Trustee Governance, Director's Background and Voluntary Disclosure: A Survey of Australian Superannuation Industry Funds

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ABSTRACT:
Despite the significant role superannuation or pension funds have in maintaining the sustainability of national retirement schemes, little is known about trustee governance. To better understand the nature of funds trustee boards and their practices, we investigate the relationship between trustees' background, board composition with voluntary disclosure using a sample of 529 trustees from 66 Australian industry superannuation funds. Consistent with signalling theory, we find that trustees with higher qualifications and outside directorships are associated with better disclosure of their professional profile. We also observe that board independence is a significant factor in better disclosure and stronger board structure. These findings have strong implications in showing that selection of trustees, their competency and board composition affect superannuation funds' governance and operations.

KEYWORDS:
Superannuation fund, pension fund, corporate governance, trustees, board, disclosure.

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1. Introduction

The superannuation industry is a significant fixture of the Australian economy at the core of its pension system and key to its financial markets. While ensuring the long term sustainability and viability of Australia's retirement schemes, superannuation funds also represent powerful institutional investors able to make investment decisions that can have a major impact on Australia's economic development.

Given their pre-eminent role, it is important to ensure that superannuation funds are well governed. Australian superannuation funds like other overseas pension funds are controlled by a board of trustees. The board represents the ultimate decision making body and as such it has a crucial role in management of the funds. A recent review of the industry (Super System Review thereafter the Review) commissioned by the Commonwealth Government pointed out that almost all issues in the superannuation system can be linked to trustee governance[1]. The Review (2010) has drafted ten principles for trustee governance; they include transparency and disclosure, and financial literacy. Trustees' expertise and knowledge are ever significant since it is impossible to require every Superannuation fund member to have adequate financial literacy (Cooper, 2010). It is entrusted in the role of Superannuation fund trustees that they are accountable for safeguarding members' interests and mitigate investment managers' and financial intermediaries' self-fulfilling behaviours.

The role and contribution of pension funds trustees in funds governance has been under increasing scrutiny in Australia and also overseas (Kakabadse, Kakabadse and Kouzmin, 2003; Clapman, 2007; Myners, 2004; Clark, 2007). To date however there is only a handful of formal studies on pension fund trustee governance. These studies confirm the significance of trustee board and trustees' characteristics. In the UK pension funds trustee competency is found to be diverse and their investment decision-making practice lacks common approach hence warrants serious attention to the issues of funds governance (Clark, Caerlewy-Smith and Marshall, 2006). There is further evidences that trustees' qualification, experience and background have a significant impacts on the consistency of decision and decision techniques among trustees (Clark, 2007). A recent survey of Australian superannuation trustee policies and practices[2] reports that more than 90 per cent of the sample funds "do not explicitly require their trustees to have formal educational qualifications" (Sy, Inman, Esho and Sane, 2008).

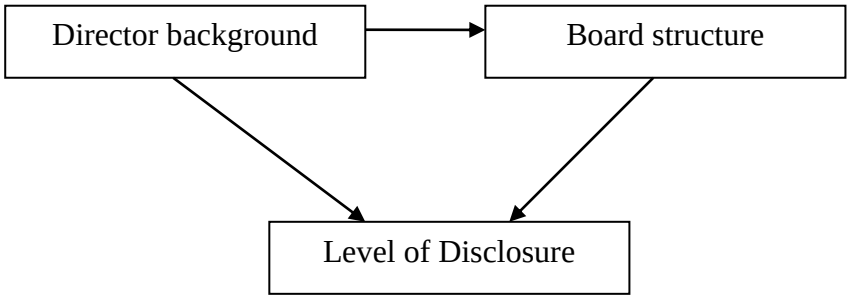
Research in corporate governance provides additional insights into the potential significance of trustee boards on pension fund management. A strong thrust of the governance literature tells us that board of

[1] The Review recommends a Code of Trustee Governance with the aim that effective trustee practices and structures will lead to enhanced performance in the industry Cooper, J. 2010. Super System Review Final Report. Barton: Commonwealth of Australia..

[2] Australian Prudential Regulation Authority

directors can impact on various financial performance and corporate behaviours, due to its role in strategy, advisory and monitoring. Board of directors are also an important mechanism in aligning shareholders and managerial interests, especially in the 1932 Berle and Means's corporate structure which involves a large number of small shareholders. This existing literature suggests there are significant relationships between directors' background, board structure and composition and corporation level of voluntary disclosure, these can be summarised as follow:

Figure 1. Directors, board and disclosure practice



Directors' background and expertise affect listed companies in various ways from the independence of the board to the firm growth opportunities (Jeanjean and Stolowy, 2009). The number of outside directorships held by directors, as a proxy of their expertise, positively contributes to better monitoring and higher transparency (Gul and Leung, 2009). Sarkar and Sarkar (2009) observed that independent directors who have multiple directorships are linked to higher meeting attendance and relatively higher firm value. Director board size also matters, it can to a certain extent impact on firm performance: the significance appears to be greater on firm performance in large firms than small firms (O'Connell and Cramer, 2010). In addition, greater proportion of non-executive directors has a positive association with firm performance (O'Connell and Cramer, 2010).

Board composition is also linked to disclosure, the presence of independent directors is found to contribute positively to the level of voluntary disclosure (Babío Arcay and Muiño Vázquez, 2005). Better corporate disclosures itself is associated with lower cost of equity capital (Botosan, 1997) and a reduction of the cost of debt (Sengupta, 1998). Finally, better corporate disclosures are associated with a reduction in the estimation risk or uncertainty regarding the distribution of returns (Richardson and Welker, 2001).

In this paper, we examine the trustees who sit on the trustee boards of superannuation funds ('superfunds', used interchangeably with 'pension funds' hereafter). We focus on the board structure and trustees' background variants and provide a study that linked to recent surveys on trustees' practices (Gupta, Jin, Orszag and Piggot, 2007; Sy *et al.*, 2008). Specific research on the issue of trustee governance in superannuation is scarce and to our knowledge, so far, no formal empirical studies have been conducted in

this area. Our study partly fills the gap of knowledge by formally mapping out the relationships between trustee board structure, trustees' expertise and backgrounds as well as voluntary disclosure practices in Australian superfunds. Disclosure and transparency of superfunds management and matters hence become crucial to facilitate effective communication between trustees and their members and important education from the former to the latter with regards to their financial decision-making. In addition, disclosure may also enhance accountability in superfunds management and affect fund returns. Our empirical results show strong inter-relationships between these characteristics and confirm the significance of trustees' board on funds governance. These unique results provide important insight for policymakers, regulators and practitioners in future selection of trustee directors and formation of trustee structure.

We take the view of the Review (2010) that there is no need for specific requirement of formal qualification to be spelt out in the selection of trustees, but our study will contribute significantly by examining empirically how board structure, formal qualification, experience and background of trustees influence fund disclosure and transparency, which no previous studies have done so at this detail level. All superfunds members entrusted their superfunds contribution with their trustees; this trust should be built upon the knowledge, expertise and competency of nominated individuals to the board. Without good disclosure by the trustee board and their information, there may be little explicit enforcement and review of trustees' accountability and performance in safeguarding members' benefits.

In the next section we give some background on Superfund agency and legal framework, and show the hypothesis development and literature. The third section discusses the methodology used, empirical results and discussion. The fourth section concludes the findings of our paper.

2. Background, Literature Review & Hypothesis Development

2.1 Background

The current management structure of the Australian superfunds involves multiple agents each holder of various sets of information. The prominent agents in superfunds are the trustees. The trustee board provides oversight of members' contributions and monitor the performance of external agents. Appointed by the board, other key agents are the custodians, the external asset consultants and the fund managers; few superfunds also have significant in-house investment teams. These agents are the main holders of information related to investment strategies and processes, this information are relayed to the board. It is the duty of trustees to minimise the gap between the superfund objectives and the external agents' objectives through clear mandate and communication policies, effective monitoring and reviews. We argue that trustees, not management, are the main holders of information about superfunds' operations besides investment strategies and processes. Hence, we focus on superfunds trustees as the information gatekeepers.

The governance of Australian superfunds rests upon the principle of the 'prudent man rule' according to which trustees are expected to exercise skill, duty of care and diligence towards their members[3]. Superfunds trustees are required to lodge annual audited financial accounts and statements following the Financial Sector (Collection of Data) Act 2001 with Australian Prudential Regulation Authority (APRA)[4]. Trustees are also required to keep minutes of their meetings and records of any changes to the trustees[5].

Superfunds trustees are required by law to establish and publish trustee appointment and removal procedures so that members are aware of these processes[6]. The SIS Act also provides the right to members to seek information with their trustees when needed. However, besides the members' annual account statement, there is no mandatory requirement as to the scope of information to be included in superfunds annual report nor is there any specific standard of superfunds annual report. A brief survey of all the 2009 industry superfunds annual reports reveals an inconsistent disclosure practices in terms of breadth and depth of information being published. From the literature of corporate governance, one of the good principles involves transparency and disclosure of how companies are managed and agents are accountable. In the superfunds industry where the disclosure requirement or guidelines are lose, the practice falls upon the individual trustee who governs the superfunds.

We initially examined the level of disclosure of trustees' background and board structure. Due to the large inconsistency in superfunds annual reports, we shifted our focus to investigate the incentives that superfunds trustees face in voluntarily disclosing information about themselves to their members and the market in general. We do not intend to discuss the potential benefits of greater disclosure offered to superfunds members nor do we intend to argue for mandatory disclosure rules to be enacted for the superfunds industry. Our aim is to explain the disclosure variants based on trustees' background and board structure and to derive implications on trustee governance. This relationship between trustee board and disclosure is important since it is the role of the agents, namely the superfunds management and trustees, to weigh the potential cost and benefit of disclosure and to decide the disclosure outcomes. To examine this issue, we look to the body literature on corporate governance and disclosure to further build our hypothesis.

2.2 Literature & Hypothesis Development

Disclosure could send signal indicating the value and developments of a firm, a product, or a worker. When information is asymmetry and research is costly, information holders (insiders) will choose to exploit

[3] Part 6, Superannuation Industry (Supervision), Act 1993 (SIS Act 1993).
[4] Part 4, Superannuation Industry (Supervision), Act 1993 (SIS Act 1993).
[5] *s*103 and *s*104, SIS Act 1993.
[6] *s*107 and *s*108, SIS Act 1993.

the distribution of information to fulfil their own objectives; this in turn affects product types, prices, demand and supply of information in the market (Stiglitz, 1979). Disclosure is especially important in markets filled with dispersed ownership structure where monitoring of agents (management) by board of directors on behalf of shareholders is essential in mitigating shirking behaviours (Jensen and Meckling, 1976). Management influences accounting information, information type and disclosure frequency based on their self-interests and other constraints including taxes, regulations, political costs, disclosure costs and the party they engage with (Watts and Zimmerman, 1978; Leftwich, Watts and Zimmerman, 1981). This underpins the hypothesis developed below.

Governance practices including disclosure is influenced by the regulatory environment that a firm operates in; the more stringent the regulation, the better practices are observed (Gillan, 2006). In our case, we argue that voluntary disclosure is dependent on the trustee structure and trustees' background:

$$D = \alpha(NOM, EDU, IND, OUT, BS, DF, C, S) \quad (1)$$

The model above shows that the degree of disclosure (*D*) per superfund depends on a function of nominator type (*NOM*), qualification background of trustees (*EDU*), board independence (*IND*), outside directorship (*OUT*), board size (*BS*), trustee compensation measured by trustees' compensation (fees) (*DC*), presence of committees *(C)* and fund size in terms of value under management and membership base (*S*). The following two main hypotheses are postulated:

Hypothesis 1: Voluntary disclosure is dependent on the trustee structure
Hypothesis 2: Trustees' background has a positive relationship with voluntary disclosure

Trustee Nomination (NOM)

Nomination of trustees is an exogenous variable due to current legal prescription in the SIS Act 1994. This variable shows the types of nominator in terms of employer, member, unions/associations, professional trustee service provider, and any independent party unrelated to the before-mentioned nominators. We argue that the type of nominator reflects varying degree of access to information, hence affecting disclosure practices. For example, employer-nominator may have the highest access of insider information due to its close association with the superfunds management team and trustees. In addition, the employer's senior management team may have personal interests and contributions in the superfunds, better focus on financial performance and higher financial literacy, hence are more actively engaged with, if not influence, insiders of the superfunds. They can be considered the large stakeholders (members) in the superfunds compared to other small stakeholders from middle-to-low income classes, who may find it too costly to seek information about their superfunds management and operations.

Trustees who are nominated by employers may have close association with the large stakeholders who could offer the latter on a non-official basis with insider information at a relatively lower disclosure cost than a full disclosure to all members. This will reduce the level of disclosure necessary for monitoring purpose. Although a directional relationship between nomination and voluntary disclosure could not be immediately established for all types of nominators, we argue that the types of association between nominator and trustees affect the level of insider information access and influence disclosure practices.

Trustees' Educational Background (EDU)

In corporate governance, the role of a board of directors includes providing assurance to shareholders and potential investors, for example, directors' background, measured in terms of financial expertise, facilitate effective monitoring (Jeanjean and Stolowy, 2009). However, directors' background affect firms in various different ways depending on the presence of other governance variables (Jeanjean and Stolowy, 2009). In pension funds, Armbachsheer, Capelle et al (2007) found that board expertise and knowledge affect board practices including board delegation, strategic thinking, risk management, performance measures and management compensation. In addition, trustees' qualification, experience and background have significant impacts on the consistency of decision and decision techniques among themselves (Clark, 2007). In a recent Australian survey, it is found that more than 90 percent of sample superfunds have no explicit requirements on trustees' educational qualifications (Sy *et al.*, 2008).

Based on signalling theory, we argue that trustees' who have attained higher educational qualifications are more likely to disclose information about their background. This is to capitalise on their investments on their qualifications and to expect an increase in future earnings based on the capital of their knowledge and expertise. Trustees who have higher educational qualifications may also be more aware of the latest governance practices and developments. In addition, they are more likely to also disclose their board structure information as proof of their advance governance practices.

Independent Trustees and Outside Directorships (IND)

There has been a strong interest in how board independence or the presence of outside directors affects firm behaviours and outcomes. Outside (independent) directors are negatively related to disclosure due to the substitution effect between the two (Eng and Mak, 2003). In addition, it is found that the degree of information asymmetry between outside directors and firm insiders, such as the CEO, affects how the former could contribute to firm value; with a high cost information reducing the value of outside directors to a firm (Duchin, Matsusaka and Ozbas, 2010). There is also an association between independent non-executive directors and comprehensiveness of information in mandatory financial disclosures in Hong Kong (Chen and Jaggi, 2000). The proportion of independent directors has a positive correlation with board's

financial expertise which suggests a complimentary relationship between the two (Jeanjean and Stolowy, 2009).

Holding outside directorship by trustees helps to form a network of information and resources that may assist their roles as trustees. Networking offers competitive advantage, in terms of resources, opportunities, and market intelligence, in imperfect markets and business infrastructures (McConaughy, Matthews and Fialko, 2001; Redding, 1996; Tong, 1996). Furthermore, networking could serve as a governance tool (Hesterly and Borgatti, 1997) but could be detrimental to firm performance if not managed well (Kremp and Sevestre, 2000). Research also shows that firm size affects outside directorships in which corporate directors from large firms are sought to sit for other boards (Ferris, Jagannathan and Pritchard, 2003). Directors who have multiple outside directorships are regarded as having wider scope of knowledge, experience and networking external to the firm where they are appointed as directors (Ferris *et al.*, 2003; Haniffa and Cooke, 2000). However, there may be a compromise on the service quality of busy directors due to their over-commitments and lack of time and concentration.

We argue that in Australian superfunds, trustees may repeatedly send signals by disclosing their identities so that their appointment history could be tracked to build a reputation for themselves in the market in anticipation for higher future compensation (Stiglitz, 1979); this is especially true for independent and outside professional trustees who derive all their income from professional service provision. Trustees who hold multiple outside directorships may benefit from a diversity of knowledge, information and resources. They are likely to be associated with better disclosure of trustee structure and trustees' information since their networking essentially capitalise on their reputations.

CEO-Chairman Duality

CEO-Chairman duality is found to affect the quality and content of disclosure. Gul and Leung (2009) found that CEO-Chairman duality is associated with lower disclosure, especially the disclosure of corporate goal, strategy and actions, financial highlights, operational and project information. On the other hand, external non-executive directors enhance corporate disclosures and mitigate the impact of CEO-Chairman duality (Gul and Leung, 2009). In another study, no association is found between CEO-Chairman duality and voluntary disclosure (Cheng and Courtenay, 2006). However, due to the low incidence of CEO-Chairman duality in our dataset, we have omitted this variable for testing.

Board Size (BS)

There is no study empirically examining board characteristic of trustee board to our best knowledge. In corporate governance, board size is related to better disclosure measured in terms of earnings accuracy by analyst coverage due to larger board exhibiting more consistent board operations and communication

policies (Cheng, 2008; Byard, Li and Weintrop, 2006). In another study, board size is found to have no association with voluntary disclosure (Cheng and Courtenay, 2006) or the timeliness of earnings announcement (Bushman, Chen, Engel and Smith, 2004). There may be endogeniety issue associated with board size such as large board which is often associated with large and complex firm may attract more analyst interests and media attention, resulting in more availability of information sources. Disclosure may be affected by other factors that also affect board size such as firm size, disclosure cost, board resources and expertise.

In the Australian superfunds industry, board formation is to a certain extent restrained by the equal representation rule in the SIS Act 1993. However, board size may also be affected by fund size, the growth rate and merger activities of funds. Nevertheless, we argue that as trustee board size grows, there may be an increased diversification of trustees' expertise, a reduction in monitoring costs by trustees, and an improved balance of representation of members' interests, hence leading to improved disclosure policies and practices. In addition, larger board may mitigate external agency costs by tapping into better resources and information for the selection of asset consultants and fund managers.

Committee structure (C)

The presence of committee can be used as a measure for good governance. The presence of committees shows an attempt by the board to seek professional expertise as well as independent advice. The importance of committee is still unclear. Ferris and Yan (2007) found a negative but not significant relationship between managed fund subject to scandals and the presence of "governance" committee. The importance of committee appear to depend on the type of committee that are present, some committees will have a more of ceremonial or more decisive role. The role of a committee differs in terms of objectives, body of experts and functions. For example, finance and audit committee are expected to have an important direct role (Jiraporn, Singh and Lee, 2009). Xie, Davidson Iii et al. (2003) found that the audit and executive committee can have a significant impact on the firms earning. In some instance committees have been found to improve transparency and reporting (Klein, 2002). Compliance and audit committee have been linked to greater level of good corporate governance practice (Price, Román and Rountree, 2011). We focus on the presence of audit, risk, compliance, investment and finance committees, these committees oversee financial matters and operations and draws on financial expertise of the committee members.

Control Variables: Director Compensation and Fund Size

Trustee compensation indicates if a trustee is providing service on the basis of competitive incentives. Incentive scheme is a key factor in determining the performance of a worker. Therefore, this is an important control for identifying if trustees perform disclosure based on the signalling hypothesis in order to increase their future earnings and/or improve their future prospects in the labour market. In the corporate governance

literature, firm size is positively related to disclosure (Eng and Mak, 2003). The size and complexity of a firm may lead to variations on board structure due to the variants of monitoring costs and information complexity (Boone, Field, Karpoff and Raheja, 2007). Hence, firm size affects voluntary disclosure via its effects on governance variables (Kelton and Yang). Therefore, we argue that fund size may have an impact on disclosure.

3. Methodology

We focus on trustee governance of the industry superannuation funds (industry superfunds) industry which is currently under-researched. In December 2009, the industry superannuation funds manage A$218.9 billion assets by 66 operating entities (Austrade, 2010). In order to examine the current trustee governance structures and practices, we collect information of trustee board size, board independence, CEO-Chairman duality, trustee nomination, trustees' educational background and outside directorship(s). Since nomination of trustees for each type of superfunds is prescribed by the SIS Act 1993 and in addition, trustees tend to be on the same board for an average of 5 years (Gupta *et al.*, 2007; Sy *et al.*, 2008), our dataset is largely free of endogeneity problem.

Annual reports and press releases are considered important source of information for companies (Gul and Leung, 2009). When selecting and reviewing superannuation structure and performance, members and potential members rely on the product disclosure statement (PDS) and annual reports for information and conducting comparisons across different funds. Therefore, we select fund annual report, PDS and information posted on superfunds website as the sources of disclosure in our study. In addition, we use search engine Google and databases Business Who's Who in Australia and Company 360 to collect information about individual trustee's background. The information of superfunds governance is greatly limited and past years records are usually not maintained on websites. Therefore, we have only collected the governance variables for the financial year 2009. On the other hand, we obtained industry superfunds financial data (fund size and fees) from APRA for the period 2004 to 2009. As governance structure and composition remains relatively stable over time, we regress our governance variables against an average of 6 years of the financial data. We acknowledge this may give rise to endogeneity issue, which is largely reduced by the legal prescription of trustee formation and stable trustee board. For robustness check, we regress our governance variables against the single 2009 year financial data.

We define fund voluntary disclosure by the fund disclosure of trustees' profile, including qualifications and outside directorships held. We measure trustee nomination by the type of nominator as reported by the superfunds. The types of nominator include employer, member, professional trustee company, industry

association bodies, and independent party. Trustees' educational background is measured by the product of (1) educational completion level, namely diploma or school leavers, undergraduate and postgraduate levels; (2) the specialised fields, namely business and economies, arts and law, science and others (3) and whether a trustee has financial, governance or superannuation industry management expertise. For the third measure, we refer to trustee professional membership: CPA, CA, FAICD, CFA, CFP, ASFA, FSIA, and AIST, to be a proxy of their expertise and access to resources and information relevant to the superfunds industry. We initially included PS146 as one of the proxy. We decided to drop it due to significantly low disclosure. We attempt to follow Jeanjean and Stolowy's (2009) measure in rating trustees' expertise level to construct an expertise variable per fund. This leaves us only four out of 66 funds with complete trustee background profile. Therefore, we adjust the methodology to the individual trustee level in order to examine how individual trustee is associated with disclosure of their professional profile and the type of board structure.

Board size measures the total number of trustees per trustee board. We derive two proxies for board independence: (1) the percentage of independent trustees per board, which is the number of independent trustees divided by the total number of trustees for each board; (2) a dummy variable which indicates if there is any independent trustee on each board. Besides measuring the ratio of board independence as an indicator of balance of power and voices on the board, we are also interested in investigating if the presence of independent trustee(s) has any impact on disclosure practices. Outside directorship is measured as the number of directorships external to the sample superfunds that a trustee may hold. CEO-Chairman duality variable is dropped because no incidence is present in the sample, reflecting that the two positions are independent of each other in all 66 industry superfunds. Trustee compensation is measured in terms of total trustee fee. Fund size is measured in terms of year-end fund value and membership base. Table 1 summarises the variables used in our study.

Table 1 Definitions of variables.

Variable	Definitions
Nominator (*NOM*)	1 – Association, equals to 1 if a trustee is nominated by a union / industry association. 2 - Member, equals to 1 if a trustee is nominated by members. 3 - Employer, equals to 1 if a trustee is nominated by employer. 4 - Independent party, equals to 1 if a trustee is nominated by an independent party. 5 - Parent (professional) trustee company, equals to 1 if a trustee is nominated by the trustee company that he/she has a full-time employment with. NA: trustees with non-disclosed nomination. The categories are on an upward scale to reflect the level of independence and professional knowledge a nominator has.
Educational background (*EDU*)	EDU = Completion Level X Qualification X Expertise Categorical variables for Completion Level: 1 - Diploma level or school leavers, equals to 1 if a trustee has attained a diploma or is a school leaver. 2 - Undergraduate level, equals to 1 if a trustee has attained an undergraduate degree. 3 - Postgraduate level, equals to 1 if a trustee has attained a postgraduate degree. NA: trustees with non-disclosed qualification.

Variable	Definitions
	The categories are on an upward scale to correspond with the increasing depth of knowledge and experience a person obtain as he/she moves up the completion level. Categorical variables for Qualifications: 1 - Science, equals to 1 if a trustee attained qualification in Science and other fields not included below. 2 - Artlaw, equals to 1 if a trustee attained qualification in Art or Law. 3 - Buseco, equals to 1 if a trustee attained qualification in Business and Economics, including administration, management, finance, economics, international business, and commerce. NA: trustees with non-disclosed qualification. The categories are on an upward scale to correspond with the increasing relevance of knowledge a person has about his/her role as a trustee director for a superfund. Dummy variable for Expertise: EXP equals to 1 if a director has membership in the following professional associations: CPA, CA, FAICD, CFA, CFP, ASFA, FSIA, and AIST, otherwise 0. NA represents non-disclosed directors.
Board size (BS)	The total number of directors per sample board.
Independence (*IND*)	IND1: The percentage of independent directors per board. IND2: Dummy variables: equals to 1 if there is an independent director on a sample board, otherwise 0. NA represents the group of non-disclosed trustees.
Outside directorship (*OUT*)	The number of directorship outside of the trustee board held by a trustee.
Director compensation (*DC*)	Total trustee fees per superfund 2008/2009. Average 6 years trustee fees (2004/5-2009/10)
Fund Size (*S*)	Fund net asset value 2008/9 Ln Average 6 years fund asset value (2004/5-2009/10) Total number of superfund members 2009/10 Average 6 years fund asset value (2004/5-2009/10)
Audit, risk and compliance committees *(ARC)*	Audit, risk and compliance committees dummy variables: ARC equals to 1 if there are audit, risk and compliance committees, otherwise 0. NA represents the superfunds with no information.
Financial committee *(FIN)*	Financial committee dummy variables: FIN equals to 1 if there is a financial committee, otherwise 0. NA represents the superfunds with no information.
Investment committee *(INV)*	Investment committee dummy variables: INV equals to 1 if there is an investment committee, otherwise 0. NA represents the superfunds with no information.
Committees presence *(NOC)*	Number of Board Committees per trustee board.
Disclosure *(DIS)*	DIS = Qualdis% X Compdis% X Outdir% Qualdis% is the percentage of trustees whose educational field can be traced per board. Compdis% is the percentage of trustees whose educational completion level can be traced per board. Outdir% is the percentage of trustees whose outside directorship can be traced per board.

4. Results

Descriptive statistics and frequencies of variables used in our study provide initial results that give an overview of the funds attributes and of their trustees. Cross-tabulation for the presence of audit, risk and compliance, investment and financial committees according to trustees' educational background and to board independence provide further insights. Finally a regression analysis of degree of disclosure of trustee information as dependant variable and the board and general fund characteristics show the relationship between these variable.

4.1 Descriptive Statistics

Table 2 and 3 shows two sets of descriptive statistics: one set for trustee level and another set for fund level. Descriptive statistics at the trustee level look at all trustees across all Australian industry Superfunds and give an outlook of trustees' background as well as disclosure practice and their funds committee structure.

Overall, voluntary disclosure of trustee board committees is low, about 32% of industry superfunds do not disclose this information (Table 2). Approximately 44% of trustees do not disclose their nominators while over 70% of them do not disclose their educational and professional background. On the other hand, only about 5% of trustees are sitting on the board of funds which do not disclose whether they have independent director.

Approximately 44% of trustees in the sample are nominated to trustee boards by industry and professional associations or unions, while 40% are nominated by members. Nomination is highly transparent as only 5.1% of trustee nomination is not disclosed. In contrast, more than 70% of trustees are associated with non-disclosure of their educational background and professional experience. Based on disclosed information, almost 15% of trustees have attained undergraduate qualifications compares to 10.21% of postgraduate-directors and 4.54% of diploma holders and school leavers. Trustees in Science and other fields, including Education, Carpentry, Trade Services and Engineering, are the group that has highest disclosure (13.42%), followed by directors in Arts & Law (7.56%) and business & economics (5.48%). This is rather surprising as we expect individuals with business & economics have more exposure to governance knowledge and general practices and therefore are expected to be associated a higher level of disclosure . On the other hand, this may implicate that without clear disclosure requirements and self-fulfilling incentives, individuals are less likely to voluntarily disclose information due to the presence of disclosure cost.

Approximately 60% of the sample trustees are not associated with complete audit, risk and compliance (ARC) committees on their board (Table 2). Only 8.13% have disclosed complete ARC while

32% are associated with non-disclosed ARC committee structure. Only 4.73% of trustees are associated with a financial committee; in contrast, 54.25% are associated with an investment committee on their board.

Table 2. Distribution of directors' background, trustee board independence and committee structure.

Variables	Number of observations (n=529)	%	Variables	Number of observations (n=529)	%
Board Independence Dummy (IND)			**Directors Nominator**		
NA	26	4.91	NA	27	5.1
No	246	46.5	Association	231	43.7
Yes	257	48.6	Employer	45	8.51
			Independent	13	2.46
Committee Structure			Member	213	40.3
Audit, Risk and Compliance (ARC)					
NA	169	32	**Completion**		
No	317	59.9	NA	372	70.3
Yes	43	8.13	Dipl. or school leavers	24	4.54
			Undergraduate	79	14.9
			Postgraduate	54	10.2
Financial Committee (FIN)			**Qualification**		
NA	169	32	NA	389	73.5
No	335	63.3	Science & Other	71	13.4
Yes	25	4.73	Arts & Law	40	7.56
			Bus. & Econ.	29	5.48
Investment Committee (INV)			**Expertise**		
NA	169	32	NA	379	71.6
No	73	13.8	No	98	18.5
Yes	287	54.3	Yes	52	9.83
			Total	***529***	***100***

We present the descriptive statistics for some variables at both trustee and fund level in Table 3. Panel A show the data at trustee level and panel B at fund level. Trustee level mean values need to be analysed with caution since they show the mean values per trustee rather than per fund. To mitigate the biased toward funds with larger board and to check the robustness of the mean values at trustee level we have also present the mean values at fund level. The results show that the statistics at the trustee and fund level are very close, although there are slight upward/downward biases at the trustee level against the fund level. We will analyse the statistics on an overall basis basing on both trustee and fund level statistics.

The number of board committees ranges between 4 and 7 and most funds and trustees are associated with 4 board committees. On average, board independence is less than 10%, a low representation of independent directors compared to a general corporate governance practice of one-third board independence. On the other hand, only half of the 61 industry superfunds which disclosed information have at least one independent director on their boards (Panel B). The percentage of board independence may be undermined

by the high percentage of trustee non-disclosure and the equal representation rule in regards to trustee nomination.

Table 3: Descriptive statistics of variables at trustee and fund level.

	Mean	Median	Maximum	Minimum	Std. Dev.	Observations
Panel A: Trustee Level						
No of Board Committees	4.3028	4.00	7.00	1.00	1.5674	360
IND (%)	0.0915	0.0588	1.00	0.00	0.1571	503
IND Dummy	-	-	1.00	0.00	-	503
OUT	2.9624	2.00	16.000	0.00	2.5146	266
BS	9.1680	9.00	17.000	4.00	3.1590	512
DIS	0.6347	0.7119	1.00	0.00	0.3371	529
DC2009 ($'000)	968.18	225.00	22483.00	0.00	3365.56	523
DC Average ($'000)	589.34	193.00	15430.00	0.00	2078.96	519
Log Size 2009	13.6574	13.65	17.05	8.9980	1.6249	510
Log Avg Size	13.4578	13.36	16.72	8.9267	1.5671	523
Member 2009	188359	36034	1965511	675	383826	523
Member Avg 6 yrs	148298	33665	1701759	709	283900	529
ARC	0.1194	0	1.00	0.00	0.3248	360
FIN	0.0694	0	1.00	0.00	0.2546	360
INV	0.7972	1	1.00	0.00	0.4026	360
EDU	1.9530	0.0000	9.00	0.00	3.1316	127
Panel B: Fund Level						
No of Board Committees	4.2927	4	7	1	1.5369	41
IND (%)	0.0994	0	1	0	0.1827	61
IND Dummy	0.4754	0	1	0	0.5035	61
OUT%	0.4919	0.4575	1	0	0.3429	66
BS	8.127	8	17	4	2.932	63
DIS	0.6252	0.7095	1	0	0.3576	66
DC2009 ($'000)	1083.77	264	22483	0	3592.5	65
DC Average ($'000)	632.17	235	15430	0	2073.27	64
Log Size 2009	13.6378	13.6978	17.0513	8.998	1.6947	63
Log Avg Size	13.4498	13.3838	16.7244	8.9267	1.6168	65
Member 2009	211225	52437	1965511	675	416399	65
Member Avg 6 yrs	160733	38429	1701759	709	293174	66
ARC	0.1463	0	1	0	0.3578	41
FIN	0.0732	0	1	0	0.2637	41
INV	0.8049	1	1	0	0.4012	41

ARC, FIN and INV represent the presence of audit, risk and compliance committees, Financial committee and Investment committee. IND% represents the percentage of independent trustees on the trustee board. IND Dummy measures whether one or more independent trustees are present on the board. EDU is an index that measures completion level, qualification and expertise of a trustee. DIS is an index that measures the disclosed overall completion level, educational field and outside directorship per board. Expertise shows whether a trustee has relevant professional membership. OUT measures the number of outside directorship a trustee holds and OUT% measures the percentage of trustees who have outside directorships. BS measures the total number of trustees per board. DC 2009 and DC Average measure the total trustee fees for the single period 2008/2009 and an average of 6 years trustee fees for the period 2004/5 – 2008/9) respectively. Log Size 2009, Log Avg Size, Member 2009 and Member Avg 6 yrs are proxies for fund size. Log Size 2009 and Log Avg Size show the total fund value for the single period 2008/2009 and an average of 6 years fund value for the period 2004/5 – 2008/9) respectively. Member 2009 and Member AVG 6 yrs measure the total number of members for the single period 2008/2009 and an average of 6 years number of members for the period 2004/5 – 2008/9) respectively. For the detail definitions of variables, refer to Table 1.

Table 3 shows that an average trustee holds 3 outside directorship (OUT) while about half of an average board is associated with outside directorship (OUT%). Other papers (Eng and Mak, 2003; Gul and Leung, 2009) measure the impact of the proportion of outside directors on voluntary disclosure, as there is no insider directors in our sample funds, we take the view of whether holding outside directorship influence disclosure practices by trustees. On average, a board consists of 8 trustees. An average trustee receives A$968.18 fee in the year of 2009 while on average over the past 6 years, he/she receives A$589.34. This compares to an average industry superfund pays trustee fee of A$1083.77 in 2009 and a six-year average of A$632.17. This is a very low figure considering the complexity of financial, operational and governance matters that a trustee board provides oversight and is accountable for. In some of the sample industry superfunds, trustees are not remunerated at all, implying that trustees perform their roles on a voluntary basis. On average, an industry superfund consists of 211,225 members in 2009 and 160,733 members on a six-year average.

While the presence and disclosure of Investment committee is relatively high, as suggested by table 2 results, the presence or acknowledgment of other committees is very low. Data at the fund level suggest that less than 15% of the 41 fund are disclosing information of having a committee and less than 10% of these funds have a finance committee.

4.2 Regression Analysis

Our research questions focus on voluntary disclosure of educational and professional background by trustees in Australian industry superfunds. We aim to explain what drives trustees to disclose information about them and how their educational and professional backgrounds relate to trustee board committees.

Hypothesis 1: Voluntary disclosure is dependent on the trustee structure

Hypothesis 2: Trustees' background has a positive relationship with voluntary disclosure

To test our research question on voluntary disclosure, measured in terms of DIS index, we use the following model:

$$DIS = \alpha + \beta_1 NOM + \beta_2 EDU + \beta_3 IND\% + \beta_4 OUT + \beta_5 BS + \beta_6 DC + \beta_7 Size + \varepsilon_i \quad (2)$$

where DIS = Disclosure index, *NOM* = nominator type, *EDU* = trustee educational and professional background, *IND%* = the percentage of independent trustee per board, *BS* = board size, *DC* = trustee compensation, *Size* = fund size value or number of members. Detail definition is described in Table 1. *DC* and *SIZE* are control variables in our model.

Table 4 shows the OLS results divided into two groups of testings. The first group shows the results using total educational and experience, which is the *EDU* index made up of the product of trustee

educational completion level, qualification and expertise; while the second group uses completion level only as the proxy for trustee educational background. Although the former measure is more comprehensive than the latter, it also greatly reduces our sample size due to low information disclosure. Therefore, we run separate regressions using the three individual components, namely completion level, qualification and expertise, of the *EDU* index separately. Only completion level model are significant. In all models, we employ four different proxies as fund size to check for robustness.

Table 4: This table shows the OLS results for the disclosure of director information.

	Total Educational and Experience				Completion Level Only			
Variables	1	2	3	4	1	2	3	4
Constant	0.4962	0.5294	0.7781**	0.7833**	0.8228**	0.8106**	1.0304**	1.0302**
NOM	-0.0249	-0.0265	-0.0280	-0.0299	-0.0047	-0.0034	-0.0108	-0.0103
Completion	-	-	-	-	-0.0013	-0.0003	-0.0012	-0.0004
EDU	0.0127	0.0125	0.0169*	0.0158*	-	-	-	-
IND%	0.5853†	0.5921†	0.7966*	0.7508*	0.2259**	0.2229**	0.1976**	0.1929**
OUT	0.0195	0.0208	0.0175*	0.0196*	0.0009	0.0011	0.0006	0.0010
BS	-0.0059	-0.0063	-0.0058	-0.0060	-0.0154**	-0.0158	-0.0150**	-0.0156**
DC2009	-0.0000	-	0.0000	-	-0.0000	-	0.0000	-
DC Average	-	-0.0000	-	-0.0000	-	0.0000	-	0.0001
Log Size 2009	0.0213	-	-	-	0.0148†	-	-	-
Log Avg Size	-	0.0195	-	-	-	0.0158*	-	-
Member 2009	-	-	0.0000	-	-	-	0.0000*	-
Member Avg 6 yrs	-	-	-	-0.0000	-	-	-	0.0000*
F-value	2.3200	2.3450	2.1272	2.1709	3.3964	3.4739	3.0532	3.1830
Adj R-squared	0.1354	0.1397	0.1180	0.1238	0.1226	0.1261	0.1070	0.1130
P	0.0388	0.0373	0.0567	0.05245	0.0025	0.0021	0.0056	0.0041

† significant at 10% level, * significant at 5% level, ** significant at 1% level.

H1 is rejected since nominator type has no impact on the voluntary disclosure of trustee educational background. This could be explained by the current nomination procedure which is based on equal representation rule that may reduce competition between individuals to secure a trustee position. The connection between individuals and their nominators based on implicit long-term network and evaluation is a more significant factor in the nomination process than selection from an open market based on competitive professional profile. The results show that board size is negatively related to voluntary disclosure.

H2 is supported by our results where higher educational background has a positive relationship with voluntary disclosure. This is in line with signalling argument and consistent with the results for board independence. Board independence is measured by two different proxies: IND% and IND dummy, where 1 equals to having at least one independent trustee on a trustee board and 0 equals to no independent trustee on

board. IND dummy is found to be a non-significant factor; therefore results were not included in the table. In contrast, IND% is found to be significant in all models, implying that the balance of control between independent trustees and a trustee board relies on the number of independent trustees relative to size of the board. The coefficients for IND% in all models are the strongest among all variables and with a positive impact. This is a significant finding that shows the higher the number of board independence, the stronger their voice become and hence may have stronger influence on other trustees and board matters, such as disclosure. The number of outside directorship (OUT) also has a significant but lesser positive impact on voluntary disclosure. The results supports our hypothesis that board independence is positively related to voluntary disclosure based on the notion part of trustees' future earnings growth is dependent on their current promotion of their reputational properties. In addition, independent trustees and trustees who have multiple outside directorship may have more resources to obtain up to date governance knowledge and practices, and have wider experiences in undertaking board duties and matters.

Trustee compensation (DC2009 and DC Average) do not have any impact on voluntary disclosure. The relative low compensation level for trustees may have little effect on driving trustee and board performance as a whole. We found that the larger the fund, in terms of fund value and number of members, the higher is trustees' voluntary disclosure. This supports the argument that larger fund are more capable and resourceful in coping with disclosure costs. It can also be said that larger funds attract higher level of analyst coverage which demands higher level of transparency by the funds.

4.3 Cross-Tabulation of Funds Committee and Director Background

Besides the impact on disclosure, we are also interested to find out if trustee nomination and background have any association with trustee board structure. Due to the high non-disclosure of board committee structure, nominator type and trustee background information, we were unable to evaluate the relationship between the variables using a logit regressions. Instead, we use cross-tabulation and include non-disclosed observations (NA) to examine the associations between the variables. We found some interesting findings in Table 5.

Employer-nominated trustees have the highest association with the complete presence of audit, risk and compliance (ARC) committees, investment committee and financial committee. On the other hand, independently-nominated trustees, including those trustees who work full-time for professional trustee service providers and nominated by their parent companies, have the lowest association with these committees. Trustees nominated by association and member have more than 55% association with investment committee. Professional independent trustees may not see the need to set up specialised committees due to their possession of that expertise. On the other hand, trustees nominated by other types of

nominators may not readily have the expertise in overseeing superfunds operations and management, and see the need to set up specialised committees in order to draw in external expertise and knowledge.

Trustees with diploma or with no formal qualifications show the strongest association with the presence of specialised committees. This is followed by trustees who have attained postgraduate qualifications. This implies a curvilinear relationship between trustee's educational completion level and board committees set up. When trustees do not have adequate expertise and knowledge, they appear to seek external expert input. On the other hand, trustees who are highly qualified may have better awareness of their own inadequacy in terms of knowledge and expertise, appreciate the complexity of matters that they have to deal with and see the need for comprehensive views on managing specialised areas. This explanation can also be applied based on trustee's qualifications.

Trustees whose background is in the fields of business, economics, management and commerce have the highest association with specialised board committees. These trustees may be more informed of the complexity, breadth and depth of the issues and therefore set up specialised committees to provide proper oversight. It can also be said that trustees with these qualifications may be more aware of corporate governance practices and developments and implement what they know in superfunds governance.

Table 6 shows the results of an analysis of the presence of committee in relation to board independence. Board independence is a significant factor associated with trustee board structure. Except for ARC committees, board independence (IND dummy) has the highest association with investment and financial committees. This implies the professional knowledge and focus that independent trustees may contribute to trustee boards. When measured in terms of IND%, the presence of ARC, investment and financial committees are all associated with higher level of board independence. There is a strong implication independent trustees contribute significantly to improving trustee governance practices. This may in turn affects the operational efficiency and long-term value of superfunds.

Smaller boards are found with the presence of ARC, investment and financial committees. This is due to the complementary effect between the number of trustees and the need for specialised committees. Larger boards may have a widely comprehensive pool of knowledge and expertise than smaller boards. It is not surprising to see smaller boards setting up specialised committees to draw in additional experts and resources external to the board. In past studies where findings are inconclusive and in conflicts, we show that some governance variables may have complementary effects on each other. Outside directorship do not differ between board committee structures.

Table 5: This table shows the cross-tabulation for the presence of audit, risk and compliance, investment and financial committees according to director educational background.

	ARC Presence				Investment Committee				Financial Committee			
	NA (%)	No (%)	Yes (%)	Total	NA (%)	No (%)	Yes (%)	Total	NA (%)	No (%)	Yes (%)	Total
Nominator												
NA	85.19	0.00	14.81	100.00	85.19	0.00	14.81	100.00	85.19	14.81	0.00	100.00
Association	28.14	63.20	8.66	100.00	28.14	13.42	58.44	100.00	28.14	66.23	5.63	100.00
Member	30.05	64.79	5.16	100.00	30.05	15.49	54.46	100.00	30.05	67.14	2.82	100.00
Employer	24.44	60.00	15.56	100.00	24.44	6.67	68.89	100.00	24.44	62.22	13.33	100.00
Independent	46.15	46.15	7.69	100.00	46.15	46.15	7.69	100.00	46.15	53.85	0.00	100.00
Total	31.95	59.92	8.13	100.00	31.95	13.80	54.25	100.00	31.95	63.33	4.73	100.00
χ^2	51.63				58.03				48.87			
df	8				8				8			
ρ	0.0000				0.0000				0.0000			
Completion Level												
NA	35.22	58.87	5.91	100.00	35.22	11.56	53.23	100.00	35.22	62.63	2.15	100.00
Diploma & SL	4.17	58.33	37.50	100.00	4.17	20.83	75.00	100.00	4.17	62.50	33.33	100.00
Undergraduate	27.85	65.82	6.33	100.00	27.85	25.32	46.84	100.00	27.85	68.35	3.80	100.00
Postgraduate & Other	27.78	59.26	12.96	100.00	27.78	9.26	62.96	100.00	27.78	61.11	11.11	100.00
Total	31.95	59.92	8.13	100.00	31.95	13.80	54.25	100.00	31.95	63.33	4.73	100.00
χ^2	37.88				21.90				59.72			
df	6				6				6			
ρ	0.0000				0.0013				0.0000			
Qualification												
NA	33.68	59.64	6.68	100.00	33.68	13.37	52.96	100.00	33.68	62.72	3.60	100.00
Bus & Eco	24.14	48.28	27.59	100.00	24.14	6.90	68.97	100.00	24.14	58.62	17.24	100.00
Arts & Law	35.00	65.00	0.00	100.00	35.00	10.00	55.00	100.00	35.00	60.00	5.00	100.00
Science & Other	23.94	63.38	12.68	100.00	23.94	21.13	54.93	100.00	23.94	70.42	5.63	100.00
Total	31.95	59.92	8.13	100.00	31.95	13.80	54.25	100.00	31.95	63.33	4.73	100.00
χ^2	23.00				7.98				14.00			
df	6				6				6			
ρ	0.0008				0.2396				0.0296			

Table 6: This table shows the cross-tabulation for the presence of audit, risk and compliance, investment and financial committees according to board independence.

	ARC Presence				Investment Committee				Financial Committee			
	NA (%)	No (%)	Yes (%)	Total	NA (%)	No (%)	Yes (%)	Total	NA (%)	No (%)	Yes (%)	Total
Independent Dummy												
NA	84.62	0.00	15.38	100.00	84.62	0.00	15.38	100.00	84.62	15.38	0.00	100.00
No	31.71	62.60	5.69	100.00	31.71	19.51	48.78	100.00	31.71	68.29	0.00	100.00
Yes	26.85	63.42	9.73	100.00	26.85	9.73	63.42	100.00	26.85	63.42	9.73	100.00
Total	31.95	59.92	8.13	100.00	31.95	13.80	54.25	100.00	31.95	63.33	4.73	100.00
χ^2	45.36				49.75				61.53			
Df	4				4				4			
P	0.0000				0.0000				0.0000			

5. Conclusions

We survey 66 Australian industry superfunds to investigate their trustee board structure and composition, and trustees' background. We also explained the voluntary disclosure of trustees' information based on their educational and professional background. Our findings shed light on the understanding of trustee governance which is currently under-researched relative to the significant growth of superannuation or pension fund industry in many countries.

Consistent with signalling theory, higher qualified trustees are related to better voluntary disclosure of their background profile. In addition, independent trustees and trustees who have higher number of outside directorships are also positively related to better voluntary disclosure. This is due to their higher need for current promotion and development of their reputational properties with anticipation for future earnings growth. However, we do not test the impact of disclosure and trustee's background on fund returns and risk in this paper. This will be an important aspect since many past governance studies have shown a relationship between board composition and firm performance.

We also find board independence and trustee's educational background to have positive association with the presence of audit, risk, compliance, investment and financial committees. These committees are important in assisting trustee board to provide effective oversight of fund operations and

management. In addition, there is implication the association may be curvilinear between trustee's educational completion level and the presence of these committees. Therefore, board committee structure is important in compensating for the inadequacy of and/or further enhancing trustee board's combined knowledge and expertise. Board size is negatively associated with the presence of these committees, implying some governance variables may have complementary effects on each other.

We face limitations in the availability of information about the Australian superfunds industry and hence the research methodologies we could employ to derive in-depth analysis and implications. Nevertheless, we have provided an important view of trustee governance which has not been attempted before. Further research should contribute in this area in order to enhance the understanding of trustee governance and its impact on fund returns and risk management.

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