THE EFFECT OF BOARD DIVERSITY ON FINANCIAL PERFORMANCE OF EMPLOYER’S PENSION FUND

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Abstract

Good corporate governance as a concept gains wide public attention especially after the 1997-1998 financial crises. The falls of many financial institutions is believed related to the absence of good corporate governance. As one of financial institutions which mainly serve for providing future benefits after retirement, Indonesian employer’s pension fund also required to implement good pension fund governance through a regulation from Head of BAPEPAM-LK Number Kep-136/BL/2006 about the Guidelines of Pension Fund Governance. The implementation of this regulation will give impacts on the board diversity since the board will be the front line in implementing good pension fund governance.

The objective of this research is to examine the effect of board diversity to financial performance of Indonesian employer’s pension fund. In this research, board diversity is measured by three variables, i.e. gender, education background and duality. Financial Performance is measured by Return on Investment, Return on Assets and Fund Sufficiency Ratio. Research sample consists of ten employer’s pension fund as members of Indonesian Christian Pension Fund Association who conduct defined benefit program, which possesses complete data from 2006-2009 Association’s Directory. Analysis is done with multiple regressions by controlling pension fund basis, board size and pension fund size. The result finds that board diversity impact employer’s pension fund financial performance. It implies the need to consider board heterogeneity in the election of board member to optimize employer’s fund financial performance.

Keywords: corporate governance, board diversity, financial performance, pension fund.

Abstrak


mengimplikasikan perlunya mempertimbangkan heterogenitas di dalam pemilihan pengurus dana pension dalam rangka mengoptimalkan kinerja dana pensiun pemberi kerja.

Kata kunci: corporate governance, board diversity, financial performance, pension fund.

JEL Classification: G23, G34

1. Introduction

The economic system of a country is widely known as one of the factors which influence its economic growth because economic system has an important role to channel fund from surplus unit to deficit unit. Fund mobilization is very important because business sectors which often serve as the deficit unit need the fund to finance their business operation which in turn will create job opportunity and finally give significant contribution to economic growth.

As one of the country which severely affected by financial crises in the late of 1990s, Indonesia has been aware of the strategic role played by economic system. A healthy financial system is needed to accelerate Indonesian economic growth. Learning from its past experiences, Indonesian government has put much attention to the reformation process in its financial sectors. Many new regulations are passed by the house of representative in order to prevent the crises from happening in the future, include the regulation of good governance implementation.

The formulation of National Committee for Corporate Governance (NCGG) on 9 August 2001 was a proof of Indonesian government seriousness in doing governance reforms as mandated by International Monetary Fund (IMF). Following the formulation was the issuance of Indonesian Code of Corporate Governance which was adopted from the OECD Principles of Corporate Governance. The Indonesian Code of Corporate Governance thus triggered the issuance of many regulations by Indonesian Capital Market Supervisory Agency (Harijono and Tanewsky, 2010).

Pension Fund as one of non-bank institutions has also been regulated to secure its operation. One of the regulations which emerged on 2006 is The Capital Market Supervisory Body and Financial Institutions Decree Number Kep-136/BL/2006 about Good Pension Fund Governance. The regulation mandated every pension fund to reduce its operation risk and to formulate pension fund governance. There are several main principles of pension fund governance according to the decree, namely transparency, accountability, responsibility, independency, and fairness.

According to Black et al (2002), good corporate governance will influence firm value which explanation is based on signaling theory and endogenity. Good governance will send a positive signal to firm value hence a good corporate will tend to implement good governance. Other studies by Carter et al. (2003 and 2007) found the relationship between board characteristic and firm value although the results is contradictive. Since board diversity will influence good governance which in turn affect firm value thus it is hypothesized that board diversity will have an effect on firm value.

In the context of pension fund, the implementation of good pension fund governance is highly determined by pension fund directors as the executive of pension fund operation. The diversity of pension fund directors is assumed will influence pension fund value. This research aims to examine the relationship between board diversity and pension fund value since the research in pension fund institutions is rarely found.

The selection of pension fund as the object of this research is based on several considerations. First, the scarcity of research in pension fund industry. Secondly, the requirement of Pension Fund to implement Pension Fund Governance as stated in regulation from Head of BAPEPAM-LK Number Kep-136/BL/2006 about the Guidelines of Pension Fund Governance, Third, unlike banks and insurance which highly regulated due to their strategic position in