

Internet Appendix A96: Governance and Leverage

A96.1 Illustrative Pitch Template Example

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| Pitcher's Name | Nadarajah Sivathaasan | FoR category | Leverage | Date Completed | 14 January 2016 |
| (A) Working Title | Corporate governance, the global financial crisis, and leverage in Australia | | | | |
| (B) Basic Research Question | Does corporate governance influence leverage decision of Australian firms in the pre-, during- and post GFC period? | | | | |
| (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(1), 208–221 (A Journal).</p> <p>Fan, J. P., Titman, S., & Twite, G. (2012). An international comparison of capital structure and debt maturity choices. <i>Journal of Financial and Quantitative Analysis</i>, 47(01), 23–56 (A* Journal).</p> | | | | |
| (D) Motivation/Puzzle | <p>Prior studies investigating the nexus between aggregate corporate governance quality and leverage yield mixed findings even in an international context. Not only have they all documented findings prior to the GFC, but also most of them largely employed the US market data (Agha, 2013; Jiraporn et al., 2012; Klock et al., 2005). The financial crisis can be to an important extent attributed to failures and weaknesses in corporate governance arrangements and established a major stress on borrowing capacity of firms' ability. To date, no study considers the impact of the recent GFC on the link between corporate governance quality (CGQ) and leverage outside Australia. On the other hand, the impact of aggregate corporate governance quality on leverage decision is entirely unexplored in the Australian context. Therefore, integrating the impact of the recent GFC on the link between overall CGQ and leverage is likely to fill the literature gap, not only in the Australian context but also in the global context.</p> | | | | |
| THREE | Three core aspects of any empirical research project i.e. the “ IDioTs ” guide | | | | |
| (E) Idea? | <p>Corporate governance either improves or reduces the choice between firms' debt and equity when raising capital. Through strong governance mechanisms and managerial risk-taking, firms may have greater access to debt financing, resulting in a risk-seeking effect between CGQ and leverage. On the other hand, both substitution of higher leverage for weak corporate governance mechanisms and improved investors' confidence in firms' future cash flow through enhanced corporate governance result in a substitution effect between CGQ and leverage. Besides the above, the financial crisis may undermine firms' ability to raise debt financing given that firms' financing decision is also subject to the conditions in the overall financial market. The study assumes that firms may struggle more, to raise debt financing after the post-GFC. But better governed firms are less likely to depend on debt financing and ultimately reduce leverage significantly, providing a strong negative relation between CGQ and leverage in the post-GFC period.</p> | | | | |
| (F) Data? | <p>(1) Country/setting: Australia because no study provides the empirical literature on CGQ and leverage along with the recent GFC, and because unique dataset is available. 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 (pre: 2001–2007; during: 2008–2009; post: 2010–2015); Unbalanced panel data.</p> <p>(3) Panel dataset: Yes</p> <p>(4) Data Sources: SIRCA database and CG index data from Horwath CG report. Time frame: 2 weeks 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 finalise sample</p> <p>(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.</p> <p>(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 rest of the sampling period from 2009 to 2015, I plan to construct an</p> | | | | |

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| | index representing CG using the SIRCA database similar to Horwath CG index. Further, I use six alternative proxies incorporating both book and market values to measure leverage, consistent with the previous literature. |
| (G) Tools? | <p>Basic empirical framework and research design: Pooled & panel data regression approach (Pooled OLS, 2SLS and GMM for controlling endogeneity issues)</p> <p>Econometric software: STATA, licences held at Griffith University</p> <p>Knowledge of implementation of appropriate or best statistical/econometric tests: Own + Supervisors</p> <p>Compatibility of data with planned empirical framework: Yes</p> <p>Is statistical validity an issue? No</p> |
| TWO | Two key questions |
| (H) What's New? | To the best of my knowledge, this idea has not been explored yet even in the global context. More specifically, no study to date documents evidence of a link between aggregate corporate governance quality and leverage in the Australian setting. Thus, the novelty is to provide new empirical evidence on corporate governance quality and leverage in both the global and Australian context during the pre-GFC period, GFC period and post GFC period. Hence, idea and data serve as the driver of this project whereas tool is the passenger. |
| (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 firms' ability on borrowing capacity is challenged during and after the crisis. If CGQ improves leverage under such a situation, this documents empirical support to the regulators and policy makers to advocate on corporate governance designs and reforms. In contrast, the research establishes a challenge to them whether corporate governance is relevant during the crisis period, and if the recent GFC has a significant effect on the link between CGQ and leverage. |
| ONE | One bottom line |
| (J) Contribution? | As being the first study in Australia, this explores new empirical findings of the link between corporate governance quality and leverage decision of Australian firms along with the concept of a global financial crisis. |
| (K) Other Considerations | <p>Collaboration: needed idea: Yes, feedback for further improvement data: Yes tools: Yes (internal collaboration)</p> <p>Target Journal(s): Accounting and Finance, Australian Journal of Management</p> <p>"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 and I anticipate more research on this topic.</p> <p>other risks: No other predictable risks</p> <p>Is the scope appropriate? Yes</p> |