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MAKING PENSION PLAN ORGANIZATIONS ‘COMPETITIVE’

*“Achieving ‘best practice’ in pension administration is no mystery...
It results from good governance, accountable CEOs, clear assignment
of responsibilities, supporting information systems, and an appropriate*

Pension Plan Organizations and ‘Legitimacy’

Peter Drucker’s little 1975 book “The Unseen Revolution: How Pension Fund Socialism Came To America” is probably his least-known and least-read. Yet, it may still become his most important. Why? Because the book discussed a critical consequence of the emergence of funded public and private retirement income systems in America and abroad. Specifically, he warned that the growth and maturation of these systems would eventually produce a new dimension in modern capitalism, that could become eventually become a force for great good...or evil.

His concern in 1975 was the ‘legitimacy’ of public and private pension plans. That is, their ability to serve stakeholder interests in both perception and reality. He foresaw that the collectivity of these plans, in their various manifestations, would provide the retirement income of a large part of the population, and at the same time ‘own’ a large part of the developed economies’ outstanding bonds and stocks. Thus these plans would become potential socio-economic powerhouses. However, that potential power would only be properly directed if pension plans could hold their own in a world of political, corporate, and labour union power centres with their own agendas.

Drucker argued that, unless pension plans could somehow establish ‘legitimacy’ in the eyes of their own stakeholders, these other power poles would usurp potential pension plan power, and use it to their own ends.

‘Unseen’ No Longer

The 25 years since Drucker’s observation have indeed seen public and private pension plans in North America, and in parts of Europe and the Far East, grow impressively in size and visibility. The pension ‘industry’ is unseen no longer. But from a ‘legitimacy’ perspective, are pension plan organizations holding their own? We would answer “better than Drucker anticipated, but with still considerable room for improvement”.

Why have things turned out better than Drucker anticipated? Because sufficient large-end pension plan organizations around the world have adopted ‘business models’ to define their missions, and built the necessary structures to achieve them. Through these processes, a critical mass of these organizations has acquired the necessary ‘legitimacy’ in the eyes of their stakeholders. Why is there still considerable room for improvement? Because many pension plan organizations have yet to achieve mission clarity, and have yet to build the necessary structures to fulfill their