Interlocking and compensation in Australian pension funds

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Abstract

This study investigates the effect of board interlocking on director compensation in Australian pension funds. The agency relationships, governance mechanisms and board practices of pension fund boards are unlike those faced by corporations and so provide an ideal opportunity to examine the interlocking-compensation relation under non-traditional conditions. Further, due to issues of board structure, it is likely that boards rather than management extract rent in the pension fund context. Using a sample of 249 Australian pension funds from 2004 to 2011, this study finds that as board interlocking increases, board compensation similarly increases. Further, the positive relation is stronger in funds that face severe agency problems (retail funds) and weaker in funds with less severe agency problems (funds that use a professional trustee company). Interlocking boards are also negatively associated with fund performance suggesting that the positive interlocking-compensation relation is due to rent extraction. Thus the findings are inconsistent with the notion that interlocking directors provide value to the board and should be rewarded. Results are robust to alternative measures of interlocking and endogeneity-corrected estimation methods.

Keywords: Pension funds; Superannuation; Interlocking; compensation

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