Internet Appendix A83 Risk Management

A83.1 Illustrative Pitch Template Example

<table>
<thead>
<tr>
<th>Pitcher’s Name</th>
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<th>(15) Corporate Governance</th>
<th>Date Completed</th>
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(A) Working Title
Risk management and firm performance: evidence from Australia

(B) Basic Research Question
What are the effects of the integration of risk management (RM) in corporate governance (CG) on firm performance of Australian listed companies?

(C) Key paper(s)


(D) Motivation/Puzzle
Motivation: Due to the pressures generated by the global financial crisis (GFC), RM has recently evolved from a finance function to an overall corporate function, with the primary objective of preventing risk and, thereby, improving company performance and maximising shareholders value (e.g., Baxter et al., 2013; Grace et al., 2015). Although Australia was limitedly hit by the GFC, it has increased its attention to RM systems, similarly to USA and EU countries. In 2007 first and again in 2014, the ASX Corporate Governance Principles and Recommendations (CGPR) provided guidance to good RM practices through detailed risk disclosure and the integration of RM in CG bodies and practices. While research was conducted on risk disclosure of Australian companies (e.g., Buckby et al., 2015) and there are opposite evidence on the impacts of RM practices on firm performance in the countries most affected by the GFC (Baxter et al., 2013; Grace et al., 2015), little is known on the impacts of RM practices on firm performance in more stable economies like Australia.

Puzzle: Does the integration of RM into CG impact firm performance of Australian listed companies? Does this relation exist in context not affected by the GFC? Are RM system only risk prevention tools or also performance tools?

THREE
Three core aspects of any empirical research project i.e. the “IDIoTs” guide

(E) Idea?
The GFC had one of its roots in RM systems failures, especially in US and Europe. Unlike, Australia was limitedly affected by such problems (Pomfret, 2009; Saunders and Wong, 2011). However, likely EU and US, Australia has strengthen the attention on RM (from 2007), advocating its integration to CG (from 2014). In contexts that were limitedly affected by the GFC, RM may be used more as a performance tool to improve firm performance than a prevention tool to mitigate and avoid risks and failures. Therefore, due to its more stable economy, Australia is a suitable context to study the relation between the integration of RM in CG and firm performance, which is expected to be positive. We hypothesise that the higher the integration of RM in CG, the higher the firm performance. The key dependent variable is the firm performance, both measured as financial and market performance. The key explanatory variables are the main elements associated to the integration of RM in CG according to the ASX Corporate Governance Principles: presence of a Chief Risk Officer, his/her attendance to meetings, his/her main characteristics (education, age, gender), the creation of an ad hoc committee for risk management, its meeting frequency, etc. Other firm characteristics are also considered as control variables: size, leverage, board size, etc.

(F) Data?
(2) Expected sample size: 400-1000 observations: longitudinal sample with observations from max. 100 companies for min 10 years.
(3) Dataset: Panel dataset that may be balanced.
(4) Data Sources: CG database with directors and committee details of Australian listed companies by SIRCA, stock market data and financials by Datastream and/or Bloomberg. Data Availability: Data is accessible through RMIT trading facility annual subscriptions. New Data: novelty consists in using SIRCA dataset to proxy for the integration of RM in CG bodies and practices.
(5) Data Collection: Standard issues of missing firm years and specific data, tracking and adjusting for identification numbers in order to merge different

datasets, manual interventions on databases before merge. Research Assistance: Some research assistance may be needed to reshape and merge different datasets.

(6) Variation in the test variables: At firm level, variation of RM integration in CG is expected along the timeframe analysed, due to ASX recommendations changes. At sample level, level of RM integration in CG may vary across firms. However, neither of such variations has previously been tested in the Australian context.

(G) Tools?

Empirical framework:
(A) Pooled/panel data regression models (clustered by firms when necessary); year and industry fixed effects included when necessary
(B) Robustness checks to test for reverse causality, endogeneity, and other incoming issues. Econometric software: STATA 13. Econometric Skills: Own + CIDE (Interdipartmental Centre for Data Processing) of the University of Verona + RMIT Trading facility.

TWO

Two key questions

(H) What’s New?
The novelty is in the idea of studying the relation between RM practices and firm performance in a country that was limitedly affected by the GFC and has a more stable economy in recent years.

(I) So What?
The stronger attention to RM also in stable economies, like Australia, may indicate that the integration of RM systems into CG practices is not only a prevention tool to avoid risks and failures, but directly improves firm performance. If such relation is proven by the research, more insights on such relation may clarify the usefulness of RM programs. In details, companies may become more committed to RM and their decision processes may improve trough a better evaluation of risks; companies facing a context of crisis may consider RM systems as a long term performance tool and not just a short term aid tool.

ONE

One bottom line

(J) Contribution?
The research extends the knowledge about the relationship between RM and firm performance, provides insights from a different context of RM implementation, and intends to demonstrate that RM exerts both a prevention tool and a performance role.

(K) Other Considerations

Collaboration: A collaboration with an academic with expertise in risk management and the Australian setting is desirable.
Target Journal(s): Accounting and Finance or Management Accounting Journal
“Risk” assessment: low risk in data collection; average risks of limited results, but alternative explanations are possible.