

Investor sentiment, Executive compensation, and Investment – Some International evidence: A Pitch

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Abstract: Pitching research helps researchers to outline a research idea systematically to understand the feasibility and keep the research heading in the right direction. This letter adopts the pitching template suggested by Faff (2015a) into a behavioural finance research topic. Specifically, I utilize this template to outline my research idea. My idea is to investigate whether investor sentiment has any role in explaining the relationship between corporate investment and executive compensation.

Key words: Pitching research; investor sentiment; behavioural finance; active media management

JEL codes: G02, G11, G30

1. Introduction

This letter is an illustration of pitching template (Faff, 2015a) similar to Unda (2015), Beaumont (2015), Ratiu (2015) among others for outlining one of my potential research essays in PhD program in the area of behavioural finance. I am a full-time PhD student enrolled in July, 2015 at UQ Business School of The University of Queensland. At the initial stage of my PhD program, I came across the pitching concept while I was doing coursework on ‘Process of Research in

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Business' instructed by Robert Faff. I completed the pitch on 'Investor sentiment, Executive compensation and Investment – Some International evidence' for one of my PhD meetings with my supervisors. In total, it took about 15 hours to complete the pitch template including key background literature, feedback, and discussions. Importantly, the original research idea comes from one of my master's research projects at University of Strathclyde, United Kingdom as I did critical literature review on 'Investor sentiment and Stock returns'. Since I did have some preliminary background of literature and developed an initial proposal for PhD admission, to complete the pitching I went through each section of the pitching exercise chronologically.

This pitching research letter has the following subsections: Section 2 incorporates the brief commentary on how I have completed the pitch followed by personal reflection in section 3 and concluding remark in section 4.

2 Brief commentary on the Pitch

The pitching is summarized in Table 1 where my basic research question is whether investor sentiment has any role to play in explaining the relationship between corporate investment and executive compensation. The research idea stems from whether managers exploit the mispricing in terms of taking investment decision or simply focusing on their own interest as executive compensation gives managers incentives to pursue their own interest especially for sentiment-driven mispricing. The key papers include Grundy and Li (2010) and Li, Henry, and Chou (2011). The motivation or puzzle comes from the contradiction in terms of the agency problem being mostly severe in Australia compared to the U.S. This contradiction essentially requires further international studies to understand the true relationship between executive compensation and corporate investment in the presence of investor sentiment in the market.

In completing this pitching template, I found some of the sections very challenging including motivation, research idea, what's new, so what, and contribution. As there are so many articles in the area of my interest, ending up with key papers and motivation took plenty of time in terms of background reading. Moreover, it was also very difficult for me to distinguish what's new and contribution as these terms are so closely related. But, after going through some of the template examples, I finally created a meaningful draft for each and every section. Though some of the elements of pitching template were very difficult to articulate, I found data, tools, and some of the other considerations very straightforward according to relevant literature. In other considerations, the risk and target journals gave me a feeling about the feasibility of my proposed research. Finally, as I have completed the pitch and got the feedback, now I understand how beneficial the pitching is for future research directions.

Table 1. Completed 2-page pitch template on the role of investor sentiment

(A) Working Title	Investor sentiment, Executive compensation and Investment – Some International evidence
(B) Basic Research Questions	Does Investor sentiment have any role in explaining the relationship between corporate investment and executive compensation?
(C) Key papers	Grundy, B. D. and Li, H. (2010), “Investor sentiment, executive compensation, and corporate investment”. Journal of Banking and Finance, Vol. 34, pp. 2439-2449. Li, H., Henry, D., and Chou, H. (2011), “Stock market mispricing, executive compensation and corporate investment: Evidence from Australia”. Journal of Behavioral Finance, Vol. 12, pp. 131-140.
(D) Motivation/Puzzle	Since mispricing is documented for non-fundamental concerns where investor sentiment is one of the prime elements, the Shareholder maximization view suggests that managers should address the sentiment to maximize the current share price. This implies that when sentiment is high, managers should take aggressive corporate investments. A number of empirical works support this argument by finding positive relationship between investor sentiment and corporate investment. Importantly, on the other hand, based on agency theory, managers’ compensations include equity incentives to reduce agency cost. But Managers might have personal wealth interest. Therefore, investigating the impact of executive compensation on investment is emerging especially when sentiment has some role to play. In this regard, findings are contradictory. In one of the studies based on the U.S. data, it is found that investment is significantly related with investor sentiment and investment level is insignificantly related with executive compensation. This implies that agency problem is not severe in the U.S. However, in other study based on Australian data, it is found that agency problem is very severe since executive compensation is significantly associated with investment and investment is insignificantly related with sentiment. Hence, this puzzle drives me to do further research from other sample perspectives.
(E) Idea?	The research idea stems from whether investor sentiment has any role to play for corporate investment decision where executive compensation create or mitigate agency problem.
(F) Data?	<ol style="list-style-type: none"> 1. The data might include from UK, Canada and Other country perspectives. 2. The sample size is for 10 years. 3. It is a panel data. 4. Hand data collection might be required from Annual reports. 5. Sample will be selected to minimize the missing data problems. 6. Data will be collected with some validity measures.

(G) Tool?	Separate panel data regression models will be used for different countries
(H) What's New?	As the idea itself posits contradictions in terms of findings from empirical point of view, investigating with new sample might positively contribute to the puzzle.
(I) So What?	What is true role of investor sentiment in the setting of both shareholders' wealth maximization view of corporate investments and agency theory implication of executive compensation?
(J) Contribution?	Do agency problem and shareholder maximization view in light of investor sentiment, executive compensation, and investments are country specific concerns?
(K) Other considerations	
(K1) Collaborations	Not required
(K2) External advice	Support from my supervisors by providing intellectual thoughts regarding idea and data.
(K3) Target journal	A category journal
(K4) Research risk	Less because hand collecting data may be required
(K5) Scope	Well balanced
(K6) Funding	Not required
(K7) Governance	Not required
(K8) Ethical clearance	Not required
(K9) Deal breakers	Time to collect data may pose a problem but manageable.
(K10) Miscellaneous	None

3 Reflection

It has been a wonderful experience while converting my research ideas into a standard format of pitching developed by Faff (2015a). Like Beaumont (2015) among others, as a PhD student, I was facing extreme challenge to feed my research ideas into a systematic pitching template. But after a couple of exercises for my research essays relevant to my PhD, I am feeling confident not only to understand the feasibility of doing research but also to identify key points and issues pertinent to reading the literature. Especially, this pitching template shapes my way of thinking and attitude towards developing my research ideas systematically and subsequently works as a continuous mentor for keeping me on the right track. In particular, after completing the pitching exercise and getting the feedback, I am now confident to identify my strengths and weaknesses which are considered to be most significant factors for doing research. According to Faff (2015b), the pitching exercise is evolving and the progress that I will make can be incorporated into this standard format.

Furthermore, in pitching, the ‘Mickey Mouse’ diagram is very useful to outline new research ideas. I illustrate the ‘Mickey Mouse’ diagram in figure 1. Besides, other considerations are really instrumental for the evaluation of implementation at the early stage of doing research. Before, coming across the concept of pitching, I had no idea or I never thought about implementation and its essential elements. But if I know, what are my potential risk factors, potential target journals and other relevant issues, I can better shape myself to work on my research project and subsequently I will be able to publish it for contributing positively to the literature.

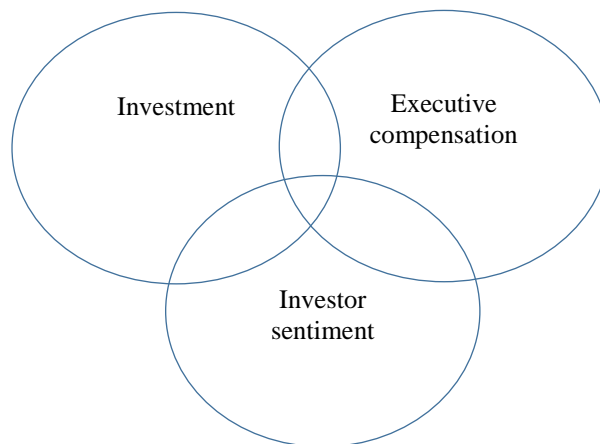


Figure 1 Mickey Mouse applied to my pitch

4 Concluding remarks

This pitching research letter illustrates the pitching exercise on a topic of behavioural finance which essentially aims to investigate the role of investor sentiment in explaining the relationship between executive compensation and corporate investments. It should be noted that pitching template is a great platform for young researchers to flourish as they face huge challenges while initiating research for the first time. In addition, it is also beneficial for experienced researchers to outline their research ideas systematically. The Faff (2015a) format is quite usable for any discipline to outline the research and understand the feasibility of doing research. Hence, I strongly recommend any researchers to utilize this template to smooth their research journey.

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