

# **Does board governance matter in member-owned financial institutions?: A Pitch**

Luisa Unda  
La Trobe University, Melbourne, Australia

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## **1. Introduction**

This pitch letter presents a discussion of the application of the pitch template developed by Faff (2015) to an academic research topic in board governance, from a regulation and public policy perspective. I am currently studying for my PhD degree and I also work as an Academic in the Department of Accounting at La Trobe University, Melbourne, Australia. I started my PhD in February 2012, after completing my Masters Research thesis. At the time I heard about the pitching research, I was working on my data analysis and thesis writing, and I was not sure whether the pitching exercise would be helpful. However, I decided to participate in the La Trobe Pitching Research Competition in October 2014, and I was awarded a prize for outstanding presentation and pitch letter. This first pitching exercise was based on a corporate governance topic of credit unions from an accounting perspective. The pitch template has been a major help to fine tune my research ideas and present them in a clearer manner. I feel very happy and honoured that my credit union pitch template has been used as a reference for other “pitchers” to develop and construct their own templates. Today, I am presenting my second pitching exercise, which is based on a similar credit union governance topic, but from a regulatory perspective.

Having had previous experience using the pitching exercise, this pitch template was completed in a shorter period of time. The pitch exercise was completed over a period of one week, which included meeting with supervisors, refining and updating the template. The pitch discussed in this letter was finalised in May 2015. My pitch is classified as “ex post” and “owned” since my PhD thesis is almost completed and written. This pitch exercise highlights the academic merits of the research idea and it also explains the significance of the credit union governance research for regulators. This pitch letter is organised as follows. Section 2 provides a brief commentary on the pitch template. Section 3 presents personal reflections about the pitch exercise and the last section outlines the conclusions.

## **2. Brief commentary on the application of the pitch template**

Table 1 shows the completed pitch template for the research project: “Does board governance matter in member-owned financial institutions?”. As this research is almost completed, I am using the PhD thesis to reverse engineer the pitch template with a focus on policy-making implications. Initially, the process appeared a bit challenging because both the core academic aspects and regulators’ interests needed to be framed by the template. To complete the pitch template, I started using the template shown in Unda (2015) as a reference and worked sequentially on each step of the pitch exercise. I kept in mind that this new pitch had to convince academics and regulators about the merits of this research project.

In that sense, I retooled the pitch template from a corporate governance academic perspective into a regulatory governance perspective. To do that, I followed Faff’s (2015) “cues” for a regulation/public policy pitch. These cues directed me into the areas of the pitch that needed more emphasis and explanation on how the research project addresses regulators’ interest. A step that was relatively different was the “key papers” because this section required including a recent industry-based research paper that is relevant to the study. In my case, it was easy to identify the paper by Laker (2013) as it describes regulators’ emphasis on effective board governance of mutual financial institutions in Australia. However, a challenging area was to explain the motivation/puzzle of the study. I decided to re-write this part with the idea that I am writing for an audience of regulators, who need to be convinced as to why the research question is worth studying.

For the remaining parts of the pitch template -the ‘3-2-1’ countdown- the process was much quicker. For example, the three core aspects of the research project (idea, data, and tools) were consistent with the previous pitch template because the empirical research for examining the association between board characteristics and credit union performance was already completed. With regards to the novelty of the idea and contribution, I focused on the policy/regulation dimension. In particular, I conveyed the outcome of this research as it is relevant to regulators for future governance reforms. Finally, I believe this research project could be expanded and benefit from future collaborations with regulators. There could be also an opportunity to disseminate the findings in an industry research paper.

**Table 1: Example of Faff’s (2015) “3-2-1” Pitching Template – Completed Pitch in the Governance Regulation Topic**

Pitcher's Name	Luisa Unda	FoR category	Regulation/Public Policy	Date Completed	18/05/2015
(A) Working Title	“Does board governance matter in member-owned financial institutions?: A Pitch”				
(B) Basic Research Question	Is the democratic governance structure in member-owned financial institutions, such as credit unions, linked to performance?				
(C) Key Paper(s)	Laker, John (2013). <i>Mutuals: A look back and ahead</i> . Customer Owned Banking Association and Australian Mutual Institute Convention, Melbourne, 29 October 2013. McKillop, Donal and John O.S. Wilson (2011). Credit unions: A theoretical and empirical overview. <i>Financial Market, Institutions and Instruments</i> , 20(3), 79-123.				
(D) Motivation/Puzzle	Board governance takes on greater importance in the increasingly competitive Australian financial market. The governance structure of credit unions is more complex than the one of banks. In particular, directors must be drawn from the membership, which potentially limits governance capacity. This democratic structure poses some challenges because of the low involvement of members in the credit union governance and the available pool of qualified directors. A greater understanding of board effectiveness in credit unions is required. The need for strong boards is also justified by the increasing governance requirements by regulators; for instance, board renewal practices and board expertise.				
<b>THREE</b>	<b>Three</b> core aspects of any empirical research project i.e. the “ <b>IDioTs</b> ” guide				
(E) Idea?	<p>“<b>Core idea</b>”: To examine whether the democratic governance structure is effective to improve the performance of Australian credit unions and to inform policy regulators that will allow them to flourish in future governance reforms. To this end, this research empirically tests the association between a comprehensive set of board characteristics and financial performance of credit unions.</p> <p><b>Central hypothesis</b>: Better quality boards in credit unions are more likely to perform better.</p> <p>The key <b>dependent variables</b> are profitability and asset quality measures, and the key <b>explanatory variables</b> include board size, board gender, board tenure, board expertise, board remuneration, board meetings, and other board directorships. An issue with governance studies is that of <b>endogeneity</b>, which is addressed both by using both a two-step system-GMM estimation approach and a quasi-natural experimental setting, which includes exploring the effect of the financial crisis.</p> <p><b>Theoretical “tension”</b>: Major roles and responsibilities of the board of directors is analysed by integrating assumptions of agency and resource dependence theories as well as the democratic model in mutuals. This research outlines a tension between the role of the board for driving the performance of the credit union and ensuring members’ interests are maximised.</p>				
(F) Data?	(1) <b>Country/setting</b> : Australia, Why? Credit unions are at a mature stage given their significance in the financial system. <b>Unit of analysis</b> : individual credit unions. <b>Sampling</b> : annual. <b>Type</b> : firm specific.				

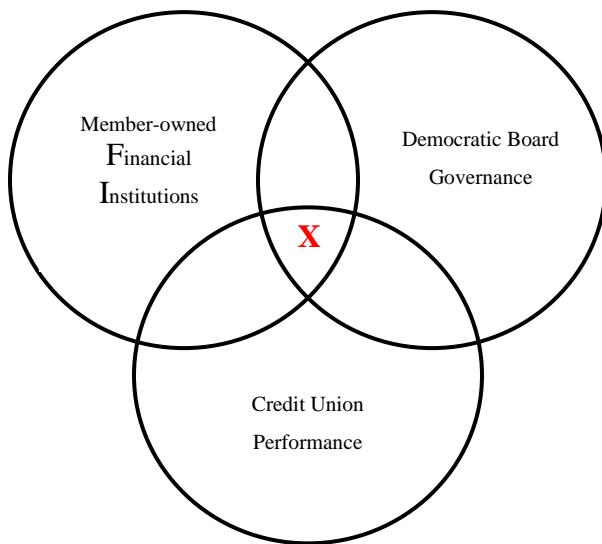
	<p>(2) <b>Expected sample size:</b> 839 observations. <b>Sample period:</b> 2004-2012, unbalanced panel data.</p> <p>(3) <b>Data source(s):</b> APRA’s quarterly reports and hand-collected governance variables from annual reports.  <b>Timeframe:</b> no major time delays.</p> <p>(4) Standard data – high quality data from regulators dataset.</p> <p>(5) Will there be any problem with <b>missing data</b>/observations?: nothing major, just standard issues –carefully transforming quarterly data into yearly data; unavailability of few annual reports; non-disclosure of some board governance variables.</p> <p>(6) Will your <b>test variables</b> exhibit adequate (“meaningful”) variation to give good power? yes; careful manual collection and adjustments needed to obtain the final sample.</p>
<b>(G) Tools?</b>	<p>Basic <b>empirical framework:</b> 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.</p> <p>Econometric <b>software</b> needed/appropriate for job?: Stata – purchased individual license, training required.</p> <p>Knowledge of <b>implementation</b> of appropriate or best statistical/econometric tests?: yes, own + collaborations.</p> <p><b>Compatibility</b> of data with planned empirical framework?: yes, already used in the existing literature.</p> <p><b>Deal Breakers?</b> No replication risk. Financial data access was obtained after signing confidentiality agreement.</p>
<b>TWO</b>	<b>Two</b> key questions
<b>(H) What’s New?</b>	<p><b>IDEA</b> is novel - The significant role of the board of directors is not only about monitoring and advising managers’ behaviour, as it is typically conceptualised; but for credit unions, it is also about the board’s role to ensure adherence to the mutual or cooperative values and principles. There is a lack of empirical evidence about how the specific features of credit unions and board characteristics have an effect on their performance. This study replaces assertions about what characteristics board members in credit unions should have with evidence of actual board composition, and how this board structure impacts credit union performance.</p>
<b>(I) So What?</b>	<p>Good governance is critical to the long-term viability of a credit union. In Australia, credit unions have undergone major changes over the past few decades. These changes pose significant challenges for those concerned with the issue of governance. Board effectiveness is a concern not only to credit union members in order to maintain trust and confidence, but also to regulators to ensure these organisations are managed in a sound and prudent manner. Thus, this research is relevant to regulators, researchers and community to understand which board attributes in Australian credit unions lead to increased financial performance.</p>
<b>ONE</b>	<b>One</b> bottom line
<b>(J) Contribution?</b>	<p><b>Primary source of the contribution:</b> This research contributes to a better understanding of the democratic governance structure of credit unions. It provides a more comprehensive picture of the board characteristics and its role in the credit union sector. For regulators, greater emphasis should be placed on board expertise, board remuneration, board tenure and attendance at board meetings because these characteristics are more likely to</p>

	improve credit union performance and asset quality. This study acknowledges the need for a balance between effective board governance and the recognition of cooperative principles.
<b>(K) Other Considerations</b>	<p>Is <b>Collaboration</b> needed/desirable?</p> <ul style="list-style-type: none"> <li>- idea: yes, initial feedback obtained from a credit union academic expert and discussions with a credit union manager;</li> <li>- data: yes, authorisation needed to obtain APRA’s financial reports; future research collaborations with APRA;</li> <li>- tools: yes, internal collaboration;</li> </ul> <p>Target Journal? Academic: Journal of Banking and Finance; Industry Publications? APRA's research papers.</p> <p>“<b>Risk</b>” assessment:</p> <ul style="list-style-type: none"> <li>- “no result” risk: LOW;</li> <li>- “competitor” risk (ie being beaten by a competitor): MEDIUM – is not a very topical/crowded research area;</li> <li>- risk of “obsolescence”: LOW – mutuals and credit unions are attracting more research attention.</li> </ul>

### 3. Personal reflections on the pitch exercise

I accepted the challenge to work on a pitch template themed on Public Policy and Regulation because of the fantastic opportunity it represents to share my research idea and interests to regulators. I see the written pitch exercise as the initial stage to evaluate the merits of a research project; however, valuable feedback can only be obtained when the pitch is discussed with expert academics, researchers or regulators. Completing this pitch template helped me develop increased research skills, such as to clarify and refine my thoughts, so that the core aspects of my project are conveyed effectively. This process can be challenging at times especially when you need to meet the requirements of the cues. For example, I required more logical and concise thinking to capture the core motivation for the study in 100 words. Furthermore, a pitch exercise is not complete without Faff's (2015) use of the "Mickey Mouse" diagram. In my experience, I need this visual help to answer more confidently the two questions: What's new? and So what?. Figure 1 shows the Mickey Mouse version applied to my current pitch. The intersection of these three circles depicts the novelty of this research: the unique characteristics of member-owned institutions together with a democratic board structure influence credit union performance.

**Figure 1: Mickey Mouse Diagram applied to my Pitch**



Faff's (2015) pitching research is a friendly exercise, so it can easily become a habit for any researcher to assess the merits of a research idea. Each section of the pitch template compounds and builds a solid base into the next section. My view of the pitch template is that it helps to

structure your thinking and enables you to present your research idea into interlinked compartments. Importantly, there will always be something new to learn from doing the pitch exercise. This time I have learnt that by “pitching” the core aspects of a research idea, you can also identify other research issues that can help you to develop future research projects. This applies mainly for an ex post pitch. For example, the section ‘Other considerations’ highlighted me the opportunity to develop future collaborations with the regulatory body, to undertake research on other relevant issues regarding credit union governance. Hence, the pitching exercise adds value to both current and potential research ideas.

#### **4. Conclusions**

This pitch letter provides a brief explanation about a pitch template for a regulation/public policy topic on board governance in member-owned financial institutions. This pitch is based on an existing research project in progress; however, this exercise blends the academic merits of the research idea with the policy/regulation angle. As I am familiar with the design of the pitch template, I found the process less challenging. Working on the pitch template clarified my thinking on how to link my research project with a regulation issue on credit union governance. Hence, the pitch template presented in this letter provides an opportunity to discuss and evaluate the academic and regulatory merits of my research project. As an early career researcher, I see the pitching exercise as a good luck charm because of the clear benefits derived from it, so why not embark on this fantastic journey now and join the pitch club.

#### **References**

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