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Article

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CEO connectedness and expropriation: A pitch

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Abstract: This pitch letter shares my personal experience of applying the pitch template to my research topic as well as my personal reflection on this pitching exercise. The pitch template is a systematic approach which helps me understand the paper, structure the research design and organize the introduction of my paper. I truly encourage every academic researcher to apply this tool to their research.

Keywords: pitching research, CEO connectedness, expropriation behavior

JEL codes: G30, M41

1. Introduction

The motivation of this paper is to share my personal experience of applying the pitch template developed by Faff (2015) and expanded upon in Faff (2017) to corporate finance research. I was initially attracted to the idea of pitching research when the ‘pitch doctor’, Professor Robert Faff, firstly introduced this tool in his course, ‘Research Process in Business’, in my first semester of the PhD study. Since then, I believe the pitch template is an origin of my PhD research.

The benefits from the application of pitching research are mainly categorized into three parts: helping me understand the literature, structuring my research design and providing a clear direction of introduction writing. While many researchers focus on a literature study during their research, some researchers have a biased understanding of the core part of the literature, especially rookies. They just wander off the topic and easily become overwhelmed. With the template in mind, it is easier to navigate the literature and realize the essential parts of the literature. Moreover, I feel that the

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pitch template serves as a lighthouse which guides my personal research in a systematic way and highlights all aspects that need to be addressed. The logic of the pitch template could be regarded as one of the classic and standard structures of the introduction. Thus, the structure of the introduction is already built when finishing this template. In short, I am writing this letter to share pitching research with all the researchers and hope more researchers take advantage of this tool.

The remainder of this letter is structured as follows. In Section 2, I describe the process of applying the pitch template to my personal research topic. Section 3 provides my personal reflections on what I have gained from the application of the pitch template. Lastly, Section 4 is the conclusion.

2. Application of pitching research template

Following the pitching template structure proposed by Faff (2015, 2017), I completed my own pitch on the topic of “CEO connectedness and expropriation”, displayed in Table 1. Based on the frame of the template, I first summarized my basic research question in one sentence, whether connections that new CEOs develop with directors could be accounted for expropriation behavior. Before beginning our research, one crucial process is to read huge amounts of literature and identify the key papers. At this time, three papers came to my mind. One was the most recent and relevant empirical paper related to my research, referencing Khanna *et al.* (2015). The rests of key papers were both of “seminal” paper and “method” paper. Based on the logic of the pitch template, I began to think about the motivation of my research. To my knowledge, managerial compensation structure is mainly determined by the board and executives have strong motivation to get benefits by “gray” behavior such as expropriation. A major absence from previous literature is an analysis from the perspective of directors who are appointed by the new CEO as well as the role of their connections, which lay the motivation of my study.

After solid preparation, I focused on three core aspects of any empirical research project displayed in the pitching tools. Following the instruction, I articulated the central idea and hypothesis of my topic: “when new CEOs appoint new directors during his/her tenure, he/she could get high perks and excess compensations.” Thus, my independent and dependent variables were obvious and I illustrated their definition and measurement in the Item (E). Considering the endogeneity of my topic, I also found two instrumental variables to address this problem. Turning to the Item (F), Data, I identify the time period of my data and gave an explanation for it. I listed all the data sources in the table. In addition, regression model approaches are commonly used in corporate finance research so that I described how regression model approaches were applied to examine my hypothesis in the Item (G).

The next essential part of the pitch template engages the two key questions, “what’s new?” and “so what?”. These questions are essential to every researcher as it would

be a waste of time to do something that is of no theoretical and practical importance or repeat what others have already done. Beyond the “strict” or “serious” instruction of the pitching tool for research, we could also get fun from finishing those two questions since the pitch template guides us to start from an interesting picture, a generic version of “Mickey Mouse”. My topic is based on the characterization of three relevant areas of literature, as shown in Figure 1. I believe the novelty of my research is the application of connectedness between CEOs and directors to account for expropriation and highlight one potential mechanism. Thus, the results of my research are worth close attention by investors, regulators and governance specialists. After answering these two key questions, the contribution of my topic came automatically to the Item (J) in the pitch template.

Finally, I assert that the pitch template is a useful comprehensive tool for researchers as it inspires us to think about other considerations which are sometimes ignored by some researchers. For instance, we should consider whether we need to collaborate with others and what is the target journal for our research. Following the instruction, I carefully summarized all other considerations for my topic in the Item (K).

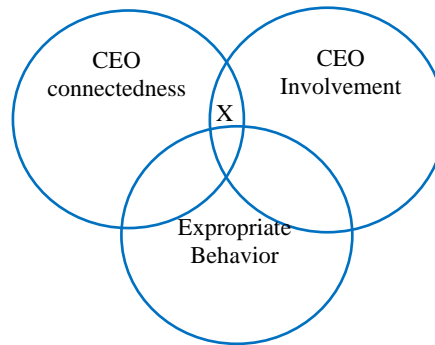


Figure 1. Mickey Mouse diagram characterizing novelty of research idea

3. Personal reflection on the pitching exercise

The original purpose of the pitch template is to help the novice researcher begin their research journey and effectively communicate the seeds of their research proposal to a field expert (Faff, 2017). The pitch template design accommodates both quantitative studies (e.g. Ali, 2016) and qualitative studies (e.g. Shahzad, 2016). However, when it comes to theoretical review papers or model inference papers, some parts of the pitch template, such as “Data” and “Tools”, may be not be readily applicable. Overall, the pitch template could be used for any type of research.

As a rather novice researcher who is at the very early stage of the research career and has relatively limited knowledge in research, I perceive that the two biggest obstacles impeding any research topic are where to start with and how to progress forward. After learning the pitch template, I find that this tool is not only useful to understand papers, but also it helps me to frame my own research design and introduction. I illustrate my points below.

First of all, my research journey starts from the pitch template since this tool teaches me how to understand papers. I believe reading papers is one of the crucial parts of a research career while not all of researchers understand publications effectively. I studied engineering in my original university experience and publications in engineering science have some clear differences to papers in business. Papers in engineering science pay more attention to its experiments and method and so given this personal prior experience I still concentrate on the method section when I study in finance. Although the method section is still important for papers in finance, researchers attach more importance to the “story” including background, motivation, contribution and analyzing the results. Based on the structure of the pitching tool, I am astonished to find that how many critical sections I had ignored before. After reverse engineering papers into the pitch framework, I feel more assured in my understanding of each publication. It allows me not only to figure out what a given paper is researching but also challenges more critical thinking about each paper such as whether there is the potential weakness of its logic or research design. Therefore, the pitch template teaches me how to understand a paper more efficiently and effectively.

What’s more, the pitch template gives me advantages to structure and develop my own research design. A few months ago, I started my research with the topic of CEO connectedness according to my practical experience. With experience on the pitch template, I could identify the key papers and illuminate my motivation to this topic. Following the logic of the pitch, I began to organize my basic research questions and core hypothesis. Then, I pondered whether I could get data to make my research feasible. When turning to contribution part, the pitch inspired me to realize the novelty of my topic and ask “so what”? The complete pitch process helped me move towards the research objectives in a well-organized way. After finishing my own pitch template, other people, even those not specialists in my area, could have a workable and clear understanding of my research, which helps me to discuss my topic with others more effectively.

Finally, the pitch template gives me an initial guide on how to write the paper, especially the introduction of the paper. From my perspective, the introduction section is the most important and difficult part of the paper. When setting up the introduction, I also get lost or overwhelmed. The pitching tool provides an excellent structure for the introduction. In other words, when accomplishing the pitch template, a major part of introduction in our own paper has already been designed.

4. Conclusion

This letter outlines my personal experience on applying the pitch template to my research topic as well as the main benefits I took from this tool. The pitch template not only helps me to understand papers effectively, but also allows me an organized structure for dealing with my own research. A completed 2-page pitch template could be a powerful and efficient communication approach with others since it depicts a clear structure of my research topic and highlights all the key points. My PhD research journey starts from the pitch template and I believe researchers in all stages would benefit from using this tool. Thus, I recommend the pitch template to every researcher.

Table 1. Completed 2-page pitch template on CEO connectedness

Pitcher's Name	Shujun Guo	For category	Finance & Accounting	Date Completed	15/10/2017
(A) Working Title	CEO connectedness and expropriation				
(B) Basic Research Question	Whether connections that new CEOs develop with directors could be accounted for expropriation, as measured by perks and excess compensation?				
(C) Key paper(s)	<p>(1) Khanna V, Kim E, Lu Y. CEO connectedness and corporate fraud[J]. The Journal of Finance, 2015, 70(3): 1203-1252.</p> <p>(2) Balsam S, Kvaack S Y, Lee J Y. Network connections, CEO compensation and involuntary turnover: The impact of a friend of a friend[J]. Journal of Corporate Finance, 2017, 45: 220-244.</p> <p>(3) Carcello J V, Neal T L, Palmrose Z V, et al. CEO involvement in selecting board members, audit committee effectiveness, and restatements[J]. Contemporary Accounting Research, 2011, 28(2): 396-430.</p>				
(D) Motivation/Puzzle	<p>Managerial compensation structure is mainly determined by the board. While management compensation contract theory demonstrates that compensation stimulates executives, they still have strong self-benefited motivation for expropriation to get more benefits. Since expropriation decreases firm profits and damage corporate reputation, many scholars point out considerable factors affecting the likelihood of expropriation. However, absent from these studies is an analysis from the perspective of directors who are appointed by the new CEO as well as the role of their connections. Thus, this research aims to examine whether connections between CEOs and new directors affect perquisite and compensations.</p>				
THREE	Three core aspects of any empirical research project i.e. the "IDIoT" guide				
(E) Idea?	<p>The main hypothesis of this study is that when a new CEO appoints new directors during his/her tenure, he/she could get high perks and excess compensations. Besides, this research focuses on the mechanism of this phenomenon and tries to indicate appointment-based directors would express more appreciation or "fidelity" to the CEO so that they may weaken the checks, acquiesce and even provide the necessary support for expropriation.</p> <p>Dependent Variable: Expropriation (as measured by Perks and Excess Compensation)</p> <ul style="list-style-type: none"> Perks: the sum of expenditures including fees for meals, travel, company cars, communications, socializing, and entertainment involves personal consumption by management, which is followed by Adithyayangkul et al. (2011). Excess Compensation: Based on Chuang et al. (2015), CEO Excess compensation is measured as the residual of the CEO compensation model controlling for firm characteristics and governance variables. <p>Test Variables:</p> <ul style="list-style-type: none"> CEO connectedness (<i>FD4</i>): the fraction of directors changed during the tenure of firm <i>i</i>'s new CEO as of year <i>t</i>. Whether CEOs are involved in the director selection process (<i>IDS</i>): dummy variable equals one if there is an affirmative indication of the CEO's involvement in the nomination process, otherwise equals zero. The indication references to Carcello et al. (2011). <p>Instrument Variables:</p> <ul style="list-style-type: none"> The yearly average non-CEO director turnover ratios in the same industry. The number of directors who left their position due to death. 				
(F) Data?	The sample of this research is going to cover firm-year observations for US listed companies during 2006 to 2016. The sample period begins in 2006 because the data of cash expenditures measured for perks is only available from this time.				

Pitcher's Name	Shijun Guo	For category	Finance & Accounting	Date Completed	15/10/2017
	<p>Data Source:</p> <ul style="list-style-type: none"> CEO connectedness and whether involvement in selecting board members: RiskMetrics database. Cash expenditures of operating items: annual finance report in Connect 4 database. Compensation data: Execucomp. Other financial variables: COMPUSTAT, CRSP and Thomson Reuters. <p>Regression analyses are the main tools applied in this study. In details, to estimate the relation between CEO connectedness and corporate expropriation, I employ an OLS model. Considering the influence of whether CEOs are involved in the selecting board, I add the variable <i>IDS</i> and its interaction with <i>FDA</i> in the regression equation. When facing with endogeneity problem, instrument variables and two-stage IV regressions to be conducted.</p>				
(G) Tools?					
TWO	Two key questions				
(H) What's New?	<p>The novelty of this research is the application of connectedness between CEOs and directors to account for expropriation. While Khanna <i>et al.</i> (2015) find appointment top executives and directors would decrease the expected cost of fraud and thus increase the risk of corporate fraud, this study claim new CEOs appoint their "superiors", directors, facilitating their expropriation. Furthermore, compared to Khanna <i>et al.</i> (2015) that they contribute all new top executives and directors to CEOs' appointment, my research pays more attention to the situation when CEOs involve in selecting board members and tries to figure out potential mechanism(s) to interpret this relationship, which are rarely focused in other studies.</p> <p>CEOs have substantial "soft" influence to direct corporate behaviour, of which directors transition is one potential outcome. Connections between CEO and directors, defined as the fraction of directors appointed during his/her tenure, could increase the incidence of expropriation, which has not been discussed in previous literature. I interpret this phenomenon as the appreciation or loyalty of new directors to the new CEO, which would weaken monitoring and even offer some support for CEOs' expropriation. If so, this relationship would be more significant when the new CEO is involved in selecting board members. The results of this research are worth close attention of investors, regulators and governance specialists since new CEOs connectedness may facilitate their expropriation.</p>				
ONE	One bottom line				
(J) Contribution?	<p>While previous scholars believe that numerous factors affect expropriation behaviour such as board structure and internal controls, this study contributes to the literature by identifying a new potentially important factor, the CEO connectedness: does this factor significantly influence the incidence of executive expropriation? Moreover, this research proposes a potential mechanism to explain why appointment of directors may lead to expropriation, namely, improving directors' fidelity to the new CEO.</p> <p>Collaboration: As all the data could be got from the database or collect manually, collaboration with other organizations is not needed.</p> <p>Target journals: Journal of Applied Corporate Finance, Journal of Business Finance and Accounting and Journal of Multinational Financial Management</p> <p>Risk: The risk of getting no result is low. The empirical studies on the new CEO connectedness are still relatively scant and there is a large sample of new CEO connectedness and corporate expropriation if collecting manually.</p>				
(K) Other Considerations					

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