



Building trust

✓ M. Catherine Miller reveals how to build an effective board of trustees

It's all too common for pension trustees to believe that they are exceptional at their jobs when, truly, they aren't.¹

And why is that? Field research shows that pension trustees make decisions, by and large, for non-financial reasons; they're more influenced by the opinions of their social circle and what they've picked up from news cycles than accurate, prudent financial research. Boards are often made up of closed social networks without checks and balances.² In other words, boards can easily become echo chambers without a clear purpose.

Building an effective board of trustees

Focusing on adding gender, racial, ethnic, and other forms of diversity to boards can increase financial success for a company,³ result in better attendance to government regulations and financial accounting structures, and lead to fewer ethical compliance issues.⁴ Board diversity also results in significantly increased innovation.⁵

What does all this mean?

Instead of simply choosing the closest or most familiar individuals for the task, it's important for pension trustees to be chosen strategically and methodologically. This includes using a human resource management approach in which positions are listed, interviewing candidates based on their experience and skills rather than who they know, and vetting potential trustees carefully.⁶ Job descriptions should also be thorough and explicit. Once candidates with appropriate competencies are secured, they ought to be onboarded, trained, and engaged just as employees are.

What makes a good pension trustee?

There are seven key traits that make a trustee good at their job:⁷

- 1. The strength not to be intimidated.** Pension trustees must have the strength and self-awareness to stand up for their beliefs.
- 2. The willingness to be perpetually inquisitive.** Discovering what's new and

different in the pension industry is part of their job.

3. The power to be unwaveringly ethical. Showing that they are trustworthy and have an interest in ethics is critical.

4. The capacity for clear and unbiased thinking. Biased research results in groupthink and poor outcomes.

5. The readiness to be diligent. Pension trustees must make the time to read and digest all materials required for decision making.

6. The ability to not be blinded by deliberate distractors. Pension decisions often result in active lobbying of pension trustees by stakeholders, which must be ignored.

7. The desire to be a great listener and interlocutor. Building on a range of stakeholder ideas to create a great plan that works for everyone requires collaboration skills.

If candidates are not willing to align themselves with these traits, pension management is not for them.

A structure built on trust

With a strategic business orientation in mind, a pension trustee culture can be professional, purposeful, and practical. An effective board of trustees must want to work towards best practices, improving the governance of pension funds through a defined strategy that aligns the interests of service providers with those of fund participants and beneficiaries.

This is an iterative process. Ultimately, a strong board must understand that assessments of risks, conflicts of interest, and compliance are required to amplify a long-term performance.



✎ Written by *Pension Clarity* author, **M. Catherine Miller**

¹ Weiss-Cohen, L., Ayton, P., Clacher, I., & Thoma, V. (2019). Behavioral biases in pension fund trustees' decision making. *Review of Behavioral Finance*, 11(2), 128-143.

² Chambers, N., Harvey, G., Mannion, R., Bond, J., & Marshall, J. (2013). Theories about boards. *Health Services and Delivery Research*, 1(6), 1-19.

³ Atif, M., Liu, B., & Huang, A. (2019). Does board gender diversity affect corporate cash holdings? *Journal of Business Finance & Accounting*, 46(7-8), 1003-1029.

⁴ Isidro, H., & Sobral, M. (2015). The effects of women on corporate boards on firm value, financial performance, and ethical and social compliance. *Journal of Business Ethics*, 132(1), 1-19.

⁵ Griffin, D., Li, K., & Xu, T. (2021). Board gender diversity and corporate innovation: International evidence. *Journal of Financial and Quantitative Analysis*, 56(1), 123-154.

⁶ Sayce, S., Weststar, J., & Verma, A. (2014). The recruitment and selection of pension trustees: an integrative approach. *Human Resource Management Journal*, 24(3), 307-322.

⁷ Hendricks, S., Rehak, J., & Pedrotty, D. (2019). 7 Highly Effective Attributes of Pension Trustees. Working Group of the Trustee Leadership Forum for Retirement Security, Initiative for Responsible Investment at the Harvard Kennedy School.