

**A SURVEY OF THE AGENCY PROBLEMS AND THE RESOLUTION
MECHANISMS AMONG PENSION SCHEMES IN KENYA**

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STUDENT DECLARATION

I, the undersigned, declare that this research project is my original work and that it has not been presented in any other university or institution for academic credit.

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This research project has been submitted for examination with my approval as university supervisor.

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Signed Date

DEPARTMENT OF FINANCE AND ACCOUNTING

DEDICATION

To my family: my wife Carolyne and triplet sons Mark, Jeremy and Nathaniel. My Mum and Dad, brothers and sister for their priceless contribution in making me the person I am today.

ACKNOWLEDGEMENT

First I wish to thank God for his special gift of life and wisdom that enabled me to reach this far in the project and study. I acknowledge the valued advice I received from my supervisor Dr. Josiah Aduda. He shared his knowledge, wisdom, and experience and was ever patient with me and gave me encouragement when I was carrying out this research. His comments and suggestions throughout the period greatly enriched this project. I am also grateful to all the lecturers who took me through the course units in the MBA program.

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ABSTRACT

This study sought to find out, the agency problem in pension schemes in Kenya. The objectives of the study were to determine agency problem in the management of pension schemes in Kenya and to examine the mechanisms used to resolve the agency problem in pension schemes in Kenya.

The research used a descriptive survey method. The target population of the study was all pension scheme members, all pension schemes and fund managers registered by Retirement Benefits Authority (RBA) in Kenya. Simple Random Sampling technique was used to select Thirty Five (35) pension schemes out of the 1,359 registered schemes as per RBA financial statements for the year 2007. In addition, the sample comprised of all the sixteen (16) investment managers. One member of the board of trustees was administered with the questionnaire from each selected pension scheme. For each fund manager, one manager was administered with the questionnaire. Further, one hundred and forty (140) members of pension schemes were administered with the questionnaire.

Data was collected using three sets of semi-structured questionnaires. A total of 150 respondents responded positively out of the total sample of 191 giving a response rate of 79%. Data was analysed through descriptive statistics and presented in tabular and graphical formats. The respondents mentioned a number of problems in respect to the agency problem; principal among them being poor annual general meetings (AGM) attendance, lengthy time of decision making, delay in remittance of pension contributions by pension schemes' sponsors, and poor investment of pension schemes' funds by fund managers. Other challenges faced include; delay in producing members' statements, lack of information from service providers, and lack of adequate investments knowledge by trustees. The respondents proposed various ways to resolve the agency problem and these include; provision of information on their rights and benefits as members of pension schemes, regular reporting as well as frequent consultations between members of board of trustees, and investment managers. In addition the respondents proposed stringent monitoring of the pension schemes

activities by the government through its regulatory agencies to check on pension schemes that do not follow the laid down rules and regulations. It was further recommended that the right procedures should always be adhered to in arriving at any decision.

Agency conflict in organisations should be minimized at all times and from the research, it has come out that there are various ways in which this could be achieved in pension schemes. These include regular consultation with all stakeholders to gather views on how to improve the scheme, regular consultative meetings other than the AGM, recruitment of competent officials (members of board of trustees) in office, as well as investing in less risky investments. It is also important that the laid down rules and regulations and other legal requirements are followed to the letter. The board of trustees should also meet frequently as well as consult widely with other pension schemes' boards of trustees. Investment policy used by pension schemes should also be available to all members so that they are well informed.

From the study, I recommend effective supervision of pension schemes. RBA should develop plans which focus on legal compliance, financial control, and supervision of managers. RBA and other regulatory bodies should be properly staffed and funded to enable them to deal with their regulatory and supervisory powers in order to conduct when necessary off and on site supervision of pension schemes and, and in particular when problems are reported. Further, investments by pension schemes should be adequately regulated. Increased reliance on modern and effective risk management, industry-wide risk management standards for pension funds and other institutions involved in the provision of retirement income should be promoted. In addition, RBA should promote and enforce appropriate disclosures by pension schemes to ensure that all the stakeholders and especially the members are well informed. Members and beneficiaries should be educated on prudent management of retirement benefits. Also, fees structure, pension schemes' performance and benefits modalities should be disclosed frequently to all the stakeholders.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Agency theory is based on the concept of the principal-agent relationship. In this relationship, principals represent individuals, or groups of individuals, who are in control of a set of economic functions or assets in some form of ownership or property rights. Day-to-day control of these functions or assets has been delegated, by the principals, to agents, who operate them on their behalf (Jensen and Meckling, 1976). In the standard theory of the firm, under the divorce of ownership from control, shareholders represent the principals in the relationship and management represent the agents.

Agency theory explains how to best organize relationships in which one party (the principal) determines the work, which another party (the agent) undertakes (Eisenhardt et. al., 1997). The theory argues that under conditions of incomplete information and uncertainty, which characterize most business settings, two agency problems arise: adverse selection and moral hazard. Adverse selection is the condition under which the principal cannot ascertain if the agent accurately represents his ability to do the work for which he is being paid. Moral hazard is the condition under which the principal cannot be sure if the agent has put forth maximal effort (Eisenhardt, 1989). Agency problems arise because contracts are not costlessly written and enforced. Agency costs include the costs of structuring, monitoring, and bonding a set of contracts among agents with conflicting interests. Agency costs also include the value of output lost because the costs of full enforcement of contracts exceed the benefit.

The problems of adverse selection and moral hazard mean that fixed wage contracts are not always the optimal way to organize relationships between principals and agents (Jensen and Meckling, 1976). A fixed wage might create an incentive for the agent to shirk since his compensation will be the same regardless of the quality of his work or his effort level (Eisenhardt et. al, 1997). When agents have incentive to shirk, it is often more efficient to replace fixed wages with compensation based on residual claimancy on the profits of the

firm. The provision of ownership rights reduces the incentive for agents' adverse selection and moral hazard since it makes their compensation dependent on their performance (Jensen, 1993).

Control of agency problems in the decision process is important when the decision managers who initiate and implement important decisions are not the major residual claimants and therefore do not bear a major share of the wealth effects of their decisions. Without effective control procedures, such decision managers are more likely to take actions that deviate from the interests of residual claimants. An effective system for decision control implies, almost by definition, that the control (ratification and monitoring) of decisions is to some extent separate from the management (initiation and implementation) of decisions. Individual decision agents can be involved in the management of some decisions and the control of others, but separation means that an individual agent does not exercise exclusive management and control rights over the same decisions (Jensen and Meckling, 1976).

Kenya has several types of schemes, which offer social security, which can be divided into three broad categories. These are public schemes, occupational schemes and individual schemes. The public schemes are established by Acts of Parliament. The Occupational schemes are run by employers for their employees and are underwritten by private insurance companies. The individual schemes are private schemes designed for the employed, self-employed and/ or for those in non-pensionable employment. The public schemes, occupational and individual schemes cover workers mainly in the formal sector. They form the first pillar where membership is not optional but compulsory. The Occupational schemes form the second pillar where membership is either voluntary or mandatory and are privately managed. The voluntary schemes form the third pillar where membership is voluntary. The pillars are the basis of contribution and the distribution of benefits to the retirement benefit schemes (Chitembwe, 2007).

The pension schemes sector in Kenya amounts to approximately Kshs. 200 billion, or the equivalent of 23% of Gross Domestic Product (GDP). Savings for retirement in Kenya are currently operated by statutory contributions under National Social Security Fund (“NSSF”), sponsor-led schemes and formal retirement benefit sector which covers approximately 11%

of the labour force(Kareithi, 2009). The Government of Kenya has recognised the importance of the retirement funds industry in boosting economic growth and in accelerating domestic savings which currently stands at a rate of 13%. The legal framework of the industry is governed by the Retirement Benefits Act 1997. The Retirement Benefits Authority is the regulator for the industry. The RBA objectives include rising of retirement coverage and to boost domestic savings to 25% (Kareithi, 2009).

In 1997, The Government of Kenya embarked on an overhaul of the retirement funds industry, previously plagued with the mismanagement and misappropriation of pension scheme assets. The Retirement Benefits Act was introduced in 1997 aimed specifically at regulating a market which had therefore lacked a harmonised legal framework. Under the Act, a Retirement Benefits Authority was formed with the following specific objectives (RBA Act). The first objective is to regulate and supervise the establishment and management of retirement benefit schemes. Secondly it is mandated to protect the interest of members and sponsors of retirement benefits schemes. Thirdly it aims to promote the development of the retirement benefit sector. Lastly the authority seeks to advise the Minister of Finance on the national policy to be followed with regard to the retirement benefits sector (RBA Act).

Under the Act, registered pension schemes are obliged to appoint a board of trustees, one third of whom must be elected by the scheme members, professional managers to manage the scheme assets and a custodian to hold the assets in safe-keeping. Additionally, schemes are obliged to produce audited accounts on an annual basis. Direct benefit schemes are further obliged to undergo actuarial review every 3 years. The Retirement Benefit Authority (RBA) has set guideline limits on the amount that can be invested in any particular asset class (RBA Act). The RBA is currently engaged in an education programme aimed at highlighting the need to save for retirement for the general public. Additionally, it provides trustee training workshops geared at educating trustees on their roles and responsibilities. The RBA has a dedicated website, containing important information on service providers, legislation and general information (Kareithi, 2009).

The areas of agency conflict in a pension firm are usually witnessed on the agency costs incurred. These includes; expenditures to monitor managerial activities, such as audit costs; expenditures to structure the organization in a way that will limit undesirable managerial behaviour, such as appointing outside members to the board of directors/trustees or restructuring the company's business units and management hierarchy; and opportunity costs which are incurred when members-imposed restrictions, such as requirements for shareholder/member votes on specific issues, limit the ability of investment and fund managers to take actions that advance shareholder wealth (Jensen, 2001).

The mechanisms used to resolve conflict in a firm vary depending on the firm. At one extreme, the firm's managers are compensated entirely on the basis of stock price changes. In this case, agency costs will be low because managers have great incentives to maximize shareholders'/members' wealth. It would be extremely difficult, however, to hire talented managers under these contractual terms because the firm's earnings would be affected by economic events that are not under managerial control. At the other extreme, stockholders could monitor every managerial action, but this would be extremely costly and inefficient. The optimal solution lies between the extremes, where executive compensation is tied to performance, but some monitoring is also undertaken. In addition to monitoring, performance-based incentive plans, direct intervention by shareholders, the threat of firing, and the threat of takeover mechanisms encourage managers to act in shareholders' interests (Jensen and Meckling, 1976).

Most publicly traded firms now employ performance shares, which are shares of stock given to executives on the basis of performances as defined by financial measures such as earnings per share, return on assets, return on equity, and stock price changes. If corporate performance is above the performance targets, the firm's managers earn more shares. If performance is below the target, however, they receive less than 100 percent of the shares. Incentive-based compensation plans, such as performance shares, are designed to satisfy two objectives. First, they offer executives incentives to take actions that will enhance shareholder wealth. Second, these plans help companies attract and retain managers who have the confidence to risk their financial future on their own abilities, which should lead to

better performance. In addition, there is considerable range of legislation and other regulatory pressures designed to encourage firm management to act in owners' interests for example, the Companies Act. Within these regulations, for example, in the Companies Act, the board of directors is not to be dominated by a single individual acting as both the chairman and chief executive. Also, independently minded non-executive directors should have more power to represent shareholders' interests; in particular they should predominate on decisions connected with directors' remuneration and auditing of firm's financial statements (Sappington et al, 1991).

In pension schemes, there exist several principal-agent relationships. These include; members and the board of trustees, members and fund managers, members and sponsors (who is the employer in most cases), members and custodians, members and administrators (Baker et al, 2004).

1.2 Statement of the Problem

The pension industry has grown steadily in Kenya over the last one decade. Over the decade, the government has tried to regulate Pension industry by coming up with legislations aimed at controlling mismanagement and misappropriation of pension schemes assets (RBA Act, 1997), and thus ensuring that the interests of members are well taken care of.

Agency problem in organisations has received scholarly attention but none has been focused on pension schemes despite the tremendous role they play in the economy. There are few studies conducted locally on the subject of agency problem. Amulyoto (2004) conducted a study addressing the agency problem among NGOs dealing with refugees in Kenya where he found an agency problem existed between the donors and the management of these NGOs. Simiyu (2006) on the other hand conducted an investigation of the nature of the agency relationship in public universities in Kenya. He also found that there exist various agency problems between the management, the government and students in these institutions. These problems include use of funds, priority projects among others.

Burkart, Gromb and Panunzi (1997) stated that initiative effects imply that if there were less intervention by shareholders, managers would work harder because they would be able to

pursue private benefits. They found that too much monitoring act as a deterrent to managerial entrepreneurship and in effect hinder the agents' potential to maximise shareholders' wealth.

Because the above mentioned studies have dealt with different scenarios, have identified agency problems peculiar to the particular sectors, and also the fact that there is no study done in Kenya on agency problem in Pension Schemes that the researcher is aware of at the time of writing this paper, it was therefore found necessary to study agency problems in pensions sector where the stakeholders are totally different and fill in the knowledge gap as to the agency problems pension schemes in Kenya face and the mechanisms that they use to resolve them.

1.3 Objectives of the study

The objectives of the study are:

- i. To examine agency problems in the management of pension schemes in Kenya.
- ii. To examine the mechanisms used to resolve the agency problem in pension schemes in Kenya.

1.4 Significance of the Study

The findings of this study will be beneficial to the following parties;

Management of Pension Schemes

The number of pension schemes being registered is growing year by year. The benefits that pension schemes may reap from this study are twofold. First, there will be knowledge transfer between local institutions and those from the developed world on the best practice, and how challenges brought about by the agency problem in the management of pension schemes have been addressed. The study will identify how locally incorporated pension schemes deal with the agency problems. Secondly, the new entrants will be at an advantage since they will have known the agency problems and how to resolve them before hand and will be more prepared to deal with the challenges. They will not have to re-invent the wheel.

The Government

The Kenyan government through the Retirement Benefits Authority (RBA) will be able to use the findings of this study to come up with policies that will enable the industry deal with the challenges and hence lead to growth. The government can also use the findings of this study to identify gaps existing in laws and regulations that govern the running of pension schemes and come up with regulations that will streamline the pension schemes.

Scholars and Academicians

The study will add to the existing body of knowledge on agency problem. The study will provide a useful basis upon which further studies on agency problems on related industries and sectors could be conducted.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter will begin with an examination of the literature underlying the theory of agency and then proceed to a thorough examination of the agency problem. The chapter, therefore, answers the question of what is agency problem, its assumptions, properties and the way that can be used to resolve it.

2.2 Agency Theory

Agency theory is part of the positivist group of theories which derives from the financial economics literature. It postulates that the firm consists of a nexus of contracts between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling those resources. Furthermore, agency theory is based on the premise that agents have more information than principals and that this information asymmetry adversely affects the principals' ability to monitor effectively whether their interests are being properly served by agents. It also assumes that principals and agents act rationally and that they will use the contracting process to maximize their wealth. This means that because agents have self-seeking motives they are likely to take the opportunity to act against the interests of the owners of the firm, for example by partaking in high levels of perquisite consumption (that is, perks) (Brigham and Gapenski,1993). Amulyoto, (2004) refers to this dilemma as the "moral hazard" problem.

Another type of agency problem, which arises, is "adverse selection". This occurs when the principal/owner(s) does not have access to all available information at the time a decision is made by a manager and is thus unable to determine whether managers' actions are in the best interests of the firm. Amulyoto, (2004) argues that a state of efficiency, or "pareto-optimality", exists in the contracting relationship between principal/ owners and agent/managers when neither party can enhance their wealth at the expense of the other. To ensure pareto-optimality in the contracting process, both principals and agents will incur contracting costs. For instance, to minimize the risk of shirking by agents, principals will

incur monitoring expenditures, for example the costs of subjecting financial statements to external audit scrutiny. Agents, on the other hand, incur bonding costs, for example the cost of internal audit, in order to signal to principal/owners that they are acting responsibly and in a manner consistent with their contract of employment. Such action also helps managers to secure their positions in the firm and to protect their salary levels. Indeed, Wallace argues that the principal's expenditures for monitoring agents' actions are reflected in the salary paid to the agent. Therefore, it is in the agents' interest to demand monitoring services, like internal auditing, in order to reduce the risk of principals making adverse adjustments to executive compensation.

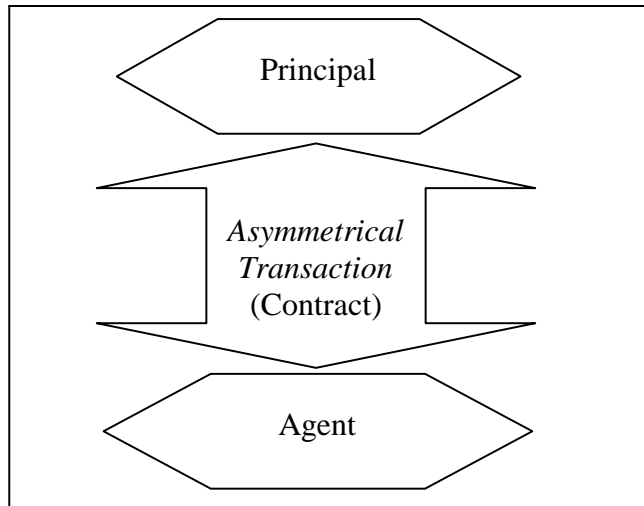
The theory of agency was first explicitly modelled by Jensen and Meckling (1976) in their study of the structure of the firm. Agency theory addresses all exchanges involving cooperative effort and delegation of work and decision making by one party (called the principal) to another (called the agent). Jensen and Meckling describe an agency relationship as a contract (implicit or explicit) in which one or more persons, (the principal(s), engage another person, (the agent(s), to take actions on behalf of the principal(s) which involves the delegation of some decision-making authority to the agent. It is taken as unquestionable that an uninformed principal can benefit from this delegation to an informed agent and that it is in fact optimal for an uninformed principal to do so given their lack of skills, information, qualifications, knowledge, and experience (Bendor, et al., 2001).

The notion of agency is widely used in economics, philosophy, legal and social sciences, albeit with different but comparable meanings (Eck and Wieringa, 2001). In law, agency is the relationship between two legal bodies where one legal body, the agent, acts on behalf of the other (the principal), and represents the other legal body towards third parties (Eck and Wieringa, 2001). In e-business, there is a similar relation between organisations and their information systems that represent them at a digital marketplace: these information systems act 'on behalf of' the organisations that deploy them. These agents are autonomous actors in an economic or legal sense. Motivations for actions may vary with a common guide found in 'self-interest' however defined (Jensen and Meckling, 1976). Critical are particular usages of 'self-interest'. Human agents autonomously choose to engage in agency relations

with principals, presumably because doing so promotes, or does not conflict with their own interests (Van Eck and Wieringa, 2001). By engaging in an agency relationship, however, an agent is bound to moral and legal rights that protect the interest of the principal through a legally enforceable contract entered into by both the principal and the agent (Van Eck and Wieringa, 2001). Neither negotiation nor strategic behaviour, however, has to stop after a contract is signed. During the execution phase of a contract, a business party may try to act as strategically as possible within the borders set by the contract.

In the simplest agency models, the organisation is reduced to these two contracting characters: the principal and the agent, as demonstrated in Figure 2.2. The principal's roles are to supply capital, to bear risk, and to construct incentives, while the roles of the agent are to make decisions on the principal's behalf and to also bear risk (this is frequently of secondary concern) (Lambert, 2002). The principal can be thought of as a representative shareholder or the board of directors and the agent, the CEO. In more complicated agency models, there can be multiple principals and/or multiple agents. Some agents can even be both a principal and an agent, e.g., in a hierarchical firm a middle level manager might be the agent of managers above him and the principal to employees below him (Lambert, 2002). In other contexts the principal and the agent could be (i) bondholders vs. shareholders, (ii) regulator vs. regulatee (iii) citizens vs. government policy makers (iv) doctor vs. patient and (v) two separate firms (Lambert, 2002). They, however, do not have equally proportionate roles. The principal and agent are an asymmetric form. Agency theory thus explores the form taken by the contracting parties and the contracts used to discipline the contracting parties. Agency theory, thus, seeks to determine the most efficient contract governing the two parties given its assumptions about the parties, organisation and information.

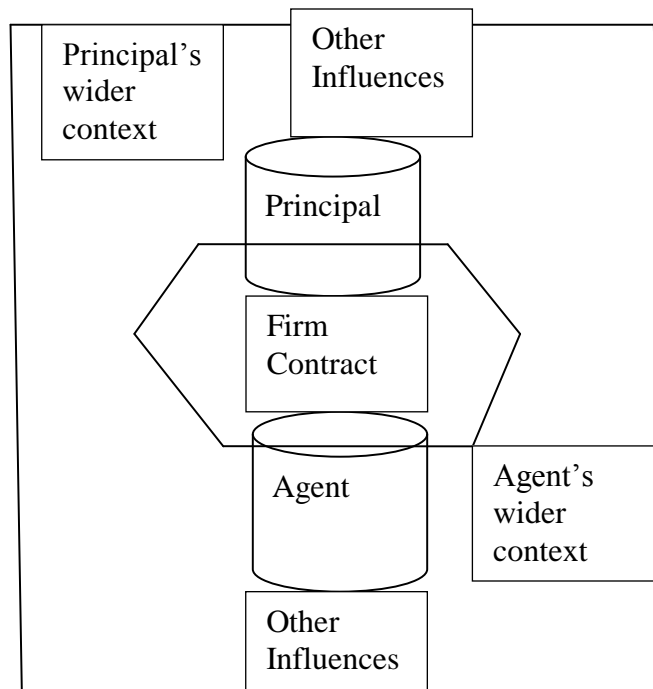
Fig 2.1: A Simplified Principal-Agent Model



Source: (Lambert, 2002)

This simplified model however ignores contextual factors which come in practical application of the principal agency model, leading to the contextual model shown in figure 2.2 below.

Fig. 2.2: Contextual Principal- Agent Model



Source: (Lambert, 2002)

Figure 2.2 above clearly demonstrates a confined examination of the principal-agent relationship and transaction. It is confined in the sense that only certain areas are examined and to limited depths. This is shown by the encircled area of the figure which is confined to examining solely the contract to the almost ignorance of the characteristics and components of the agent. The extent of this confinement is demonstrated in Figure 2.2 by the barest encirclement of the agent figure. This occurs despite the relative size and depth of the agents and principals contextual influences. Formulations in agency may be improved by considering the depth of the principal and agent to the relationship, and the transaction as objects with properties, i.e., their context, and thence examining the implications of the contextual formulations

2.3 The agency problem

The problem of information asymmetry cannot be avoided, as the agency relationship is founded upon the exact notion that brings about such an asymmetry. This is the separation of ownership and control. Consequently, no contractual provision will necessarily resolve the matter. Instead, bonding costs are incurred to minimise the costs brought about by informational asymmetry. Informational asymmetry is not the only problem perpetuated by the separation of ownership and control. The goals and risk preferences are likely to conflict between those parties who possess ownership and those who possess control. The conflict here results in what Eisenhardt (1989) terms as the agency problem, which is also demonstrated in Figure 2.2. The agency problem can be partitioned into the temporal dimensions of pre-contractual and post-contractual effects. An agency relationship exists between management (the agent) and the principal (capital providers or owners) of the firm. If the agent as well as the principal are both wealth seekers (as we accept all rational people to be) then the possibility of a conflict arises. The agent can and will take action to maximize his own wealth which will not necessarily be in the best interest of his principal.

If these types of costs are observed in an enterprise it can be deduced that the agency problem appears to be present. Where the owner of an enterprise also attends to the management thereof there can be no mention of a conflict between goals and therefore no agency problem will exist. The more ownership in the possession of people not directly

involved in the management of the enterprise, the more the possibility of conflict. To ensure that the goals of management correspond with those of the shareholders, the latter can institute certain incentive measures or monitoring steps. This will however have certain cost implications with an accompanying detrimental effect on wealth of the owners. The cost will be at its highest if all actions of management are monitored. This type of cost should only be incurred if the benefits derived are higher than the cost incurred. Brigham & Gapenski (1993) defines agency cost as all costs borne by shareholders to encourage managers to maximize shareholder wealth rather than act in their self interest. Types of agency cost which can be identified include monitoring, structuring, opportunity and guarantee or insurance cost.

2.4 Management of Pension Schemes

The agency theory suggests that the separation of ownership and control in firms creates conflicts of interest between the firm's shareholders and managers. This is mainly because managers have the opportunity to use the resources of the firm in ways that benefit themselves personally to the detriment of shareholders' wealth maximisation. Pension schemes with very few exceptions are not resourced to manage all their activities in-house. So they employ 'agents' in both advice roles (e.g. investment consulting) and delegated roles (e.g. investment managers). This exposes them to the 'agency problem' that agents' interests may not coincide with those of the fund (Fields and Tirtiroglu, 1991). If opportunity allows, one of the most straight forward opportunistic actions agents can take is to surreptitiously shift expenses, which they would normally bear, onto the principal.

The major issue is that pension funds' goals are tied to paying pensions, whereas agents may be more interested in managing their business in line with their own objectives. Furthermore, pension funds tend to use a wide array of professional firms because of the complexity of their activities and the interaction of a number of agents may not make up a cohesive 'team'. The result has been that the costs of employing agents have been high. The share-ownership problem is the second problem of the current investment system. Pension funds have had good reasons to own equities but this view is complicated by what is meant by this 'ownership' (Steward, 1990).

With individual ownership dominant, as was the case in the past, ownership and control were combined. Now that institutional investment is dominant, the ownership interest tends to be more diffused and is often fuzzy. With pension funds, the legal ownership lies with the trustees but their preparedness or capacity to act as influential owners is limited. Furthermore, pension fund liabilities and assets could be considered as an extension of the company's balance sheet, in which case the shareholders of the sponsoring company should be seen as the ultimate owners. However, many of these shareholders are themselves pension funds members. Ownership influence could be exercised by the investment managers but only with explicit instructions from their clients, an approach rarely followed to date. The point here is that if it is unclear who the owners are, they are unlikely to be able to maximise the return on their assets. They may be letting agents (like the managing executives who have become steadily more influential over the years) take too much of the return (Rappaport, 1986).

There is also a systemic difficulty in that the fee bases and incentives in the investment industry are not perfectly aligned to get agents working effectively for their clients' interests. For a consultant, the time charge basis does not provide good incentives to be efficient. There are issues about how the work is done including how the research necessary is completed and such a basis can produce 'ambulance chasing' behaviours. Retainer pricing would generally work better but is difficult to operate effectively. In addition a consultant may find it more profitable selling a product like fund of funds management than giving advice, which undermines independence of advice. It is true that the discipline of the market and market pricing act as controls but in a concentrated market that control is limited (Committee on the Global Financial System, 2003).

Moving on to managers, within the last two decades, investment management has evolved from a profession into a business that is engaged in manufacturing relative returns. That may involve some misalignment because pensions are ultimately paid with absolute returns and in aggregate, there can be no positive relative return, only the market return less fees and costs. As for fees, basing these on the value of assets under management acts as an incentive to

gather assets, which is often at tension with good performance, which thrives on diseconomies of scale. This has led to excess capacity, as evidenced by product proliferation. Brokers also have an incentive problem, which is, of course, that they make money on asset turnover. This is not diametrically opposed to pension funds' interests, but it is close (Masson, 1971).

2.5 Principal-Agent Relationships in Pension Schemes

Pension schemes are complex institutions, which have various interrelated stakeholders. These are employers (sponsors), employees (members), trustees, custodian managers and investment managers. All these stakeholders have their own interests. The employees being members want their contributions to be remitted in time by the sponsor, safeguarded by the trustees and the custodians and being invested in viable investments by the investment managers. The interest of members should supersede the other stakeholders' interests, but this is not always the case as the other parties may choose to pursue their interests at the expense of the pension schemes' members' interests. The board of trustees of the pension schemes represent the employees and they are elected by members to manage the funds by coordinating the activities of the appointed professional managers i.e. investment managers, custodians and administrators. The board of trustees are charged with the responsibility of ensuring sustainability of the pension schemes. They are expected to ensure the members' contributions are kept in safe custody and invested in approved investments to enable efficient payment of benefits when a claim is placed (RBA, 2004). A trustee who misappropriates trust funds is liable for his breach of trust (Mwangangi, 2006). The fund administrators on the other hand are required to ensure that all the records of the scheme are properly maintained and they can be relied upon. Thus from the foregoing, the following principal-agent relationships exist in pension schemes; members and the board of trustees, members and investment managers, members and sponsors (who is the employer in most cases), members and custodians, members and administrators (Baker et al, 2004).

2.6 Resolving Agency Problem

There are various methods that can be used to resolve agency problems. The aim of these activities is to minimise the agency costs. Among those methods that can be used in the

pension industry include tracing. The legal process of tracing may be applied to recover the trust property misappropriated by trustees. Tracing is the process of identifying property in the hands of another. It is a remedy available under Common Law and Equity. Equitable tracing offers greater flexibility than Common Law tracing. For example, the right to trace under Common Law can be lost when funds are mixed. However, Equitable tracing, is possible even in cases where misappropriated funds are paid into a bank account containing other funds, or where other forms of mixing occur (Mwangangi, 2006).

Equitable tracing requires the existence of a fiduciary relationship. This is a relationship of utmost good faith. In the relationship, the fiduciary has an onerous duty to act in the best interest of the person to whom the duty is owed, and not to position himself where there is possibility of a conflict of interest. This requirement is automatically satisfied in cases involving breach of trust, since trustees owe a fiduciary duty to the trust beneficiaries (Mwangangi, 2006). Once property has been traced (identified), the next question to be tackled is the nature of the available remedy. If a proprietary interest can be shown, the claimant will be entitled to treat the property, or an appropriate part thereof, as his own. This is known as a 'proprietary remedy'. Proprietary remedies are superior to personal remedies since they are capable of surviving the insolvency of the defendant. They also allow the claimant to benefit from any increase in value of the misappropriated property. Beneficiaries have an equitable proprietary interest in trust property. This means that if a trustee misappropriates trust funds, the proprietary interest will attach to any property wholly or partially purchased with trust funds, provided the right to trace has not been lost (Mwangangi, 2006).

Other ways of resolving the agency problem is through arrangements, such as; boards of directors audit committees, inspector generals' offices, professional society ethics committees, and government regulatory bodies which, are put in place for detecting and then punishing extreme dereliction of duty, either by simply firing and disgracing (or perhaps de-licensing) the unworthy agent or possibly by aggressively pursuing civil or criminal penalties through the courts.

The agency costs can also be reduced through the improvement in the information flow. The accounting profession, the stock exchange, the regulating agencies and the investing public are continuously conducting a battle to encourage or force firms to release more accurate, timely and detailed information concerning their operations. An improved quality of corporate accounts, annual reports and the availability of other forms of information flowing to investors and analysts such as company briefings and press announcements help to monitor firms, and identify any wealth-destroying actions by wayward managers early. In addition, there are regulations that are in place and they are geared towards improving corporate governance. There is a considerable range of legislation and other regulatory pressures (e.g. the Companies Act) designed to encourage directors to act in shareholders' interests. Within these regulations for example, the board of directors is not to be dominated by a single individual acting as both the chairman and chief executive. In order to ensure that the agent acts purely in the interest of the principal, employment contracts that cater for the interests of both the parties have to be written. Individual contracts form a major method of restructuring incentives, by connecting as closely as is optimal the information available about employee performance, and the compensation for that performance.

2.7 Value Maximization and Stakeholder Theories

Value maximization theory is a theory concerned with the management principles and states that the management of firms should first and foremost consider the interests of shareholders in its business decisions; that is; increasing shareholders' wealth (Rappaport, 1986). Value maximization theory recognizes that communication with and motivation of an organization's managers, employees, and partners is extremely difficult. Nevertheless, no value can be created without good relations with customers, employees, financial partners, suppliers, regulators, and the community at large. In fact, value maximization is not a vision or a strategy or even a purpose, it is the scorecard for the organization (Prahalad, 1994). Value maximization in organizational life does not illustrate how to have a great defense or offense, or what kind of plays to create or practice, or how much to train and practice, or whom to hire. All of these critical functions are part of the competitive and organizational strategy of any organization (Rappaport, 1986).

Adopting value creation as the scorekeeping measure does nothing to relieve the managements of firms their responsibilities. Thus adequate organizational structure is essential to understand what maximizing value means so as to be able to achieve it. This means, for example, that the managers should be given structures that that will help them resist the temptation to maximize the short-term financial performance (profits, or earnings per share) of the organization. Such short-term profit maximization is a sure way to destroy value. Value maximizing helps the participants in an organization on how they will assess their success in achieving a vision or in implementing a strategy. However, value maximizing does not stipulate on how to create a superior vision or strategy or how to establish initiatives or ventures that create value, but rather how to measure success in the activity (Jensen, 2001).

The stakeholder theory is a theory of organizational management and business ethics that addresses morals and values in managing an organization (Phillips et al, 2003). The stakeholder theorists postulates on how to lead managers and participants in an organization to be able to think more generally and creatively about how the organization's policies treat all important departments of the firm. This includes; financial markets, employees, customers, suppliers, and the society in which the organization exists. Stakeholder theory states that the objective function of the firm is to maximize the total long-term firm market value. Hence, changes in total long term market value of the firm are the scorecard by which success is measured (Jensen, 2001).

The market is usually inevitably ignorant of the organization's actions and opportunities in the short run. The firms' management is obliged to resist the temptation to conform to the pressures of equity and debt markets when the markets do not have this private competitive information (organization's actions and opportunities). In this way, although stockholders are not some special constituency that ranks above all others, long-term stock value is an important determinant (along with the value of debt and other instruments) of total long-term firm value. Consequently, value creation gives management a way to assess the tradeoffs that must be made among competing interests, and that it allows for principled decision making, independent of the personal preferences of managers and directors. Importantly, managers and directors also become accountable for the assets under their control, because the value

scorecard provides an objective yardstick against which their performance can be evaluated (Jensen, 2001).

2.8 Empirical Studies

Starting with the seminal work of Jensen and Meckling (1976), the principal–agent problem has found considerable attention in empirical reviews on the financing of organisations. First according to several authors (Morck, et al. 1990, Lang et al. 1995 and Walking and Long, 1984), the incentive of managers rather than the benefits of shareholders appear to drive the decision with respect to firm acquisitions, asset sales and takeover resistance. Similarly studies by Brickley et al., 1991; Lafontaine, 1992 and Shepard, 1993 have inferred that contractual arrangements and ownership structures among various firms have found corroborating evidence for moral hazard problems.

Agency problems between shareholders and management are influenced by the presence of debt financing, thereby leading to a distinct strand of theories for corporate financial behaviour. Based on the work of Jensen and Meckling (1976) and Jensen (1986), Stulz (1990) was first to develop a formal model showing that the optimal capital structure can be determined endogenously in the presence of over investment incentives. Similarly, Berkovitch and Kim (1990), Hart and Moore (1995), and Zwiebel (1996) show that debt can provide incentives that mitigate agency problems. The basic argument is that managers tend to over invest and that debt will decrease the cash available for investment and therefore force the managers to concentrate on the most promising projects. At the same time, because they have the incentive to over invest, managers can no longer credibly convince shareholders that they have more promising investment opportunities than budgeted for, leading to underinvestment. Although debt cannot be used to make agency problems disappear, an endogenously determined capital structure can be found that minimizes over- and under investment problems simultaneously.

Rappaport (1986) and Steward (1990) report in detail regarding the shortcomings which earnings per share and other accounting ratios have in evaluating company performance. Cohen & Uliana (1990) mentioned the excessive levels of management remuneration,

shirking, the appropriation of corporate resources in the form of perquisites, avoiding investing corporate resources in potentially profitable ventures, the pursuit of sales growth at the expense of profit, empire building, employee welfare objectives and manipulation of dividend policy as costs which stem from this conflict situation. Burkart, Gromb and Panunzi (1997) stated that initiative effects imply that if there were less intervention by shareholders, managers would work harder because they would be able to pursue private benefits. As assumed in many corporate governance models, managers' incentives may differ from shareholders'. Managers obtain non-verifiable private benefits from projects, while shareholders receive monetary returns. Their interests diverge, but not completely.

Fields and Tirtiroglu, (1991) recommended that trustees and their agents alike need to work harder to understand the motivations, incentives and alignments of interest in the investment industry. Remuneration is a powerful tool, and trustees should exercise more control over what they spend and where they spend it. That will necessitate a rethink of how to act. Pension funds need to gain the upper hand in their delegations if they want good value from the agency relationship. Nikkinen and Sahlström (2004) found empirical evidence that agency theory can be used, at least to some extent, to explain financial audit fees internationally. Empirical research analyzing intra-firm agency problems in multinational enterprises is scarce. Boardman et al. (1997) have shown that higher accounting performance of subsidiaries can be attributed to them being mostly closely held corporations with only few or no external owners. Kim, Rhim and Kang (2009) found that the design and administration of a firm's pension fund affects the firm because of the size and risks of the pension fund. The degree of funding of a defined benefit plan affects the value and risk of a company's common shares. They explained leverage, dividend policy, ownership structure, and pension funding using several independent variables that, based on agency theory, should affect these policies. The results are significant and reinforce the notion of simultaneous determination of corporate policies

Agency theory also allows deriving implications for the maturity of debt financing. Agency costs of debt financing are a result of inefficient exercise of future investment opportunities. On the one hand, they can be minimized using lower debt levels. On the other hand, only

those investment opportunities influence agency costs of debt that are expected to be exercised within debt maturity (Myers, 1977). Barclay and Smith (1995), show that firms that are facing higher agency costs of debt therefore face a shift from long-term to short-term debt financing. Paul and Michael (2003) show that the financial intermediaries spread significantly reduces the value of the pension fund over longer holding periods, and implies significantly greater incentives conflicts for defined contribution-funded pension funds than for defined benefit-funded pension funds. The intermediary spread significantly reduces the average net return provided to individual investors, particularly for defined contribution pension funds. Agency-related factors affecting the demand for financial intermediary reputation and its marginal fee reflect underlying contract-based differences between these types of funds.

Hess and Impavido (2003) found that those funds with more 10 percent of their portfolio in equities were more likely to provide their trustees with written conflict-of-interest rules. In addition, these funds operated more transparently: they are more likely to have written disclosure rules and more likely to regularly produce independent external audits and actuarial reports. These differences suggest that funds recognize the potential for agency problems when investing in equities and the need for governance mechanisms to prevent these problems. For example, with equity investments there is a greater chance that trustees may purchase securities from individuals or businesses with which they have financial or political ties. In response, pension funds may adopt conflict-of-interest rules to mitigate this problem. Such rules would be not as necessary if the funds could be invested more heavily in government bonds. Interestingly, the funds with more equity investments had significantly fewer elected trustees. One possible explanation for this finding is that such funds favour the appointment of trustees as a means of ensuring that the board has the expertise necessary to invest in equities. Overall, developing an understanding of agency theory and the various mechanisms that can control the agency problems that potentially exist in public pensions would enable pension fund sponsors to adopt the optimal governance tools at the lowest administrative cost.

Lastly despite several factors existing in the mutual funds industry which should have curbed opportunistic behaviour in the industry, Siggelkow (1999) found evidence of fund providers shifting expenses, which they would normally bear, onto fund shareholders. Overall, developing an understanding of agency problem and the various mechanisms that can control the agency problems that potentially exist in pension scheme would enable pension fund owners to adopt the optimal governance tools at the lowest administrative cost.

2.9 Conclusion

From the literature reviewed it has emerged that the problem of agency involves uncertainty as to how the agent will behave and the principal cannot be sure that the agent will behave with his/her interests in mind because of certain human, organisational and informational assumptions. It has also come out that there are various ways of resolving agency problem in organisations such as tracing, audit committees, firing, and government regulation among others.

The literature available has not specifically addressed agency problem in pension schemes and also most of the literature available is foreign, that is it is not based on the Kenyan set up. Further, the agency problems resolution mechanisms mentioned above are not peculiar to pension schemes as the agency relationships in pension schemes are diverse due to the many stakeholders involved in their management. This study has therefore focused on agency problems in pension schemes in Kenya to fill on the knowledge gap on agency problems that are peculiar to pension schemes and also determine the strategies that are used to resolve them.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter deals with way the research was carried out. The research design used in this study is explained in detail. The population of study, the sampling method and sample population are also explained herein. The chapter also deals with the way in which data was collected as well as the data analysis methods used.

3.2 Research Design

The research used a descriptive survey method to assist the researcher to achieve the objective of the study. The descriptive research design was appropriate for the study as it allowed the researcher to find the mechanisms used to resolve agency problem in pension schemes in Kenya.

3.3 Population

The population of the study consisted of all pension scheme members, all pension schemes and fund managers registered by RBA in Kenya. There are one thousand three hundred and fifty nine (1359) retirement benefit schemes and sixteen (16) fund managers registered by RBA as per the RBA Annual Report, 2007. The RBA annual report for 2007 was used because it is the latest published report at the time of doing the study.

3.4 Sampling Design

Simple Random Sampling technique was used. In random sampling, each element in the population has an equal opportunity of selection. The sample comprised of Thirty Five (35) pension schemes. In order to select the sample, a list of all the pension schemes per the RBA annual report, 2007, was prepared and the names of the pension schemes arranged alphabetically. Numbers from 1 to 1,359 were assigned to the names. Then random number tables was used to select the pension schemes to be used in the study. The first four digits of the random number table formed the number of the pension scheme to be chosen. Any

number greater than 1,359 was ignored until the desired sample of the pension schemes was selected. In addition, the sample comprised of all the sixteen (16) investment managers who, represented the professional managers hired by the board of trustees to manage the funds of the pension schemes. One member of the board of trustees was administered with the questionnaire from each selected scheme. For each fund manager, one manager was administered with the questionnaire. Further, one hundred and forty (140) members of pension schemes i.e. four members from each of the sampled pension schemes were administered with the questionnaire.

3.5 Data Collection

The study used primary data. Primary data was collected using three sets of semi-structured questionnaires. The questionnaires were administered using the drop and pick later method. In instances where distance was prohibitive, questionnaires were mailed with self addressed and stamped envelopes to encourage them to reply. One set of questionnaire was addressed to a member of the selected pension scheme, one set addressed to a member of board of trustees of the selected schemes, and the third set of questionnaire was addressed to the managing director (or his appointee) of the fund management company.

3.6 Reliability and Validity of Data

Before processing the responses, the completed questionnaires were checked for completeness and consistency. A pilot study was done to test the validity and reliability of the data and data collection tool. The pilot study pre-tested ten members of pension schemes, five board of trustees' respondents and three fund manager respondents who were not part of the earlier respondents, to ascertain the validity and reliability of the collected data.

3.7 Data Analysis

Data was coded and analysed using descriptive analysis with the aid of Statistical Package for Social Sciences (SPSS). Descriptive statistics especially mean scores were used to establish the agency problem in pension schemes in Kenya. The results were presented using tables, graphs and charts for ease of understanding.

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter gives a detailed analysis of the data collected using the questionnaires and presents the findings. Further, it gives the implications of the findings. The chapter has been divided in to three parts representing the different respondents who were served with questionnaire; that is pension scheme members, members of board of trustees' and fund managers. A total of 150 respondents responded positively out of the total sample of 191 giving a response rate of 79%. The data has been analyzed and presented in form of frequency tables, percentages and charts.

Table 4.1: Analysis of Respondents

Category	Sample selected	Usable Respondents	Usable respondents as % sample selected
Members	140	105	75%
Members of Board of Trustees	35	33	94%
Fund Managers	16	12	75%
Total	191	150	31%

The rest of this chapter presents the findings and interpretation of findings of the study.

4.2 Analysis of responses from fund managers

This section deals with the analysis of responses to the questionnaire that was sent to fund managers. The questionnaire aimed at identifying the various problems encountered in the management of the pension Scheme funds from the perspective of fund managers. The study

managed to get responses from 12 out of 16 fund managers which translate to 75% response rate.

4.2.1 Extent to which fees charged on the pension schemes is based on the given parameters

The study aimed to establish the extent to which fees charged on the pension schemes was based on several parameters which include; volume (number) of investments, value of investments, time spent and returns on investment. Data was analyzed on a scale of 1 = Not at all to 5 = Very great extent. The results were analyzed in frequencies and percentages and are tabulated below:

Table 4.2: Extent to which Fees charged on Pension Schemes is based on various Parameters

Parameter	Not at all		Much less extent		Less extent		Moderate extent		Great extent		Very great extent	
	F	%	F	%	F	%	F	%	F	%	F	%
Volume(Number)of Investments	5	42	1	8	1	8	2	17	2	17	1	8
Value of investments	1	8	1	8	0	0	0	0	4	33	6	50
Time spent	2	16	1	8	1	8	2	25	3	25	4	33
Return on investment	1	8	1	8	6	50	0	0	3	25	1	0

From the table above, most investment firms base their fees on value of investments to a very great extent (50 percent) followed by 33 percent who base the fees on time spent. 50 percent base their fees on return on investment to a less extent while 42 percent base their fees on volume of investments to no extent. Other parameters stated include degree of maturity of investments and others stated that the fees were arbitrarily determined based on the financial capability of the client.

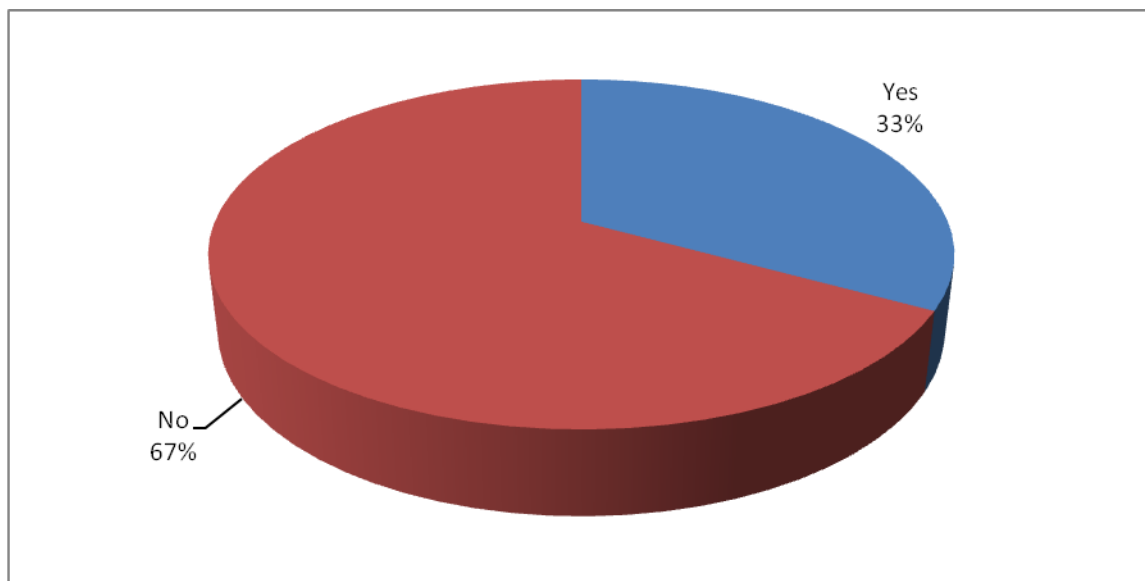
4.2.2 Problems encountered in management of pension schemes

The study aimed to establish the various problems that fund managers encounter in management of pension schemes' funds. Most of the respondents stated the following problems; insufficient knowledge on the part of clients, non-discretionary mandates, lack of liquidity in local markets, conflicting regulatory requirements and limited investment options. They also stated that there are problems of illiquidity in the stock/debt market, regulatory factor limitations and volatile stock prices.

4.2.3 Influence of Board of Trustees on how and where to invest Schemes' funds

The study aimed at establishing whether pension schemes' Board of trustees influence the institutions on how and where to invest the schemes' funds. The results are as shown below:

Figure 4.1: Influence of Board of Trustees on Schemes' Funds

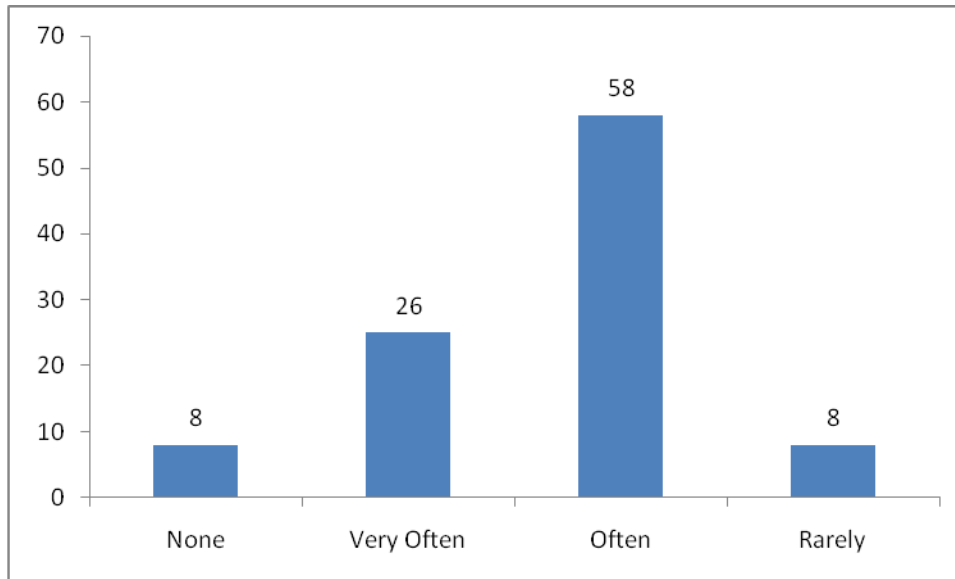


Data presented in the figure above shows that in majority of the firms, the board of trustees do not influence how and where to invest the schemes' funds (67 percent) while in 33 percent of the firms, the board of trustees influence how and where to invest the schemes' funds. This indicates that the board of trustees' members are not very competent in analysing the investments market so that they can decide where the pension schemes' funds should be invested. This therefore creates necessity for the members to ensure that the board of trustees' members are well informed in investments.

4.2.4 Consultation by the board of trustees

The aim here was to determine how often the fund managers are consulted by the board of trustees on pension schemes' issues.

Figure 4.2: Consultation by the Board of Trustees

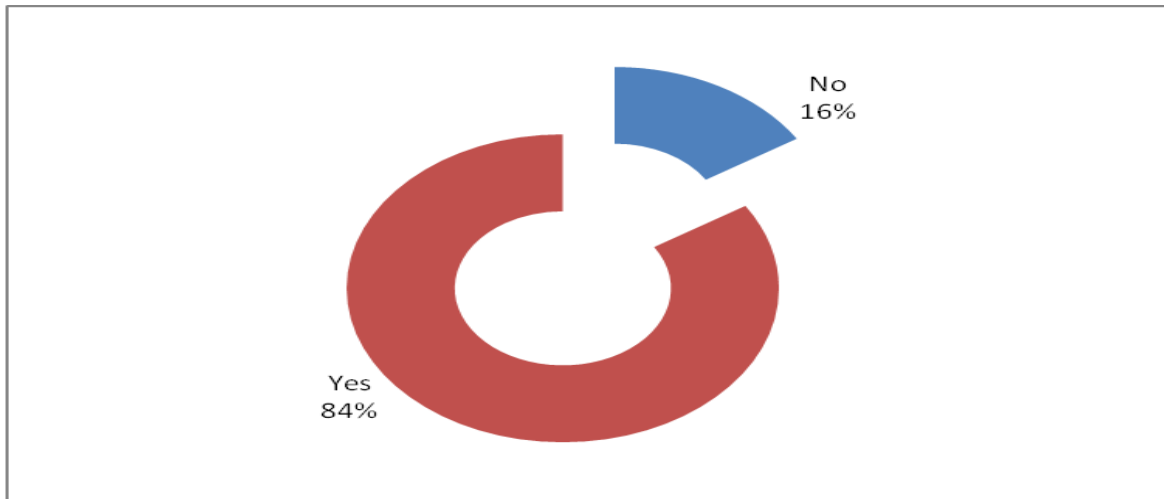


Results from the graph above show that majority; 58 percent of the fund managers are consulted often by the board of trustees while 26 percent are consulted very often and 8 percent are consulted rarely. On the issues on which fund managers are consulted on, they stated the following issues namely; asset allocations, compliance issues, investment strategies and investment performance. In addition, they are consulted on issues regarding investment opportunities and market returns. When enquired on whether their recommendations are taken seriously and acted upon by the boards of trustees, all the respondents agreed that the boards of trustees took their recommendations seriously. This is attributed to the fact that fund managers provide investment advice/information on the current developments in various asset classes. Also, the board meet regularly with the investment managers to review the status of the schemes' investments. It also came out clearly that there is constant communication between the board of trustees and fund managers regarding the management of pension schemes' assets.

4.2.5 Urgent Decision concerning investment opportunities

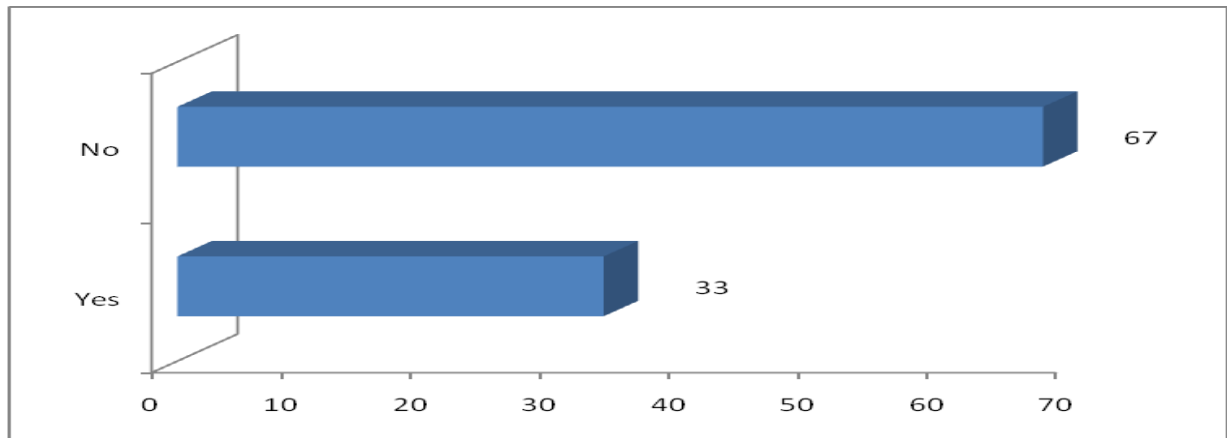
The study aimed at establishing the respondents' view on whether the fund managers are allowed to make urgent decisions on their own concerning investment opportunities needs without consulting the board of trustees of pension schemes.

Figure 4.3: Urgent Decision concerning Investment Opportunities



Results shown on the diagram above indicate that majority of the fund managers are allowed to make urgent decisions concerning investment opportunities needs (84 percent) while 16 percent are not allowed. When enquired on their feelings concerning such situations, the managers stated that it was good for pensioners because they have confidence in the investments industry while other managers stated that it is acceptable as long as it is captured in the investment mandate given to them by the schemes. In addition, other fund managers consider it positively because it would lead to more investment opportunities. On the issue whether such situation has arisen in the firms, most managers (67 percent) stated that it has not arisen while 33 percent stated that in their firms such situation has arisen in the past. The results are as shown below:

Figure 4.4: Whether such situation has arisen in your firm



4.2.6 Recommendations to address agency problem in pension schemes

The fund managers mentioned a number of recommendations to address agency problem in management of pension schemes' funds. These include that CMA and RBA should harmonize their supervisory roles and organise continuous education for all the stakeholders. They also stated that members of pension schemes and sponsors should appoint/elect well informed members of boards of trustees. Other recommendations stated are that the regulatory bodies should enhance education of the public on importance of pension schemes and also that fund managers should involve members of the board of trustees of pension schemes in management /investment of pension funds more.

4.3 Analysis of responses from members of board of trustees

This section deals with the analysis of responses to the questionnaire that was sent to members of the board of trustees. The questionnaire aimed at identifying the various problems encountered in management of the pension schemes from the perspective of members of boards of trustees. The study managed to gather information from 33 out of the 35 members of the board of trustees sampled which constitute 94% response rate.

4.3.1 Problems encountered in management of pension schemes

Members of boards of trustees mentioned various problems encountered in management of pension schemes which include: poor AGM attendance, lengthy time of decision making, delay in the remittance of pension contributions, and poor investment of pension schemes

funds by fund managers. Other challenges faced include; delay in production of members' account statements, lack of information from service providers and lack of adequate investments knowledge by some members of boards of trustees.

4.3.2 Actions to be approved by Members

Members of board of trustees were required to state the actions that members must approve at annual general meetings. The results are illustrated in table 4.3 below:

Table 4.3: Actions to be approved by Members

Action	Frequency	Percentage (%)
Others	9	27.3
Budget	21	63.6
Investment Decisions	3	9.1
Total	33	100.0

The most important decision that has to be approved by members in an annual general meeting (AGM) is the budget as illustrated by 63.6% of the respondents followed by investment decisions as shown by 9.1% of the respondents. Other decisions that members must approve include; analysis, adoption and proposition of the way forward for the investment statement, adoption of annual accounts and approval of trustees' remuneration/sitting allowance.

4.3.3 Promptness of receipt of Pension Contributions

Members of boards of trustees were required to state how prompt the contributions from members and sponsors are received from the sponsor (employer) and the results are illustrated in figure 4.5 below:

Figure 4.5: Promptness of receipt of Pension Contributions

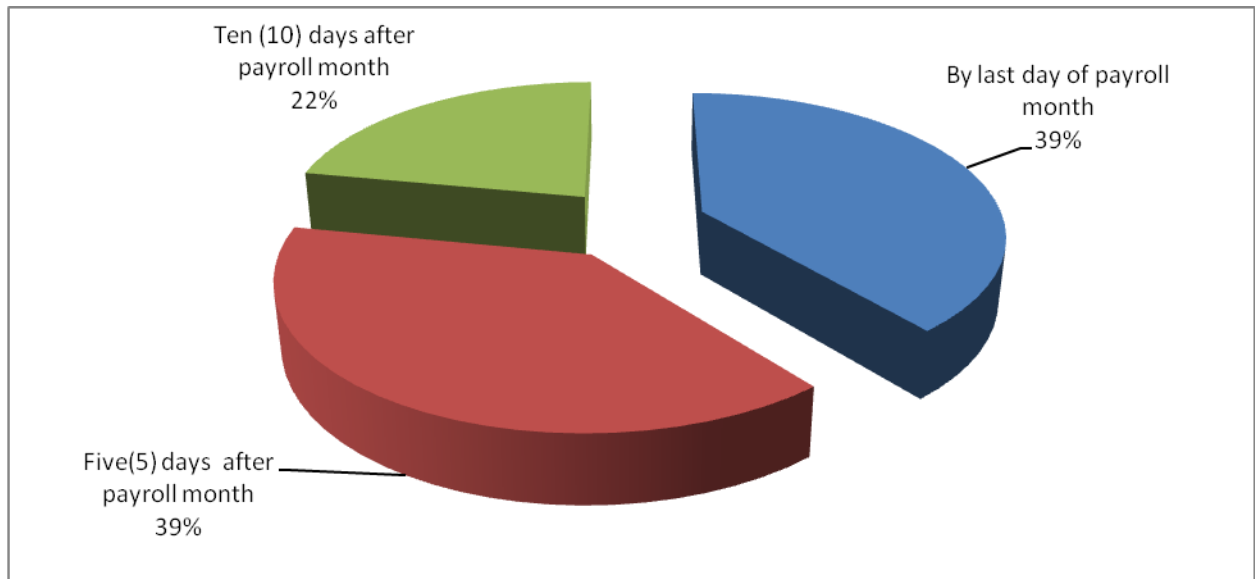
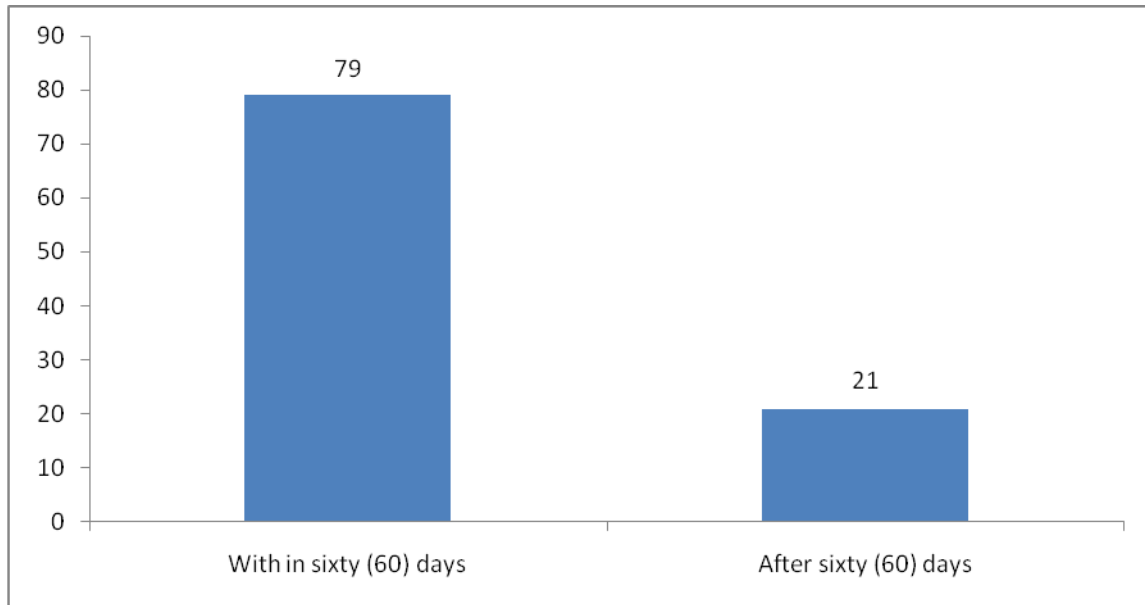


Figure 4.5 shows that in 39% of pension schemes, contributions are received five days after payroll month and in 39% of the schemes contributions are received by the last day of payroll month while in 22% of schemes the contributions from members and sponsors are received ten days after payroll month. This implies that 61% of the employers hold funds meant for pension schemes to improve their liquidity as the contributions should be paid to pension schemes when salaries are paid because they are payroll deductions.

4.3.4 Promptness of payment of funds to withdrawing members

Members of boards of trustees were required to indicate how prompt pension schemes pay withdrawals to members. The question gave the members of board of trustees' only two options to select from: that is within sixty days and after sixty days after cessation of membership from the pension scheme. This is because Retirement Benefits Authority (RBA) Act requires payment of funds to withdrawing members should be paid within sixty days from the date of cessation of membership. The results are shown below:

Figure 4.6: Promptness of payment of funds to withdrawing members

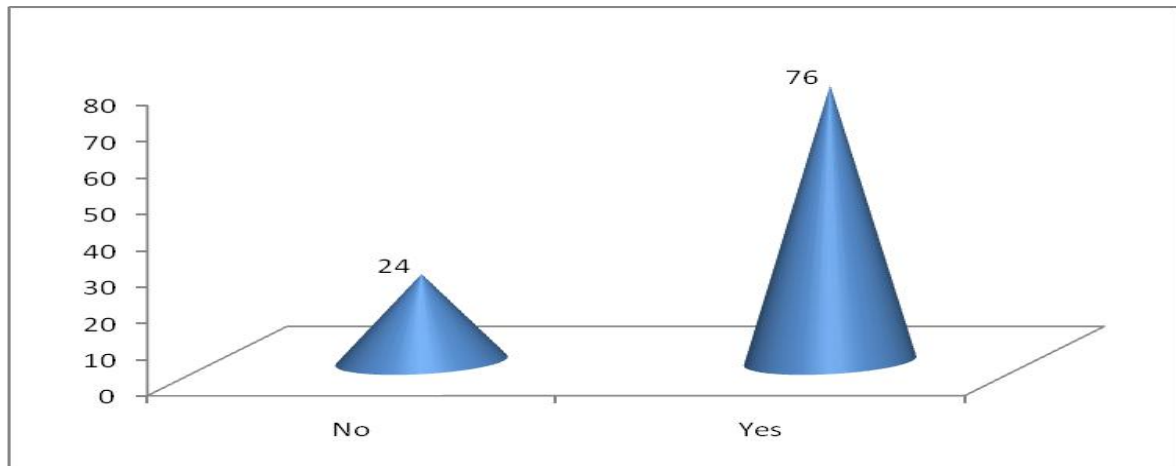


In most pension schemes comprising of 79% payment of funds in respect to members who have terminated membership from pension schemes withdrawals is done within 60 days while in 21% of the pension schemes involved in the study, payment of withdrawals is finalized after 60 days. This implies that in 21% of pension schemes, payment of funds to withdrawing members is delayed beyond the statutory time limit and this is of great concern to members of pension schemes and the regulatory agencies.

4.3.5 Presence of written investment policy

Members of board of trustees were required to state whether written investment policy exist in their pension schemes. Figure 4.7 illustrates the findings:

Figure 4.7: Presence of written investment policy



76% of pension schemes involved in the study have written investment policy while 24% do not have written investment policy. This implies that in 24% of the pension schemes, investment decisions of pension schemes' funds could be arbitrarily done which is very dangerous for pension schemes' members as it can easily lead to massive loss of pension schemes' assets.

4.3.6 Use of Professional Investment Advisors in developing Investment Policy

The study sought to find out from the pension schemes whether they seek the services of professional investment advisors when developing an investment policy.

Table 4.4: Use of Professional Investment Advisors in developing Investment Policy

Use of professional investment advisors	Frequency	Percentage (%)
No	4	12
Yes	29	88
Total	33	100

For the pension schemes involved in the study, 88% seek the services of professional investment advisors while 12% do not when developing their investment policy. This is positive as it indicates that majority of pension schemes use professional managers in developing investment policies.

4.3.7 Pension Schemes' Investment Managers

In this section, the researcher sought to find out the investment managers for the pension schemes involved in the study. Only 29 of the respondents answered this question and therefore the other 4 respondents were taken not to know who the investment managers for their schemes are. The results are as tabulated below:

Table 4.5: Pension Schemes' Investment Managers

Investment manager	Frequency	Percentage (%)
Co-op trust investment service ltd	3	9.1
Genesis Kenya limited	6	18.2
ICEA	13	39.4
OMAM	3	9.1
Stanbic Investment Management	4	12.1
Do not Know	4	12.1
Total	29	100.0

From the table above, ICEA Asset Management Ltd is the investment manager for 39.4% of the pension schemes involved in the study, Genesis Kenya limited is the manager for 18.2% of the pension schemes while Stanbic Investment Management Kenya Ltd is in-charge of 12.1% of the market share. Co-opTrust Investment Services Limited and Old Mutual Asset Managers (OMAM) had 9.1% of the market each while 12.1% of the respondents do not know who their investment managers are.

4.3.8 Appointment of Investment Managers

Members of boards of trustees were required to state the persons who appoint the investment managers and the results are tabulated below:

Table 4.6: Appointment of Investment Managers

Appointment of investment managers	Frequency	Percentage (%)
Both Sponsor and members	10	30.3
Members	13	39.4
Sponsor/Employer	10	30.3
Total	33	100

The findings indicate that members of the scheme are the appointing authority in 39.4% of the pension schemes involved in the study, while in 30.3% it is both the sponsors and the members and in 30.3% it is the sponsor/employer. This implies that in 30.3% of pension schemes, members are not consulted and this is dangerous to them should the sponsor (employer) decide to ignore their interests.

4.3.9 Opportunity Cost

The study sought to find out from the members of board of trustees if in their opinion there is an opportunity cost which occurs as a result of complex, slow and cumbersome decision making process. The results are tabulated in table 4.6 below:

Table 4.7: Opportunity Cost

Existence of opportunity cost	Frequency	Percentage (%)
No	18	54.5
Yes	15	45.5
Total	33	100.0

From the table above, 54.5% of members of boards of trustees indicated that there is no opportunity cost while the remaining 45.5% indicated that there is an opportunity cost incurred as a result of bureaucratic decision making process of. This implies that 45.5% of pension schemes lose value because of bureaucratic decision making process and this needs to be addressed.

4.3.10 Purchase of Asset from Sponsor

The members of boards of trustees were required to state whether their pension schemes have ever purchased an asset from the sponsor/employer. This was aimed at establishing whether there could have been an instance of direct conflict of interest between the pension scheme and the sponsor as the scheme would ideally try to minimise expenditure while the sponsor would ideally try to maximise the sale proceeds. All the members of board of trustees said that their pension schemes have never purchased an asset from the employer/sponsor. In addition, the respondents also indicated that to the best of their knowledge, the scheme has never lost funds, and therefore no scheme investment manager or scheme administrator or custodian has ever been removed from office. This implies that pension schemes have not lost funds to dishonest managers.

4.3.11 Strategies for Resolving Agency Problem

The members of board of trustees were provided with a list of common strategies to resolve the agency problem and they were required to state the extent to which their firms have used them. In addition, they were required to state any additional strategy not included in the list but used by their scheme and also state the degree to which it is used. The results are tabulated below:

Table 4.8: Resolution of the Agency Problem

Strategy	Not at all		Small extent		Moderate extent		Great extent		Very great extent	
	F	%	F	%	F	%	F	%	F	%
Fire/sack	27	81	0	0	3	9	3	9	0	0
Enter into a Performance contract	14	42	3	9	3	9	9	27	0	0
Form investment committee	17	52	3	9	3	9	10	30	0	0
Special audits	10	31	7	21	3	9	3	9	0	0
Other (Please specify)	0	0	0	0	0	0	0	0	0	0

From table 4.8, sacking is not used at all by 81% of the pension schemes involved in the study while use of performance contracts is used to a great extent by 27% of the respondents, while 42% do not use it at all. Investment committees are used to a great extent by 30% of the respondents while 52% do not use it at all and special audits are not used at all by 31% of the respondents while 21% use it to a small extent. The respondents in addition proposed other various ways to resolve the agency problem and these include; provision of information on their rights and the benefits they are expected to derive from the schemes, regular reporting by the schemes as well as consultation between board of trustees, and investment managers. In addition the respondents proposed that regulatory rules should be enforced and penalties for breaking them made very punitive. Also, they said that the authorities should ensure more information disclosures in the reports of all the stakeholders and more especially the fund managers. However, on the additional mechanisms of resolving agency problem that were proposed by the trustees, they did not state the extent of use hence it was not possible to determine the degree of their popularity.

4.4 Analysis of responses from Pension Scheme Members

This section deals with the analysis of responses to the questionnaire that was sent to pension scheme members. The questionnaire aimed at identifying various problems encountered by members of pension schemes and their proposals as to how the problems can be resolved. The study managed to gather data from 105 respondents out of the targeted 140 members.

4.4.1 Promptness of payment of benefits to Withdrawing Members

Members were asked to state how prompt funds in respect to withdrawing members are paid. The question gave the members only two options to select from: that is within sixty days and after sixty days after cessation of membership. The results are indicated below:

Table 4.9: Promptness of Payment of Withdrawals to Members

Period	Frequency	Percentage (%)
Within sixty days	79	75.2
After sixty days	26	24.8
Total	105	100.0

Most of the pension schemes members comprising of 75.2% stated that payment of withdrawals is done within sixty days after the date of cessation of membership while 24.8% of members stated withdrawals are paid after sixty days. The results are reasonably consistent with the results from the members of boards of trustees on the same as shown on figure 4.6. This indicates that in 24.8% of cases, pension schemes hold members' benefits beyond the statutory period of 60 days, which is a big problem to the withdrawing member. This needs to be addressed by the regulating authorities as it is a pointer to a serious problem in management of pension schemes.

4.4.2 Operational Complaints

The members were required to state the various complaints they have made on the operation of the pension scheme. The aim was to identify the areas in which members have experienced problems with the operation of pension schemes. The findings are tabulated below:

Table 4.10: Operational Complaints

Complaint	Not at all		Much less extent		Less extent		Moderate extent		Great extent		Very great extent	
	F	%	F	%	F	%	F	%	F	%	F	%
Underpayment of benefits	65	61.9	12	11.4	3	2.9	3	2.9	3	2.9	3	2.9
Miscalculation of benefits	50	47.6	14	13.3	12	11.4	7	6.7	3	2.9	3	2.9
Delay in the remittance of benefits	43	41.0	15	14.3	14	13.3	4	3.8	7	6.7	3	2.9
Poor investment	47	44.8	21	20.0	7	6.7	7	6.7	4	3.8	7	6.7

Most of the members have never raised any complaints on the operation of the pension schemes. It can be seen that that 11.4% of the respondents complained to a much less extent about underpayment of benefits, 13.3% about miscalculation of benefits, 14.3% about delay in the remittance of benefits while 20% complained to a much less extent about poor investment decisions.

4.4.3 Problems encountered with the pension schemes' funds management

Members were presented with an open ended question on the problems they have encountered with pension schemes' funds management. There are various problems which were stated and they include: delay in payment of withdrawals, miscalculation of benefits as well as inaccurate members' statements. Other problems stated include investment of schemes' funds by fund managers without making adequate consultation, lack of information flow about the operations of the scheme to the members, low rates of returns on investments and delay in issuance of members' contribution statements.

4.4.4 Influence of Board of Trustees on Investment Decisions

Members were required to state whether pension scheme board of trustees or investment managers have influence on how and where to invest pension schemes' funds. Only 102 members answered the question and therefore 3 were deemed not to know whether the board of trustees or investment managers have influence. The results are tabulated below.

Table 4.11: Influence of Board of Trustees on Investment Decisions

Influence	Frequency	Percentage (%)
No	52	49.5
Yes	50	47.6
Do Not Know	3	2.9
Total	105	100.0

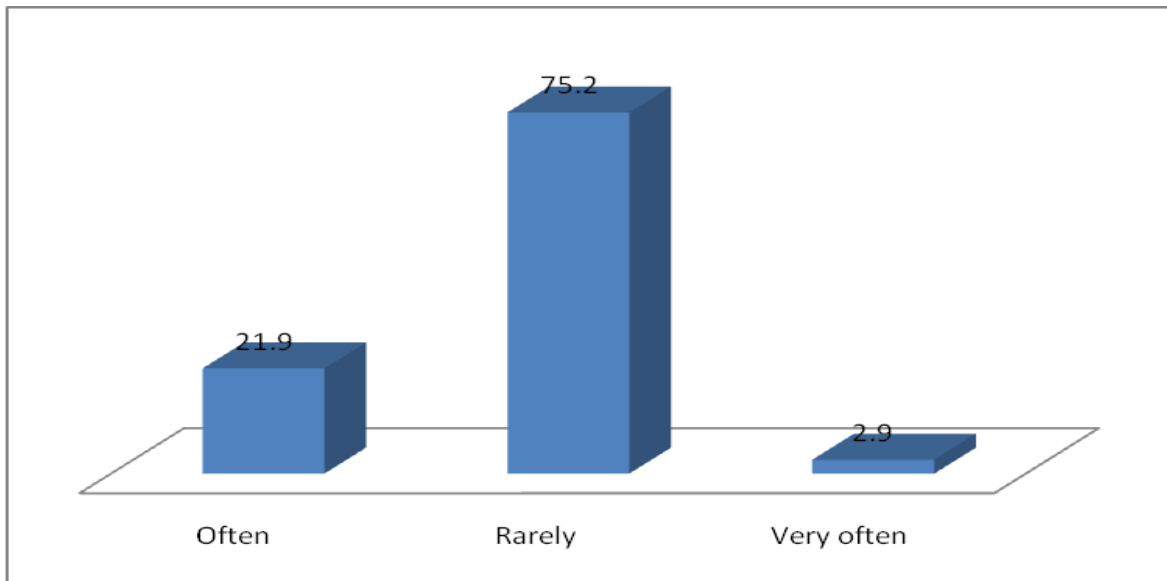
The results show that 49.5% disagree that neither the board nor the investment manager have influence as to where pension schemes' funds are invested while 47.6% indicated that the

board and the investment manager have influence on where the pension schemes' funds are invested. This indicates that in 47.6% of pension schemes, the board of trustees could influence investment decisions in pension schemes to their own personal advantage and not to the advantage of the pension scheme members.

4.4.5 Frequency of Consultation by the Board of Trustees

Members were required to state how frequently they are consulted by the board of trustees in respect to investment decisions. This was aimed at determining the degree of involvement of members in making investment decisions. The results are as indicated below:

Figure 4.8: Frequency of Consultation by the Board of Trustees



The results above indicate that 75.2% of the members feel that they are rarely consulted by the board of trustees, while 21.9% of the respondents feel that they are consulted often and 2.9% are consulted very often. When asked on the issues that they are consulted on, the respondents stated that they are consulted on the budget, schedule of annual general meetings (AGM), election of staff members to pension committees and on ways to improve the scheme. The members stated that they are also consulted on issues to do with investment of funds, investment options, venue of AGM and the percentage of salary to contribute to the scheme.

4.4.6 Members' Recommendations to address problems in Management of Pension Schemes

Members were asked to give recommendations to address problems in management of pension schemes' funds and they gave several suggestions. These include: better communication and feedback between members and board of trustees, stringent monitoring of the pension schemes' activities by the government through its regulatory agencies, reduction of unnecessary expenditure and improvement on policy formulation and benchmarking with best practices. Other suggestions mentioned include: involvement of members in all operations of pension schemes, reduction of costs of service providers as well as regular updates on pension schemes' performance.

4.5 Summary of findings

The fund managers mentioned a number of problems which they encounter in management of pension schemes' funds. These include: insufficient knowledge by the clients, lack of liquidity in local markets, non discretionary mandates given to them by their clients who limit their capacity in making investment decisions, conflicting supervisory roles of regulators among others. Fund managers have recommended various recommendations for dealing with the problems aforementioned and they include: harmonisation of supervisory roles of CMA and RBA, continuous education of all the stakeholders and especially on importance of pension schemes. Further, the fund managers stressed that pension schemes should elect/appoint informed members of the board of trustees.

From the perspective of the members of the board of trustees, it came out clearly that there are problems of poor AGM attendance by members, lengthy time of decision making, delay in remittance of pension contributions and poor investment of pension funds by investment managers among others. Members of the board of trustees have stated various mechanisms that are used in resolving the stated agency problems and it came out from the study that formation of investment committees and performance contracting are the most popular methods of dealing with agency problems in pension schemes.

Pension scheme members stated that they have problems which include, delay in obtaining individual pension account statements, delay in receipt of withdrawals from pension schemes, miscalculation of pension benefits thereby leading to underpayment of the same among others. They have proposed various ways of resolving problems in management of pension schemes which include; provision of information on their rights and benefits for being members in pension schemes, regular reporting by the schemes on their financial performance as well as regular consultation between board of trustees and fund managers. In addition they proposed stringent monitoring of pension schemes' activities by the government and instituting cost cutting measures in management of pension schemes.

4.6 Implications of findings

It has clearly come out that in majority of cases, boards of trustees do not influence fund managers where to invest pension schemes funds. This can either be positive as it may indicate that fund managers are left to do professional work without unnecessary interference by the board of trustees. However, it may be a pointer of the members of board of trustees' lack of knowledge on investments and therefore opt to leave fund managers to determine on their own where pension funds are invested.

From the study it has come out clearly that there is delay in remittance of pension contributions by the sponsors (employers) to the board of trustees. This is a serious agency problem issue as it indicates that employers delay the funds to possibly improve their liquidity and thus deny the pension schemes the funds for investments. On the other hand, it has come out that pension schemes do not pay withdrawing members on time; that is, within sixty days from cessation of membership as stipulated in law. This therefore subjects the members to suffering occasioned by the delay in receiving their pension benefits. This in effect reflects negatively on the pension schemes and can inhibit growth of the pensions sector.

Further, it has come out that the decision making process is slow and complex leading to opportunity costs, hence loss of value by the pension schemes. This calls for restructuring of decision making process to avoid loss of pension schemes' value. It has also come out that

members feel that they are not consulted adequately by the members of the board of trustees. This could be as a result of failure to attend annual general meetings (AGMs), which members of the board of trustees have indicated that they are poorly attended when called. This indicates that there is need for a lot of education especially on the pension scheme members so that they can be enlightened on their role in the management of pension schemes. In addition, they can also be educated on operational issues so that they can raise complaints when necessary because they appear either not to actively participate in the management of the pension schemes or the pension schemes are well managed based on the few complaints raised by the members as indicated by the responses to the question on complaints raised by members.

Finally, it has come out that pension schemes prefer use of investment committees and performance contracting in resolving agency problems whenever they arise. Special audits, sacking and other agency problem resolution mechanisms are not popular in pension schemes in Kenya.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarises the whole study and also includes the conclusions and recommendations arising from the research. It also covers the limitations of the study and suggestions for further research that can be done by future scholars.

5.2 Summary

This study sought to find out, the agency problem in pension schemes in Kenya. The objectives of the study were to determine agency problem in the management of pension schemes in Kenya and to determine the mechanisms used to resolve the agency problem in pension schemes in Kenya. The research used a descriptive survey method and three semi-structured questionnaires were used to collect data from pension scheme members, Members of board of trustees and fund managers.

The target population of the study was all pension scheme members, all pension schemes and fund managers registered by Retirement Benefits Authority (RBA) in Kenya. Simple Random Sampling technique was used to select Thirty Five (35) pension schemes out of the 1,359 registered schemes as per RBA financial statements for the year 2007. In addition, the sample comprised of all the sixteen (16) investment managers. One member of the board of trustees was administered with the questionnaire from each selected pension scheme. For each fund manager, one manager was administered with the questionnaire. Further, one hundred and forty (140) members of pension schemes were administered with the questionnaire.

Data was collected using three sets of semi-structured questionnaires. A total of 150 respondents responded positively out of the total sample of 191 giving a response rate of 79%. Data was analysed through descriptive statistics and presented in tabular and graphical formats.

5.3 Conclusion

Agency conflict in organisations should be minimized at all times. From the study it has come out clearly there are several agency problems experienced in the management of pension schemes in Kenya. These include poor AGM attendance where members fail to attend meetings and there by fail to be involved in decision making, lengthy time of decision making which in effect leads to lost opportunities and impacts negatively on the performance of the pension scheme. Also there is delay in remittance of pension contributions to pension schemes by the employer (sponsor) thereby denying the pension schemes funds for investments or for payment of pension benefits. Further, there are instances of poor investment of the pension schemes' funds by fund managers which in effect leads to low returns on the investments and impacts negatively on the pension schemes' returns on investments. Other challenges faced include delay in producing members' accounts statements which leads to members being unable to track their individual pension account balances, lack of adequate information from service providers; that is managers, regulators among others. Further, there is a problem of lack of adequate investments knowledge by members of boards of trustees which points to a problem in the nomination process of the members of the board of trustees. This in effect means that if the trustees do not have adequate investments knowledge, they are unable to perform a very critical role of ensuring that the pension schemes' assets are prudently invested.

There are various mechanisms that can be used to address the aforementioned agency problems which include: regular consultations among all stakeholders to gather views on how to improve pension schemes which in effect will improve information flow, regular consultative meetings other than the AGMs, recruitment of competent officials (members of board of trustees), and also consistent monitoring by the regulating agent that is RBA, to ensure that the legislation in place is adhered to by all the concerned parties. Board of trustees should also meet frequently as well as consult widely with other pension schemes' boards of trustees. Investment policy used by pension schemes should also be availed to all members so that they are well informed.

5.4 Policy Recommendations

i) Regulation and supervision

Adequate regulatory framework for pension schemes should be developed and enforced by RBA in a comprehensive, dynamic and flexible way (taking into account the complexity of the schemes) in order to ensure the protection of pensions schemes' members and beneficiaries. RBA should also be endowed with appropriate regulatory and supervisory powers over pension schemes and the agents to avoid irregularities. RBA and other regulatory bodies should be properly staffed and funded to conduct when necessary off and on site supervision and in particular when problems are reported.

ii) Investments

Investments by pension funds should be adequately regulated. This includes the need for the consideration of principles related to diversification. Increased reliance on modern and effective risk management, industry-wide risk management standards for pension funds and other institutions involved in the provision of retirement income should be promoted.

iii) Education of Members and Beneficiaries and prudent management of benefits from pensions

Appropriate disclosure should be promoted in respect to costs and benefits characteristics of pension plans. Members and beneficiaries should be educated on prudent management of retirement benefits. Finally, fees structure, pension schemes' performance and benefits modalities should be disclosed frequently to all the stakeholders.

5.5 Limitations of the Study

The following are the limitations of the study:

- i. The study used a small sample and since the population of the study is big, it may be necessary to do a study with a bigger sample to see whether the results from the research can be confirmed. The results therefore cannot be generalised.
- ii. The study used questionnaires which did not allow for probing to get further information. Face to face interview as a method of collecting data could be considered in future to get further information through probing of respondents.

- iii. In addition the study did not examine the adequacy of the mechanisms used the agency problem and therefore the effectiveness of the stated agency resolution mechanisms could not be determined.
- iv. There was inadequate literature review material on agency problem in pension schemes in Kenya. This limited the scope of knowledge on the subject in the Kenyan environment.
- v. Due to limitation of time and resources, the study focused on agency relationship between members and board of trustees and pension schemes and fund managers. There are several other agency relationships in the management of pension schemes for example between members and sponsor (employer), members and custodians which were not considered and this forms a limitation to this study.

5.6 Suggestions for further study

From the study, it would be important for further research to be conducted on the following areas:

- i. Since this study focused more on agency relationship between members and Board of trustees and pension schemes and investment managers future researchers can look into other agency relationships in the management of pension schemes for example, between members and sponsor (employer), members and custodians.
- ii. A study should also be undertaken to establish the effectiveness of Governance and Regulation of Provident and Pension Schemes in Kenya.
- iii. Further, a study can be done on the relationship between agency costs and financial performance in pension schemes in Kenya.

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APPENDICES

Appendix I: Questionnaire for Members

1. Gender : Male [] Female []

2. Name of the Retirement benefit scheme _____

3. How prompt are the withdrawals paid to members? Tick as appropriate
 - With in sixty (60) days []
 - After sixty (60) days []

4. What complaints have you once raised against the operations of the scheme? State the extent
 - 0= Not at All, 1= much less Extent, 2=less Extent 3= moderate extent 4= great Extent
 - 5= Very great extent

Complaint	0	1	2	3	4	5
Underpayment of Benefits						
Miscalculation of Benefits						
Delay in the remittance of Benefits						
Poor investment of scheme funds						
Other (specify).....						

5. What problems have you encountered with the Pension Scheme funds management?
 - i) -----
 - ii) -----
 - iii) -----

6. Does the pension scheme’s Board of Trustees, or investment manager influence how and where to invest the pension schemes’ funds? Please tick one
 - Yes [] No []

7. How often are you consulted by the Board of trustees? Please tick one
Very Often [] Often [] Rarely []

8. What are the issues that you are consulted on? (Describe briefly.) _____

9. What recommendations would you give to address the problem(s) in management of pension scheme funds?
.....
.....

Thank You for Your Time and Contribution

Appendix II: Questionnaire for Members of Board of Trustees

Part A

1. What is the name of the pension scheme? _____

2. What problems have you encountered in the management of the Pension Scheme?
 - i) -----
 - ii) -----
 - iii) -----

3. How prompt are pension contributions from members and sponsors collected? Tick as appropriate.
 - i) By last day of payroll month []
 - ii) Five (5) days after payroll month []
 - iii) Ten (10) days after payroll month []

4. How prompt are withdrawals paid to members? Tick as appropriate
 - i) With in sixty (60) days []
 - ii) After sixty (60) days []

5. Which actions must members approve? Tick as appropriate
 - Budget []
 - Investment Decisions decision []
 - Others specify _____

Part B

6. Do you have written investment policy? Please tick one
Yes [] No []

7. Do you use professional investment advisors when developing the investment policy?
Tick as appropriate
Yes [] No []

8. Who are the pension scheme's investment managers?

9. Who appoints the investment managers?

Sponsors and members []

Members []

Sponsor/Employer []

10. In your opinion, is there an opportunity cost which occur as a result of a complex, slow or cumbersome decision making structure? Yes [] No. [] If yes explain briefly?

.....
.....

11. Has the scheme ever purchased an asset from the employer (sponsor)? Please tick one

Yes [] No []

If yes, how was the asset priced? Please tick one

Fair [] Over-priced [] Under-priced []

12. To what extent does your scheme use the following strategies to resolve the agency problem whenever it arises?

Use the following scale

0= Not at All, 1= much less Extent, 2=less Extent 3= moderate extent 4= great

Extent 5= Very great extent

	0	1	2	3	4	5
i) Fire/sack	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ii) Enter into a Performance contract	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
iii) Form investment committee	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
iv) Special audits	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
iv) Other Specify.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

13. What recommendations would you give to address the agency problems your pension scheme face?

.....
.....

Thank You for Your Time and Contribution

Appendix III: Questionnaire for Fund Managers

1. Name of the firm _____
2. What is your position? _____
3. How many pension schemes is your firm managing? _____
4. To what extent do you base the fees you charge on the pension schemes on the given parameters?

Use the following scale

0= Not at All, 1= much less Extent, 2=less Extent 3= moderate extent 4= great Extent 5= Very great extent (Tick as appropriate)

	0	1	2	3	4	5
i) Volume (Number) of Investments	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ii) Value of Investments	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
iii) Time spent	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
iv) Return on Investments	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
v) Any Other Specify.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

5. What problems have you encountered in the management of the Pension Scheme funds?

- i) -----
- ii) -----
- iii) -----

6. Does the pension scheme Board of Trustees influence your institution on how and where to invest the schemes' funds?

Yes [] No []

If yes to what extent does such influence affect the final decision regarding the investment of the pension schemes' funds? (Tick as appropriate)

Very great extent [] Great extent []
 Slight Extent [] Very little extent []

7. How often are you consulted by the Board of trustees? (Tick as appropriate)

Very Often []

Often []

Rarely []

8. What are the issues that are you consulted on? (Describe briefly) _____

9. a) Do you think your recommendations are taken seriously and acted upon by the Board of trustees? Yes [] No []

b) Explain briefly your answer above? _____

10. a) In case an urgent decision concerning investment opportunities needs to be done are you allowed to make it on your own without consulting the board of trustees of pension scheme? Yes [] No []

b) What are your feelings concerning such a situation?

c) Has such situation arisen in your firm? Yes [] No []

d) What are the consequences of such a situation? _____

e) How is such situation handled in your firm? _____

11. What recommendations would you give to address problems in management of pension scheme funds?

.....

.....

Thank You for Your Time and Contribution

Appendix IV: List of Firms selected for Study

I Fund Managers

1. Africa Alliance (K) Ltd.
2. AIG Global Investment Company (East Africa) Ltd.
3. Amana Capital Ltd.
4. British American Asset Managers Ltd.
5. CFC Financial Services Ltd.
6. Co-opTrust Investment Services Ltd.
7. Genesis Kenya Investment Management Ltd.
8. ICEA Asset Management Ltd.
9. Jubilee Financial Services Ltd.
10. Kenindia Asset Management Company Ltd.
11. Madison Asset Management Services Ltd.
12. Old Mutual Asset Managers (EA) Ltd.
13. Old Mutual Asset Managers (Kenya) Ltd.
14. Sanlam Investment Management Kenya Ltd.
15. Stanbic Investment Management Kenya Ltd.
16. Zimele Asset Managers Ltd.

I Pension Schemes

1. African Diatomite Industries Staff Retirement Benefits Scheme
2. African Population and Health Research Center Staff Pension Scheme
3. Alexander Forbes Staff Provident Fund
4. All Nations Gospel Church-Staff Provident Fund
5. Aquinas High School Staff Retirement Benefits Scheme
6. Athi Water Services Board-Staff Provident Scheme
7. Brookside Dairy Limited Staff Retirement Benefits Scheme
8. Corn Products Kenya Ltd Staff Retirement Benefits Scheme
9. Dayster University Provident Fund

10. East African Cables-Staff Provident Fund
11. Eveready Security Guards Limited Staff Retirement Benefits Scheme
12. Express Kenya Limited Staff Provident Fund
13. Gibb Africa Limited Staff Retirement Benefits Scheme
14. Habib Bank Ltd Staff Retirement Benefits Scheme
15. Housing Finance Company of Kenya Limited Staff Retirement Benefits Scheme
16. Kenya Agricultural Research Institute (KARI) Staff Retirement Benefits Scheme
17. Kenya Commercial Bank Staff Pension Scheme
18. Kenya Revenue Authority Staff Pension Scheme
19. Kenya Sugar Authority Staff Retirement Benefits Scheme
20. Multi Choice Kenya Limited Staff Pension Scheme
21. Nakuru Teachers Sacco Staff Provident Fund
22. Nampak Kenya Limited Provident Fund
23. Narok Teachers Co-operative Savings & Credit Staff Provident Fund
24. Ndege Chai Savings & Credit Co-operative Society Limited Staff Provident Fund
25. Nyeri Water & Sewerage Co. Limited Staff Retirement Benefits & Life Assurance Scheme
26. Oceanfreight (East Africa) Limited Staff Retirement Benefits Scheme
27. Pil (Kenya) Ltd Staff Provident Fund
28. Professional Digital Systems Limited Staff Provident Fund
29. Rockland Kenya Limited Junior Staff Retirement Benefits Scheme
30. Stallion Insurance Non-Management Staff Retirement Benefits Scheme
31. Tea Research Foundation Staff Pension Scheme
32. The Steadman Group Limited Staff Pension Scheme
33. Travel Affairs Limited Staff Retirement Benefits Scheme
34. United Touring Company (UTC) Retirement Benefits Scheme
35. Yaya Towers Limited Staff Pension Fund