

Board of directors characteristics and credit union financial performance: a pitch

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Abstract

This short paper applies the ‘pitching research’ template developed by Faff (2015) to an academic research topic in corporate governance of Australian credit unions, from an accounting discipline perspective. The pitch template identifies the core elements that form the framework of any research project.

Key words: Pitching research; credit unions; board characteristics; financial performance

JEL classification: G21, G34, G38

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1. Introduction

Similar to Ratiu (2015) and Beaumont (2015), this pitch letter is based on the application of the ‘pitching research’ template developed by Faff (2015) to an academic research topic in corporate governance, from an accounting discipline perspective. With regard to my academic background, I am currently studying for my PhD degree in the Department of Accounting at La Trobe University, Melbourne, Australia. I started my PhD in February 2012, so I have completed already my third year of study. At the time of initially contemplating this exercise (September 2014), I was not sure about whether ‘pitching’ would work for me, given my plan to submit my PhD thesis in the first half of the following year. However, I thought it would be a great opportunity to create this template in order to recap concisely the core elements of my research and also

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to get clearer guidance for my thesis writing. Hence, in terms of the discussion in Section 4.3 of Faff (2015), like Beaumont (2015), my pitch is ‘reverse-engineered’ (‘ex post’) and ‘owned’. However, my case differs from hers in that the pitch exercise has served as a tool to help me refine my thesis write-up.

I decided to do the pitch exercise and participate in the La Trobe Accounting and Finance Pitch Day Competition on 20 and 21 October 2014, as recommended by my supervisor. My pitching template was completed over a period of ten days. I spent approximately fifteen hours working on it, which included time spent on reading the pitching research article, preparing a template draft, discussions with my supervisor and writing. In my case, this process was a bit quicker as I have made quite good progress on my research project. The original version was completed on 10 October 2014.

The approach used to complete this pitch was ‘nonlinear’. My research idea was initially formulated in a research proposal document during my first year of PhD study. My interests in credit unions principally come from my passion about cooperatives and their global success. Both the bank governance literature and conversations with a local credit union helped me to gain a better understanding of their key governance challenges. Although there is scarce academic literature on credit unions,¹ I found Faff’s (2015) ‘cocktail glass’ approach very useful, not only for my literature review chapter but also for my theoretical perspectives because key aspects about mutual financial institutions were relevant to consideration. The key papers (Item C) identified, played a key role in the development of my empirical model and were also helpful for searching prior literature about bank governance. With regard to the ‘3-2-1’ template design, the core idea of my research developed together with the motivation, in particular, the need to recognise that credit unions represent a different kind of organisation, given their governance structure and cooperative values. The data (Item F) were an important consideration as there were no databases available that provide financial information for individual credit unions. This was resolved by obtaining approval from the Australian Prudential Regulation Authority in Australia (APRA) to conduct my research, and hence, they provided me the confidential data set. This process was initiated at an early stage of my studies, so I did not have major delays. In terms of the big ‘T’ from Faff’s (2015) ‘IDioT’s guide’, my strategy was to develop my software skills further using Stata. There are a number of PhD students at La Trobe who are currently using Stata for their regression models – although individual licences need to be purchased –; hence, internal collaboration is frequently available.

¹ I am encouraged that local journals like the *Australian Journal of Management* traditionally recognise the importance of credit unions in the Australian setting. A relatively recent example is Hodgson and Hodgson (2008).

This pitch letter is organised as follows. Section 2 provides a brief commentary on the pitch template. Section 3 presents personal reflections about the pitch exercise and the last section outlines the conclusions.

2. Brief commentary on the pitch

Table 1 shows the completed pitch template for the corporate governance topic in credit unions. The key research question is ‘How do the unique features of credit unions together with board of directors’ characteristics influence the financial performance of Australian credit unions?’ This is a real pitch as it relates to my PhD research project, which I am currently undertaking. The key papers identified are Liang *et al.* (2013), McKillop and Wilson (2011), and Adams and Mehran (2012). The most critical papers are McKillop and Wilson (2011) and Liang *et al.* (2013) because the former recognises the key features of credit unions, while the latter provides the empirical model to test the association between board characteristics and performance. The motivation of my study originates from the lack of research conducted on credit unions. Although credit unions are subject to the same regulations and face similar challenges as commercial banks, they differentiate themselves given their unique characteristics, ethos and cooperative principles. Arguably, the democratic election of the board of directors suggests that board composition and functioning in credit unions distinguish it from bank board structure described in prior literature. The remainder of Table 1 covers Faff’s (2015) ‘3-2-1’ design, which constitutes the core of the pitch template. For the ‘three’ essential ingredients – the Idea, the Data and the Tools –, the Idea (item E) describes the core idea and central hypothesis of my research, which is that credit unions with better quality boards are more likely to perform better. Data and Tools give details about sample period, source, collection and empirical model. The ‘two’ questions regarding What’s new? and So what? are self-explanatory from the pitch template. Finally, the ‘one’ discusses the merits of the Contribution this study makes to the literature, and ‘Other Considerations’ presents any other final reflections.

3. Personal reflections on the pitch exercise

Completing the pitching template has been a great exercise for my research project. In a way it is a pity that Faff’s (2015) pitching research paper was not available earlier in 2012, when I started with my PhD study as it would have been more beneficial. Nonetheless, I truly believe that the pitch template works for any stage of research. In my case, the pitch template was used to look at what I have done in my research and assess strengths/weaknesses of my study. I was able to identify areas that need further clarity, particularly when writing up my thesis, such as the actual and perceived contribution of my research that according to Faff (2015) is the ‘holy grail’ of any research project. I have re-worked and further developed my research proposal which has crafted my

Table 1
Example of Falf's (2015) '3-2-1' pitching template – completed pitch on 'credit unions' topic

Pitcher's name	Luisa Unda	For category	Corporate governance	Date completed	10/10/2014
(A) Working title	'Board of directors characteristics and credit union financial performance'				
(B) Basic research question	How do the unique features of credit unions together with board of directors' characteristics influence the financial performance of Australian credit unions?				
(C) Key paper(s)	Liang, Qi, Pisun Xu, and Pornsit Jiraporn (2013). Board characteristics and Chinese bank performance. <i>Journal of Banking and Finance</i> , 37(8), 2953–2968. McKillop, Donal and John O.S. Wilson (2011). Credit unions: A theoretical and empirical overview. <i>Financial Market, Institutions and Instruments</i> , 20(3), 79–123. Adams, Renee and Hamid Mehran (2012). Bank board structure and performance: Evidence for large bank holding companies. <i>Journal of Financial Intermediation</i> , 21, 243–267.				
(D) Motivation/puzzle	Increasingly attention has been drawn to bank's corporate governance especially after the global financial crisis. The crisis has forced academics, practitioners and regulators to reevaluate the governance of financial institutions. To date, most studies focus on bank and developed countries, while relatively little is known about the corporate governance structure and its role in the credit union sector. Credit unions differ from traditional banks. In particular, credit unions are member-owned organisations; they do not exist solely for the purpose of making profit; they are democratically controlled; their directors are elected from the membership; they serve on a volunteer basis, and they are not necessarily trained in business/finance.				
Three	Three core aspects of any empirical research project i.e. the '3D's' guide				
(E) Idea?	'Core idea': Credit unions entail a different type of financial organisation, as they are based on mutuality/cooperative principles. Several issues potentially limit the governance effectiveness in credit unions; for example, the low involvement of members in governance (leading to potential long board tenure); the limited pool of expert directors; and the existence of volunteer boards. This study empirically tests the association between a comprehensive set of board characteristics and financial performance of credit unions. Central hypothesis: Credit unions with better quality boards are more likely to perform better. Theoretical 'tension': The mutual governance structure of credit unions aggravates agency problems between members/owners and managers (Fama and Jensen, 1983; Rasmussen, 1988).				

Table 1 (continued)

Pitcher's name	Luisa Unda	For category	Corporate governance	Date completed	10/10/2014
(F) Data?	(1) Country/setting: Australia, Why? Credit unions are at a mature stage and given their significance in the financial system. Unit of analysis: individual credit unions. Sampling: annual. Type: firm specific. (2) Expected sample size: 1217 observations. Sample period: 2004–2012, unbalanced panel data. (3) Data source(s): APRA's quarterly reports and hand-collected governance variables from annual reports. Timeframe: no major time delays. Research assistance needed? no. Funding/grants? no. (4) Standard data – high-quality data from regulators data set. (5) Will there be any problem with missing data/observations?: nothing major, just standard issues –carefully transforming quarterly data into yearly data; unavailability of few annual reports; outliers and winsorising. (6) Will your test variables exhibit adequate ('meaningful') variation to give good power? yes; careful manual collection and adjustments needed to obtain the final sample.				
(G) Tools?	Basic empirical framework: pooled OLS regression model approach with robust standard errors clustered at credit union level, year dummies included and endogeneity issues addressed using GMM system approach. Econometric software needed/appropriate for job?: Stata – purchased individual licence, training required. Knowledge of implementation of appropriate or best statistical/econometric tests?: yes, own + collaborations. Compatibility of data with planned empirical framework?: yes, already used in the existing literature. Deal Breakers? No replication risk. Financial data access was obtained after signing confidentiality agreement.				
Two	Two key questions				
(H) What's new?	IDEA is novel – The idea has not been explored yet in the accounting empirical literature. The novelty of this research rests on the key features of credit unions. The democratic election of the board in credit unions potentially impact board composition and functioning, and ultimately its financial performance.				

Table 1 (continued)

Pitcher's name	Luisa Unda	For category	Corporate governance	Date completed	10/10/2014
(I) So what?	Good governance is critical to the long-term viability of a credit union. This study is relevant to regulators to assess governance quality of credit unions to ensure they are managed in a sound manner by a competent board. It will show governance areas of improvement for credit unions boards. The examination of credit unions 'board of directors' characteristics and their impact on financial performance can further inform the debate about whether the cooperative model is a viable banking model alternative as they combine both social and financial objectives.				
One	One bottom line				
(J) Contribution?	Primary source of the contribution: new empirical research regarding credit union governance structure and its link to performance. This research acknowledges the need for a balance between effective corporate governance that leads to increased financial performance, and the recognition/maintenance of cooperative principles.				
(K) Other considerations	Is Collaboration needed/desirable? - idea: yes, initial feedback obtained from a credit union; - data: yes, authorisation need to use APRA's financial reports; - tools: yes, internal collaboration; Target Journal? Journal of Banking and Finance. Realistic? To be discussed. 'Risk' assessment: - 'no result' risk: LOW; - 'competitor' risk (i.e. being beaten by a competitor): MEDIUM – is not a very topical/crowded research area; - risk of 'obsolescence': LOW – cooperatives and credit unions are attracting more research attention given their performance and survival through time. Bank governance is likely to remain topical for a while.				

writing ‘with purpose’. I feel more confident now to explain the core elements of my research to my supervisors, academics and other PhD students by following the design of the pitch template. Hence, in my experience, the pitch exercise is recommended to all PhD students regardless of their year of study because even later on it can work as a pre-submission ‘checklist’ that helps researchers to improve their chances of publication.

Furthermore, I am really fascinated with Faff’s (2015) use of ‘Mickey Mouse’ as I have childhood memories of playing with Mickey and Minnie Mouse. I started working on this diagram first. In my case, it was pretty clear to define the three circles of research attention. The triple intersection illustrated in Figure 1 – formed in the ‘X’ area – helped me to think deeply about the novelty of my study, and with the guidance from our friend Mickey, it was broadly attainable. I had the occasion to present this diagram in the annual PhD colloquium organised by the Faculty of Business, Economics and Law at La Trobe University on 2nd October 2014. I am pleased to report that the audience found it very catchy and innovative, and I am sure this diagram might become famous in future PhD colloquiums.

What have I learnt from doing this pitch? First, that it is a very useful tool to identify the core elements of a research project. Indeed, I really like the way the pitch template structures your thinking and enables you to separate your research into compartments.

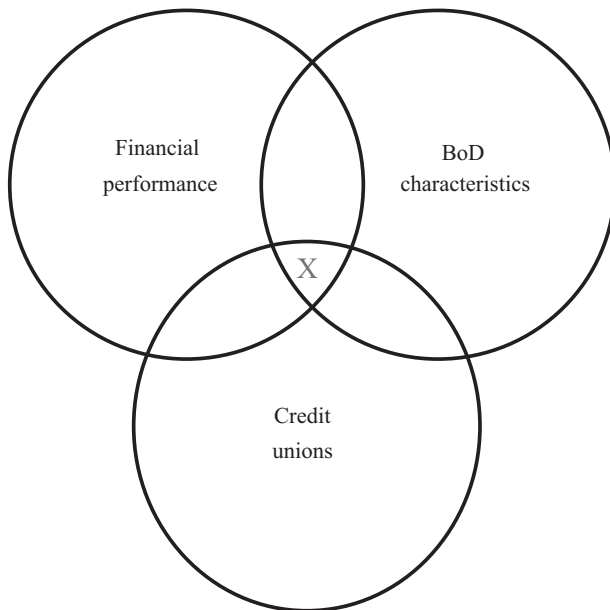


Figure 1 Mickey Mouse diagram applied to my pitch.

Second, it enables you to see if there are any gaps in your research proposal that need to be addressed. In this sense, the pitch template works in a systematic way, facilitating clarity of thought. Finally, given the evolving nature of the pitching exercise, I definitely believe it can be used at any stage of research. Indeed, my recommendation is to contemplate the application of the pitch approach to both the starting and finishing stages of a project. PhD students and novice researchers would greatly benefit from an exercise where they re-evaluate the original, revised and final versions of their pitch template with the purpose of obtaining better research outcomes.

4. Conclusions

This pitch letter provides a brief explanation of a pitching template example for an accounting research topic on corporate governance and financial performance in Australian credit unions. The pitch presented was constructed not at a preliminary stage but at a later stage of the research (data analysis and writing results). Hence, this pitch letter outlines the possibility of applying Faff's (2015) pitching research to any stage of a research project. Constructing my pitching template has helped me to identify the core elements that form the framework of my research project. Without a doubt, the pitch exercise is very helpful to synthesise and present key research information to other academics and PhD student colleagues in a concise and clear manner. I strongly encourage any researcher to use the pitching template as the compass for their research journey.

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