

Financial Statement Comparability and Takeover Efficiency: A Pitch

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Abstract

Purpose – This paper adopts the pitching research template of Professor Robert Faff for a proposed research project on financial statement comparability and takeover efficiency.

Design/methodology/approach – We start with a brief background on using the pitch research template of Professor Robert Faff pitching methodology for core elements of our research project. We then discuss our own personal reflections on the pitch exercise.

Findings – It is found that the template is helpful in articulating and refining the research ideas among co-authors. It is an excellent way to communicate the research ideas to the panel of editors.

Originality/value – The pitching template is an effective tool for mid-career researchers to position their research ideas in the literature.

Key words: Financial statement comparability, Takeover efficiency, IFRS, Pitching research

JEL classifications: G14, G34, G32, M41

Paper type: Pitching research letter

1. Introduction

This paper discusses the application of the pitch template developed by Faff (2015; 2019) to our research project that investigates the impact of targets' financial statement comparability on takeover efficiency of acquiring firms. This project, in response to the call for papers with a replication theme, was prepared for the Shark Tank Pitch Event of the Finance Special Interest Group (Finance SIG) at the 2020 Annual Conference of the Accounting and Finance Association of Australia and New Zealand (AFAANZ).¹ We proposed a replication of an important recent accounting or finance study in the U.S. market which involves a "twist" when it is replicated in the Australian market. We initially submitted our expression of interest (EOI) in March 2020, followed by the written pitch in April 2020. The research ideas were subsequently presented to a panel of three journal editors, representing *Accounting & Finance*, *Accounting Research Journal*, and *Pacific-Basin Finance Journal* in July 2020.

The remainder of this paper is organised as follows. Section 2 describes the application of the pitch template to our project. Section 3 discusses our personal reflection on the pitch exercise, and the conclusion is presented in Section 4.

2. Brief commentary on the application of the pitch template

In responding to the replication challenge, we independently read all papers published in the last three years in eight top-tier accounting and finance journals, that is, *Contemporary Accounting Research*, *Journal of Accounting and Economics*, *Journal of Accounting Research*, *Review of Accounting Studies*, *The Accounting Review*, *Journal of Finance*, *Journal of Financial Economics* and *Review of Financial Studies*. From the short-listed papers, we prioritised the availability of U.S. and Australia data and the twist of the replication as our main selection criteria. Once we agreed on the research topic of mergers and acquisitions (M&As) and the key paper (Chen et al., 2018), we filled in the pitch template developed by Faff (2015, 2019). Rather than taking a linear approach, we began with the sections that were top of mind, then came back for sections that required deeper thoughts. Table 1 shows our completed pitch for the research topic on the relationship of acquiring firms' takeover efficiency and financial statement comparability of targets.

[Insert Table 1 here]

Our key research question is to investigate whether the association of financial statement comparability and takeover efficiency found in the U.S. setting applies in Australia given that Australian firms operate in a different environment, compared to their U.S. counterparts. The

¹ AFAANZ is a professional body that represent the interests of accounting and finance academics in Australia and New Zealand (<https://www.afaanz.org/>).

mandatory adoption of International Financial Reporting Standards (IFRS) by Australian firms from 1 January 2005 is the “twist” of our replication. Chen et al. (2018) examined their research in the U.S. setting where firms adopt the rule-based General Accepted Accounting Principles (GAAP). Although the U.S. has considered both adoption and convergence as potential strategies to align U.S. GAAP with IFRS, Lin et al. (2019) document that no U.S. firms has adopted the principle-based IFRS. We, therefore, propose to replicate the original study of Chen et al. (2018) with a hypothesis variation to accommodate the mandatory adoption of IFRS in Australia since 2005. There is evidence in the literature that firms adopting IFRS have improved their financial statement comparability (Brochet et al., 2013; Lin et al., 2019) and display less underperformance in seasonal equity offerings (Opare et al., 2020).

Following the suggestions of Faff (2015; 2019), we created a “Mickey Mouse” diagram to demonstrate the novelty of our research ideas (Figure 1). The triple intersection in Figure 1, marked as the “X” area, indicates the position of our research in the literature.

[Insert Figure 1 here]

3. Personal reflections on the pitch exercise

Being mid-career researchers, this is not our first time² conveying research ideas in the pitch template of Faff (2015; 2019). We agree with Faff (2015) that the starting point is a challenge in doing research. It took us around 20 hours each to independently skim through all articles published in the last three years of the eight target journals (i.e. *Contemporary Accounting Research*, *Journal of Accounting and Economics*, *Journal of Accounting Research*, *Review of Accounting Studies*, *The Accounting Review*, *Journal of Finance*, *Journal of Financial Economics* and *Review of Financial Studies*) to derive our own list of potential papers. We then arranged a meeting to choose the most suitable paper based on key factors such as our research expertise, data access for both the U.S. and Australia, time taken to collect data and, most importantly, the “twist”. We found that choosing the suitable paper to replicate and demonstrating how to test its hypotheses in Australian setting with a “twist” are quite time-consuming.

Once we decided to adopt Chen et al. (2018) as the key paper, we started putting the research ideas in the pitch template. The first version took us approximately a week to complete since we needed to check the literature again to confirm our research ideas. We arranged more meetings to discuss issues around the “3-2-1” format suggested by Faff (2015; 2019) since we felt that some

² We had opportunities to apply the pitch template in our AFAANZ grant applications previously. We also successfully published the research pitch template in journals, e.g. Nguyen and Truong (2017), Chapple et al. (2020).

sections of the pitch template are hardly distinguishable such as “Motivation/Puzzle” (Section D), and “So What” (Section I). Bui (2020) also documented that researchers often found some sections in the pitch template are quite repetitive. It took us approximately 7 hours more to complete the final version of the pitch.

We concur with other novice and established researchers (Clout, 2017; McCredie, 2017; Nguyen and Truong, 2017; Ratiu, 2015; Unda, 2015) that the pitch template is useful to identify core elements of a research project. We found it helped to facilitate effective communication between us. Completing the pitch template was very time-consuming, but it forced you think deeply about all the hard questions. It is essential to see the big picture and all details required at the planning stage so that we can see if it is feasible to complete the project in the six-month time in order to meet the requirements of the AFAANZ Shark Tank. Similar to the experience of other researchers (Nguyen and Truong, 2017; Ratiu, 2015), we found the “Mickey Mouse” diagram (Figure 1) is an effective tool to see how our research fits in the literature. The triple intersection, marked as the “X” area, helped us to think deeply about the novelty of our project and how we can position our work as something new to the relevant literature.

We felt the pitch template is an effective way to present research ideas to the panel of three journal editors in the AFAANZ Finance SIG event in July 2020. The conciseness of the pitch template helped us to convince the editors that our project is promising, executable and feasible. Although we are currently in the stage of collecting data and performing analyses, we still revisit the pitch to ensure that there will be no unnecessary deviation from the planned research direction.

4. Conclusion

This paper outlines our pitch for a proposed research project on takeover efficiency and financial statement comparability in the Australian environment of IFRS mandatory adoption. The research ideas were presented in the Shark Tank Pitch event of AFAANZ Finance SIG in July 2020. The completion of the pitch template assisted us to think deeply on the core elements of our research project and facilitated an efficient communication among co-authors.

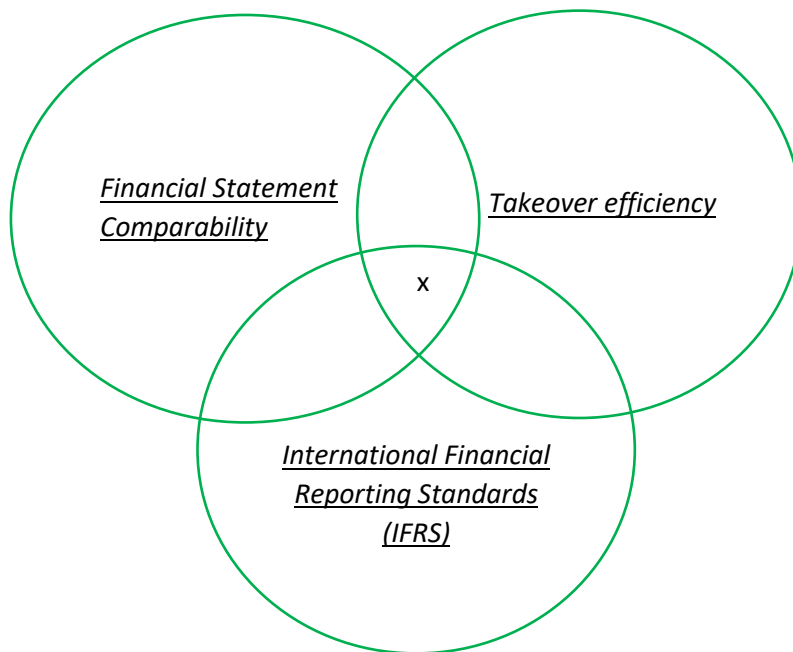
Table 1. The Faff (2015) pitch template for financial statement comparability and takeover efficiency

Pitcher Team Names	Dr Lien Duong (Curtin University) Dr Thu Phuong Truong (Victoria University of Wellington)	JEL Code	G14, G34, G32, M41	Date Completed	20 April 2020
(A) Working Title	Financial Statement Comparability and Takeover Efficiency – Does the Adoption of IFRS Matter?				
(B) Basic Research Question	<p>Financial Statement Comparability and Takeover Efficiency – Does the Adoption of IFRS Matter?</p> <p>Chen et al. (2018) examined the efficiency of acquisition decisions among U.S. acquiring firms. They documented that acquiring firms make more profitable acquisitions when target firms’ financial statements are more comparable with their industry peers. We propose to replicate the original study of Chen et al. (2018) with a hypothesis variation to accommodate the mandatory adoption of International Financial Reporting Standards (IFRS) in Australia since 2005. Chen et al. (2018) conducted their study in the U.S. setting where accounting principles are governed by the Financial Accounting Standard Board (FASB) whose primary purpose is to establish and improve the General Accepted Accounting Principles (GAAP).</p>				
(C) Key paper(s)	Chen, C., D. W. Collins, T. D. Kravet, R. D. Mergenthaler, 2018. Financial Statement Comparability and the Efficiency of Acquisition Decisions. <i>Contemporary Accounting Research</i> 35(1), pp.164-202.				
(D) Motivation/Puzzle	<p>Prior literature suggests that targets’ accounting information quality such as accruals quality is related to acquisition profitability, the speed of merger and acquisition (M&A) process, and M&A completion time (Marquardt and Zur, 2015; McNichols and Stubben, 2015). SEC (2000) and FASB (2010) further emphasise the role of comparable accounting information in facilitating the efficient allocation of capital. Chen et al. (2018) provided supporting evidence that post-acquisition performance of acquiring firms is higher when target firms have greater financial statement comparability with their industry peer firms. Chen et al. (2018) conducted their study in the U.S. setting where firms adopt the rules-based GAAP. Although the U.S. has considered both adoption and convergence as potential strategies to align U.S. GAAP with IFRS, no U.S. firms have chosen to adopt the principles-based IFRS so far (Lin et al., 2019).</p> <p>The financial reporting environment in Australia is quite distinctive compared to that of the U.S. Australian firms are required to mandatorily adopt IFRS from their domestic accounting standards since 1 January 2005. Prior research (Ashbaugh and Pincus, 2001; Barth et al., 2008; Cotter et al., 2012) documents that the adoption of international accounting standards is associated with higher quality in accounting information. In particular, Brochet et al. (2013) empirically find that IFRS adoption in UK leads to improvement in financial statement comparability. Similar results are also observed by Lin et al. (2019) that German firms exhibit an increase in</p>				

	financial statement comparability after the IFRS enforcement regulation in 2005. We propose to replicate the original study of Chen et al. (2018) with a hypothesis variation to accommodate the mandatory adoption of IFRS in Australia since 2005.
THREE	Three core aspects of any empirical research project
(E) Idea?	We choose the retest the hypothesis that Australian acquiring firms have better post-acquisition performance if targets' financial statements are more comparable with their industry counterparts. Australia provides a unique setting to test this hypothesis since Australian firms have to mandatorily adopt IFRS since 1 January 2005. Prior research show that financial statement comparability is higher in countries with mandatory IFRS adoption (Brochet et al., 2013; Lin et al., 2019).
(F) Data?	Proposed study period: 1983—2016. We only can extend the data to 2016 since it is required to have three-year data before and after acquisition announcements to calculate the change in operating performance. M&A data for both Australian and U.S. markets are sourced from Thomson Reuters SDC Platinum database. U.S. financial data are collected from Compustat and CRSP databases. Australian financial data are obtained from Morningstar DatAnalysis Premium, SIRCA and Thomson Reuters Datastream databases. Victoria University of Wellington and Curtin University currently subscribe to all of the above-mentioned databases.
(G) Tools?	Econometric softwares (Eviews and Stata). Measure of financial statement comparability is constructed by mapping returns (economic events) into reported earnings for each individual target firm (De Franco et al., 2011). There are three measures of the acquisition efficiency: three-day abnormal announcement returns of acquiring firms, combined three-day abnormal announcement returns of acquirers and targets, change in post-acquisition ROA of acquiring firms. Panel data regressions.
TWO	Two key questions
(H) What's New?	SEC (2000) and FASB (2010) claim that comparability plays an important role in facilitating the efficient allocation. Chen et al. (2018) argue that financial statement comparability allows acquiring firms to better understand the underlying economic values of targets, more effectively evaluate them, and consequently helps acquirers make better acquisition decisions. They empirically find that the post-acquisition performance of acquiring firms is higher when target firms' financial statements are more comparable. The original study by Chen et al. (2018) was conducted in the U.S. setting where firms are required to comply with the rule-based U.S. GAPP with no requirement to switch to IFRS. We propose to replicate the original U.S. study with a hypothesis variation to accommodate the mandatory adoption of principle-based IFRS in Australia since 1 January 2005.
(I) So What?	The Australian setting is distinctive to U.S. setting with IFRS mandatory adoption for all publicly listed firms since the beginning of 2005. Prior literature shows that mandatory adoption of IFRS is associated with better accounting quality, which subsequently leads

	to a significant decline in investment inefficiency (Gao and Sidhu, 2018), an improvement of analyst forecast accuracy (Cotter et al., 2012) and an increase in financial statement comparability (Barth et al., 2012; Brochet et al., 2013; Lin et al., 2019; Yip and Young, 2012). It is, therefore, important to investigate whether the original findings of Chen et al. (2018) in the U.S. are still valid in Australia given its distinctive reporting environment.
ONE	One bottom line
(J) Contribution?	<p>The replication of Chen et al. (2018) in a different financial reporting regime will offer us a unique opportunity to see whether the positive relationship between post-acquisition performance of acquiring firms and targets' financial statement comparability is still observed after mandatory adoption of IRFS in Australia from 1 January 2005. Previous literature documents that IFRS adopters experience an improvement in financial statement comparability (Brochet et al., 2013; Lin et al., 2019) and less seasonal equity offering underperformance (Opare et al., 2020).</p> <p>Prior Australian studies document a number of factors that affect the post-acquisition performance of acquiring firms such as participation in merger waves, method of payment, takeover competition, powerful chair, compensation of bidders' non-executive directors, and corporate social responsibility of acquirers (Bugeja et al., 2017; Duong, 2013; Duong and Izan, 2012; Faff et al., 2019; Ghannam et al., 2019; Krishnamurtia et al., 2019). However, there is no evidence on how financial statement comparability of Australian target firms can affect the efficiency of acquisition decisions. We attempt to fill this gap in the literature.</p>
(K) Other Considerations	<p>Collaboration is needed for discussing the ideas, collecting data and conducting research. Dr Duong and Dr Truong have successfully published in the field of financial reporting quality (Duong and Evans, 2016; Duong et al., 2020). In addition, Dr Duong has successfully published in the field of mergers and acquisitions (M&As) and Dr Truong has publications in the area of corporate disclosure, governance and regulation (Bugeja et al., 2012; Chapple and Truong, 2015a; Chapple and Truong, 2015b; Dunstan et al., 2011; Duong, 2013; Duong and Izan, 2012). Our combined interest, skill and expertise provides the impetus to successfully complete the replication and extension as proposed.</p> <p>Target journals: Accounting and Finance, Accounting Research Journal or Pacific-Basin Finance Journal.</p>

Figure 1: Mickey Mouse diagram applied to our research pitch



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