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

Djoko Wintoro
University of Wollongong

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An Investigation of the Role of Trust in the Relationship Between Pension Fund Trustees and Investment Managers: An Indonesian Case Study

A thesis submitted in fulfilment of the requirements for the award of the degree

DOCTOR OF PHILOSOPHY

From

UNIVERSITY OF WOLLONGONG

by

Djoko Wintoro
MA, MComm

DEPARTMENT OF ACCOUNTING AND FINANCE
2000
Declaration

I, Djoko Wintoro, declare that this thesis, submitted in fulfilment of the requirement for the award of Doctor of Philosophy, in the Department of Accounting and Finance, University of Wollongong, is wholly my own work unless otherwise referenced or acknowledged. The document has not been submitted for qualifications at any other academic institution.

Djoko Wintoro
July 2000
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Acknowledgments

Firstly, I thank to my supervisor, Professor Michael McCrae for his guidance and help in translating the general concepts and relationship of 'trust' underlying the thesis in a coherent and logical structure. I owe a great debt to him for his forbearance and faith in my ability to complete the study. I also wish to thank Professor Michael Gaffikin and Professor David Johnston for their suggestions, advice and feedback on qualitative research issues at various stages during the progression of the thesis.

Secondly, I am indebted to Dr. Djisman S Simandjuntak and my colleagues at Prasetya Mulya Graduate School of Management - Indonesia for their moral and financial support during my study.

Thirdly, I thank to my family - Anggie, Riesta and Hastiati. They have always accepted the academic demands involved in completing this study and tempered their demands accordingly. Unknowingly, they have provided motivation and understanding.

Finally, I wish to thank the Indonesian trustees and investment managers who consented to give their time to participate in the interview process. Without their assistance, this thesis would not have been possible.
ABSTRACT

This thesis explores the role of trust in the relationship between Indonesian pension fund trustees and the investment managers they hire as financial intermediaries by focusing on two important aspects of relationship: (i) the key factors or characteristics of trustworthiness in an investment manager which are important from the trustee's perspective, and (ii) the key activities performed by both the trustee and the investment manager for building their trust relationship. Two theoretical models are used as a guide for exploring the relationship between trustee and investment manager. These are: (i) the model of trust developed by Mayer, Davis, and Schoorman (1995) and (ii) a model of the stages of trust development proposed by Lewicki and Bunker (1996). A case study approach is used to gather and analyse data. The primary data is collected from in-depth interviews with 11 trustees from separate pension funds and 11 investment managers from different firms. The interview data are then summarised and analysed through the pattern coding technique proposed by Miles and Huberman (1994). The pattern matching technique is then used to compare the resultant categories of factors and activities to the suggested theoretical patterns. The major research findings of this study are: (i) the key factor of trustworthiness of an Indonesian investment manager are: ability, benevolence, integrity, and openness in communication, and (ii) communication links represent an additional key activity for building an early relationship. These findings support the following conclusions: (i) trust is an important component of the relationship between trustee and investment manager, (ii) the degree of trustee in an investment manager is determined by the degree of his/her trustworthiness, and (iii) the trust relationship between trustee and investment manager develops gradually over time and appears to pass through distinct, progressive stages. The theoretical contributions of this study include: (i) adding trust as an important component in the relationship between trustee and an investment manager, (ii) adding another key factor that influences the degree of trustworthiness of an investment manager from the trustee's perspective, (iii) proposing a modified model that may significantly contribute to an understanding of the role of trust in the formation and development of mutually beneficial, stable relationships between pension fund trustees and investment managers in the Indonesian financial market context. Several limitations to the study are acknowledged. The study focuses on only one type of institutional investors. Moreover, the researcher could not observe the actual relational dynamics between the trustee and the investment manager. But had to rely on the perceptions of that relationship as expressed in interview data and through supporting evidence. The study also suggests some fruitful areas for future investigation into the modeling and other aspects of the role of trust in this important relational area between trustees and investment managers within the explosive growth of pension fund investment activity in Indonesian financial markets in general, and on the Jakarta Stock Exchange in particular.