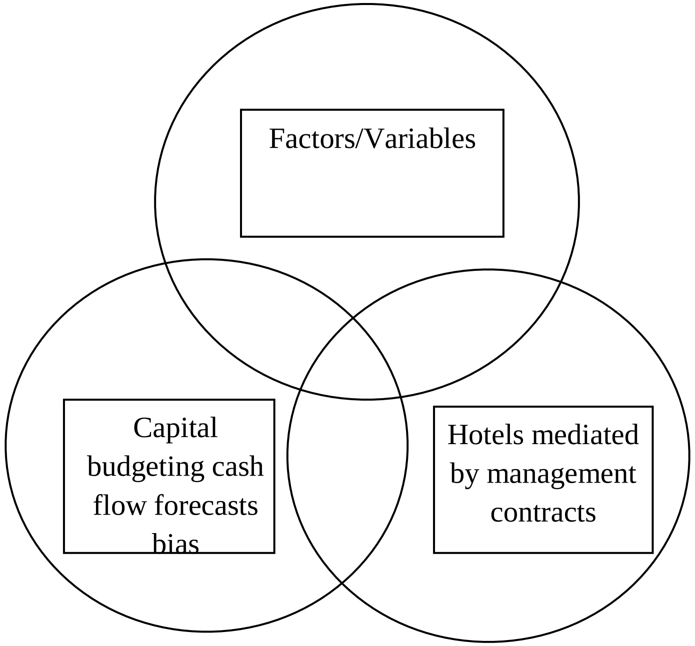
Internet Appendix A154: Capital Budgeting
Illustrative Reverse Engineered Pitch Template Example

Pitcher's Name	Jia (Angel) Chen	FoR category	Management Accounting	**Date Completed**	8/2/20117
(A) Full Reference	Turner, M. J., & Guilding, C. (2012). Factors affecting biasing of capital budgeting cash flow forecasts: Evidence from the hotel industry. *Accounting and Business Research*, *42*(5), 519-545.				
(B) Basic Research Question	What are the antecedents to managerial optimistic biasing of capital budgeting cash flow forecasts (CBCFF) in hotels mediated by a management contract?				
(C) Key paper(s)	Guilding, C. (2003). Hotel owner/operator structures: Implications for capital budgeting process. *Management accounting research, 14*(3), 179–199. Collier, P., & Gregory, A. (1995). Investment appraisal in service industries: A field study analysis of the U.K. hotels sector. *Management Accounting Research, 6*(1), 33-57. Turner, M.J., & Guilding, C. (2010). Hotel management contracts and deficiencies in owner-operator capital expenditure goal congruency. *Journal of hospitality and tourism research, 34*(4), 478–511.				
(D) Motivation/Puzzle	Capital budgeting post-completion audits carried out across multiple industries indicate a prevalence of managerial optimism whereby budgeted project outcomes are often grossly overstated relative to reality (i.e. cost underestimation and revenue over-estimation). Several theoretical perspectives have been conjectured as to the determinants of such optimism, which include: technical causes; economic causes; psychological causes; and political causes. However, and somewhat surprisingly, no prior study has been found that has pursued an explicit focus on exploring for the determinants of the managerial biasing of CBCFFs. Research of this nature is warranted because despite the enormity of the impact of capital budgeting projects on the performance of organizations, and the plethora of studies which have examined the managerial use of various capital budgeting techniques (e.g. NPV, Payback etc.), the literature has done little more than to document the prevalence of CBCFF biasing across multiple-industries (e.g. Pruitt and Gitmann, 1987; Guilding, 2003; Guilding and Lamminmaki, 2007).				
THREE	**Three** core aspects of any empirical research project i.e. the "**ID**io**T**s" guide				
(E) Idea?	**The context:** As the proposed research is concerned with exploring for antecedent factors associated with the optimistic biasing of CBCFFs, it is considered pertinent to choose an industrial context in which: (1) capital budgeting is important and a significant driver of organizational performance; and (2) where managers can be expected to experience strong motivation to optimistically bias CBCFFs. In relation to the first point, the hotel industry offers such a context. As Collier and Gregory (1995) explain, the hotel industry is characterized by its high capital intensity, and capital expenditure is typically in the order of about 9-10% of annual gross revenue (ISHC, 2015). Secondly, the focus of this research will be narrowed further to those hotels mediated by a hotel management contract (as opposed to owned and operated or franchised). A hotel management contract involves a hotel owning company (e.g. a superannuation fund, developer, or wealthy individual, etc.) engaging the services of a hotel operating company (e.g. Accor Hotels) to operate their hotel on their behalf in return for a fee. This arrangement results in an agency relationship arising between the hotel owning company and the operating company, and due to the nature of the operator's fee structure often results in a significant divergence of interests between the owner and operator in relation to capital expenditure (Turner and Guilding, 2010). The General Manager (GM) who is often charged with capital budgeting proposal preparation is then in a difficult position because they essentially have two principals. On the one hand they are contractually employed by the operating company, but their appointment is contingent on the approval of the owner and the owner ultimately pays for their salary (the owner usually reimburses the operating company for the GMs salary). And as Turner and Guilding (2010) explain, there are strong incentives for the operating company to seek for the owner to spend as much money as possible on capital expenditure as this usually carries negligible if any downside potential and only upside potential in terms of receiving higher fees. Hence, the hotel industry and hotels operating under management contracts form contextual basis for the proposed study. **Hypotheses & Variables:** Based on the literature, theoretical reasoning is provided for the following hypothesized relationships: a. owners with higher locus of power would impose conditions on hotel operators to limit their scope to introduce bias to CBCFF; b. given that the payback method does not require operators to modify the discount rate or required rate of return, therefore higher emphasis on the payback method would lead operators to massage cash flow more; c. the operators can be expected to perceive a greater need to demonstrate the worthiness of proposed capital expenditures when FF&E reserves are of lower accuracy;				

	d. a lessening of operator access to FF&E funds can be expected to result in operators perceiving a heightened need to demonstrate the worthiness of capital expenditure proposals, and there would be more bias; e. long-term management contract can mitigate operators' capital budgeting bias; f. relative emphasis attached to financially oriented investment appraisal approaches and non-financial ones are associated with biasing. **Method:** Questionnaire survey. Survey questions are derived based on the prior literature. Regression analyses are conducted to determine the impact of the hypothesized antecedental factors on CBCFF biasing.
(F) Data?	(1) Source: A mailed questionnaire survey sent to GMs of all Australian and New Zealand hotels with twenty or more rooms and a minimum star-rating of three. These criteria were considered pertinent to ensure that the sample hotels had a suitable level of capital budgeting sophistication. (2) Cleansing: As no database offered information regarding the hotel operational structure (e.g. management contract or not), the survey included a screening question to elicit the operating modal type for each respondent's hotel. (3) Size: the total sample size is 664, including 463 Australian hotels and 201 New Zealand hotels.
(G) Tools?	Management accounting survey (questionnaire); sampling method; hypotheses testing; factor analysis; regression model approach.
TWO	**Two** key questions
(H) What's New?	The idea of this research is new for exploring the factors associated with biasing of CBCFFs in a neglected aspect of the capital budgeting process: proposal development stage. Though the research is set in hotel industry, the findings are transferrable to other business endeavors. It is the first study to explore for antecedenal factors associated with the biasing of CBCFFs and to provide empirical examination of implications arising from such biasing.
(I) So What?	This study uses a special industry hotel industry to enrich knowledge concerning explicit factors that affect the biasing of CBCFFs and hence offers insight concerning areas in which organizations may seek to reduce such bias. In addition, the power measure developed in this study provides implication in the future empirical research relates to the locus of power between hotel owners and operators, and further context between principals and agents. Its novelty in providing empirical examination of hotel FF&E reserve account advised that tight capital rationing regimes would be a heightened potential for biasing in capital budgeting contexts. With the implication that longer term contracts carry the benefit of promoting greater principals-agent goal congruency, it suggests that "stage in a contract's life" to be a useful contextual factor to consider in future study related to capital budgeting. Last but not least, it helps create an "accounting variable" which is relativity to financial versus non-financial investment appraisal techniques. This helps organizations raise the awareness of its importance in capital budgeting systems and uncovers the under-appreciated aspect in the capital budgeting research.
ONE	**One** bottom line
(J) Contribution?	It contributes to the capital budgeting literature in researching on the antecedental factors affecting the bias of CBCFFs, which few empirical research has done before. Also research between owners and operators in hotel mediated by management contracts provides implications on principal-agent literature. At the same time, it provides implications on areas in which the organizations could seek to reduce bias of CBCFFs. Moreover, this research shows that significant insights can derive from conducting management accounting surveys that focus on particular issues and facets that are specific to a particular industrial sector. It identifies an original topic requiring further research in determining factors affecting bias of CBCFFs in different specific industries.
(K) 3 Key Findings	(1) Generally, higher emphasis attached to the payback investment appraisal method and relative emphasis attached to financial versus non-financial factors in investment appraisal are associated with biasing of CBCFFs in business endeavors; (2) In hotels medicated by a management contract, lower FF&E reserve adequacy, higher degrees of challenge experienced in accessing FF&E reserve account funds, shorter periods of time to management contract expiry are associated with biasing of CBCFFs; (3) Industry specific factors will likely affect biasing of CBCFFs and therefore more research to be replicated in other industrial contexts is encouraged.



Cued Template taken from Faff, Robert W., Pitching Research (March 22, 2015). Available at SSRN: http://ssrn.com/abstract=2462059 or http://dx.doi.org/10.2139/ssrn.2462059