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 10

Research Findings and Conclusions

1. Introduction

This thesis investigated the role of trust for building and developing a relationship between Indonesian trustees of pension funds and investment managers. The investigation focused on two critical aspects of the relationship, these were: (i) the key factors of trustworthiness of the investment manager needed by the trustee to reduce his/her risks in the relationship, and (ii) the key activities performed by both the trustee and the investment manager in building a relationship which can be divided into two stages: an early and a long-term relationship. In exploring these two aspects of the relationship, this thesis used the theoretical model of trust (Mayer, Davis, and Schoorman, 1995) and the stages of trust development (Lewicki and Bunker, 1996) as guides. The case study research method was used as a guide to data gathering and analysis.

Interview data was analysed using the pattern coding of Miles and Huberman (1994) to group summarised data into categories. These included: (i) the key factors of trustworthiness of an Indonesian investment manager; and (ii) the key activities performed by both the Indonesian trustee and the investment manager for building an early relationship, and for developing this into a long-term one. The researcher used the pattern-matching technique of Trochim (1989) to match
the observed results on trustworthiness factors and relationship building activities
to the theoretical patterns described by the models of Mayer, Davis, and

This chapter is organised into two topics: (i) the findings of the Indonesian case
study, and (ii) the conclusions reached.

2. The Findings of the Indonesian Case Study.

In investigating the role of trust in building and developing a relationship between
an Indonesian trustee and an investment manager, this thesis found: (i) the reasons
for the trustee to hire an investment manager, (ii) the key factors of
trustworthiness of an investment manager, (iii) trust as a component in the
relationship, and (iv) the key activities for building and developing a trust
relationship.

2.1. The Relationship Between Trustee and Investment Manager.

Interviews revealed that the duration of the trustees’ relationship with an
investment managers varied from 1 to 4 years. The main requirements for a
relationship between the Indonesian trustee and investment manager are the result
of: (i) the ability of the investment manager to develop investment products,
mutual funds and individually managed portfolios, and to offer investment
services such as the transfer of knowledge needed by trustees (see chapter six),
and (ii) the exercising of power by trustees to hire at least one investment
manager to manage active investments on their behalf (see chapter seven). The finding of using a number of investment products to meet the needs of trustee supports the argument of Ellis (1992) that multi markets need to be served by multi products. The findings of the need of the trustee to hire an investment manager supports the argument of Kumples and McCrae (1999) that most trustees' investment function are delegated to professional investment intermediaries.

From the requirements for a relationship, this thesis concludes the characteristics of the relationship between the trustee and the investment manager are: (i) the trustee relies on an investment manager to obtain return on investments; (ii) the return on investments obtained by the trustee from the relationship with an investment manager is uncertain because the returns could be below or above the benchmark, and (iii) the trustee must pay agreed upon fees to the investment manager although the returns are below the benchmark or even if the principal capital is decreased. Considering these characteristics, this thesis concludes that the trustee bears risks from the action and the performance of an investment manager.

2.2. Reasons for Indonesian Trustees Hiring Investment Managers

In implementing investment strategies in the stock market, Indonesian trustees have the power to hire an investment manager, on a fee basis, to manage active investments in stocks and bonds on their behalf. According to the results of the
interviews (Appendix 7), the major reasons why trustees hire investment managers were:

(1) transfer of knowledge.

(2) returns on investments.

(3) learning about active investment management.

This thesis found that transfer of knowledge is a significant reason for Indonesian trustees to hire investment managers. This finding provides empirical evidence which supports the argument of Ennis (1997) that investment services, which include a transfer of knowledge, are important to maintain the standard of service to the existing clients. Most Indonesian trustees of large pension funds are concerned with the transfer of knowledge from the investment manager because trustees of large pension funds see this as an effective way to educate their staff about active investments. The staff is expected to have the ability and experience in managing active investments that will be useful in setting up in-house active investment management in the future. The trustee of small pension funds, however, has a limited number of staff, therefore, the trustee is more concerned with returns on investment than transfer of knowledge from the investment manager. He/she does not contemplate a future in-house investment policy.

This thesis found that returns on investments is another significant reason for the Indonesian trustees to hire an investment manager. This finding confirms the suggestion of Lee (1990) that trustees must pay great attention to the investment performance of the investment manager in terms of returns because by hiring an
investment manager, the trustee’s responsibility is not at an end. He/she must take the responsible for the returns on investment to the members of the funds whether the investment performance is good or poor. Indonesian trustee are also concerned with returns on investment because if the return on investment has been good for several years, this return will be a useful lever to increase the benefits of the retirees, or the liquidity ratio of funds.

2.2.1. Hiring More Than One Investment Managers

The result of the interviews with Indonesian trustees of large pension funds indicated that in implementing the investment strategies in the stock market, they can hire more than one investment manager to manage their active investment. This result confirms the evidence that some trustees of large pension funds in developed countries hire more than one investment manager, as stated by Fant and O’Neal (1999). The results of the interviews indicated that the major reasons why the Indonesian trustees hire more than one investment manager are:

1. performance comparison among investment managers.
2. investment service quality comparison.
3. risks diversification from the possible errors of a single investment manager.

Indonesian trustees hired more than one investment manager in order to be able to evaluate the performance of an investment manager and his/her investment services by comparing with other investment managers’ performances. This evaluation is important since trustees of large pension funds generally suffer
from: (i) lack of experience in assessing the ability of an investment manager, (ii) lack of information about the investment managers' historical performance, and (iii) lack of benchmarks to evaluate the performance of an investment manager.

This thesis found that risk diversification from the possible errors of a single investment manager is one reason why the Indonesian trustee hires more than one investment manager. This finding provides empirical evidence to the argument of Sharpe, Alexander, and Bailey (1999) that the aim of using many more than one investment manager is to reduce risks that stem from the possibility of mistakes made by an investment manager; and the contention of Sorenson, Miler, and Samak (1998) that the trustee in hiring more than one investment manager can reduce the risk of choosing the wrong investment manager.

2.3 The Key Factors of Trustworthiness in an Investment Manager.

Indonesian trustees of pension funds used several criteria in selecting an investment manager. The results of the interviews with the trustees indicated that the criteria used by Indonesian trustee interviewees in selecting an investment manager can be divided into criteria that are (i) related to the reputation of investment management firm; and (ii) related to the degree of trustworthiness of the investment manager. The trustees of medium and large pension funds used both criteria related to the reputation of investment management firms and the factors of trustworthiness of the investment manager because the trustees realise that the investment services provided by the investment manager depends on the support and resource from a good investment management team, first class
research facilities, and careful administration. However, this thesis can only be concerned with the criteria related to the factors of trustworthiness of an investment manager.

This thesis was found that although there are some variations in the important of each critical factor among the Indonesian trustee interviewees, they were agreed that the key factors of trustworthiness in an Indonesian investment manager were:

(1) ability.
(2) benevolence
(3) integrity.
(4) openness in communication

The finding of these key factors of trustworthiness of an investment manager provide empirical evidence to the contentions of some scholars that a trustworthy person can be determined by ability, benevolence, integrity (Mayer, Davis, and Schoorman, 1995; Shaw, 1997), and by communication (Whitener, Broadt, Korsgaard and Werner, 1998). These factors of trustworthiness of the Investment manager are important for the Indonesian trustee to reduce risks in the relationship with the investment manager as argued by Sheppard and Sherman (1998). For a high level of trust to exist, these factors of trustworthiness in the investment manager must be exhibited and practiced consistently by the investment manager (Shaw, 1997).
Statement 1: The Level of trustworthiness of an investment manager is the function of his/her ability, honesty, benevolence, integrity, and openness in communication.

2.3.1. Ability.

The term *ability* was used to denote the extent to which the Indonesian investment manager provide benefits to the Indonesian trustee of the pension funds. The ability of the investment manager must be reflected in his/her effort to maintain or improve performance (Ang, Chen, and Lin, 1998). The findings of *ability* as a key factor of trustworthiness of the Indonesian investment manager confirmed the results of previous studies conducted by Swan, Trawick, and Silva (1985), Moorman, Deshpande, and Zaltman (1993), and Stewart (1998) that a person gains trust from others by demonstrating his/her competency, ability, and expertise.

This thesis concludes that the *ability* of the investment manager is important for a trustee because the reason for trustees hire an investment manager is to receive benefits from the relationship in the form of a transfer of knowledge, and returns on investment. These benefits could be realised, if the investment manager has a high degree of ability in active investment management. Thus, it is the responsibility of the trustee is to select and hire a skilful investment manager.

The Indonesian trustees in their interviews expressed their understanding of the *ability* of an Indonesian investment manager as being synonymous with expertise; reputation; performance; knowledgeable, and experience. However, the trustee
Can only measure the ability by the past record of performance of the investment manager, investment qualifications, the number of years of investment experience, the information used to support his/her investment decision, and other trustees' recommendation.

2.3.2. Benevolence.

In this thesis, *benevolence* was defined as the extent to which an Indonesian investment manager gives protection and is concerned with the trustee's interest. The investment manager can demonstrate his/her concern in the form of showing consideration for the trustee's target returns and the trustee's interest in the transfer of knowledge; acting in a way to safeguard the trustee's funds; and refraining from taking benefits for personal gain. The research finding of *benevolence* as a key factors of trustworthiness of an Indonesian investment manager supports the results of previous studies conducted by Gaboro (1978), Posner and Schmidt (1984), and Butler (1991), McAlister (1995); and Mishra (1996) that a person gains trust from others by demonstrating his/her loyalty, supportiveness, and concern.

This thesis concludes that the *benevolence* of the investment manager is very important for the trustee of large pension funds because the trustee hired an investment manager to gain benefits from the relationship in the form of receiving up to date market information, obtaining investment education for the trustee's staff, using research facilities such as a current data base, and obtaining returns on investments. The benevolence of the investment manager is also very important
for the trustee of small pension funds because the trustee hired an investment manager to receive benefits from the relationship in the form of returns on investments. These benefits can only be realised if the investment manager has not only a high degree of ability but also benevolence in protecting the interest of the trustee. Thus, the responsibility of the Indonesian trustee is to select and hire an investment manager who can demonstrate his/her concern for the benefit and interests of the trustee.

The Indonesian trustee in their interviews expressed their understanding of benevolence of an investment manager by using synonym terms such as: concern with returns on investment, concern with providing good investment services, the willingness to transfer investment knowledge, concern with the costs of transactions paid by the trustee, and avoiding the possibility of using information for personal gain. The trustee can only measure the benevolence of the investment manager based on the number and quality of investment services provided, the investment team of the investment manager, and other trustees' recommendation.

2.3.3. Integrity.

In this thesis, integrity was defined as the extent to which the investment manager acts consistently with what he/she says, and adheres consistently to the investment management agreement. The investment manager can demonstrate his/her integrity in the form of providing true information, keeping promises and providing honest explanations. The research finding of integrity as a key factors of trustworthiness of an Indonesian investment manager supports the results of
previous studies conducted by Gabaro (1978), Butler and Cantrel (1984), Schindler and Thomas (1993), and Shaw (1997) that a person gains trust from others by explaining honestly and acting with integrity. However, if a person is consistently incompetent and dishonest, this person will not be trusted.

This thesis concludes that the integrity of the investment manager is very important for the trustee of small pension funds because the aim of the trustee is to hire an investment manager to whom a mandate can be given with confidence to use the trustee’s investment policy as a basis for managing active investments. This aim can be accomplished if the investment manager has a high degree of integrity. This will ensure the investment manager can maintain and keep the investment management agreement, safeguard the funds from personal profit motives and the possibility of fraud, and provide true information. Thus, the responsibility of the trustee is to select and hire an investment manager who will act with integrity and shows his/her honesty.

The Indonesian trustee in their interviews expressed their understanding of integrity by synonym terms such as honesty, keeping promises, and acting as said. The trustee can only measure the integrity of an investment manager based on the historical record of information provided by other clients, the willingness of the investment manager to adhere to the investment management’s agreement, and the consistency between how he/she acts with what he/she says.
2.3.4 Openness in Communication

In this thesis *openness in communication* was considered to be the extent to which an investment manager willing to provide all relevant information to manage active investment and to exchange ideas with the trustee. The research found *openness in communication* was an additional key factors of trustworthiness of the investment manager. This finding of openness in communication supports the results of previous studies conducted by Buttlar (1991) and Sapienza and Korsgaard, (1996) which indicate that a person gains trust from others if he provides open communication, and adequate explanations.

This thesis argued that the *openness* of the investment manager in communication is important for the trustee because the trustee has the responsibility for evaluating the performance of his/her relationship with the investment manager. The performance of their relationship could be in the form of returns on investment, investment services, the safety of the funds, and the duration of their relationship. This evaluation can be valuable if the investment manager communicates regularly with the trustee by providing accurate information, submitting reports regularly, meeting regularly, and sharing information and ideas. Thus, the trustee has the responsibility for selecting and hiring the investment manager who must be willing to communicate regularly, because, the amount and quality of communication can affect the perceptions of the trustee of the trustworthiness of the investment manager (Whitener, Broadt, Korsgaard, and Werner, 1998).
The Indonesian trustees in their interviews expressed their understanding of openness of the investment manager in communication as synonymous with the willingness of the investment manager to meet the trustee regularly, to provide adequate explanations, to share ideas, and to provide detailed reports. However, the trustee can only measure the openness of an investment manager in communication based on the information obtained from the investment manager's clients, and the way an investment manager persuades the trustee to build a relationship with him/her.

2.4. Trust is a Key Component of a Relationship Between Indonesian Trustee of Pension Funds and Investment Manager.

This thesis concludes that trust is a key component of a relationship between the Indonesian trustee and the investment manager because the trustees have to be aware that they bear the risks in a relationship with an investment manager. The risk may be due to the trustee depending on the investment manager who (i) may provide returns below or above benchmark, (ii) may not be concerned with the interests of the trustee, (iii) may not act with integrity in managing an active investment, and (iv) who may not be open in the communication with the trustee. Sheppard and Sherman (1998) identified some qualities of trustworthiness that are able to reduce the risks: ability, honesty, and integrity. Therefore, in order to reduce risk in the relationship, the trustee need trust as an important component in building relationship with an investment manager. Trust is “believe that those on whom we depend will meet our expectation of them” (Shaw, 1997, p.21).

Statement 2: The degree of trust of trustee in an investment manager is determined by the degree of trustworthiness of an investment manager.
Trust as an important component in the relationship between Indonesian trustee and investment manager provides empirical evidence to the arguments of some scholars, such as Chiles and McMackin (1996) and Shaw (1997). They argued that uncertain situations may lead to a positive or negative outcome in a long-term relationships, trust is needed by the party who is in the vulnerable position. Frost, Stimpson, and Maughan (1978) argued that if a party depended on others to obtain outcomes then they suggested that trust is needed as a basis of the relationship. Sheppard and Sherman (1998) argued that in a risk taking relationship trust is able to reduce or mitigate the risk of unreliability, that is, the other party will not behave as expected; and the risk of cheating is based upon asymmetry in knowledge; and omission of the other's interest.

2.5. The Key activities Performed by Both Indonesian Trustees and Investment Managers for Building Their Relationship

The trust relationship between an Indonesian trustee and the investment manager was developed gradually in line with the satisfaction of the trustee with the benefits obtained from an investment manager because the Indonesian trustee regularly monitors and evaluate the benefits provided by the investment manager in order to decide whether the relationship with the investment manager will be continued or not. These monitoring and evaluation activities support the argument of Burroughs (1995) that a trustee who appoints an investment manager must be prudent in monitoring and evaluating his/her performance.

Statement 3: The development of trust relationship is the function of key activities performed by both the trustee and the investment manager.
The finding of trust development in the relationship between an Indonesian trustee and the investment manager supports the contention that trust develops along with the relationship, that is, through mutual satisfaction and increasing confidence in the relationship (Driscoll, Davis, and Lipetz, 1972), good past experiences and interactions (Rempel, Holmes, and Zanna, 1985), and the results of past interactions (Lewicki and Bunker, 1996). This thesis concluded that the stages of trust development between an Indonesian trustee and the investment manager at this time, can be divided into two stages: (i) an early relationship, that is, a duration of less than two years; and (ii) a long-term relationship, that is a duration of more than two years.

2.5.1. The Key activities for Building an Early Relationship

The characteristics of an early relationship between an Indonesian trustee and an Indonesian investment manager is based on rational decisions because most trustee interviewees in this stage of relationship are concerned with obtaining benefits from the investment manager, and the safety of the funds. The characteristics of an early relationship between the trustee and the investment manager could be like that of the calculus-based trust, that is, trust based on economic calculation, as defined by Lewicki and Bunker (1996)

According to the activities performed by both Indonesian trustees and investment managers for building their early relationship (Appendix 9), this thesis was found two key activities which both the trustee and the investment manager agreed upon for building their early relationship, these are:
(1) providing benefits for both the trustee and the investment manager in the early relationship,

(2) building communication links between the trustee and the investment manager in the early relationship.

The finding of providing benefits for both the trustee and the investment manager in the early relationship as a key activity for building an early relationship between Indonesian trustees and investment managers supports the arguments of Lewicki and Bunker (1996) about the key activity for building calculus-based trust its early stages.

The key activity for providing benefits to the trustee in an early relationship is important for the trustee because the early relationship is built on the basis of the trustee's economic calculation of cost and benefit. If the benefits are higher than the costs of the relationship, that is the fee paid to an investment manager, the trustee will begin to trust in the investment manager by building early relationship. The Indonesian trustee assumes that the ability and benevolence of the investment manager toward the trustee will determine the extent to which the trustee will gain benefits from the relationship with an investment manager. Any lack of integrity by the investment manager will determine the cost of the relationship for the trustee. Therefore, the trustworthiness of the investment manager is an important component of realising the benefits and the incurring of costs of the relationship.
The finding of *building communication links* between the trustee and the investment manager in the early relationship support the contention of Danfort (1987, p.46) that "communication is a primary factor in trust relationship". The activity of building communication can be considered as an additional key activity for building calculus-based trust as defined by Lewicki and Bunker (1996). Building communication in an early relationship is important to both parties. For the investment manager, communication is a means to prove his/her ability, benevolence, and integrity in implementing the investment management agreement. For the trustee, communication is a useful way to monitor and evaluate the implementation of the investment management agreement, and to obtain investment services.

2.5.2. The Key Activities for Developing a Long-term Relationship

Most Indonesian trustee interviewees, if they are satisfied with the benefits obtained in the early stages, will continue the relationship with the investment manager by extending their investment agreement. If it happens, the relationship between a trustee and an investment manager will move into a long-term relationship, that is, of more than two years duration.

The characteristics of a long-term relationship are based on both rational and emotional decisions because the aim of the trustee in developing a long-term relationship is to gain benefits from a close relationship, and be able to predict future actions of the investment manager based on his/her past actions. The characteristics of a long-term relationship between the Indonesian trustee and
investment manager are similar to that of a knowledge-based trust, that is, trust based not only on economic calculations but also on emotional reasons, as defined by Lewicki and Bunker (1996).

According to the results of interviews with both the Indonesian trustees and investment managers, the activities performed by them for developing a long-term relationship (Appendix 9), two key activities were agreed upon by both the trustee and the investment manager as necessary for building their long-term relationship, these are:

1. to communicate regularly.
2. to maintain the degree of trustworthiness of the investment manager.

These activities are not separate but together determine the duration of the relationship between the Indonesian trustee and the investment manager.

These findings of key activities for developing a long-term relationship between Indonesian trustees and investment managers support the argument of Lewicki and Bunker (1996) about the importance of regular communication as the key activity in the stages of trust development that is, knowledge based trust. The finding of a key activity for communicating regularly support the argument of Donney, Cannon, and Mullen (1998) that regular communication is needed by one party to have information about the other party's past actions in order to predict that party's future actions.
The key activity of regular communication is important for the trustee because his/her long-term relationship with the investment manager depends on the satisfaction of past relationships and future predictions. Regular communication will provide the opportunity for the trustee to evaluate the performance of an investment manager, receive explanations, and discuss the investment plan. These are the reasons that regular communication is a key activity for developing a long-term relationship because without regular communication, the trustee will lose information that is important to evaluate and monitor the performance of investment manager.

3. Conclusion of Case Study: Suggested Extensions to the Basic Model of Trust Relationship

A synthesis of the findings suggest some extensions of the basic model of trust relationship between trustee and an investment manager. The foundation of this model is the model of trust (Mayer, Davis, and Schoorman, 1995) and the stages of trust development (Lewicki and Bunker, 1996). This model of trust relationship consist of five components these are: (i) the reasons for the trustee to hire investment managers and to continue the relationship, (ii) the key factors of trustworthiness of an investment manager, (iii) the degree of trust, (iv) the key activities for building trust relationship, and (v) the stages of trust relationship. The relationship of these components can be seen in the Figure 10.1, explained and summarised as a series of statements, as follows.
3.1. The Assumption of Model of Trust Relationship

The assumptions of this model are: (i) there are 2 parties: the trustee and the investment manager; (ii) the trustee and the investment manager agree to form a relationship but neither party has any prior experience in the relationship, (iii) the relationship is a one sided reliance in as much as the trustee depends of the investment manager who expects to act on behalf of trustee, and (iv) trustee regularly evaluate the outcome of the relationship and then decides to continue or discontinue the relationship.

A trustee, in relation to the pension fund, is a person who manages the fund.

An investment manager is defined as a qualified person appointed by the trustee of a fund to manage active investment on behalf of trustee.
3.2. The Purpose of Model of Trust Relationship.

A model of trust relationship explains how trust is trigger for the trustee to operate in a relationship with an investment manager. The general purpose of this model is to show the role of trust in the building and developing of the financial intermediation relationship between a trustee of pension funds and the investment manager. The specific purpose of this model is to show the process of how trust operates in the relationship between a trustee and an investment manager. These processes include: (i) how the trustee assesses the degree of trustworthiness of an investment manager, (ii) how the identified key factors of trustworthiness of an investment manager determine the level of trust a trustee has in the investment manager, (iii) how the identified key activities operate to include trust into the building and developing of a trust relationship. (iv) how evaluation of the relationship in terms of the benefits of the relationship and the degree of trustworthiness is important for the decision to continue or discontinue the relationship.

*Trust* is the willingness of trustee to be vulnerable to the actions of the investment manager based on the expectation that the investment manager has high degree of trustworthiness and will perform a particular action important to the trustee, irrespective of the ability to monitor or control the investment manager (adapted from Mayer, Davis, and Schoorman, 1995).

*Key factors of trustworthiness* of an investment manager are the attributes of investment manager that enhance the confidence of trustee to trust in him/her (Mayer, Davis, and Schoorman, 1995).

*Key activities* are the activities agreed by both trustee and investment manager as an important activities for building their trust relationship (Lewicki and Bunker, 1996).
3.3. The Components of Model of Trust Relationship.

The model of trust relationship consists of five components. These components are (i) the reasons trustees hire investment managers or continue the relationship, (ii) the key factors of trustworthiness of an investment manager, (iii) the degree of trust, (iv) the key activities for building a trust relationship, and (v) the stages of trust relationship. The relationship of these components can be seen in the Figure 10.1 and explained as follows:

(i) The trustee must have some reasons that give the impetus for hiring an investment manager. This thesis found two major reasons for Indonesian trustee to hire an investment manager. These are: to obtain returns on investments and transfer of knowledge because the members of pension funds concern with returns on investments and the staff of pension funds concern with transfer of knowledge. Therefore, the reasons for the trustee to hire an investment manager will affect the trustee's degree of trust in him/her. As a consequence, the trustee must assess the degree of the trustworthiness of an investment manager because the benefits to the trustee will be realised if the investment manager has a high degree of trustworthiness.

(ii) The trustee assesses the key factors of trustworthiness of an investment manager by gathering information from the investment manager or from others including the clients of investment manager. This thesis found four key factors of the trustworthiness of Indonesian investment manager, these are ability, benevolence, integrity, and communication. These four key factors are not
separate but together determine the level trustworthy of an investment manager.

Statement 1: The degree of trustworthiness of an investment manager is the function of his/her ability, honesty, benevolence, integrity, and openness in communication.

The trustee also assesses the potential risks in a relationship with the investment manager such as variations of returns, loss of capital from fraud, and using information for personal gains. These kinds of risks can be reduced if the investment manager has a high degree of trustworthiness. The degree of risks the trustee faces in a relationship with an investment manager will be low, if the degree of trustworthiness of an investment manager is high.

(iii) The trustee's degree of trust in the investment manager is the function of his/her four key factors of trustworthiness. Therefore, the trust level of the trustee in the investment manager is dynamic and may be increased or decreased depending on the degree to which the investment manager possesses the key four factors of trustworthiness.

Statement 2: The degree of trust of trustee in an investment manager is determined by the degree of trustworthiness of an investment manager.

The trustee also needs to compare the degree of trust in an investment manager to the degree of risk in the relationship. If the degree of trust in the investment manager by the trustee is higher than the degree of risk from the investment manager, the trustee will build a relationship with the investment manager.
(iv) The trustee and investment manager must perform activities that are important for the operation of trust in the stages of a relationship. This thesis found two key activities that must be performed by both the trustee and investment manager for building an early relationship. These are: providing benefits and building communication links. Two key activities were also found for developing a long-term relationship that must be performed by both trustee and investment manager. These activities are: regular communication and demonstrating and maintaining trustworthiness of investment manager.

Statement 3: The development of trust relationship is the function of key activities performed by both the trustee and the investment manager.

(v) The stages of a trust relationship between the trustee and an investment manager is developed gradually over time. This thesis defines two stages of trust relationship between the trustee and an investment manager. These are: an early relationship and a long-term relationship. Trust relationship between the trustee and the investment manager begins with an early relationship and may move forward to a long-term relationship.

Statement 4: Trust relationship between trustee and investment manager develops gradually over time through a progression of stages.

(vi) The trustee must have some reasons for continuing the relationship with an investment manager. The reasons are related to the benefits of a relationship with the investment manager. If the benefits are higher than the costs, the trustee will continue the relationship with the investment manager. Therefore,
the trustee periodically evaluates the benefits and cost of relationship with the investment manager. If the trustee is satisfied with the benefits of a relationship, he/she will continue the relationship with the investment manager.

4. Summary.

In summary, this case study was exploratory in nature because not much is known about the relationship between the trustee and the investment manager. This thesis investigated the role of trust for building and developing a relationship between Indonesian trustees and investment managers. The investigation focused on two important aspects of their relationship: (i) the key factors of trustworthiness of the Indonesian investment manager, and (ii) the activities performed by the Indonesian trustees and the Indonesian investment managers in building both an early relationship and a long-term relationship.

The major findings of this case study are that:

(a) the principal reasons for a trustee to hire an investment manager are (i) to obtain returns on investment, and (ii) a transfer of knowledge.

(b) the key factors of trustworthiness of an investment manager are ability, benevolence, integrity, and openness in communication.

(c) the key activities for building an early relationship include providing benefits for the relationship and building communication links.
(d) the key activities for developing a long-term relationship include: (i) maintaining the degree of trustworthiness of an investment manager and, (ii) regular communication.

The major conclusions of this case study are that:

(a) trust is an important component of the relationship between the trustee and the investment manager.

(b) the degree of trust of trustee in an investment manager is determined by the degree of trustworthiness of an investment manager.

(c) the degree of trustworthiness of an investment manager is the function of his/her ability, honesty, benevolence, integrity, and openness in communication

(d) the development of trust relationship is the function of key activities performed by both the trustee and the investment manager.

(e) trust relationship between the trustee and the investment manager is developed gradually.

(f) a model of trust relationship between trustee and investment manager is proposed. This model explains the process of how trustee trust in investment manager and how they build and develop their relationship.

The next chapter will discuss the contribution and limitations of this study and suggestions for future research.