An investigation of the role of trust in the relationship between pension fund trustees and investment managers: an Indonesian case study

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Chapter 5

Research Method: Case Study

1. Introduction

In the previous three chapters, the roles and functions of the investment manager, the duties and power of the trustee, the theoretical model of trust and the stages of trust development were all discussed and it was found that there is a financial intermediation relationship between the trustee and the investment manager where a trustee gives a mandate to the investment manager to manage active investments on behalf of the trustee, and the investment manager in return manages the active investments by adhering to the trustee’s investment guidelines. It also argued that trust is an important element in the relationship between the trustee and the investment manager.

The case study method is used to conduct research into two important aspects of the relationship between the trustee and investment manager: (i) the key factors of trustworthiness of the investment manager, and (ii) the key activities performed by both the trustee and the investment manager for building their relationship. In conducting the case study, semi structured interviews are used to collect primary qualitative data in order to obtain the trustee’s perception of the trustworthiness of the investment manager, and the key activities performed by both the trustee and
the investment manager to develop their relationship. The pattern matching technique is used to analyse the case study data, and this is followed by explanations of the results.

This chapter is organised around four main areas: the need for qualitative research in the stock market, the reasons for using a case study, and research design of the case study that includes the defined case, data collection through interviews, and the analysing of the case study data.

2. The Need for Qualitative Research in Stock Market.

A substantial amount of quantitative research has been directed to test an efficient market hypothesis and a capital asset pricing model (Frankfurter and McGaun, 1996); for example, an investigation of stock price adjustment relative to the dividend changes (Brucato and Smith, 1997), to block buys and sales transactions (Aitken, Frino, and Sayers, 1994), and to money supply (Dhakal, Kandil, and Sharma, 1993). An investigation of the performance of professionally managed funds was conducted by using expected returns from the security market line (Ippolito, 1993), by using risk adjusted returns (Grinblatt and Titman, 1993; Malkiel, 1995), and by using a characteristics-based benchmark (Daniel, Grinblatt, Titman, and Wermers, 1997). However, a number of researchers have indicated that the behavior of market participants is the main source of an anomaly in the efficient market hypothesis, such as, Monday returns (Lakonishok and Maberly, 1990), January returns (Dyl and Maberly, 1992), and pre-holiday
returns (Keim, 1989). Thus, quantitative research has left an area of research unexplored, the behavior of market participants.

Behavioural research of market participants in the stock market has been based on the premise that the stock market is a collective behavior of market participants (Adler and Adler, 1984). This is because "the actions and reactions of people involved in the stock market as quite representative of the ordinary behavior patterns witnessed in other spheres of life" (Adler and Adler, 1984, p. 86). Market participants (investors) exhibit behavior, such as: temporary behavior influenced by fashion (Shiller, 1984), herding behavior (Scharfstein and Stein, 1990), or permanent behavior influenced by heuristics (Tversky and Kahneman, 1974). In uncertain situations most investors may behave in a way which reflects their temporary or herding behavior, while in certain situations they may behave in a way which reflects their permanent behavior (Tversky and Kahneman, 1974).

In recent years, a number of researchers have directed their investigation into the actual behaviors of investors in order to learn how stock markets really work (Elsharkawy and Garrod, 1996). For example, researchers have investigated the impact of institutional investors' trading behavior on stock returns volatility (Sias, 1996), institutional investors' reaction to good or bad news (Lee, 1992), non-institutional investors' reaction to unexpected good or bad earning news (Elsharkawy and Garrod, 1996), and the herding behavior on buying stocks (Shleifer and Vishny, 1990). The results of these studies indicate that stock price
movements are a function of information and investors' behaviours and reactions. Thus, there remain a wide area of behavioral finance research in the stock market still to be explored.

The increasing amount of research into investigating the behaviours, and judgements of the stock market participants needs an interpretive research paradigm into the stock market as defined by Burrell and Morgan (1979). Frankfurter and McGaun (1996) give several reasons for this, these are: (i) the nature of behavioral research may be subjective when exploring any why and how research questions (ontology); (ii) the behavior of investors is known by investigating the underlying factors of their behavior (epistemology); (iii) the behavior of investors may be dynamic as a response to changing information (human nature); and (iv) the information regarding the behavior of investors may be acquired by conducting observations or interview (methodology).

Frankfurter and McGaun (1996) identify several qualitative research methods that are appropriate for research in the stock market, such as: grounded theory, ethnography, and case study. In this thesis, a case study is used as the research method to gather and to analyse data of two important aspects of the relationship between trustees and investment managers: (i) the key factors of trustworthiness of the investment manager, and (ii) the key activities performed by both the trustee and the investment manager for building their relationship.
3. The Reasons for Using the Case Study Method.

As a research method, the case study is defined as “an objective, in-depth examination of a contemporary phenomenon where the investigator has little control over events” (Yin, 1989; c.f. McCutcheon and Meredith, 1993, p.240). The reason for using the case study as the research method here is that it is rigorous (Hamel, 1992), relevant (Hill, 1993), able to be applied to business research (Kozak and Cohen, 1997, Lewin and Johnston, 1997), and able to use primary and secondary data (Yin, 1994; McCutcheon and Meredith, 1993).

Firstly, the case study is a rigorous research method to explore the interactions between the trustee and the investment manager and the observed pattern of the relationship between them because there is some evidence that the case study is the appropriate research method to understand the interaction between individuals (Hamel, 1992), and to find the holistic patterns of a social phenomena in a real setting (Orum, Feagin, and Sjoberg, 1991).

Secondly, the choice of the case study as a relevant research method is due to the topic of this exploratory research, that is, ‘The Exploration of the Relationship between the Indonesian Trustees of Pension Funds and Indonesian Investment Managers’ which can be considered as an early stage of research to find the key factors of trustworthiness of the investment manager, and the key activities performed by the trustee and the investment manager in building their relationship. This exploration also attempts to look at ‘trust’ as a basis for
building the relationship between the trustee and the investment manager. According to Hill (1993), the case study is the most appropriate research method in the early stage of research on a particular topic and for providing a new perspective on a topic that has been studied.

Thirdly, the relationship between the trustees and the investment managers is a business relationship. The trustee expects to obtain returns and investment services, and the investment manager expects to obtain fees from the services provided. There is some evidence that the case study has been used as a research method in a business relationship previously. For example, Kozak and Cohen (1997) investigated the partnership relationship between a small western Canadian distributor of western red cedar products and one of its supplier, a large multinational forest product company. Lewin and Johnston (1997) used the case study method to research the profile of a successful partnering relationship by conducting in-depth interviews with upper- and mid-level purchasing managers.

Fourthly, the case data in this study is collected from primary and secondary data. Primary data are gathered by conducting interviews of the trustee and the investment managers in order to obtain information about the trust relationship from the perceptions of both parties and then is used as a basis to describe the relationship between them. Secondary data are collected from the Annual Reports of Pension Funds, and Statistics Jakarta Stock Market. This is because, primary data can be used to define the clearest picture of events, and secondary data can be used to understand the ongoing situation (McCutcheon and Meredith, 1993).
4. Research Design of a Case Study

The research design of the case study needs to be connected to the research questions, the empirical data and to the conclusions (Yin, 1998). Therefore, the research design of a case study consists of: the defined case; the research question; the theoretical framework; data collection methods; and data analysis.

The research questions and the theoretical framework for this thesis were discussed in chapter 4. The remaining sections of this chapter, therefore, will discuss the defined case, the data collection methods to be used, and the data analysis.

4.1. The Case.

One of the important steps in conducting a case study research is to define the boundaries of the case and who are the actors (Yin, 1998). Here, the defined case is the relationship between Indonesian trustees of pension funds and Indonesian investment managers. They are also the actors in this case study which is limited to two important aspects of the relationship between the actors: (i) the key factors of trustworthiness of the investment manager, and (ii) the key activities performed by both the trustee and the investment manager for building their relationship.

First, the study of the relationship between Indonesian trustees and Indonesian investment managers focuses on the key factors of trustworthiness of the investment manager from the perspective of the trustee who is defined as a person
(a) who has authority to select and to hire investment managers to manage active investments, (b) seeks to build a relationship with the investment manager in relation to the investment management function, and (c) has the authority to discontinue the relationship with the investment manager on the basis of performance assessment. The investment manager is defined as an expert who: (a) has a licence to manage active investments in the Jakarta stock market on behalf of his/her clients, (b) is employed by an investment management firm; (c) receives delegation of authority from his/her client to manage active investments, and (d) has the responsibility to build and develop a relationship with his/her clients.

Second, the study of the relationship between Indonesian trustees and Indonesian investment managers also focuses on the key activities performed by both the trustee and the investment manager in building their relationship that divides into an early and a long-term relationship. The duration of an early relationship is in the range of one to two years; a long-term relationship is of more than two years. The Indonesian investment management industry only commenced in 1992, however, both the trustees of pension funds and the investment managers have performed several activities that can be grouped as appropriate activities for seeking to build early relationships which will develop into a long-term ones. For example, trustees have performed the necessary activities in selecting and hiring investment managers; monitoring and evaluating their performance; receiving investment services or transfer of knowledge; and making decisions whether or not to continue their relationship with the investment manager after a one year
contract. The investment managers have also performed appropriate activities in order to demonstrate their capability and facilities for managing active investments on behalf of the trustees, to convince the trustee to seek an early relationship and to maintain it, to discuss the investment quarterly report with the trustees, to provide investment services, and to communicate regularly. Thus, both the trustees and the investment managers have experience in building an early relationship and in developing this into a long-term one.

4.1.1. Theoretical Sampling.

The number of participants in this case study was not defined in advance but it would be possibly only small in number. This estimate is based on the realisation that in the early stages of development of the Indonesian pension funds and investment management industries, only a few trustees and investment managers have experienced the building of a relationship. These individuals are not necessarily representative of the trustees and the investment managers in the Jakarta stock market, but they are considered as ideal for theoretical or purpose sampling (Yin, 1994; Masson, 1996).

Theoretical or purpose sampling is a set of procedures where the researchers manipulate their analysis, theory, and sampling activities interactively during the research process (Masson, 1996, p.100).

Masson (1996) explains that theoretical sampling is intended to help the researcher during the research process through inductive reasoning because the process of sampling, data generation, and data analysis are performed interactively. Thus, the researcher here will decide on the number of trustees and
investment managers to use for adequate data, required for analysis and explanation. The researcher will also consider including or excluding a trustee or investment manager in this study depending on the attitude of the interviewees toward the research.

4.2. Data Collection Through The Interview Technique

This section explains the five aspects of data collection process, these are: the reasons for using the interview technique for collecting data; the selection of interviewees; selecting the type of interview; constructing the semi-structured interview questions, and conducting the interviews. By following this data collection process it is expected that the researcher will (i) interview the ‘right’ interviewees, (ii) use the appropriate type of interview, and (iii) obtain relevant information for this exploratory research. The relevant information includes the development of the Indonesian investment management industry, the development of the Indonesian pension funds, the key factors of trustworthiness of the investment manager from the perspective of the trustee, and the key activities for building an early and long-term relationship between the trustee and the investment manager.

4.2.1. The Reasons for Using Interviews to Collect Data.

The interview, which is the most commonly used method of collecting data in a qualitative research, is used in this thesis because of its advantages (Gorden, 1980), these are: (i) an opportunity to motivate the interviewees to provide their
perceptions, (ii) to help the interviewee to understand the purpose of the questions, (iii) to be flexible in asking the questions, (iv) to control the process of data gathering, and (v) to evaluate the quality of information.

Firstly, the advantage for the interview technique for the researcher is that he/she has an opportunity to motivate the interviewees and to provide the relevant information needed or clarify the question. The motivation of the interviewees in answering questions is important to increase the accuracy and the relevant information provided (Gorden, 1980). Secondly, by using the interview technique, the researcher has an opportunity to help the trustee and the investment manager to understand the purpose of the question. If the interviewees understand the questions, they will give appropriate answers (Gorden, 1980). Thirdly, the researcher also has the flexibility of asking questions of the investment managers and the trustees. This flexibility is important for exploring the wording of the questions, and their sequence (Gorden, 1980). Fourthly, the researcher has an opportunity to control the process of the interview which can be stopped or continued as needed. If the motivation of the interviewee to answer the questions decreases, the researcher will ask one more question as the last question in order to stop the interview. The duration of the interview is expected to be at least 30 minutes and with a maximum of 60 minutes. This should be sufficient time for relevant information to be given (Gorden, 1980). Fifthly, the researcher has an opportunity to evaluate the validity of the information by observing the attitude of the interviewees toward supplying information, and by assessing the quality and quantity of the information (Gorden, 1980).
4.2.2. The Selection of Interviewees.

In selecting the interviewees for this research, the criteria of selecting interviewees proposed by Gorden (1980) was used; these are: the interviewee must possess relevant information; the interviewee is physically and socially accessible; the interviewee is willing to give the information; and the interviewee is also able to give the required information.

Gorden (1980) divides interviewees into two major groups: key informants and special interviewees. Firstly, a key informant is any person who gives information not only related to the objectives of the interview but also the general problem of the study and ongoing situation. A key informant is needed because his/her information will be used to refine the interview questions. Secondly, a special interviewee is any person who gives relevant information to the objectives of the interview. He/she is selected because of his/her unique position in the institution being studied. The special interviewee is needed because his unique position qualifies him to give special information based on his views and experience.

On the basis of Gorden's (1980) suggestions on how to select the ideal interviewees, it was decided to interview two types of interviewee: (1) key informants who can give general and specific information about the relationship between the trustee and the investment manager. This information is useful to refine the interview questions; and (2) special interviewees who can give specific
information about their relationship with the trustee or the investment manager. This information is useful for this study as a basis for data analysis.

Two key informants are to be interviewed: the Chairman of the Investment Manager Association as a key informant of investment managers, and the President Director of 'A' pension funds as a key informant of trustees. These key informants have a wealth of experience and knowledge about the relationships between trustees and the investment managers. The duration of the interviews with these key informants will be approximately 60 minutes each. This length of time will be needed to obtain information about the history and current practices of the relationship between the trustee and the investment manager. Special interviewees will also be interviewed: an experienced investment manager in active investment management on behalf of his/her clients, and a trustee of pension funds who has invested funds in the stock market by hiring an investment manager. The duration of these interviews is expected to be at least 30 minutes each.

### 4.2.2.1 Selection of Interviewees - Trustees.

The criteria to select the trustees of Indonesian pension funds to be included in this case study are defined as follows:

- The trustee is a person who has responsible and authority to make investment decisions on behalf of pension fund.
• The trustee has invested funds in stocks and bonds that are reported in the directory of pension funds.

• The amount of investment funds in securities at the Jakarta stock market is at least Rp 2 billion, that is, the minimum amount of fund required to be managed by an investment manager in the form of an individually managed portfolio.

• The trustee has hired at least one investment manager to manage active investments.

• The trustee is willing to give his/her perceptions about the relationship during the interview by the researcher, for a period of at least 30 minutes.

4.2.2.2 Selection of Interviewees - Investment Managers.

The criteria to select Indonesian investment managers to be included in this case study were as follows:

• The investment manager has experience in managing an active investment on behalf of the trustee.

• The investment manager has experienced a relationship with a trustee for at least 1 year.

• The investment manager is listed in the annual report of BAPEPAM.

• The investment manager is willing to give his/her perception about the relationship between with his/her clients during an interview by the researcher, for a period of at least 30 minutes.
4.2.3. Selecting Types of Interview.

In selecting the type of interview, the researcher considered the advantages and disadvantages of the types of interview available. According to Breakwell (1995), there are many question-and-answer formats for interviewing which range from the fully structured to the totally unstructured. However, he also argued that only a few interviews fall into the categories at either the beginning or end of this range.

Structured interviews involve a fixed set of question which the researcher asks in a fixed order. In unstructured interviews, the researcher has a number of topics to cover but the precise questions and their order not fixed, they are allowed to develop as a result of the exchange with the respondent (Breakwell, 1995, p.231).

In the structured interview, the interviewee is asked to give his/her answer by choosing one answer from a series of answers given by the researcher (Breakweel, 1995). The answer may be in the form of a rating scale. The advantages of structured interviews for obtaining information are that they are easy to quantify and compare of the responses with others (Breakweel, 1995). The disadvantages of structured interviews are that they leave little room for unanticipated answers, and some interviewees miss the salient issues (Breakwel, 1995).

In an unstructured interview, the researcher has a number of issues to cover in the interview but he/she has not a set sequence of the questions to be asked (Breakwel, 1995). The assumption is that data will be generated via interaction (Masson, 1996). The disadvantage of the unstructured interview is that it is time-consuming for data analysis (Breakwell, 1995).
To obtain the maximum advantages and to reduce the disadvantages from both the structured and unstructured interview, the researcher here uses a semi-structured interviews.

With semi-structured interviews, the investigator will have a set of questions on an interview schedule but the interview will be guided by the schedule rather than be dictated by it. (Smith, 1995, p.12).

In a semi-structured interview, the interviewee should be perceived as the expert on the subject and should therefore be allowed the maximum opportunity to give his/her own perceptions of the questions. The advantages of semi-structured interviews are: (i) the researcher can collect detailed perceptions from the interviewees about a particular topic or question; (ii) the researcher can follow up the interesting topics which have emerged during the interview by asking further questions (Smith, 1995).

The semi-structured interview is chosen to explore the perceptions of investment managers and trustees of pension funds about their relationship for a number of reasons. The first reason is that the format of the research questions of this study asks “what and how” questions that are derived from a trust theory. These questions are expected to be best answered by using the semi-structured interview to obtain the relevant information to the interview objective within the limited time alloted. The second reason is that it is assumed that the interviewees will give their views if a good initial relationship between the researcher and the interviewee is established during the interview process.
4.2.4. Constructing the Semi-Structured Interview Schedule.

An interview schedule is needed as guidance in conducting the interview. Smith (1995) suggests three stages in constructing the semi-structured interview schedule: (1) determining the overall topics of the interview, (2) putting the areas of analysis in an order, and (3) developing questions related to each area.

Interviews with investment managers are used to explore three topics these are (i) the reason for developing investment products, (ii) their activities for building an early relationship with the trustee, and (iii) their key activities for building a long-term relationship with the trustee. Similarly, interviews with trustees of pension funds are used to explored five major topics, these are (i) the considerations in constructing an investment portfolio, (ii) the reasons for investing in the stock market, (iii) the criteria to select an investment manager, (iv) the activities needed for building an early relationship with the investment manager, and (v) the activities needed for developing a long-term relationship with the investment manager.

In designing the interview questions (see Appendix 5.1 List of Interview Questions), the researcher uses Smith's (1995) suggestions as a guide, these are: (i) the questions should be neutral rather than leading; (ii) the interviewees must feel familiar and comfortable with the questions, (iii) the types of questions are open ended to encourage the interviewee to freely express his or her thoughts and feelings. For example, interview topic with a trustee of pension funds would include the following:
(1) Selecting investment manager

Interview questions for this topic:

(a) Would you explain your reasons for hiring an investment manager?

(b) Would you explain your reasons for hiring more than one investment manager?

(c) Would you explain the criteria used to select an investment manager?

4.2.5. Conducting the Interview.

In conducting the interview, the researcher followed as closely as possible Gorden’s (1980) guide for conducting an interview. He divides the interviewer’s major basic tasks into: (i) obtaining information, and (ii) maintaining validity of information. In obtaining relevant information, Gorden (1980) suggests that the role of researcher in the semi-structured interview is to act as a facilitator for the interviewee rather than to dictate exactly what will happen during the interview process. This is because, the researcher is aware most of the volunteer interviewees, investment managers and the trustees, are not used to being interviewed. By acting as facilitator, the researcher can expect the interviewees to give relevant information about the interview questions. In maintaining the validity and reliability of the information given by the interviewees, Gorden (1980) suggests that the information given by the interviewees must be comparable and classifiable so that any differences in the answers are due to
differences among the interviewees rather than the interview questions asked by the researcher.

In this case study, the researcher performs several tasks in order to obtain relevant information from the interviewees. First, a letter is sent to the target interviewees outlining the purpose of the interview and an estimate of the duration of the interview (approximately 45 minutes). Second, the researcher contacts the target interviewee to seek his/her willingness to be interviewed, and to decide on the time and place of the interview most convenient for the interviewee. Third, at the beginning of the interview process, the researcher outlines the purpose of the study and allows the interviewee to ask any question about the project. Fourth, during the interview process, the researcher tries to communicate clearly one question at a time to detect and correct any misunderstanding of the question by the interviewee. If there is a misunderstanding, the question will be asked again of the interviewee as an additional, differently phrased, question. Fifth, during the interview process, the researcher tries to distinguish between the irrelevant, the potentially relevant, and the clearly relevant information provided by the interviewee.

The researcher needs to perform several tasks in order to increase the validity and reliability of the information. First, the researcher tries to maintain an interpersonal relationship with the target interviewee during the interview process, by indicating the interviewee is an expert in the topic of the interview, and by listening to the interviewee seriously and with total attention. Second, the
researcher tries to monitor the spirit of the interviewee in answering the questions during interview. For example, the interviewer asks the interviewee: may I ask you some more questions? Third, the researcher tries to monitor every effect of the question on the interviewee for example whether the questions make the interviewee feel uncomfortable. Fourth, the interviewer tries to make sure that the conversation does not move too far away from the interview schedule.

4.2.6. Recording and Transcribing Interviews.

Before starting the interview, the interviewee is asked whether the interview may be taped recorded. If interview is recorded, the researcher can concentrate on the topics of the interview and the dynamics of the interview. If the interviewee is not happy for his/her interview to be recorded, the interviewer will need to take notes during the process of the interview. These notes will contain only the relevant information.

In transcribing taped interviews into written text, the researcher consider the suggestions from Breakwell (1995) and Kvale (1996), as follow:

Transcription is sadly a slow and expensive business and it may be necessary to be selective about which elements of the interviews the researcher choose to get transcribed fully ...... Selection can be driven by theoretical concerns (Breakwell, 1995, 241).

Transcripts are not copies or representation of some original reality, they are interpretative constructions that are useful tools for given purposes (Kvale, 1996, p. 165).
Kvale (1996), furthermore, gives several useful suggestions on transcribing the taped interview into written text. The researcher must decide whether the entire interview should be transcribed verbatim, a formal written style, or relevant information condensed and summarised (Kvale, 1996). The decision will depend on the intended use of the transcript. For example, the inclusion of tone of voice and repetition are relevant for psychological interpretations.

In this thesis, the transcription is focused only on answers that relate to the research questions of this study, for the following four reasons. Firstly, the whole interview will be reported as a case study. This means that no single interview will be reported as a case. Secondly, the case study will be reported in a question-answer format. Thirdly, the researcher considers the reliability and validity of transcriptions as suggested by Kvale (1996). In maintaining the reliability, the researcher considers the purpose of the transcriptions. In maintaining the validity of the transcription, the researcher considers the usefulness of the transcriptions for finding the answers to the research questions. Fourthly, the researcher protects the confidentiality of the interviewees, and the interviewees’ institution by disguising the names of the interviewees as Mr. ‘A’ or ‘A’ pension fund in the transcription. For example, Mr ‘A’, trustee of ‘A’ pension funds, said that “honesty is an important criterion in selecting an investment manager”.

4.3. Analysing Case Study Data.

The first aim of a case study data analysis is to find any observed pattern, that is non-random but describable, of the two important aspects of the relationship
between the trustee and the investment manager. These two important aspects are
the key factors of trustworthiness of the investment manager from the perspective
of the trustee; and the key activities performed by the trustee and the investment
manager for building an early relationship and for developing this into a long-term
relationship between them. The second is to examine the observed pattern and
match them with the theoretical patterns that are derived from the theoretical
model of trust (Mayer, Davis, and Schoorman, 1995), and the stages of trust
relationship development (Lewicki and Bunker, 1996).

4.3.1. Mode of Analysis.

Yin (1998) identifies three dominant modes of analysis for case study data:
pattern matching, explanation building, and time series analysis. Among these
modes, pattern matching developed by Trochim (1989) is the most desirable
mode for analysing case study data (Yin, 1998), because it allows the researcher to
match the observed patterns with their theoretical patterns, and to provide
explanations of the results (Trochim, 1989).

This thesis uses pattern matching as a mode of data analysis, for two reasons.
Firstly, the aims of this study are to find the key factors of trustworthiness of an
investment manager, and the key activities performed by both the trustee and the
investment manager in building and developing their relationship. These can be
considered as an observational pattern. Secondly, a trust theory is used which can
produce theoretical patterns of the key factors of trustworthiness of an investment
manager (Mayer, Davis, and Schoorman, 1995), and the key activities for building a trust relationship (Lewicki and Bunker, 1996).

4.3.2. Pattern Matching Model.

According to Trochim (1989, p.356) a pattern is "any arrangement of objects or entities. The term arrangement is used here to indicate that a pattern is by definition nonrandom and at least potentially describable". The purpose of pattern matching is to link two patterns: theoretical and observed. A theoretical pattern is derived from a theory that helps to define what is expected in the data. An observational pattern is derived from data that is used to examine the theoretical patterns. In this case study, the pattern matching model is adopted from Trochim's (1989, p.356) pattern matching model (Figure 5.1), as follow:

Figure 5.1
Process Pattern Matching

Theoretical Realm
Trust Theory

Theoretical Model of Trust
The Stages of Trust Development

Theoretical Patterns:
1. The Key Factors of Trustworthiness of Investment manager
2. The Key Activities to Build and to Develop Relationship with Trust

Pattern Matching

Observed Patterns
1. The Key Factors of Trustworthiness of Investment manager
2. The Key Factors to Build and to Develop Relationship with Trust.

Analysing Case Data
a. Data Reduction
b. Pattern Coding.

Case Data Collected From Interviews

The Relationship Between Trustee of Pension Funds and Investment manager
Observational Realm
The top section of the pattern matching model shows the theoretical realm which may derive from a well developed theory, the ideas of the researcher, or a combination of ideas and theory (Trochim, 1989). In this study, the theoretical realms are a theoretical model of trust developed by Mayer, Davis, and Schoorman (1995), and the stages of trust development proposed by Lewicki and Bunker (1996). First, Mayer, Davis, and Schoorman (1995) have specified three key factors of trustworthiness of a person, that could be applied to an investment manager, these are: ability, benevolence, and integrity. These three factors can be considered as a theoretical pattern. Second, Lewicki and Bunker (1996) defined that there are three stages of a trust relationship development: calculus-based, knowledge-based, and identification-based. Each stage of a trust relationship has key activities that are used by the parties to build a relationship. These key activities can be considered as theoretical patterns.

The lower section of the pattern matching model indicates the realm of observations that are derived from the primary data collection. In this study the observational pattern is the view of trustees about the key factors of trustworthiness of investment managers, and the key activities performed by trustees and investment managers in their efforts to build an early and later long-term relationship.

At the centre of the pattern matching model is the process of matching the observed and theoretical patterns. In this study, the first process is to match the
observational and theoretical patterns of the key factors of trustworthiness of an investment manager. The second process is to match the observed and theoretical patterns of the key activities performed by the trustee and the investment manager for building an early and a long-term relationships between them.

4.3.3. Conducting Pattern Matching.

In the process of pattern matching, the case study data are reduced, categorised, and matched.

- **Case Study Data Reduction** refers to the whole of the interview data as collected by conducting interviews which were reduced by using the research questions and the answers which were incorporated into the Summary of Interviews Data.

- **Pattern Coding** is the term for generating codes aimed at finding the observed pattern of the case from the Summary of Interviews Data. The observed pattern consists of key factors of trustworthiness of the investment manager, the key activities for building and developing the relationship from the perspectives of the trustee of pension funds and the investment manager.

- **Matching the observed to the theoretical pattern.** The observed patterns are the results of pattern coding. The theoretical pattern stems from the theoretical model of trust developed by Mayer, Davis, and Schoorman (1995), and the stages of trust development developed by
Lewicki and Bunker (1996). The aim is to find whether the observational patterns can be explained by a trust theory.

4.3.3.1. Case Data Reduction.

Data reduction refers to the process of selecting, focusing, simplifying, abstracting, and transforming the data that appear in written-up field notes or transcriptions” (Miles and Huberman, 1994, p.10).

Qualitative data can be reduced and transformed in many ways: through selection, through summary or paraphrase, through being subsumed in a larger pattern, and so on. (Miles and Huberman, 1994, p.11).

The whole of the interview data is reduced by codifying the research questions. The aim of data reduction is to find a logical connection among the observational patterns (McCutcheon and McMeredithe, 1993). In this study, the results of the case data reduction is reported in the Summary of Interviews Data. This report is composed, as suggested by Yin (1994), of a series of questions and answers, and (b) a multiple case-report is written in which no single cases are presented. It is realised, however, that the question-and-answer format may not reflect the total amount of information, but the format is helpful to the researcher in obtaining the answers immediately to a series of questions. Without presenting every case in multiple case-studies, the entire case report will help the researcher to find the observed pattern of the case in the form of categories.

The report of Summary of Interviews Data uses a clustered matrix format to display its case data in the form of a cluster response to the research questions (Miles and Huberman, 1994). The format “clustered matrix has rows and columns
arranged to bring together items that belong together” (Miles and Huberman, 1994, p.127). The items related to the research questions are displayed in the columns. The responses to the items are displayed in the rows. For example, the format of the report of the summary of the case data collected from interviews are as follows (figure 5.2):

**Figure 5.2**

**Summary of Interviews Data**

<table>
<thead>
<tr>
<th>The Interviewees</th>
<th>The reasons to invest in securities</th>
<th>The reasons to hire investment manager</th>
<th>The criteria to select investment manager</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. A, president director of B pension fund</td>
<td>........................................</td>
<td>........................................</td>
<td>........................................</td>
</tr>
<tr>
<td>Mr. B, investment director of C pension fund</td>
<td>........................................</td>
<td>........................................</td>
<td>........................................</td>
</tr>
<tr>
<td>Etc.</td>
<td>........................................</td>
<td>........................................</td>
<td>........................................</td>
</tr>
</tbody>
</table>

Miles and Huberman (1994) suggested tactics in reading cluster matrix reports. Firstly, reading across the rows, the researcher may use the tactic of noting relations between variables as a basis to find the relationship between responses of the interviewee to the different questions. For example, Mr. ‘A’, trustee of ‘A’ pension funds, claimed that his reason to hire an investment manager is to get high returns and a transfer of knowledge, so that, he defines the criteria to select an investment manager to include the ability of the investment manager, and the concern of the investment manager with the client’s interests (Appendix 8.1 & 8.3). There is therefore a relation between a reason, such as returns, and the criteria to select an investment manager, such as ability.
Secondly, in reading down the column, the researcher may make a comparison among the interviewees in response to the questions as a basis to sort similar and different responses from the questions. For example, Mr. ‘D’, Indonesian trustee of ‘H’ pension fund defines ability and honesty as criteria to select an investment manager (Appendix 8.3). Mr. ‘AT’, Indonesian trustee of ‘B’ pension fund, defines ability and concern as criteria to select an investment manager (Appendix 8.3). By using pattern coding, the researcher may conclude that the criteria to select an investment manager are: ability (2 interviewees), honesty (1 interviewee), and concern (1 interviewee).

4.3.3.2. Pattern Coding.

Pattern coding is a way of grouping summarised segment data into a smaller number of sets, themes, or constructs” (Miles and Huberman, 1994, p.69).

According to Miles and Huberman (1994), pattern coding has four important functions for qualitative researchers:

(1) It reduces large amounts of data into a smaller number of analytic units.
(2) It gets the researcher into analysis during data collection, so that later fieldwork can be more focused.
(3) It helps the researcher elaborate a cognitive map, an evolving, more integrated schema for understanding local incidents and interactions.
(4) For multiple case studies, it lays the groundwork for cross-case analysis by surfacing common themes and directional processes.
(Miles and Huberman, 1994, p.69).

In this study, pattern coding guides the researcher in reducing and channelling data into a small number of concepts and observed patterns. The process of pattern coding includes defining unit analysis, determining the categories of unit
analysis, and determining the observed patterns. Firstly, the researcher defines the unit analysis based on the interview questions asked of the interviewee. For example, the researcher asks a trustee 'would you explain your reasons for hiring an investment manager?'. This question is considered as a unit analysis of the reason of the trustee for hiring an investment manager. Secondly, the researcher defines the categories of each unit analysis on the basis of the theoretical patterns, and the answers of the interviewees. For example, the reasons of the trustee to hire an investment manager are to obtain transfer of knowledge, and to obtain returns on investment. In this case, transfer of knowledge and returns on investment are categories of the reasons for the trustee to hire an investment manager. Similar reasons, in the form of phrases or words, are grouped into the same category. Thirdly, the researcher defines the observed pattern of the unit analysis based on the categories.

Pattern coding has been used to guide the studies of financial analysts' reports by finance scholars. For example, Govindarajan (1980) uses content analysis research technique to determine the extent to which accounting earnings or cash flow are the most common type of information appearing in the financial analysts' reports. He found that accounting earning appears in financial analysts report more than cash flow. Previts, Bricker, Robinson, and Young (1994) use content analysis to count words and short phrases associated with financial statements appearing in financial analysts' reports. They found that the words or phrases associated with income statements appear more often than balance sheet, or cash flow statements. More recently, Rogers and Grant (1997) have used content
analysis to identify the types of sources of information cited in the reports of sell-side financial analysts. They found that over half of the information in the analysts' reports stem from firms' annual reports.

4.3.3.3. Matching the Observed with the Theoretical Pattern

In an exploratory case study, if comparison between the observed pattern and the theoretical pattern coincide, the results can assist to strengthen the case study's internal validity (Yin, 1994). A theoretical pattern is a hypothesis of what is expected in the data, and an observed pattern is the data used to examine the theoretical model (Trochim, 1989). First, in this exploratory research, the observed pattern is the result of pattern coding that consists of the observed pattern of the key factors of trustworthiness of the investment manager from the view of the trustee and the observed patterns of the key activities performed by the trustee and the investment manager for building a trust relationship. Second, the theoretical pattern of the key factors of trustworthiness of the investment manager is derived from the theoretical model of trust developed by Mayer, Davis, and Schoorman (1995). The key activities for building a trust relationship are derived from the stages of trust development as developed by Lewicki and Bunker (1996).

Yin (1994) identifies three types of pattern matching dependent variables, independent variable pattern matching, and simple pattern matching. In this case study the researcher uses independent variables pattern matching technique, because the observed patterns resulted from pattern coding could be considered as
independent variables (Yin, 1994). The results of this pattern matching is expected to advance the knowledge of the relationship between the trustee of pension fund and the investment manager on the basis of the trust theory.

Pattern matching has some limitations (Trochim, 1989). First, there is no one correct way in which a theoretical pattern must be used. This is because the pattern may be verbal or a collection of mathematical formulae. Second, there is no specific procedure that can be used to provide evidence for a match.

5. Summary.

In this chapter, the researcher explored the case study as a rigorous and relevant research method for the exploration of the relationship between the trustee and the investment manager. The results of this exploration is a guide to develop a case study design. This consists of the framework of the case, data collection through interviews, and case data analysis. There are some reasons for this. Firstly, the case study is focused on the relationship between the trustee and the investment manager. The trustee give a mandate to the investment manager who is responsible for managing active investments on behalf of the trustee. Secondly, the primary data is collected through semi-structured interviews with key informants and specialist interviewees both trustees of the pension funds and investment managers. Thirdly, the case data analysis is divided into three steps: presenting a summary of interviews data (Miles and Huberman, 1994), pattern coding to find the categories (Miles and Huberman, 1994), and pattern matching
to find the extent to which the observed pattern is explained by the theoretical pattern (Trochim, 1989).

In the next four chapters, the researcher will explore and analyse the Indonesian case study.