentation on the roles of trustees with regard to: keeping proper scheme records, evaluating asset-liability structure of the scheme, making proper investment strategies, appointing external service providers, identifying risks and managing them effectively and monitoring external service providers are labelled *documentation of trustee responsibilities.*

Lastly, the factors that load on the seventh component are; assessment of regulatory compliance of the scheme, review of audit queries, documenting the risk management framework, setting risk preferences for the scheme, setting risk tolerance levels and exercising special diligence before investment in alternative assets are labelled *risk management.*

4.2.4 Member perspectives

Table 7: Rotated Component Matrix from the results of the member survey

	Components			
	1	2	3	4
We should elect trustees who meet high levels of integrity	0.841			
Trustees should be accountable to current members of the scheme as well as the leavers	0.809			
Trustees should be legally liable for imprudence regarding management of scheme affairs	0.808			
External trustees should be independent and objective	0.782			
The trustees should keep confidential matters of the scheme and members to themselves	0.756			
Trustees should disclose their remuneration	0.764			
Trustees should disclose the investment classes where the scheme's assets are held	0.701			
Trustees should disclose the costing model of the fees payable to service providers	0.698			
Costs of the scheme should be disaggregated and disclosed to members	0.621			
Trustees should not have financial or other interests with external service providers	0.598			
Trustees should be well trained and meet certain minimum education requirements		0.812		
The board of trustees should have a diversified set of skills		0.624		
Newly appointed trustees should be taken through an induction program		0.609		
Trustees should be continuously trained		0.587		
Circulating a biography of all potential trustees before an election		0.574		
Communication to members is critical			0.799	
Holding annual general meetings with members is critical			0.744	
Having free and fair elections of the trustees			0.675	
Providing member education on rights and responsibilities of the scheme			0.633	
Providing members who are leaving the scheme through retirement or resignation with information on the choices available to them			0.610	
Acting in good faith in the adjudication of member benefits where the member's is deceased			0.575	
Providing annual financial and non-financial reports that are free of misrepresentation			0.573	
Providing member statements that are accurate			0.564	
Providing full disclosure of costs in a disaggregated manner			0.561	
Providing all information to members on time			0.558	
Precise and clear presentation of information during meetings with members free of jargons and waffles			0.541	
Provide information to members on:				
Investment performance				0.680
Rules of the scheme				0.613
Computation of benefits				0.567
Rights during retirement				0.555
Rights during resignation				0.542
Entitlements in case of death				0.511

Extraction method: Principal Component Analysis
Rotation Method: Varimax with Kaiser Normalization
Rotation converged in 5 iterations

Table 7 lists the questions that loaded on four distinct components in the member survey that were later assigned labels. The first set of questions clustering around component 1 are election of trustees with integrity levels, accountability of trustees to members and leavers of the scheme, holding trustees liable for imprudence, independence and objectivity of external service providers, confidentiality of the trust matters, disclosure of trustee remuneration, investment classes and charging model for the costs of the service providers, disaggregating costs of the scheme and trustees should not have pecuniary or other interests with external service providers. This

component is consequently labelled as *trustee' transparency and accountability*.

The second set of questions that clustered around component 2 are; well-trained trustees who meet certain minimum education requirements, board of trustees having diversified set of skills, inducting new trustees, continuous training of trustees and circulation of biographies for nominees of trust positions. This component is therefore labelled; *competence of trustees*.

The third set of factors that loaded on component 3 are; communication to members, holding annual members' meeting, free and fair election of trustees, providing education to members on their rights and responsibilities, giving information to the leavers of the scheme, acting in good faith in the best of the interest of a deceased member, providing information that is precise and free from misrepresentations, providing accurate member statements, full disclosure of costs in a disaggregated manner, timely provision of information and simplicity when reporting to members. This component is labelled *responsibility to members*.

The last set of factors that loaded on component 4 relate to *information provision*. Most important information to communicate to members should relate to investment performance, rules of the scheme, computation of benefits and entitlements from the scheme, rights of members during retirement and resignation as well as their entitlements in the event of death.

5.0 DISCUSSION OF THE RESULTS

The present study has listed eleven pillars on which a code of governance for the Kenyan retirement benefit schemes should be anchored. The pillars are; compliance with regulatory framework, information control systems, decision taking, managing conflicts of interest, monitoring, oversight and performance management, documentation of trustee responsibilities, risk management, transparency and accountability, competence of trustees, trustees' responsibilities to members and providing relevant information to members. These results agree with Stewart and Yermo (2008) who recommend clarity in definition of trustee responsibilities, fit and proper tests for trustees, self-assessment and training as well as management of conflicts of interest to improve pension fund governance. Although Stewart and Yermo (2008) recommend a review of the number of individuals in the board of trustees, having management committees for defined contribution schemes and greater regulation of the schemes, the factors did not load on any component in the present study and were therefore omitted.

The present study further agrees with Pensions Regulator (2013) who state the critical elements of pension governance as ensuring value for money, monitoring performance of the service providers and communication and member engagements. The present study adds more elements such as conflict management, risk management, information provision to members and trustee competence and responsibilities.

Additionally, the study concurs with Clark (2004) who state that the main issues that will relate with future pension arrangements include enhancement of the welfare of the workers, trustee representing the stakeholders' present and future interests, oversight over external service providers, remuneration of trustees, trustee meetings (frequency, attendance, agenda setting and preparation) as well as investment in alternative assets.

IOPS (2013) further documents the need for a solid framework for governance of pension supervisory authorities based on independence, adequacy, transparency and integrity. The present study concurs that these principles can be replicated in retirement benefit schemes in advocacy of the principle that governance of the regulating authority should as much as possible mirror those of the objects under supervision.

Lastly, the findings also mirror the updated principles, best practice guidance and tools issued by the Pensions Regulator who lists six principles in governance of the pension fund industry namely; effective decision making, clear objectives, review of risk and liabilities, performance assessment, responsible ownership and transparency and reporting.

6.0 CONCLUSIONS AND RECOMMENDATIONS

This study has used a multi-faceted methodology to develop a foundational code of governance for Kenyan retirement benefit schemes that can be replicated in other countries. The building blocks of the code of governance are; compliance with regulatory framework, information control systems, decision taking, managing conflicts of interest, monitoring, oversight and performance management, documentation of trustee responsibilities, risk management, transparency and accountability, competence of trustees, trustees' responsibilities to members and providing relevant information to members.

I recommend that these pillars together with the factors that build into them be used by trustees of retirement benefit schemes to formulate customized codes of governance. Regulators of retirement benefit schemes should also find it a suitable reference point when developing regulations aimed at containing the governance of retirement benefit schemes.

Future research should focus on using the code as developed in this study to device a governance index that should be used to evaluate the governance of retirement benefit schemes.

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