Original Article

Diversity of Dutch pension fund boards

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ABSTRACT In this article, we investigate the level of diversity of the largest 100 pension funds in the Netherlands. Our results indicate that pension fund boards mainly consist of males close to retirement. We compare pension fund board diversity in the Netherlands with diversity in (inter)national corporations and find similar levels of diversity. This high level of similarity indicates that the large body of research on corporate board diversity can potentially be useful when improving pension fund board diversity in the Netherlands and potentially elsewhere.

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INTRODUCTION

Pension funds in the Netherlands have put a lot of effort in improving the quality of their boards over the past decade. In 2005, further *Principles for good pension fund governance* have been signed by stakeholders such as the Labour Foundation (a consultative body that brings together employers' and employees' representatives), pension fund umbrella associations and retirees' umbrella organizations. These principles have come into force with the introduction of the new Pension Law in 2007. When the Social and Economic Council of the Netherlands evaluated the adherence to these governance principles, they concluded that the pension fund boards have a relatively uniform composition. Pension fund

boards are dominated by males close to 55 years of age. As a result of this evaluation, stakeholders signed a *Covenant Increasing Diversity in Pension Fund Boards* (in short, the Covenant) in October 2010. In the Covenant, stakeholders promise to devote specific attention to board diversity on the characteristics of age, gender and ethnic background in relation to the composition of the members in the pension scheme. The goal of the increased diversity is that members of a pension scheme feel more represented by their board, at least 50 per cent of which consists of employees and retirees (or their representatives).

Implicitly, it seems that the benchmark is set by equal representation of members and not by the economic value that each member represents. In the latter case, employees with long tenure and high salaries should be substantially more represented than is the case with equal representation of participants. Addressing this issue in the Covenant, stakeholders emphasize that more diversity should not lead to less quality

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of pension fund board members. Moreover, it is stressed that all board members are by law required to act in the best interests of the pension fund as a whole, regardless of whom they represent. Lastly, increased diversity may lead to members feeling more represented, and this in turn may lead to wider support in the case of sensitive decisions.

In this article, we investigate the diversity of Dutch pension fund boards. Knowing more about the factors of the lack of diversity may help to identify which strategies can be used to increase diversity without loss of quality. In addition, there is a large body of literature dealing with diversity in executive and supervisory boards of corporations. If Dutch pension fund board diversity is similar to corporate boards, this may lead to fruitful solutions similar to those employed by corporations.

Our empirical results on diversity with regard to age, gender and tenure indicate that pension fund boards in the Netherlands indeed have a similar composition as (inter)national corporate boards. Most board members are in the age range between 50 and 70, are male, and have 2–8 years' tenure. This suggests that successful measures taken to increase corporate board diversity, such as comply-or-explain quota, might be fruitful areas for pension fund diversity as well.

This article is structured as follows. In the next section, we describe the data we used in this study. In the subsequent section, we describe the characteristics of pension fund board members. The penultimate section contains a comparison with (inter)national corporate board diversity. Finally, the final section concludes.

DATA

The data used in this article come from Pensionfund Info.¹ This is an organization that collects data from board members of pension funds through the Chamber of Commerce. Pension funds are commonly registered as foundations, which makes it compulsory for them to report who their board members are. We hand-collected data from the board members of the largest 100 pension funds in the Netherlands. Large is defined here as the amount of pension

Figure 1: Distribution of the number of board members per pension fund.

assets that they manage. Although more than 400 pension funds exist in the Netherlands, the largest 100 represent a vast majority of the total pension assets and scheme members. Hence, our sample is representative of the Dutch pension industry. Moreover, it is substantially larger than the sample used by Vletter-Van Dort *et al.*,² who cover the largest 25 pension funds to investigate pension fund board diversity. We select each individual registered in the database with code 'BE', which is the (Dutch) abbreviation for board member. We collected our data in June 2011. We only have data on current board members and not on past board members. Hence, our sample is a single snapshot, and time-series analysis is impossible. Our sample consists of 896 pension fund board members affiliated to 100 pension funds, so on average a board consists of 9 members.³

Figure 1 shows a histogram of the size of Dutch pension fund boards. The peaks in the distribution are at six and eight board members. These numbers are also mentioned in the Covenant as the most common sizes. It should not be surprising that even numbers are most common, as (i) candidates are chosen by the employer or the employees (and sometimes retirees) and (ii) employer representation cannot exceed 50 per cent by law. Thus, in practice, many boards have the same amount of employer and employee representation, leading to even board sizes.

We collect data on the age and tenure of board members through the database of

Pensionfund Info and determine the gender by the first names of board members. We have tried to search for the gender of board members with first names that are commonly used in Dutch for both men and women from the annual report of the pension fund or through Google, Facebook and LinkedIn.⁴ We have no information on the ethnic background of board members and hence cannot analyze this aspect of diversity.⁵

Unfortunately, we also do not have data on education or other characteristics on other dimensions of diversity. Vletter-Van Dort *et al*² investigate the educational background of Dutch pension fund board members, but have only been able to collect a limited amount of data. More specifically, they could obtain data on vocational levels only for 106 out of 264 board members (40 per cent).

DIVERSITY OF DUTCH PENSION FUND BOARDS

We analyze diversity on three aspects: age, experience and gender. We start our diversity analysis with the age of board members. Figure 2 shows the distribution of age for the 896 board members in our sample. We observe that there are little young people represented in the boards. Only 38 board members (4.2 per cent) are younger than 40 years of age, and no board member is younger than 30 years of age. The numbers that we find are similar to those reported in the Covenant, which reports that in 2008 only 2 per cent of board members were younger than 35 years.

The average age of board members is 56 years. It becomes clear that retirees have increasingly become part of the boards. In total, 165 board members (18.4 per cent) are older than the Dutch pension age of 65 years. Vletter-Van Dort *et al*² report an average of 56.4 years of age and a 22 per cent share of retirees in their smaller sample of the 25 largest pension funds. In 2008, this number was only 12 per cent according to the Covenant. So while age diversity has increased in the past decade, this is mainly due to an increased number of older board members rather than an increased number of younger members.

Figure 2: Distribution of the age of Dutch pension fund board members.

Figure 3: Distribution of the starting date of board membership.

The reason that the age distribution of pension fund board members is to the right of Dutch society or the pension scheme members could be related to the correlation between age and relevant experience, knowledge and competencies. Our data do not contain information on the quality of board members. As a crude proxy for quality, we do have data on experience as measured by the period served as a board member at their current pension fund.⁶

Figure 3 shows that 370 board members (41.3 per cent) are part of their board for less than 3 years. This indicates that there is a relatively large turnover among board members. Board membership typically ends when a member's term is due and he or she is not re-elected or, for corporate pension funds, because he or she leaves the company as an employee. Given the amount of relatively new board members, there does not seem to be a clear relation between the higher ages and experience on the board. Nevertheless, it is likely that people with more relevant experience from before their appointment are older, and hence board members

Figure 4: Gender distribution of pension fund board members.

are older than the average participant in the fund. Figure 3 also shows that there is a group of veteran board members; there are 114 active board members (12.7 per cent) with more than 10 years of experience.

The large group of new members may lead to refreshing new views and policy, but it may also lead to a loss of quality and continuity if they are overrepresented.⁷ In our sample of 100 pension funds, there are only 5 funds with the most experienced board member having less than 5 years' experience. So it can be argued that most pension funds have at least one board member with relevant experience. The average experience per pension fund board is close to 6 years.

A third dimension of diversity is the number of women in pension fund boards. Figure 4 contains the gender distribution. It shows that men have an overwhelming majority: out of 896 board members, 793 (88.4 per cent) are male and 103 (11.6 per cent) are female.⁸ The women have an average experience of 5.3 years compared with 6.1 years for males. This indicates that either women are board members for a short period of time or that, over the past years, more women have become board members, such that they have not yet had the opportunity to gain much experience. When we compare our numbers with those from 2008 found in the Covenant, we see that then only 10 per cent of the board members were female. So the number of women on the boards seems to have increased slightly over the past years, although the difference may also be attributable to differences in sample size.

The goal of the Dutch stakeholders when increasing diversity is that participants in the fund feel more represented by their boards.

Unfortunately, we cannot investigate the relation between diversity characteristics of participants and board members in more detail, as we do not have data at the participant level. This would be a fruitful area for future research on diversity.

To provide some anecdotal evidence, we take a more detailed look at two pension funds with a typically female- and male-dominated workforce and see if their board composition is different. Pensioenfondsen Zorg en Welzijn (PFZW), the pension fund for the health-care industry, has 5 female board members out of a total of 13. So the female-dominated workforce of nurses and other caretakers is relatively well represented in the board of the pension fund with 38 per cent of female board members. On the other hand, Pensioenfondsen Metaal en Techniek (PMT), the pension fund for the metal and technical industry has 10 board members who are all male, perhaps not surprisingly in this male-dominated industry. These two examples indicate that although women are in general underrepresented, they are more likely to be present in industries in which, on average, more women work, which would suggest a natural form of representation. That the observation above may also be based on coincidence is shown by the following: when we compare two publishers, we see that one, Pensioenfondsen Wolters-Kluwer, has three female board members out of a total of six, while the other, Pensioenfondsen Elsevier Ondernemingen, has zero female board members out of a total of eight.

COMPARISON WITH (INTER)NATIONAL CORPORATE BOARDS

As far as we know, little research has been conducted on diversity of pension fund boards in other countries. Notable exceptions are Verma and Weststar⁹ and Jackowicz and Kowalewski.¹⁰ Verma and Weststar⁹ analyze employee representatives among pension funds in Canada. In our research, we do not limit ourselves to employee representatives but concentrate on the diversity of the board as a whole. Jackowicz and

Table 1: Comparison board member characteristics

	Land	This study	Average	Deviation	Minimum	Maximum
Size	The Netherlands		9.0	3.1	3	21
	The Netherlands	MPR	7.2	—	—	—
	Scandinavia	RTO	6.9	2.2	2	15
	United States	AF	9.4	2.7	3	39
Age	The Netherlands		56.0	3.6	49.2	64.7
	The Netherlands	MPR	59.8	—	—	—
	Scandinavia	RTO	53.9	4.8	40.0	68.0
	United States	AMR	60.3	2.6	49.6	67.8
Experience (years)	The Netherlands		6.1	2.9	0	20
	The Netherlands	MPR	—	—	—	—
	Scandinavia	RTO	5.9	5.6	0	31
	United States	AMR	9.2	3.1	0	24.9
Female (%)	The Netherlands		11.1	11.7	0	50%
	The Netherlands	MPR	3.8	—	—	—
	Scandinavia	RTO	14.5	—	0	60%
	United States	AF	8.5	8.3	0	50%

MPR=Marinova *et al*¹²; RTO=Randøy *et al*¹³; AF=Adams and Ferreira¹⁴; and AMR=Andersen *et al*¹⁵.

Kowalewski¹⁰ investigate the diversity of board members for defined contribution schemes in Poland. Our sample consists of pension funds that mainly execute defined benefit pension schemes in the not-for-profit sector. Hence, our results complement those in the existing literature on pension fund board diversity.

Although we could, in principle, compare diversity in pension fund boards with diversity of other types of boards, we choose to make a comparison with corporate boards in this paper.¹¹ The main reason for doing this is that there is a large body of research on diversity in corporate boards. Increasing our knowledge on the relation between pension fund and corporate boards may make it possible to draw parallels on the solutions to increase diversity based on the vast corporate board diversity literature.

For our comparison, we use four different studies. The first study, by Marinova *et al*,¹² analyzes the board composition of 102 listed companies in the Netherlands in 2007. A second study, by Randøy *et al*,¹³ analyzes the diversity in supervisory boards of more than 400 of the largest companies in Scandinavia (Denmark, Sweden and Norway) in 2005. The third and fourth articles study the United States: Adams and Ferreira¹⁴ analyze the 1500 largest listed companies over the period 1996–2003, while

Andersen *et al*¹⁵ investigate the largest 500 companies over the period 1993–1998. The numerical comparison is displayed in Table 1.

The size of boards is often related to the execution power of a company. Yermack¹⁶ claims that smaller boards in the United States are more effective. We already saw in Figure 1 that boards with six or eight members are present most in our sample, but that the average equals nine. Table 1 shows that the size is comparable with boards in the United States with an average of 9.4 according to Adams and Ferreira.¹⁴ The boards of Dutch and Scandinavian companies are somewhat smaller, with a size of 7.2 and 6.9 on average.

The average age of board members in the articles is between 53.9 and 60.3 years. The Dutch pension fund boards rank, with an average of 56 years, in the middle of the pack. The somewhat higher age of board members in the United States could be related to their experience: the 4.3 years that they are older by come with a 3.1 years longer board membership.

Female board membership differs substantially between the studies compared in Table 1. In Scandinavia it reaches 14.5 per cent, while in Dutch companies it is only 3.8 per cent.¹⁷ So, compared with Dutch listed companies, Dutch pension fund boards show more gender diversity. Terjesen and Singh¹⁸ report gender diversity in

corporate boards in 43 countries and show that most countries have a percentage of female members between 5 and 15 per cent. Exceptions are Japan, with almost no female board members, and Slovenia, with more than 20 per cent. Thus, the percentage of female members on Dutch pension fund boards of 11.6 per cent is average when compared with international corporate boards. Sayce¹⁹ interviewed female and male pension fund trustees in the United Kingdom to determine the largest hurdles for women to work in an environment that is dominated by men. One of the difficulties, she notes, is that male board members can act like a closed group with their own culture, which may make it an obstacle for women to feel accepted. Thus, there may be a tipping point in female representation, explaining the considerable size of the differences.

CONCLUSION

In this article, we analyze the diversity of the boards of the largest 100 Dutch pension funds as measured by their asset value. We find that boards predominantly consist of males, between the age of 50 and 65 years, with 6 years of board membership. When we compare these characteristics with boards of (inter)national companies, we see that the Dutch pension fund boards have a similar level of diversity. Our research suggests that the large body of research dealing with solutions to increase corporate board diversity can also be applied to pension fund boards in the Netherlands and potentially elsewhere.

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- In some cases, deputy board members are also part of the board. Although in most cases these deputy members do not have formal voting rights, they often have substantial informal power within the boards. Hence, we do not exclude these deputy members from our analysis.
- The full data set can be downloaded at <http://people.few.eur.nl/lswinkels>.
- Although last names are not necessarily related to people's ethnic background, we note that at most 10 last names are not commonly used Dutch last names. This suggests little diversity on ethnic background.
- Since board members are usually chosen from employers and employees of the companies sponsoring the pension scheme, it seems unlikely that many pension fund board members have experience at other pension funds. The most likely type of pension funds for which members have past or simultaneous current experiences are industry-wide pension funds, who often consist of representatives from employer associations or labor unions. We do not take this into account in our analysis, because we expect this to be a relatively small number. In our sample, we have 37 board members who are found twice in our database, 7 who are found three times and 1 who is found four times.
- In Appendix A, we perform a regression analysis in which we relate the funding ratio to diversity characteristics of pension fund boards. We do not find any statistically significant relationship.
- Vletter-Van Dort, Klaassen en Eijkelenboom² report 13 per cent women in their sample of the 25 largest Dutch pension funds. The share of women in supervisory boards is almost equal with 12 per cent.
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APPENDIX

REGRESSION ANALYSIS ON PERFORMANCE AND DIVERSITY

We have regressed the funding ratio (the ratio of pension fund assets divided by pension fund liabilities) on an intercept, the size of the board, the average age of the board, the average experience of the board and the percentage of females on the board:

$$FR_i = \alpha + \beta_1 \times Size_i + \beta_2 \times Age_i + \beta_3 \times Experience_i + \beta_4 \times Female\%_i + \varepsilon_i \quad (A.1)$$

The regression coefficients are displayed in Table A1 in the first column, with in the second column the associated *t*-values. Since no single *t*-value of the diversity characteristics exceeds 2 in absolute value, they are statistically not relevant for performance as measured by the funding ratio.

In the additional columns, the diversity characteristics are used in a univariate regression (with an intercept), but we also find no statistically significant relationships here.

We do not expect these regressions to explain a sizeable part of the variance in the data. After all, funding ratios are more likely depending on investment decisions, contribution rates and other financial factors such as the cost structure. However, it is not *a priori* clear whether these decisions are endogenous with respect to diversity. For example, if more diverse boards lead to better asset allocation decisions, it would be incorrect to condition on the asset allocation to determine the added value of diversity.

Table A1: Regression analysis of pension fund performance on diversity characteristics

	Coefficient	<i>t</i> -value	Coefficient	<i>t</i> -value	Coefficient	<i>t</i> -value	Coefficient	<i>t</i> -value	Coefficient	<i>t</i> -value
Intercept	95.44	4.40	111.40	32.74	101.31	5.97	108.77	42.90	108.67	72.09
Size	−0.18	−0.49	−0.21	−0.59	—	—	—	—	—	—
Age	0.26	0.68	—	—	0.15	0.48	—	—	—	—
Experience	−0.03	−0.06	—	—	—	—	0.12	0.32	—	—
Female	10.91	1.06	—	—	—	—	—	—	7.47	0.80