Internet Appendix A15: Governance

Figure A15.1 Illustrative Pitch Template – credit unions

Pitcher's Name	Luisa Unda (10/10/14)
(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. *Journal of Banking and Finance*, 37(8), 2953-2968. McKillop, Donal and John O.S. Wilson (2011). Credit unions: A theoretical and empirical overview. *Financial Market, Institutions and Instruments*, 20(3), 79-123. Adams, Renee and Hamid Mehran (2012). Bank board structure and performance: Evidence for large bank holding companies. *Journal of Financial Intermediation*, 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 revaluate 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 organizations; 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 "**ID**io**T**s" guide
(E) Idea?	**"Core idea":** Credit unions entail a different type of financial organization, 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; Rasmusen, 1988).
(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:** 1,217 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 dataset. (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 license, 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.
(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 (ie 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.