

# BOARD DIVERSITY AND SELF-REGULATION IN DUTCH PENSION FUNDS<sup>1</sup>

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# **BOARD DIVERSITY AND SELF-REGULATION IN DUTCH PENSION FUNDS**

## **ABSTRACT**

Self-regulation on diversity of Dutch pension fund boards was introduced in 2010. Our data reveals that gender diversity has only marginally improved since then. We examined the determinants of gender and age diversity of pension fund boards using data from 1,525 pension fund board members of the 200 largest pension funds in the Netherlands. Our results indicate that larger boards are more likely to satisfy diversity criteria. We also find evidence consistent with tokenism as seven boards have one member who satisfies both diversity criteria simultaneously. Hence, we conclude that this self-regulation has not yet had the desired effect.

# 1 Introduction

The goal of this paper is to better understand the relationship between the introduction of self-regulation and the effect it has had on board diversity, as well as the characteristics of pension funds that are more likely to have improved their levels of board diversity. Mandatory participation in non-profit pension plans that redistribute retirement income requires trust in the board of trustees. Board diversity is important for trust, as participants need the feeling of having their voice heard in a pension system that does not allow for an exit; see Hirschman (1970).

This paper contributes to the literature in at least three ways. First, we analyze whether self-regulation on diversity in pension fund boards has been effective between 2011 and 2014. Second, we determine which pension fund characteristics are associated with more gender and age diversity in their boards. Third, we shed light on tokenism in pension fund board composition: Diversity might optically be obtained through installing diversity tokens, which are individuals who, regardless of their competences, help to satisfy diversity regulations without affecting the dominant culture in the board.

In this paper, we exploit the unique features of a newly compiled dataset of pension fund board members in the Netherlands to examine the effectiveness of self-regulation of board diversity. The Code of Dutch Pension Funds, which came into effect as of January 2014, states that a pension fund board must have “*at least one man and one woman,*” and it must comprise “*at least one member over the age of forty and one member under the age of forty*”.<sup>2</sup> This quota is an expansion of the Covenant Increasing Diversity in Pension Fund Boards, signed in October 2010, where the stakeholders promised to regulate themselves in devoting attention to board diversity on the characteristics of age, gender, and ethnic background. The Code of Dutch Pension Funds operates by a “comply-or-explain” principle. Though a company will not be penalized for failing to meet the quota, it must explain in its annual report the reasons for its failure, how it attempted to meet the requirements, and how it plans to be successful in the future.

Our findings are fourfold. First, comparing our results to those in Dutch *corporate* boards, we do not find more gender diversity in *pension fund* boards. This is surprising, as the need for voice is stronger in the pension industry due to mandatory participation of members in plans, which thereby cover most of the adult population. Over the past three years, pension fund boards have only marginally improved on gender and age diversity. In April 2014, still more than 35 per cent of the funds had no women on the board, and an overwhelming 60 per cent had no members below 40 years of age. This indicates that self-regulation via the pension fund code has not been effective yet. It is also surprising that age diversity is lagging gender diversity, particularly in a defined-benefit pension system where generational fairness is decided upon by discretion, while gender neutrality is prescribed by EU law. Second, we find that pension funds that have larger boards are more likely to have at least one woman or at least one member below 40 years of age on the board. Third, boards of pension funds with more assets are less likely to have young board members. Fourth, boards with at least one female have a higher probability of also having at least one member below 40 years, which is suggestive of tokenism.

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<sup>2</sup> The Code of Dutch Pension Funds:

<http://www.stvda.nl/en/~media/d6e3308377394b1692efabfdc936f7fc.ashx>

Our findings suggest that boards decide whether and how to respond when constraints are imposed on them. This corresponds to Ng and Wyrick (2011), who develop a theory of commitment in which top executives may be motivated because of utility maximization, a moral obligation, or a personal desire to be associated with a program of social importance and/or to leave a positive legacy. Our findings are also consistent with Klarsfeld, Ng, and Tatli (2012), who describe how externally enforced rules (“control rules”) and internally generated rules (“autonomous rules”) play different roles in determining how actors choose to self-regulate. Since the quota describing pension fund governance operates using “comply-or-explain” as opposed to mandating penalties for not complying, the control rules are not that constraining. This leaves room for more autonomous modes of self-regulation. Klarsfeld, Ng, and Tatli find empirical evidence that imitation of practices of other organizations with strong visibility and prestige may play a role in the adoption of standards in an industry. This is relevant to Dutch pension fund boards, as boards of large pension funds might be more in the spotlight, and hence feel more pressure to comply with autonomous self-regulation than small and unknown pension funds. At the same time, because they are in the spotlight, large boards might feel they need experienced members, reducing the likelihood of hiring younger board members.

The paper is organized as follows. Section 2 discusses current academic literature about diversity in corporate governance. Section 3 describes the data source. Section 4 illustrates pension fund board diversity through the dimensions of gender and age. Section 5 analyzes which characteristics are associated with more diverse boards. Finally, Section 6 concludes.

## **2 Related Literature**

### **2.1 Voice and exit in the pension industry in the Netherlands**

Pension funds in the Netherlands are organizations governed by employers and employees. By law, the participants (employees and pensioners) have at least half the number of seats on the board. The primary goal of these pension funds is to deliver an adequate pension for employees at acceptable costs. These pension funds are non-profit organizations. As there are no shareholders acting as monitors of the pension funds, the legislator has imposed internal and external supervision. Ownership in the public realms depends on the nature of the organization: members own a membership organization, people of the same conviction own an advocacy organization, and a community owns a community organization. “In a community organization, the board must be in a position to understand the various views held in the community about the purpose of the organization.” (Carver, 2001). In a pension fund, ownership can be perceived as divided between participants who are entitled to pension benefits and employers who absorb (part of the) risk related to defined-benefit pension schemes. Board members of pension funds in the Netherlands are legally required to achieve a fair balance of all stakeholders’ interests, regardless of the stakeholder group they represent.

Employees in the Netherlands have no freedom to choose their own pension fund. They must join the pension fund that executes the pension scheme that their company or their industry offers. This means that in terms of Hirschman’s (1970) “exit versus voice”, there is virtually no possibility to exit from the pension fund. This may be different in countries where pension funds are merely asset

management organizations. Kowalewski (2012) states that, in countries where participants have a clear choice, the market acts as the primary mechanism for external control. If a fund does not perform well, clients have the option to leave and invest their assets into a competitor's fund. This gives the governing board an incentive to act with the interest of its clients in mind. However, in the Netherlands, the only possibility to leave a pension fund is to quit one's job and start working for a different company or industry. This seems to be a disproportional decision for employees who do not agree with their pension fund's policies. According to Hirschman (1970, p. 30), all that remains is "voice":

*To resort to voice, rather than exit, is for the customer or member to make an attempt at changing the practices, policies, and outputs of the firm from which one buys or of the organization to which one belongs. Voice is here defined as any attempt at all to change, rather than to escape from, an objectionable state of affairs, whether through individual or collective petition to the management directly in charge, through appeal to a higher authority with the intention of forcing a change in management, or through various types of actions and protests, including those that are meant to mobilize public opinion.*

Since the dominant group of white male workers are well-organized in the Dutch pension funds, they had little desire to institutionalize the option of voice. Others groups who wanted to raise their voice, were less likely to be heard. However, gender equality in pensions was introduced by external forces, when the EU stipulated equal pension treatment.<sup>3</sup>

Several developments in the pension arrangements in the past decade have led to increased pension awareness. For example, Ponds and Van Riel (2009) describe how funding and investment risks were shifted from companies to individuals with pension schemes changing from final-pay defined benefit to average-pay defined benefit to (collective) defined contribution. At the same time, pension schemes have economized on partner pensions and reduced their ambition to compensate for inflation. In early 2013, the largest pension fund even had to reduce the nominal pensions, which was for decades communicated to be guaranteed. These adverse developments led to the increased desire for participants in pension funds to use voice. For example, a political party that focuses on the elderly ("50 Plus Partij") and a youth movement across political parties ("G500") were established. It also created regulation that allowed seats for pensioners in pension fund boards, making sure that their voices were heard in the pension scheme's policies. During this period, diversity of pension fund boards became a broader political issue, and age and gender were the first diversity dimensions to be enhanced via self-regulation.

The central idea is that participants in the pension fund are assured that they are represented, so that their interests are catered for. Adams and Ferreira (2009) demonstrate that more diverse governing boards tend to have a better understanding of their stakeholders. This is what is apparently needed in the Dutch pension system, besides securing financial and operational performance.<sup>4</sup> Fennema and

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<sup>3</sup> Article 119 of the Treaty of Rome provides for equal pay for men and women. The European Court of Justice has ruled in the Barber case on 17 May 1990 that benefits under occupational pension schemes come within the scope of pay. EU Council Directive 1986/378 EC specifically provides for the implementation of the Principle of Equal Pension Treatment in occupational social security schemes.

<sup>4</sup> Tomlinson and Schwabenland (2010) conduct a qualitative study among managers in the UK non-for-profit sector and find that even outside competitive business situations managers make a trade-off between increasing diversity and equality on the one hand, and organisational performance on the other hand.

Heemskerk (2014) suggest that a functionalist view of the board, in which women bring different skills to the board and hence organizational performance increases, does not find much empirical support. As they summarize, the literature shows mixed empirical correlations of firm performance and board diversity, let alone that causality can be detected. In fact, Ferreira (2015) goes further to say that in discussing diversity, *“it is better to focus on potential benefits to society that go far beyond narrow measures of firm productivity.”* Fennema and Heemskerk (2014) indicate that a universalistic view of the board, in which it is expected that boards are a fair representation of the population, is a political choice that seems to have gained popularity over the past four decades. This may as well apply to pension funds, as the majority of the population is affected by their decisions. In the pension industry however, the need for representation goes beyond what is considered ‘fair’ or a sign of ‘equal chance’. A fair representation of the participants in the pension scheme is required for stakeholders to feel that their voice is heard, since exit is virtually impossible. Or, as Hirschman (1970, p. 34) emphasizes:

*In this view, the role of voice would increase as the opportunities for exit decline, up to the point where, with exit wholly unavailable, voice must carry the entire burden of alerting management to its failings.*

This leads to two predictions. First, we expect that pension fund boards would be more diverse than corporate boards. Pension fund boards face the decision to fairly allocate the pension entitlements across plan members, rather than focusing only on financial performance. This is different from corporations, where financial performance is a more dominant driver of board composition. This is consistent with Fennema and Heemskerk (2014), who demonstrate that a political desire for gender diversity in corporate boards led state-owned or state-influenced companies to introduce women in their boards first. State-owned companies are, much like pension funds, more likely to also consider benefits for society rather than only financial firm performance. This is especially the case since in the Netherlands half of the pension fund board members are appointed on behalf of the participants. Second, generational solidarity is of key importance in a pension system with a defined-benefit character, because investment decisions work out differently for cohorts of plan members. Hoevenaars and Ponds (2008) calculate how much generations benefit when the funding, investment, or risk allocation strategy of a pension fund is changed. Given the importance of these generational value transfers, we expect that age is a more important diversity characteristic than gender for pension fund boards in the Netherlands.

## **2.2 Achieving sustainable diversity by self-regulation**

The effect of diversity that sees the most agreement across studies is the added benefit of inclusion, though this also comes with challenges. Adams and Ferreira (2009) show that more diverse boards have higher levels of innovation and creativity. Conger and Lawler (2001) find that individuals with diverse backgrounds can contribute their specific experiences to solve problems from multiple dimensions. Wegge, Roth, Neubach, Schmidt, and Kanfer (2008) find that age diversity helps to improve complex decision-making problems.<sup>5</sup> For pension funds, these findings indicate the need of diverse boards, since the problems pension fund boards face typically require complex trade-offs.

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<sup>5</sup> In addition, McIntyre, Murphy, and Mitchell (2007) find empirical evidence among Canadian firms that moderate levels of age diversity increase firm performance.

Investment and allocation decisions always affect cohorts in different ways, so that the interests of groups of plan members must be balanced.

However, Sayce (2012) and Sayce and Obilgin (2014) suggest that minority groups may feel a strong need to assimilate to the dominant culture on UK pension fund boards. Recent studies have shown that the effect of being appointed via quota may affect both the individual's self-image and the image of them by the dominant "in-group," who may view the "diversity" board member's participation as an external obligation (Hillman, 2015). Kramer, Konrad, Erkut, and Hooper (2007) argue that it is important to prevent tokenism by forming a critical mass of the minority. This way, all are comfortable representing their individual viewpoints. This follows from Moss Kanter's (1977) seminal work on "being different" that suggested that the "dominants", or the numerically many, tend to "control the group and the culture", whereas the "tokens", or the numerically few, ultimately become only symbols of the culture they represent. This effect disappears if the minority grows to about 30%, so that minority individuals are no longer perceived as tokens. The need for such critical mass of the minority group may explain why the Management and Supervision Act for general corporate governance requires boards to be 30% female and 30% male, as simply having one token minority member would not be enough to induce more diverse perspective-taking by the board. Veltrop, Hermes, Postma, and De Haan (2015) used data also from Dutch pension fund boards to indicate that even when boards do become more diverse, there is the challenge of keeping the board from forming sub-groups; they suggest this may be mitigated by effective self-reflection, which they term "board reflexivity". Verma and Weststar (2011) find that the voices of union members, which are minority members in US pension fund boards, are marginalized in the policymaking process. Sayce and Obilgin (2014) show that it is difficult for minority groups to accrue enough social capital to even be appointed to join the board. This may partly explain the dominance of the specific demographic of 55- to 60-year-old men on pension fund boards, as a self-fulfilling mechanism.

There are several studies that test which factors are related to gender diversity on corporate boards. Abdullah (2014) shows that female representation in Malaysian corporate boards is positively associated with board size and family connections, suggesting that compliance with a gender quota regime may lead to the appointment of symbolic board members, which is sometimes also referred to as tokenism. Nekhili and Gatfaoui (2013) also find that board size, family ownership, and firm size are positively related to gender diversity for listed French corporations. Smith and Parrotta (2015) investigate factors driving gender diversity in Danish public and private companies and find evidence supporting the tokenism hypothesis; a board that already has a female is less likely to add another female on the board. Bear, Rahman, and Post (2010) find that corporate social responsibility scores, which are related to the number of women on the board, have a positive correlation with firm reputation. Hence, organizations for which reputation is important are more likely to have women on the board.

It seems that the likelihood of success for self-regulation without strong profit motive or strictly enforced monitoring is low; see Maitland (1985) and Michael (1995). De Jong, DeJong, Mertens, and Wasley (2005) document that self-regulation on governance in the Netherlands had no effect on corporate governance practices. They claim this is due to the lack of a mandatory explanation of non-compliance and lack of enforced independent verification of corporate governance practices. In the UK, mandatory explanations and enforced verification seem to have had a positive effect on voluntary firm behavior; see Dedman (2000) and Dahya, McConnell, and Travlos (2002). Klettner, Clarke, and

Boersma (2016) investigate gender diversity in Australian corporates by comparing increased diversity in boards with lack of diversity in senior management roles. Their interview evidence suggests that *mandatory* quota are more likely to achieve quick results, but that closely monitored *voluntary* targets are more likely to lead to more effective cultural and practical change. If legislators would take this finding seriously, they would not impose quota if voluntary quota do not work, but develop effective monitoring measures instead.

From these findings, research questions emerge as to whether self-regulation via voluntary quota are likely to have effect in not-for-profit sectors, as to which factors are associated with improvements in diversity after the introduction of voluntary quota, and as to whether tokens are used to increase diversity characteristics.

### 3 Data description

Our data originates from the Dutch Chamber of Commerce.<sup>6</sup> We sort pension funds by total assets under management. We selected the largest 200 pension funds by total assets; the top 200 cover 99% of total pension assets in the Netherlands (approximately EUR 1.1 trillion). For individual pension fund board members, information is available regarding age, gender, and years of tenure on current board. Because some individuals may sit on more than one pension fund board, their information will purposefully appear multiple times.<sup>7</sup>

In June 2011, a few months after the Covenant Increasing Diversity in Pension Fund Boards was signed, Swinkels and Ziesemer (2012) compiled data from boards of the largest 100 Dutch pension funds to study the level of diversity through the dimensions of gender and age.<sup>8</sup> We collect a more recent sample in April 2014. Our sample is more comprehensive as it consists of the boards of the largest 200 Dutch pension funds. For our analysis, we compare across three groups for consistency: the top 100 pension funds in 2011, the top 100 pension funds in 2014, and the top 200 pension funds in 2014.<sup>9</sup>

Pension funds in the Netherlands essentially fall under two categories: corporate pension funds and industry-wide pension funds.<sup>10</sup> Corporate pension funds are governed by representatives of the employer and employees, and sometimes also retirees. Corporate pension funds are solely responsible for executing the corporate pension scheme. Industry-wide pension funds execute a pension scheme that is valid for all companies within an economic sector that do not have their own

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<sup>6</sup> We accessed this data through <https://company.info>, which continuously updates information, albeit sometimes with a delay of a few months.

<sup>7</sup> On the top 200 boards in the Netherlands, 1,403 individuals take up 1,525 seats. Of the 1,403, 1,322 sit on one board, 50 sit on two, 23 sit on three, 6 sit on four, and 2 sit on five. Persons with multiple board positions are frequently union representatives who specialize in pensions.

<sup>8</sup> The descriptive statistics reported by Swinkels and Ziesemer (2012) are similar to Vletter-Van Dort, Klaassen, and Eijkelenboom (2012) and Wagemans, Verstappen, Kraamwinkel, and Vrolik (2013), who investigate diversity of Dutch pension fund boards using a substantially smaller number of pension fund boards.

<sup>9</sup> In the Appendix, we display some summary statistics on pension funds in our sample.

<sup>10</sup> We group profession-wide pension funds (such as those for notaries and physiotherapists) with industry-wide pension funds, as they do not represent one firm but operate across firms. Note that in the first quarter of 2014, there are 372 pension funds in the Netherlands of which 289 are corporate pension funds. Source: [www.dnb.nl](http://www.dnb.nl).



pension scheme. Examples are the civil servants, transporters, and textile workers. These industry-wide pension funds are governed by representatives of employers' organizations and trade unions. Following Bear, Rahman, and Post (2010), it can be expected that these might be more inclined to have more diverse boards, because of the social reputation of trade unions.

## 4 Has diversity improved due to three years of self-regulation?

### 4.1 Gender diversity

The dimension of diversity that has arguably received the most interest in recent years has been gender diversity, i.e. increasing the proportion of women on the board. Figure 1 describes the gender diversity of pension fund boards in the Netherlands. Figure 1A demonstrates that in the past 3 years, the percentage of women on pension fund boards has almost not changed. In mid-2011, the percentage of women on the largest 100 pension fund boards was 11.5 per cent. After three years, the percentage of women on the largest 100 pension fund boards has barely risen, moving up 1.9 percentage points to 13.4 per cent. For the largest 200 pension funds, the number is 13.2 per cent. This is in sync with Wagemans, Verstappen, Kraamwinkel, and Vrolik (2013), who reported 14 per cent for a substantially smaller data set of the largest 50 pension funds. Only 128 out of 200 pension funds have at least one woman on their board. The proportion complying with the self-regulation has essentially not changed at all since 2011, when 63 of the top 100 pension fund boards had at least one woman. The quota in place for pension fund governance is substantially more lenient than the governance requirements for corporate boards; the Management and Supervision Act in the Netherlands which is effective since January 2013 for corporate boards, states that *“a management board or supervisory board will be deemed to have a balanced gender distribution if, of the seats occupied by individuals, at least 30% are occupied by women and at least 30% by men”*. Only 12 out of 200 pension funds have more than 30 percent women on their boards. Lückcrath-Rovers (2016) reports that 28 per cent of Dutch listed *corporates* have no women on their management or supervisory boards. This compares to 36 per cent for pension funds. Dutch corporate management boards consist on average of only 7.1 per cent women, and supervisory boards of 23.1 per cent women. We conclude that gender diversity is comparable between Dutch corporate and pension fund boards. This is in contrast with our expectation based on Hirschman's (1970) theory on “voice and exit”, as the need for voice is more prominent in the pension industry due to its compulsory participation.

< FIGURE 1 >

Since board turnover is costly due to an immediate loss of experience, it would be surprising if the absolute numbers would have changed dramatically between June 2011 and April 2014. However, since the Covenant Increasing Diversity in Pension Fund Boards has been in place since 2010, the newly appointed board members would be expected to enhance the self-imposed diversity ratios. However,

only 16.9 per cent of incoming board members are female; see Figure 1B. This is slightly above the average percentage of total female board members on boards as of 2011. However, if the ultimate target is the 30 per cent required for the Management and Supervision Act, it falls far short.

## 4.2 Age diversity

With the aging of society, tension regarding generational fairness in defined benefit systems has intensified. Although board members should represent all stakeholders, young members might not feel represented when all board members are above 40 years. The Code of Dutch Pension Funds attempts to address this issue by including a section requiring at least one individual younger than age 40 on each pension fund board. However, we see in the data that the majority of pension fund boards do not yet meet this quota. Among the pension funds in 2014, only 76 out of the 200 have at least one member under the age of 40. The situation was similar in 2011 and 2014, with 33 and 34 of the largest funds having a young board member. Our interview with a recruiter in the sector revealed that most of the boards are eager to recruit women, but have difficulty finding them in their own networks. The same holds for younger board members, even though in general their chances of passing the ‘fit and proper’ test by the external supervisors are - contrary to common belief - not lower than those of older men. This suggests that lack of supply of qualified candidates with diversity characteristics should not be an important factor, but we cannot exclude that this also plays a role.

< FIGURE 2 >

Figure 2 contains the age distribution of all pension fund board members. Overall, for the same pension funds between 2011 and 2014, there is a movement towards older ages. In 2011, the top 100 pension funds had an average of 55.7, which has grown to 56.3 by 2014. For all top 200 pension funds, the average age is 55.4. This is because for pension funds ranked 101 to 200, there is a larger percentage of board members aged 35 to 44 than there are in the top 100. These numbers suggest that pension fund boards are less diverse regarding age than gender. Given the importance of generational value transfer in pension plans, this is surprising and at odds with Hirschman’s (1970) model of “voice and exit”.

The upward shift in age may be due to changes in the law, which now allows for pensioners to retain a permanent seat on the pension fund board as long as pensioners do not become the majority.<sup>11</sup> Although the diversity regulation only makes a distinction between those aged below and above 40 years, one could say that appointing pensioners is also a form of age diversity. During the three-year period, the boards have substantially increased the fraction of pensioners. In practice, retirees interest groups have more time available, so they could promote their interests better than the below-40 group who are at work. Only when taking this alternative view of age diversity, our empirical evidence is in line with our predictions based on Hirschman (1970).

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<sup>11</sup> In Dutch: Wet Versterking Pensioenfondsbestuur <https://zoek.officielebekendmakingen.nl/STB-2013-302.html>

In analyzing the entry and exit of pension fund board members, we look at the pension fund boards that qualified amongst the top 100 in 2011 for continuity, and we assume that all individuals exited and entered the pension fund board in the middle of the two sample periods of 2011 and 2014. To do so, we projected the June 2011 data and shifted the April 2014 data so we obtain everyone's age in December 2012. Figure 3 shows that the individuals entering are, on average, substantially younger than the individuals leaving the pension fund board; individuals leaving are on average 57.8 years of age, while individuals entering are on average 52.0 years.

< FIGURE 3 >

Interestingly, there is a substantial difference in age range between male and female pension fund board members. On average, female board members are 7.1 years younger than male board members. When we perform a statistical test for age equality of male and female board members, the p-value is below 0.001. This indicates that the observed age differences across genders are not only economically large, but also statistically significant. Similar age differences can be seen between men and women on Dutch *corporate* boards; Lückcrath-Rovers (2016) reports that the average age difference between male and female executive board members is 4.6 and for supervisory board members is 6.5 year. This observation could point to tokenism, which we address in Section 5.2.

## 5 Empirical analyses

### 5.1 Which types of pension funds are more diverse?

We perform a statistical analysis to relate pension fund board diversity to other pension fund characteristics. The pension fund characteristics are the size of the board (number of board members), the size of the pension fund (logarithm of the market value of assets), and the type of pension fund (dummy equals one for corporate and zero for industry-wide pension fund). Board size was found to be important in a corporate context by, e.g., Abdullah (2014) and Nekhili and Gatfaoui (2013). The latter also find that firm size is an important determinant for diversity. Bear, Rahman, and Post (2010) claim that reputation can be an important driver for board diversity. We investigate whether the social reputation of trade unions might drive diversity.

We start by estimating whether the pension fund has at least one woman on the board. We use a probit model, as the dependent variable is binary. The dummy equals one when there is at least one woman on the board, or zero when this is not the case. The unconditional probability is 64 per cent. We also look at a dummy when 30 per cent of the board is female, with unconditional probability of 11 per cent.

< TABLE 1 >

Table 1 shows that board size is positively related to the probability of having at least one woman on the board, as the coefficient is statistically significant with a t-value of 2.66. This is not surprising; when each board member has the same unconditional probability to take up a board seat, larger boards are more likely to have at least one woman. Additionally, large boards that do not believe in the added value of diversity experience less costs when they “give up” a seat to satisfy diversity criteria. Our empirical results on board size are consistent with Abdullah (2014) and Nekhili and Gatfaoui (2013).<sup>12</sup>

There is no statistically significant difference (p-value 0.76) between corporate and industry-wide pension plans regarding the likelihood of having at least one female board member. The size of the pension fund assets is also irrelevant.

For the 30 per cent female criterion, the situation is different. The size of the board has a statistically significant *negative* coefficient. Whereas it is relatively easy to have at least one female board member when the board is large, it is much more difficult to have a board of that same size be 30 per cent female. Controlling for board size, corporate pension funds tend to satisfy the 30 per cent female criteria significantly less often. As discussed in Bear, Rahman, and Post (2010), more female representation on a board signals to observers that the company pays more attention to women, and is therefore more socially responsible. This notion of signaling may be driving the desire for boards with union representation to increase female participation. Since industry-wide pension funds have boards with union representation and corporate pension funds not, our finding is consistent with the hypothesis that unions care about their reputation in society with regards to gender diversity.

The second set of results relates to age diversity. We use a dummy variable to indicate whether there is at least one young person, defined as being below age 40, on the board. We explain which factors may influence a board to have at least 20 per cent of its members be below age 40. Here we choose 20 per cent instead of 30 per cent, as there are only 4 funds with over 30 per cent young board members versus 18 with at least 20 per cent. We first look at the probit regression for at least one young board member and then follow with an analysis of the regression concerning the 20 per cent threshold. Similar to what we discovered with gender diversity, we find that boards with more board members are more likely to have at least one young board member. Pension funds with more assets are less likely to have a young board member, with a t-statistic of -2.74. One plausible explanation is that experience is seen as a more important for larger funds. Since experience is positively correlated with age, such reasoning might lead to less age-diverse boards. Thus, young participants of larger funds might feel less represented by their boards. Corporate pension funds are more likely than industry pension funds to have a young board member, though the difference is not statistically significant. For boards where young members make up at least 20 percent of the board, there is no statistically significant relation with board or fund size. Corporate pension funds are more likely than industry pension funds to have at least 20 per cent of their members be below age 40. In sum, boards with more board members are more likely to have a young member, while pension funds with more assets are less likely to have a young member.

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<sup>12</sup> Yermack (1996) finds that large boards are effective. Hence, there might be a trade-off between more diversity through bigger boards and organizational performance.

## 5.2 Diversity through token representation?

Moss Kanter (1977) suggests that appointments that improve diversity can also be a token to the outside world rather than an attempt to create a better board. A preferred token board member would be a member who combines diversity criteria. This would limit the need for a significant reform of the board, while still meeting quantitative diversity criteria. An alternative, more positive explanation is that boards that quickly want to improve diversity, but limit board turnover due to maintain continuity, might target new board members that combine diversity characteristics.

< FIGURE 4 >

We investigate the gender and age dimension simultaneously in Figure 4. It is obvious that the age distributions are different. In the “below age 30” cohort, female representation is close to 50 per cent, and in the bracket between 30 and 34, it is close to 30 per cent. In the cohorts above 55 years, the female representation is even below 10 per cent.

< FIGURE 5 >

Figure 5 contains this empirical decomposition of the age and gender distribution of *newly appointed* board members. It is obvious that newly appointed female board members tend to be much younger than newly appointed male board members. It seems that younger women are targeted for new board positions, which is consistent with the token representation hypothesis.

We can also evaluate whether the probability of satisfying the gender diversity criteria influences satisfying the age diversity criteria and vice versa. From Table 2 it seems that boards that have at least one member below 40 are more likely to also have at least one woman. The t-statistic of 1.83 indicates statistical significance at the 10 per cent level. On the right-hand side, we see that the likelihood of having one young board member is also positively related to also having a female board member, with a t-statistic of 1.88. For the proportional criteria, we find positive, but insignificant signs. These results could also be consistent with token representation, but at this stage we do not know whether the two diversity characteristics are combined in one person.

< TABLE 2 >

There are 7 pension funds that have only one woman who is also under 40 in their board, with remaining board members all male and above 40. In addition, out of the 26 pension funds with a female board member below 40 years, only 4 have two more board members that are either female or below 40. In March 2016, out of the 7 pension funds with a ‘token’ board member in 2014, four

lost at least one diversity criteria, as the women either aged over 40 or left the board altogether. Having a token board member makes pension fund diversity vulnerable. Two other boards still have their token. Although the remaining board lost their 'token', it now has three women on the board, one of which is below 40. Except for the last fund, these more recent observations together with the qualitative information obtained from a recruiter in the pension sector, are consistent with the token representation hypothesis.

< TABLE 3 >

We also perform statistical tests to determine which pension fund boards are more likely to have token board members. We perform probit analyses with, as dependent variable, a dummy for the seven boards with a token and a zero otherwise. Independent variables include the board size, the amount of pension fund assets, and a dummy to separate company and industry-wide pension schemes. We expect that smaller boards are more likely to introduce tokens, as proportionally they should change the board more to meet diversity criteria. By implication, their appointment does not substantially support the voice of the diversity target groups. We have no clear indication why pension fund assets or company versus industry-wide pension fund should matter, but nevertheless would like to verify whether this may explain the existence of tokenism. Our results in Table 3 indicate that based on these seven tokens no statistical significance can be established. We note that the average size of boards with tokens is 6.9, while the overall average is 7.6, corresponding to the negative sign of board size in the probit regression. Also, six out of seven tokens are at corporate pension funds, which is in line with the positive sign for the dummy in the regression. There is no relation with pension fund asset size. The last column indicates that, when we restrict ourselves to the 55 pension funds that meet the diversity criteria, smaller funds are significantly more likely to have tokens.

## 6 Concluding remarks

Besides the well-known arguments for increasing diversity in boards in general, pension funds have additional reasons to consider increasing board diversity. The management of pension plans brings along several instances of redistribution, which makes balanced decision making a necessity for board effectiveness. For younger people, intergenerational redistribution becomes relevant, given the demographic shift and the limited potential of pension contributions to cover funding shortages. For older people, inflation compensation and the protection of nominal pensions is at stake. These trends explain the increased pressure for age diversity on boards. Gender diversity is relevant because both plans and management may have gender biases. Therefore, both age and gender diversity deserve extra attention from pension funds, which could be ensured via self-regulation.

However, our data results suggest that self-regulation has not yet had the desired effect in the pension funds of the Netherlands, as gender and age representation have hardly changed over the period 2011 to 2014. Consistent with the literature on diversity in corporate boards, we find that diverse boards are on average larger. Our recommendation to smaller boards would be to consider increasing their

size and target diverse board members for the newly created seats. We also find that larger pension funds tend to have fewer young representatives, which could reflect the lack of experience required for board members of large funds. If larger funds hesitate to include young members because of their lack of relevant skills, then we would recommend setting up a platform to educate young candidates and prepare them for board membership. Corporate pension funds tend to satisfy the 30 per cent female criteria significantly less often, but meet criteria for young members more often.

Finally, we find some evidence on token representation, referring to an instance where someone is added to the board to satisfy multiple diversity criteria without materially changing the board composition and the culture of the dominant group. In that sense, they reflect 'symbolic' diversity, which invokes a reputation risk. Pension funds should realize that they are vulnerable when following this strategy, e.g. when appointing young women. When the 'token' leaves, all (symbolic) diversity is gone.

There is a sense of urgency involved, as young people don't support pension plans if they consider their interests not being catered by the boards of trustees. The older plan members have more to lose in terms of pension entitlements, whereas they need the young members to prevent the plans from discontinuity. However, not all older plan members may be able to see the full picture; these vested interests of older participants might reduce the incentive for current board members to open up and include younger participants, as they might lose out relative to a status quo. Other potential explanations why we have not found a material increase in diversity characteristics could be that the costs for non-compliance seem to be negligible, that there is a lack of qualified supply of board members with diversity characteristics, and that there is a lack of role model behavior by the larger pension funds to include young and female board members.

The lack of improvement on diversity via current self-regulation suggests that a different approach is needed. Forced independent auditor verification, as in the UK, might be a fruitful action the regulator could enforce on pension funds going forward. However, if that also does not lead to a significant improvement, compulsory diversity quota might be the only option left for policy makers.

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**Table 1: Determinants of pension fund board diversity in 2014**

*Probit regression with dependent variable a dummy for (a) at least one female board member, (b) at least 30 per cent female board members, (c) at least one board member below 40 years old, and (d) at least 20 per cent of board members below 40 years old. Board size is measured as the number of board members, fund assets as the natural logarithm of pension fund assets (in million euros), and corporate is a dummy that equals one if the pension fund is a pension fund sponsored by a corporate (and zero otherwise). Below the parameter estimates are the t-statistics in square brackets and below that the associated p-values in italics. The last lines indicate the number of observations.*

	Female >= 1	Female >= 30%	Young >= 1	Young >= 20%
Intercept	-0.43	0.51	0.29	0.08
	[-0.69]	[ 0.58]	[ 0.45]	[ 0.07]
	<i>0.49</i>	<i>0.56</i>	<i>0.65</i>	<i>0.94</i>
Board size	0.14	-0.14	0.11	-0.06
	[ 2.66]	[-1.94]	[ 2.23]	[-0.79]
	<i>0.01</i>	<i>0.05</i>	<i>0.03</i>	<i>0.43</i>
Fund assets	-0.04	-0.06	-0.24	-0.25
	[-0.42]	[-0.46]	[-2.74]	[-1.46]
	<i>0.67</i>	<i>0.65</i>	<i>0.01</i>	<i>0.14</i>
Corporate	-0.06	-0.49	0.30	0.84
	[-0.30]	[-1.80]	[ 1.38]	[ 1.87]
	<i>0.76</i>	<i>0.07</i>	<i>0.17</i>	<i>0.06</i>
Observations	200	200	200	200
Of which ONE	128	22	76	18
Of which ZERO	72	178	124	182

**Table 2: Determinants of pension fund board diversity in 2014, including diversity interaction**

See description of Table 1.

	Female >= 1	Female >= 30%	Young >= 1	Young >= 20%
Intercept	-0.65 [-1.03] <i>0.30</i>	0.40 [ 0.45] <i>0.65</i>	0.18 [ 0.28] <i>0.62</i>	-0.05 [-0.04] <i>0.97</i>
Board size	0.13 [ 2.37] <i>0.02</i>	-0.17 [-2.14] <i>0.03</i>	0.10 [ 1.88] <i>0.06</i>	-0.09 [-1.06] <i>0.29</i>
Fund assets	-0.01 [-0.06] <i>0.95</i>	-0.03 [-0.25] <i>0.80</i>	-0.24 [-2.75] <i>0.01</i>	-0.26 [-1.47] <i>0.14</i>
Corporate	-0.09 [-0.43] <i>0.67</i>	-0.53 [-1.90] <i>0.06</i>	0.30 [ 1.42] <i>0.16</i>	0.90 [ 1.94] <i>0.05</i>
Female >= 1	- - -	- - -	0.38 [ 1.88] <i>0.06</i>	0.43 [ 1.40] <i>0.16</i>
Young >= 1	0.36 [ 1.83] <i>0.07</i>	0.34 [ 1.33] <i>0.18</i>	- - -	- - -
Observations	200	200	200	200
Of which ONE	128	22	76	18
Of which ZERO	72	178	124	182

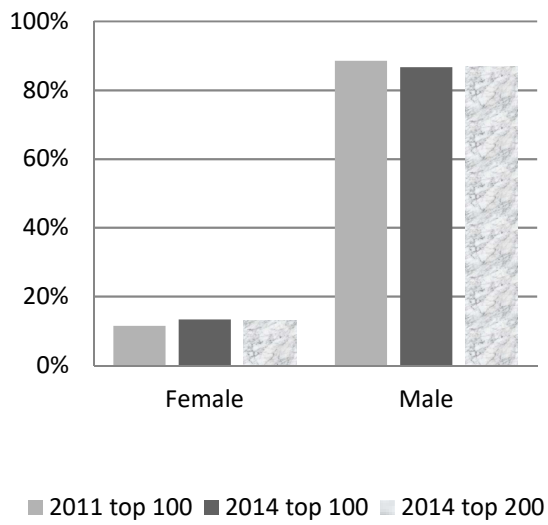
**Table 3: Determinants of 'tokenism'**

*Probit regression with dependent variable a dummy for a board with only one female below the age of 40 and the others male above the age of 40. The last column contains the subsample with the 55 pension funds that meet both diversity criteria. See Table 1 for more information.*

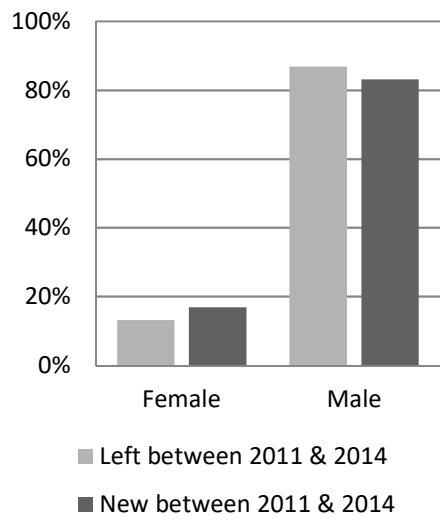
	Tokenism	Tokenism	Tokenism	Tokenism	Tokenism
Intercept	-1.13 [-1.66]	-1.06 [-1.06]	-2.16 [-5.48]	-1.45 [-1.17]	0.09 [0.05]
	0.10	0.29	0.00	0.24	0.96
Board size	-0.09 [-1.00]	-	-	-0.08 [-0.78]	-0.30 [-1.83]
	0.32	-	-	0.44	0.07
Fund assets	-	-0.11 [-0.75]	-	-0.01 [-0.07]	0.11 [0.41]
	-	0.45	-	0.94	0.68
Corporate	-	-	0.46 [1.05]	0.42 [0.90]	0.36 [0.54]
	-	-	0.29	0.37	0.59
Observations	200	200	200	200	55
Of which TRUE	7	7	7	7	7
Of which FALSE	193	193	193	193	48

**Figure 1: Percentage of Female and Male pension fund board members**

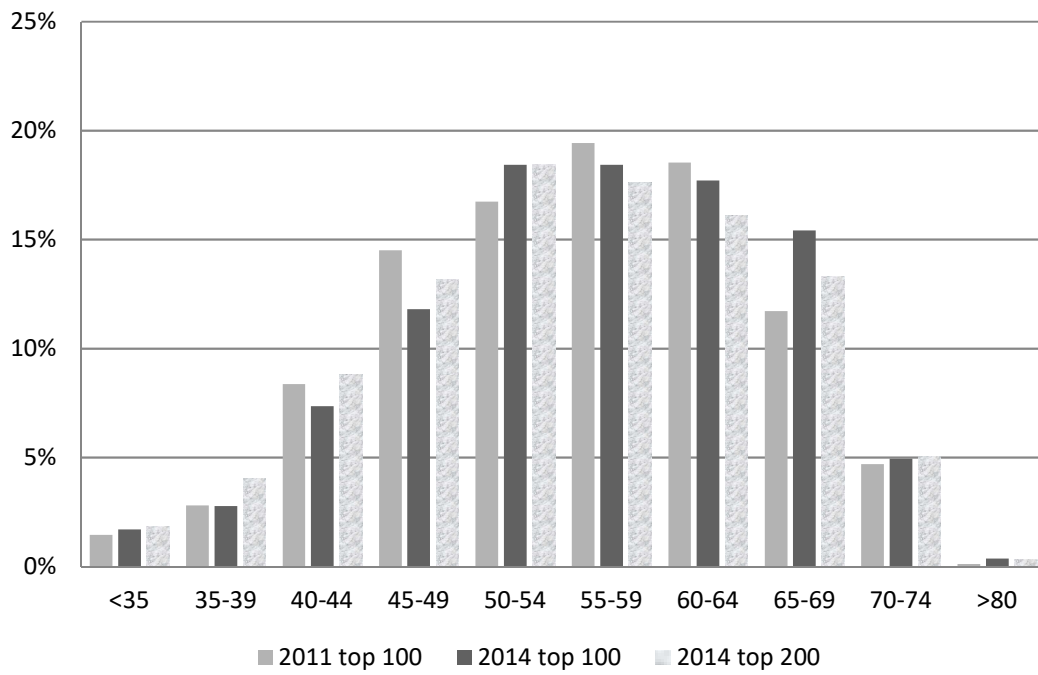
**Panel A: All members**



**Panel B: Exiting and entering members**

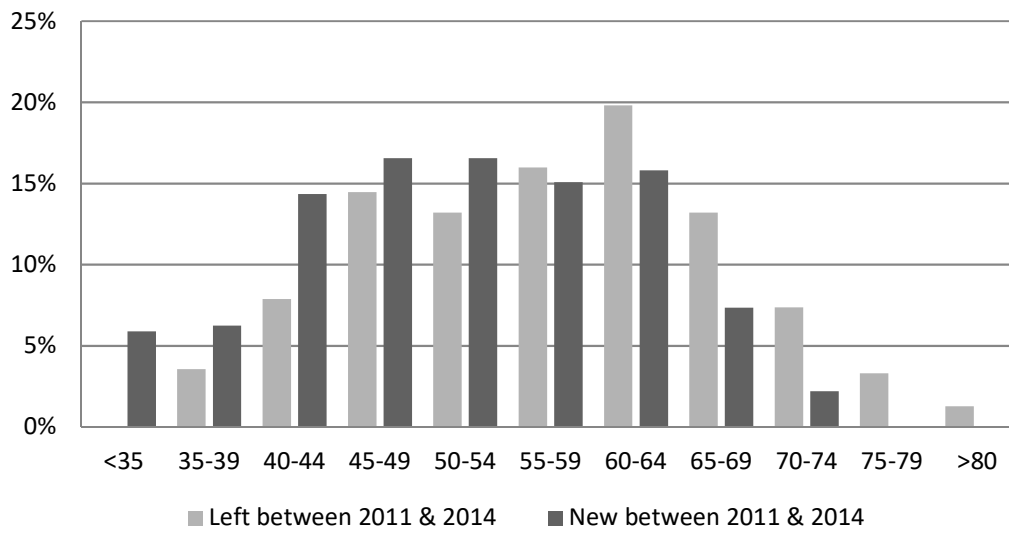


**Figure 2: Distribution of Ages of pension fund board members**



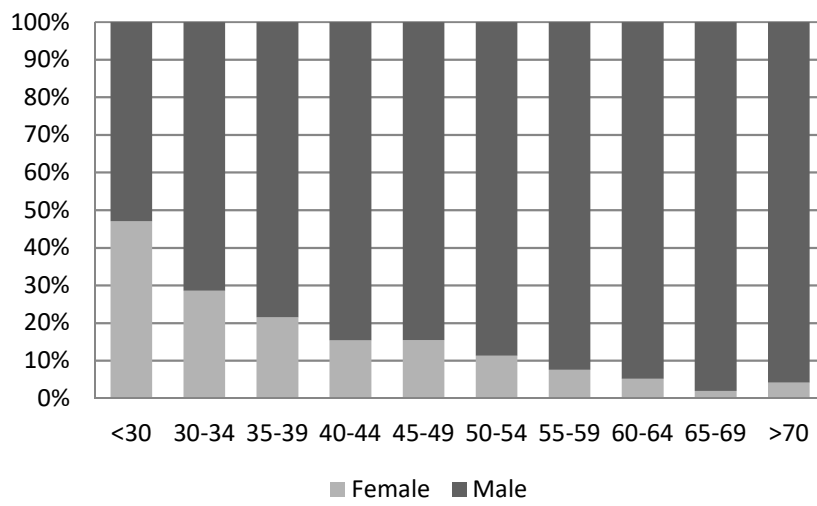
**Figure 3: Distribution of Ages of pension fund board members entering and exiting**

**Top 100 pension fund boards in 2011, turnover between 2011 and 2014**



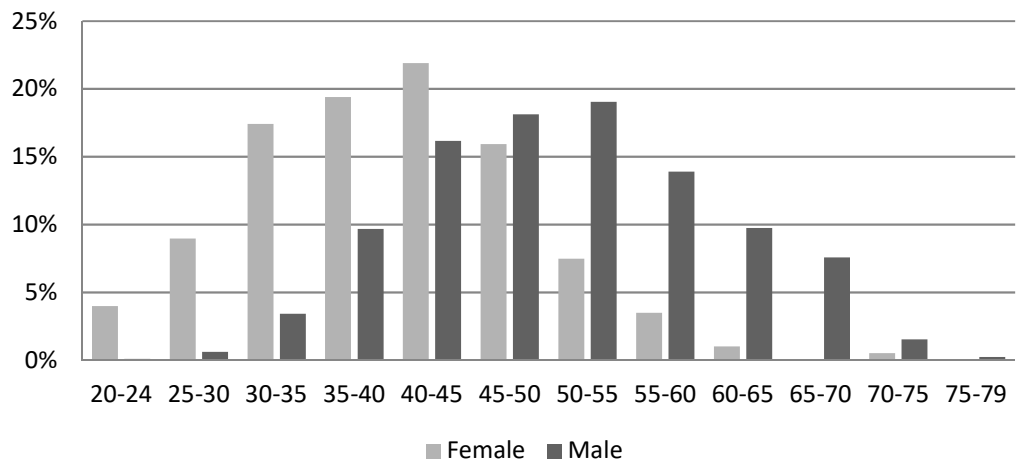


**Figure 4: Proportion of Male and Female pension fund board members by Entry Age range**



**Figure 5: Distribution of Entry Ages of Male and Female pension fund board members**

(n = 201 females, 1,324 males)



## Appendix

Table A1: Descriptive statistics of the 200 boards in our sample

*Fund assets measured in EUR millions. The dummy variable Corporate takes 1 for a corporate pension fund, and zero otherwise*

	Fund assets	Board size	Corporate
5th percentile	225	5.0	0.00
median	734	8.0	1.00
average	5,297	7.6	0.68
95th percentile	14,290	12.0	1.00