

Corporate governance and leverage in Australia: A pitch

Nadarajah Sivathaasan^{a,1}

^a*Griffith University, Australia*

Abstract: This pitch letter refers to the template developed by Faff (2015a) for pitching research, mainly designed for novice researchers. This template facilitates putting research ideas together in a structured manner, instead of using a multi-page document. In this pitch, I use the template in a non-linear manner to propose my research topic on “corporate governance and leverage in the context of Australia”.

Keywords: Pitching research, Corporate Governance, Leverage, Australia

JEL Codes: G32, G34

1. Introduction

This pitch letter refers to the template developed by Faff (2015a) for pitching research, mainly designed for novice researchers; namely, current doctoral students, and junior academics. In connection with my academic background, I served as an academic in the Library, University of Jaffna, Sri Lanka over a four-year period. During my academic career, I completed a two-year master degree with a research thesis, mainly in 2015. But the research experience I obtained was not up to the Australian standard and because of this situation, I am still like a new researcher. In mid-2015, I was offered admission to the Graduate Diploma of Research Studies (GDRS) leading to a degree program of Doctor of Philosophy (PhD) in Finance. I am now enrolled into the second semester of GDRS (Business), which offers a research-based qualification to pursue my PhD.

¹ *Corresponding author:* Department of Accounting, Finance and Economics, Griffith Business School, Griffith University, 170 Kessels Road, Nathan QLD 4111, Australia; tel. (+61) (0)7 3735 7295, email address:: sivathaasan.nadarajah@griffithuni.edu.au

In the midst of my dissertation work for GDRS (Business), I decided to prepare this template on my research topic. As a result, the first draft of the template was completed within two weeks, by 18 January 2016. While working, I realised this tool is a simple and systematic approach to organising my research ideas into one document, as suggested by Faff (2015a). Further, this template was very useful in helping me to underline the core elements of my study in short form instead of a formal research proposal, which contains many more pages. Following other researchers (e.g., Beaumont, 2015), I also tackled this research exercise in a non-linear manner, where I completed each section at random. Then, I concentrated more on each section where deeper observation is required for further improvement and perfection.

The remainder of this letter proceeds as follows: Section 2 discusses a brief commentary on my completed pitch; in Section 3, I provide my personal reflections on the pitch exercise; Section 4 offers the concluding remarks.

2. Brief commentary on the pitch

Table 1, in the form of the pitch template developed by Faff (2015a), provides a comprehensive picture of my research topic on corporate governance and leverage in the Australian setting. My research idea reflects a real-world setting where there are market imperfections and the need for a system of corporate governance controls is felt essential to the efficient and effective functioning of firms. On this basis, the basic research question (Item B) is “Does corporate governance reduce leverage in Australia?”

Turning to Item (C), the identified key papers for my research topic are Jiraporn *et al.* (2012), Jiraporn and Gleason (2007), and Fan *et al.* (2012). The paper by Jiraporn *et al.* (2012), which explores how aggregate corporate governance quality (CGQ) affects capital structure in the US setting, is viewed as the most critical paper for my proposed research. This paper motivates me to focus on my topic in the context of Australia by constructing an aggregate corporate governance (CG) index, a topic that not been previously explored. Similarly, the second paper, by Jiraporn and Gleason (2007) argue that the firms adopt higher debt ratios where shareholder rights are more restricted (i.e., firms with poor governance quality should be more leveraged). The third paper, by Fan *et al.* (2012), provides more recent international evidence by using the mix of developed and emerging markets to show how an institutional environment influences capital structure and debt maturity choices of firms, and the paper directs me on the firm-specific determinants of leverage.

As far as Item (D) of the pitch is concerned, my research is mainly motivated by: (1) lack of empirical research on corporate governance and leverage in the Australian context, which provides a comprehensive picture, and (2) evidence that Australia has different institutional set-ups, such as financial markets, legal traditions, and corporate ownership structure, which all represents uniqueness, compared to the US settings. The remaining parts of the pitch template provide answers to the “3-2-1 countdown” of all related fields from Faff’s template; namely, idea, data, tools, what’s new?, so what?, contributions, and other considerations. The material relating to all of these is self-explanatory on the pitch template itself.

3. Personal reflection on the pitch exercise

I heard about this pitching research tool developed by Prof. Robert Faff from one of our senior PhD students (Searat Ali) when I could not decide how to establish my research ideas and how to organize them together in a simple format. At this level, I can recall and agree with Faff’s statement (2015a, p. 315) that starting is the hardest thing about doing research. This is because I was not in the position at the beginning of knowing how to start and where to start from. Later, I concentrated more on background reading on pitching research in line with Faff (2016). During this period, I learned about a pitching research symposium for 2016, featuring researchers from member universities of the SIRCA. I thought this could be the time for me to pitch my research on a specified template, and so I sought permission from my supervisors.

Following Faff (2015a), this pitch letter uses the “Mickey Mouse” diagram to highlight a research topic clearly and accurately. In particular, this visual representation helps to translate complicated things easily to an audience. As shown in Figure 1, I use this Mickey Mouse diagram to position my research topic effectively. The intersection of these three circles points out the novelty of this research in the Australian context.

In my experience, this exercise is really constructive for novice researchers who struggle with a multi-page research proposal. Moreover, this tool is useful for me for further work on my proposed dissertation. However, I found some difficulties in finding the precise wording for the section.

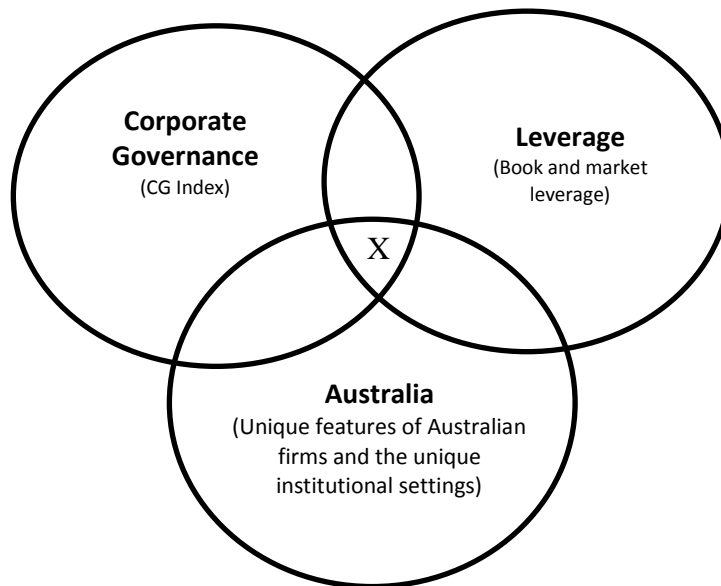


Figure 1 Mickey Mouse diagram characterizing novelty of research idea

4. Conclusion

Based on the Faff (2015a) guidelines, this letter summarises my pitch on a proposed topic of corporate finance that investigates the relation between corporate governance and leverage in the context of Australia. The intention of preparing this pitch was to attend the SIRCA's pitching research symposium, held at University of Technology Sydney in February, 2016 and to receive a productive feedback from experienced scholars. From my experience, this two-page template is really convenient for organising my research ideas and made me to think in a logical manner to complete each section. I would continue to use this pitch template during the dissertation of my GDRS (Business) and afterwards.

Acknowledgements

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Table 1. Completed 2-page pitch template on “corporate governance and leverage”

Pitcher’s Name	Nadarajah Sivathaasan	FoR category	Leverage	Date Completed	18/01/2016
(A) Working Title	Corporate governance and leverage in Australia				
(B) Basic Research Question	Does corporate governance reduce leverage in Australia?				
(C) Key paper(s)	<p>Jiraporn, P., Kim, J.C., Kim, Y. S., & Kitsabunnarat, P. (2012) “Capital structure and corporate governance quality: evidence from the Institutional Shareholder Services (ISS)”, <i>International Review of Economics & Finance</i>, 22, no.1: 208–221 (A Journal)</p> <p>Jiraporn, P., & Gleason, K. C. (2007) “Capital structure, shareholder rights, and corporate governance”, <i>Journal of Financial Research</i>, vol. 30, no. 1: 21–33 (A Journal)</p> <p>Fan, J., Titman, S., & Twite, G. (2012) “An International comparison of capital structure and debt maturity choices”, <i>Journal of Financial and Quantitative Analysis</i>, vol. 47, no.1: 23–56 (A* Journal)</p>				
(D) Motivation/Puzzle	<p>Prior empirical studies articulate an inverse relationship between an aggregate corporate governance quality (CGQ) and leverage outside Australia (See Jiraporn et al., 2012; Jiraporn & Gleason, 2007). These studies are exclusively based on the US firms who have high anti-takeover provisions, on which basis governance index (G-Index) is constructed. Unlike the US firms, Australian firms have few anti-takeover provisions available to them, so the impact of CGQ on leverage in Australia could possibly be different from the US. Also, prior Australian studies narrowly examine the effect of individual governance variables (e.g., ownership structure and board structure) on leverage (e.g., Brailsford et al., 2002; Yarram, 2013a, 2013b). To date, there is no research that explores the impact of aggregate corporate governance on leverage for Australian firms. From a wider regulatory perspective, index-based study is imperative to provide a support to the development of a comprehensive code of governance practice, as opposed to the adoption of individual governance practices.</p>				
THREE (E) Idea?	<p>Three core aspects of any empirical research project i.e. the “IDioTs” guide</p> <p>Corporate governance reduces leverage through the channel of strong monitoring mechanisms. These improved corporate governance and strong shareholder rights reduce related agency costs and improve confidence of investors in firms’ future cash flow (e.g., Gompers <i>et al.</i>, 2003). As a result, firms’ ability to gain access to equity financing improves while reducing the need for reliance on debt financing.</p>				
(F) Data?	<p>Central Hypothesis: CGQ reduces leverage in Australia.</p> <p>(1) Country/setting: Australia because the study takes advantages of the unique features of Australian listed firms and the unique institutional settings in Australia along with the lack of empirical studies on the CGQ–leverage relation. Unit of analysis: Individual non-financial firms. Sample interval: Annual. Type of data: firm specific</p> <p>(2) Expected sample size: > 13, 000 firm-years. Sample period: 2001–2015 (unbalanced panel data)</p> <p>(3) Panel dataset: Yes. The data is obtained on a number of individual firms over time.</p> <p>(4) Data Sources: CG data is obtained from the SIRCA database and CG index is constructed using the Horwath methodology. Morningstar DatAnalysis Premium is used to retrieve data for firm specific determinants of leverage. Time frame: No major time delays and subscribed to by Griffith University. Research assistance needed: minor. Finding/Grant: No</p> <p>(5) Will there be any problem with missing data/observations? Standard issues and manual adjustments may be needed to</p>				

finalise sample

(6) **Will your “test” variables exhibit adequate (“meaningful”) variation to give good power?** Yes. Selecting a long sample period may give some variations over there although CGQ is a sticky variable that does not change much over time.

(7) **Other data obstacles?** Nothing E.g. external validity? Construct validity? Horwath corporate governance (HCG) report is only available for the top 250 firms for the period 2001–2008. Over the sampling period from 2001 to 2015, I plan to construct an index representing CG using the SIRCA database similar to the Horwath CG index. Further, I use four alternative proxies incorporating both book and market values to measure leverage, consistent with the previous literature.

(G) **Tools?**

Basic empirical framework and research design: Pooled & panel data regression approach (Pooled OLS, 2SLS and GMM for controlling endogeneity issues)

Econometric software: STATA, licences held at Griffith University

Knowledge of implementation of appropriate or best statistical/econometric tests: Own + Supervisors

Compatibility of data with planned empirical framework: Yes

Is statistical validity an issue? No

TWO

(H) **What’s New?**

Two key questions

To the best of my knowledge, an index based evidence on the relationship between the aggregate CGQ and leverage has not been explored yet in the context of Australia. Thus, the novelty is in the data, which provides new empirical evidence on corporate governance and leverage using a CG index similar to the Horwath CG report. The data is the driver whereas idea and tools are passengers.

Mickey Mouse/ Venn diagram. Yes

(I) **So What?**

Investors, bond holders, and creditors are more interested in seeing how CGQ mitigates/resolves the issue of financing decisions a firm is likely to make when raising capital for firms’ investment activities. If CGQ has a significant effect on leverage, this documents empirical support to the regulators and policy makers to advocate of corporate governance designs and reforms.

ONE

(J) **Contribution?**

One bottom line

As being the first study in Australia, this explores new empirical findings of the relation between the aggregate corporate governance quality and leverage decision for Australian firms.

(K) **Other**

Considerations

Collaboration:

needed

idea: Not required

data: Not required.

tools: Yes (internal collaboration)

Target Journal(s): Accounting and Finance; or Australian Journal of Management; or Applied Economics

“Risk” assessment

“no result” risk: LOW

“competitor” risk: HIGH – interesting topic

risk of **“obsolescence”**: LOW – Leverage decision is one of the three major issues the corporate finance deals with. Therefore, I anticipate more research on this topic.

other risks: No other predictable risks

Is the scope appropriate? Yes. However, additional determinants of leverage such as stock liquidity may also be included in the model.