Political contributions, political connections and firm performance in Australia

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1. Introduction

This pitch letter applies the template developed by Faff (2015) to an academic research topic based in the corporate finance area. To introduce myself, I am a current master of research (Applied Finance and Actuarial Studies) student at Macquarie University. My supervisor encourages me a to do this pitch in order to enhance my research skills and also network with other research academics. The first draft of this pitch is completed on 31 Jan 2016. When I receive the information about this pitch, it is a bit late for the pitch event. I decided to use all three days to complete this pitch research template. I discussed with my supervisor for a research topic. After I decided a topic, I started to do background reading and write this pitch. I spent almost 18 hours to complete this pitch.

I have not completed this pitch on a step-by-step method. Firstly, I was thinking about some topics that I am quite interested in. After that, I selected the one which is my best preference. The reason I choose this topic is that I want to know what the political impact on corporate finance is. By knowing what I want to study, I did some background research on this area. By reading papers from highly ranked journals, NEBR and SSRN, I found that there seems to be a gap in this area. For example, many studies in this area discussed how general elections affect stock market performance. However, it seems few papers talk about how politicians affect corporate finance. Hence, I formulated the idea of research (Item E) and also I have the motivation to this research topic. By having the idea, I start to think about the ways to answer this question such as method and data. And also I think about the potential problems that I will encounters in the future when this research starts. In the very last step, I decided my working title. However, at this stage, I still a little bit worry about the contribution of this research.

The remainder of the letter is organised as follows. In Section 2, I will give some brief comments on my pitch. Section 3 specifies what my personal reflection on this pitch is. And the final section will make a conclusion.

2. Brief Commentary on Pitch

The completed pitch is displayed in Table 1 and it relates to the topic of corporate finance. The key research question is "how companies contributing to political party/person and connected with politicians and political parties perform in Australia?". This is related to the potential research area that is interesting for me while I have not started yet. However, I may pursue it in the future when I start my PhD degree. There are two papers identified as the key papers for this topic, which are Ovtchinnikov and Panteleoni (2012) and Faccio (2006). Both papers are critical to this research as they focus in slightly different. For example, Ovtchinnikov and Panteleoni (2012) studies how individuals make political contributions can improve firm performance while Faccio (2006) measured the political connections between firms and political parties. The reason I nominated both papers as my key papers is that they provide me a motivation to explore the relationship between companies and political related affairs. The key motivation is that I want to understand how political affairs can affect firm's performance and what the extents of their impacts on firm are. Faccio (2006) analysed over 20,000 listed companies across 47 countries and she identified 541 firms are politically connected accounting for 8 percent of world's market capitalization. And Ovtchinnikov and Panteleoni (2012) found that firms making contributions to economically relevant politicians are associated with operating performance improvements under the jurisdiction of these politicians. The two papers open a door for further research that how politically connected firms perform and what about Australia? Table 1 below outlines answers to all the questions in Faff'(2015) template. No further comments need to be made regarding this template as all answers in the template is explanatory.

Table 1: Example of Faff's (2014) "3-2-1" Pitching Template

Pitcher's Name	Long Zhang		FoR category	EG1	Date Completed	31 Jan 2016
(A) Working Title	Political contribution, political connection and firm performance in Australia					
(B) Basic Research Question	How companies contributing to political persons and /or closely connected with political parties perform?					
(C) Key paper(s)	Ovtchinnikov, A. V., and Panteleoni, E. 2012 'Individual political contributions and firm performance', Journal of Financial Economics, vol.105, no.2, pp.367-392 Faccio, M. 2006 'Politically connected firms', The American Economics Review, vol.96, no.1, pp. 369-386					
(D) Motivation/Puzzle	Firms make contributions to political parties in the form of donations. Moreover, some firms connect to political parties by hiring board member or top management officer related to a political party. There must be an incentive to do so. Providing that managers act to maximise firm value, this study attempts to understand whether these actions brings values to the firm. In other words, what are the costs or benefits to these actions?					
THREE	**Three** core aspects of any empirical research project i.e. the "**ID**io**T**s" guide					
(E) Idea?	This research topic attempt to understand the reason behind make political contribution and connection with political parties. In other words, whether companies can benefit from doing so and how to measure these benefits these companies. Model is developed to help understand and measure the benefits of political contribution and political connections. There are two central hypotheses in this study: first, companies make political contributions have better performance than non-contribution companies; second, companies hire politically connected persons in their boards will also have better performance. The key dependent variable is related to firm performance. In this study, we can consider both accounting measure and market measure. For accounting measure, it should use Return on Assets or Return on Equity. However, it should consider market-based measure such as buy-and-hold return and excess return. In total, accounting measure is used to assess whether the company's efficiency is improved while market-based measure is used to test the market reaction to these actions. The key independent variables should be the political contributions and political connections. For political contributions, we consider use two different tests. First test is to test whether make political contributions can cause firm perform differently. The second test is attempting to find whether the level of political contributions also impacts on firm performance. Regarding political connections, it will be tested in a way that whether with politically connected persons sitting in board or at top management will enhance firm's performance. Faccio (2006)'s definition is used to establish political connect variable. Yes, there are endogeneity problem. The problem is that the relationship among political contributions, political connections and firm performance. Specifically, it is political contributions and political connections cause firms to perform better or firms with better performance hence make political contributions and establish political connections. We want to discuss the endogeneity problems with other academics in the Symposium.					
(F) Data?	(1) The data I propose to use is Australian data. The reason is that Australia Electoral Commission will publish political donation summary for each parties. We can trace all the persons and companies who make political contributions to political parties. The unit of analysis is at firm-level. Basically, it analyse the performance of firms. Sampling period should be long enough. For example, we proposed 5 to 10 years sampling periods. And sample interval may be semi-annually or annually depends on data availability. (2) I expect a large sample size however it may end up with a small sample size as a result of data availability. It will use cross-sectional data and time series data may be included as well. (3)It is possible to be a panel set. (4) There are several data sources. Firstly, for companies information, SIRCA database is used to extract companies information such as accounting numbers, stock market data and corporate governance data. Secondly, for political contributions, we could obtain data from Australia Electoral Commission. And match it with our company data. For political connections, we could currently examine each board member in our sample one by one.					

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	(5) Yes. Merge data from AEC with SIRCA could be a problem in this study. They may have different data format.
	(6) Yes, if the test could have explanatory power in the relationship with solved endogeneity problems. The reliability is also high.
	(7) Yes, we may not have enough data for company officers or directors who have political connection and also most firms may not make political contributions in Australia. If we can identify other countries with higher level of data availability, we could conduct this study in a different country such as UK and USA.
(G) Tools?	It will use multivariate regression to examine the relationship. Firm performance is affected by so many factors. In order to detect the effect of political contributions and political connections on firm performance, other factors that could affect the firm performance must be controlled. Econometric software such as Stata and SAS is suitable for this study. All of them can be accessed via university computer system. However, some statistical issues must be considered such as endogeneity and heteroscedasticity. Data must be organised in order to be readable by these software. Statistical validity is not a problem in this study except for endogenity.
TWO	**Two** key questions
(H) What's New?	It is the first time in Australia establishes the connections among firm performance, political contributions and political connections. "Mickey Mouse" diagram will be presented in the letter.
(I) So What?	Why is it important to know the answer? How will major decisions/behaviour/activity etc be influenced by the outcome of this research? Understanding this relationship is important to academic and the market. Academic theory such as agency theory could also be examined in this study. For example, this study can also test whether agency cost is problem in these firms with political contributions and political connections. This result can also affect companies and investors. With the result, companies and investors can know that if companies make political contributions and have political connections perform better. If they are better, investors can invest in the companies with such characteristics. On the other hand, companies can also use this as a signal to market for company quality.
ONE	**One** bottom line
(J) Contribution?	Establish direct connection between firm performance and political contributions and political connections.
(K) Other Considerations	It requires someone with coding capability to simplify the process of data matching. For example, match company officer data with AEC political donor data or match company officer data with external source for political connections. This study is targeting Australian journal such as Australian Journal of Management or Accounting and Finance. The reason is this is my first study attempting to be published in a local highly ranked journal. "**Risk**" assessment [risk from competitors are low however the only risk in this study is that whether there could be sufficient data to conduct this research. Both data source and data availability are problems with this study]. The scope is appropriate as it not just focus on area of corporate finance.

3. Personal Reflections on the Pitch Exercise

Pitching research is a very good point to initiate a research project, especially for me, who am a fresh new person in research area. Faff (2015) argued that pitch could be used as a tool to communicate with relevant expert. There are several difficulties when I am completing this template. Firstly, how to initiate a research project is a headache. And this is consistent with Faff (2015)'s statement. However, by following the steps in Faff's (2015) method, it becomes easier, which use pitch to initiate a research project and communicate with relevant experts. When I firstly completed this pitch, I have a total different topic. However, after I start to go further to "3-2-1" part. I found my previous idea is not feasible. Then, I start to search background materials again and then initiate another research idea. By having this political-related research idea, I start to refill the template again. This time, I found it is much easier for me to fill. Due to time limit, I used only three days to complete this template. This template helps me focus on this topic and related issues.

However, I understand that to have a good research project is not only completing this template and also you need to talk to other people. However, the pitch research must be a good tool that you use to communicate with others. After you gain feedback from others, you can come back to the template to improve it. I think that it could be a good research project.

Mickey Mouse graph is used in pitch research to identify the novelty in the research. The following figure shows that the potential novelty by this research project. This research bring three different areas together and could produce a result that could be used by financial market stakeholders. It absolutely is a good illustration.

Figure 1: Mickey Mouse Applied to my Pitch
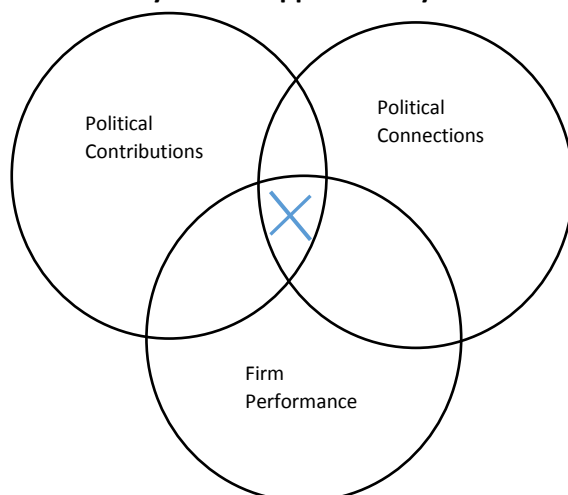
4. Conclusion

This letter outlines my basic pitch for a proposed finance research project on political contributions, political connections and firm performance in Australia. The current pitch is at very initial stage and also work in progress. I will continue to develop it for my PhD research project. Faff's (2014) template is quite helpful to me in furthering this idea into a feasible research project. With this pitch template, research planning becomes more convenient. Sticking to this tool can reduce the chances of distracting and keep research more straightforward. This tool helps me a lot now and will also benefit me in my future research careers.

Reference

Faccio, M., (2006), "Politically connected firms", *American Economic Review*, 96:1, 369-386

Faff, R. W., (2014), "Pitching Research (V10, July 2015)", available at SSRN: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2462059

Ovtchinnikov, A. V. and Panteleoni, E., (2012), "Individual political contributions and firm performance", *Journal of Financial Economics*, 105:2, 367-392