

THE AUSTRALIAN NATIONAL UNIVERSITY

MARGIN

ANU College of Business & Economics
Quarterly magazine

Winter 2013

Winners

KPMG World Champions reflect on a job well done

Little emperors and altered lives

Professor Xin Meng on growing up in the Cultural Revolution
and China's One Child Policy

Getting to grips with tax

with Associate Professor Maria Racionero

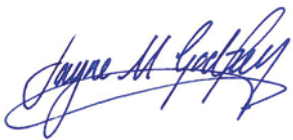
From the Dean's Desk

To succeed in academic life, whether you are a student or a researcher and educator, demands dedication, talent, and a lot of hard work. It is always encouraging, therefore, to see these efforts come to fruition. It is also important that we celebrate this success when it comes along. As a community, the ANU College of Business and Economics can share the pride and sense of achievement when individuals excel in their endeavours, and attain their goals. The same efforts that lead to individual success play a large part in making the College as a whole as highly-respected as it is.

These pages bear witness to some inspiring examples of this success amongst our students. When, back in February, four ANU students, Xinyu Ru, Sagar Sritharan, Aizaz Syed and Olivia Kelly won the chance to represent Australia in the International Finals of the KPMG International Case Competition, we all agreed that it was already a fine effort. That they went on to be crowned World Champions in Madrid in April was a magnificent achievement and due reward for the application and maturity they showed throughout the competition.

In May, we had another chance to celebrate our top-performing students in the College's Prizes and Scholarships Ceremony. These awards provide their recipients with great confidence to go on and achieve even greater things in the future. They also serve as an inspiration for all students to aim high and strive to achieve their full potential during their university life. As the students profiled here exemplify, this means so much more than performing well in their studies. These are typically multi-faceted achievers, who have engaged fully in both the life of ANU and the community at large, and yes, they are inspirational!

Margin always aims to provide a snapshot of the wide range of research that is taking place at the College, and this edition is no different. It illustrates the variety of approaches academic research can take to tackle issues of public significance. It is particularly gratifying to see here several of our young researchers engaged in interesting and important work of great relevance to public policy and the world of business and economics.



Professor Jayne M. Godfrey
Dean and Director
ANU College of Business and Economics



MARGIN

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Front cover: KPMG International Case Competition 2013 Winners Aizaz Syed, Olivia Kelly, Xinyu Ru and Sagar Sritharan
Photo: Penny Bradfield

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The taste of success

Featuring over 15,000 students from 23 nations around the world, the KPMG International Case Competition is a truly global event. This year's winners — all ANU students — reflect on a life-changing experience that really began as just a bit of fun.

When four ANU students just happened to hear from a friend about the KPMG International Case Competition, they decided to give it a shot. Thinking no further than that this would be a 'fun experience' they entered the ACT State Heats in February this year, little imagining that only a couple of months later they would be crowned World Champions. The team, soon to be dubbed *Team Australia* as they jetted off to Madrid for the Grand Finals, comprised economics and law undergraduate Sagar Sritharan and finance and law undergraduate Xinyu Ru, both completing their final year of study; Aizaz Syed, in the fourth year of a combined Bachelor of Commerce

and Bachelor of Laws degree; and second-year Juris Doctor student Olivia Kelly.

The Competition pits teams of students against each other in a series of business challenges involving real-life case studies. These challenges may call on any of the skills typically employed by KPMG professionals in their work, which include many of the disciplines in which the ANU College of Business and Economics specialises: accounting, economics, finance, marketing, management and international business.

Having won both their state heats, and then on 15 February, the National Final, the four friends would have

< Team Australia, winners of the 2013 KPMG International Case Competition. From left to right: Aizaz 'Az' Rashid Syed, Olivia 'Liv' Kelly, Xinyu Ru and Vithiyasagar 'Sagar' Sritharan.

"The whole week in Madrid was one of the best experiences I have ever had," says Sagar, "and to be known as a world champion is a pretty cool feeling." *Photo: Penny Bradfield*

four weeks to prepare for the Grand Finals, working with their KPMG trainers, David Schofield and Anthony Court and also taking advantage of coaching and advice from Research School of Management lecturers Mr Ed Russell and Dr Vinh Lu.

On the afternoon of Monday 1 April, together with their newly appointed manager (Rebecca Jones, National Graduate Recruitment Manager at KPMG) Team Australia touched down in Madrid, full of anticipation and excitement, and checked into the Westin Palace, the hotel where most of the competition was to be held. Here they relate their experiences of an eventful four days.

Day 1 The opening day of the competition began with registration for each team followed by a few networking or 'getting to know you' type events. This included an Amazing Race style challenge called "Conquest of Madrid". It was during this activity that we struck up a natural rapport with Team Ireland (who were, incidentally, huge fans of *Home and Away*). In the evening all the participating teams and KPMG Representatives were invited to a networking "Meet the Judges" event. Here we had the opportunity to meet and talk to the KPMG Partners from all around the world who would be judging our upcoming presentations.

Day 2 saw the first round of case analysis for all teams. We had drawn the morning spot and so we were already deep in preparation at 9am. The first case, which Aizaz had cannily pre-empted, revolved around the smart phone industry and, in particular, the competition between

Samsung and Apple. The first round involved an hour of case reading and preparation, followed by an initial "Partner Meeting" where teams were asked to present their analysis of the main issues and their ideas to their "Partners" for their comments. After receiving encouraging feedback, we were then sent back for another two hours to prepare a presentation to our "client", who was represented by three (pretend) members of the Board of Samsung Mobile. We were all quite happy with our presentation, which we called: *Samsung Smartphone: Connecting to the Galaxy Around Us* and we were encouraged by the positive feedback on both the content and style of our presentation.

In the evening of Day 2 we were invited to a "Sustainability Dinner" where speakers from KPMG spoke about the need for corporate sustainability. Despite Team Ireland's invitation to extend the evening and indulge in a few more *cervezas* after

dinner, we were all still feeling the effects of jet-lag and decided to head to bed for a good night's sleep before Round 2.

Day 3 Thursday's Round 2 was the final compulsory round for all the teams. This was the day on which it would be decided which five teams would be progressing to the final challenge, so the tension was high. Fortunately, this time Team Australia were given a later preparation slot, so we could draw breath and compose ourselves before heading into the preparation room at 2.00pm that afternoon. The case for the second round was a very challenging and technical one. It concerned some of the challenges currently facing Banco Mediano Espagnol, the fourth largest commercial bank in Spain. Knowing that the language and technicality of the case would be a struggle for all of the teams, we thought that if we could put together a solid presentation we would be in with a



Team Australia victorious in Madrid. The prize: a two-week all-expenses-paid entrepreneurship at Boston's prestigious Babson College in late July. *Photo courtesy of KPMG*

good shot of progressing through to the final stage. A very stressful three hours of preparation ensued. At this point we were very grateful to be able to call on some of our ANU education as Xinyu and Aizaz shared their knowledge of the CBE undergraduate course, *Financial Intermediation and Debt Markets*. We then headed off to deliver our presentation: *Bigger in Better Areas*, in which we advised the Board of the Bank to focus their expansion on more productive markets and providing better services.

The judges were very encouraging about our presentation but also gave some constructive feedback on how to improve it. We then had to suffer two hours of nervous waiting before we found out whether we had been selected as one of the final five teams or not. We were quite confident about the presentations we had delivered, but because we hadn't had the chance to see other teams present we had no idea how our competitors were going.

So it was with our fingers crossed that we headed to drinks that evening and awaited the announcement of which teams would be competing in the final. Xinyu retreated to the back of the room to try to manage his nerves before they made the big announcement.

They began announcing the five teams beginning with 'Team Australia'! We were ecstatic! And we celebrated again when it was announced that our good friends, Team Ireland, would be joining us in the top five. The other finalists were from Denmark, Germany and India. After a quick meeting to talk strategy for the following day we decided on another early night as we would be the first team presenting the following morning.

Day 4 On the day of the finals we left our hotel at 7:30 in the morning and made our way to Banco Santander where we would prepare the case and then present in the Grand Auditorium!

“...whatever the result had been that day we were all incredibly grateful for the opportunities that we had been given throughout the competition.”

We were nervous and excited but kept ourselves calm, knowing that the only thing we could do at this point was to make the best use of the knowledge we had gained over the past few weeks that we could and give it our best shot! The case for the finals concerned the acquisition of Cadbury by Kraft. We were very pleased to discover that the case was not as complex as the case from the previous day. We worked well as a team in the preparation and moved through the issues and analysis quickly. After three hours there was a knock on the door and we made our way towards the auditorium where the judges, KPMG representatives, special guests and other teams were waiting.

Presenting on stage and in front of a large audience was a fantastic experience and we kept ourselves composed and passionate as we delivered our presentation and responded to the judges' questions. It was a very proud feeling leaving the stage, knowing that we had delivered a strong presentation that we could be pleased with regardless of the final result. As the first team to present we then finally had the opportunity to watch the presentations of the other teams and we were impressed by the strong presentation and analysis skills all of the teams displayed. It was very interesting to see the different approaches and strategies that they all took and how these compared to our own approach.

With all the presentations concluded we headed back to the hotel to prepare for the Gala Dinner, where the winner would be announced. This was held at Casino de Madrid and we arrived early to celebrate with the other finalist teams and be interviewed on our experience of the day. As we sat down to dinner we were nervous and excited! Team Denmark, in particular, had put in a strong, professional performance and we knew that they would provide very tough competition.

Our feelings when the announcement came that we, Team Australia, had won, were a combination of elation and disbelief! We were absolutely thrilled with the result and then totally overwhelmed by the support from other teams and judges who stood to congratulate us! It was an incredible moment for our team and it was wonderful to be rewarded for our hard work and perseverance over the past weeks. However, we all strongly felt that whatever the result had been that day we were all incredibly grateful for the opportunities that we had been given throughout the competition. It had been a fantastic opportunity to learn from KPMG, from the judges, and from the other teams and to develop that learning through practice, continuing to improve on our skills throughout the competition. We are very grateful to all the staff at KPMG and at the ANU College of Business and Economics for all the help they gave us along the way.

We are all now looking forward to taking advantage of the fantastic prize: an all-expenses-paid two-week entrepreneurship at Babson College in Boston, one of the best undergraduate business schools in the world. The four of us will be travelling there together at the end of July and we are all looking forward to what promises to be another hugely rewarding experience. ■



Professor Jayne Godfrey. Photo: Andrew Taylor

Professor Godfrey awarded AFAANZ life membership

Professor Jayne Godfrey, Dean and Director of the ANU College of Business and Economics, is to receive the award of life membership of the Accounting and Finance Association of Australia and New Zealand (AFAANZ) in recognition of her extensive contributions to the accounting profession in Australia.

Professor Godfrey is the first woman to receive the honour, which is a resounding testament to the accounting community's respect for her considerable career achievements.

One of Australia's leading accounting academics, Professor Godfrey's research interests include investigating the role that accounting plays in determining economic outcomes. In particular, it addresses the associations between accounting decisions and public policy, analyst forecasts, stock prices and returns, and financing

and investment decisions. In recent years, Professor Godfrey has become a passionate advocate of water accounting at national and international levels.

In addition to her university responsibilities, Professor Godfrey maintains a high level of business and community engagement. For her service to Australian society through business leadership, she was awarded Australia's Centenary Medal, and she is a past Telstra Businesswoman of the Year. She also received the 2008 AFAANZ Outstanding Contribution to Accounting and Finance Practice Award.

The Life Membership of AFAANZ award was formally presented to Professor Jayne Godfrey at the annual AFAANZ Conference Dinner, held in Perth on Tuesday 9 July. ■

Vice-Chancellor's award for Dr Vinh Lu

Marketing and international business lecturer Dr Vinh Lu of the Research School of Management is the recipient of a Citation for Outstanding Contribution to Student Learning in the 2013 Vice-Chancellor's Awards for Excellence in Education.

Dr Lu is an outstanding teacher who believes in a 'learner-centered' approach. This is exemplified by the International Business Plan Competition which he devised as an integral component of two courses, the undergraduate *International Marketing* and the graduate *Global Marketing*. It gives students the opportunity to work on real business challenges facing local ACT companies, and has proved highly popular with both students and business clients.

Dr Lu has achieved consistently high teaching evaluations across undergraduate and graduate courses since he joined the College in 2010. He will be presented with his award by ANU Vice-Chancellor Professor Ian Young at the forthcoming conferral ceremonies in July. ■



Dr Vinh Lu. Photo: Amy Taylor

A portrait of Professor Xin Meng, an older woman with glasses, smiling. She is wearing a dark grey sweater with a small red logo on the left chest and a light blue and yellow patterned scarf. Her hands are in the pockets of her white pants. The background is a blurred outdoor setting with trees and a building.

Little emperors, altered lives

The impact of Chinese social and economic policy on individual lives has been the common theme of **Professor Xin Meng's** research throughout her career. Growing up during the Cultural Revolution gave her first-hand experience of the deprivations that can be imposed on a generation by sweeping policy change, and has helped motivate a continuing desire to record, understand and highlight some of the troubling social phenomena that underlie China's economic boom.

BY STEPHEN GREEN

Professor Xin Meng was 12 years old when the Cultural Revolution began in China. The youngest child of two party officials, she was living a relatively comfortable life in Beijing and about to begin seventh grade. Everything was about to change. Schools across the country were abruptly closed. Children were simply sent home and as Meng explains, "we basically did nothing for two or three years." The following year, her mother was arrested, beginning a period of separation that was to last for six years.

School, as it turned out, was permanently terminated for seven or eight cohorts of children. Children were effectively graduated from whatever point they had reached, thereby barring any further schooling. The government was consequently faced with the problem of what to do with hordes of unemployed young people in the cities. As a result hundreds of thousands were sent, en masse, to work in the countryside, with Meng among them. She found herself, at the age of 15, on a farm in North East China and was to remain there for four years, working on the land, planting crops. It was hard work and she was separated from her family, but Meng is disarmingly philosophical about the experience:

"You don't feel it's a terrible thing. Everybody else is doing the same, in the same position. For teenagers the main thing is the peer effect. If your peers are doing the same thing, it's not that bad."

Professor Xin Meng
Photo: Penny Bradfield

Indeed, the experience was to be a formative one that has sown the seeds for her interest in economics:

“I never regret having been sent to the country, even though I didn’t choose to, because they were very important years of my life. You start to understand the society at a very young age, and you realise that lots of things that you were taught at school were lies. So you start to think about things for yourself and ask questions.”

Despite being deprived of a formal school education, Meng’s thirst for knowledge continued unabated, fed by whatever books she could obtain from home and by sharing with fellow workers. After four years in the country she was finally allowed to return to Beijing and was reunited with her mother. She began work in a factory. Her prospects for further education were still non-existent at that time, with access to both further school study and university denied. However, with family support, her private study was able to continue:

“They got me books, so every night when I came home from the factory I would start reading, doing mathematics questions and so on... I was very lucky. The majority of my generation had no chance to go back to school, to study. They didn’t have a mother like my mother – a family like my family.”

When economic reforms began in 1977 and university examinations became open to everyone Meng was able to gain entry to university, and so began an academic career that would eventually bring her to ANU. It was a long road and hard work, but Meng acknowledges that things could easily have been very different:

“I really hate it when people say, oh, you achieved all these because you worked hard for it. I did work hard but I needed to be in a privileged family where education was greatly valued and I could obtain books and help. Most people were not in that position. These inequalities that have a large effect on peoples lives occurred long before individuals have a choice on what to do with their lives– in their parents’ generation. We really need to care about these inequality issues. I was just lucky to have those parents – I didn’t choose to have them. There are loads of poor kids who also didn’t choose to have their parents, but they suffered because of it. That’s why we need to fight for a more equal society.”

It is this perspective on her own experiences that has fed an abiding concern for the social impact of economic policies and has formed the nucleus of her research throughout her career. One such project has examined the effects of the controversial One Child Policy on the behaviour and attitudes of the generation born after it came into effect.

Many in the west viewed China’s One Child Policy (OCP)

as the kind of curtailment of basic civil rights symptomatic of authoritarian regimes. Introduced in 1979 and still being applied today, albeit with some measure of relaxation in recent years, it was intended as a brake upon galloping population growth, and an attempt to curb the escalating demands upon a social security system already failing to meet the needs of the majority of the population.

Debate continues both within China and internationally about the success of the program in meeting its main objectives. Chinese authorities have argued that as many as 400 million births have been prevented by the policy and that this has been a significant factor in the nation’s economic success. Others point out that before the policy came into effect there had already been a massive reduction in the total fertility rate, from nearly 6 to under 3, mainly as the result of the largely voluntary ‘late, long, few’ policy in place during the seventies, which encouraged starting families later, greater spacing between births, and fewer children overall.

At the same time, Chinese media has been rife with claims and speculation about the behavioural impact of the policy, giving rise to the term, ‘Little emperors’, which refers to the tendency of single children to be over-cosseted by protective parents and growing up with significant personality differences. It is an extension of the more widely expressed stereotyping of only children as ‘spoiled brats’, familiar in many parts of the world.

Testing such propositions is notoriously difficult because of the variety of factors influencing psychological and behavioural development, and scientifically substantiated conclusions are lacking.

China’s One Child Policy (OCP) has provided an opportunity to strip out many of these variables and attempt to focus on the direct effects of being one child. For Xin Meng, Professor of Economics at ANU, it was too good an opportunity to miss.

In previous research, Meng had examined intra-family transfer (eg, children providing financial support to their parents in old age), where she found different tendencies of single children vs. children with siblings. The results were compelling but problematic, as she explains:

“I simply used a dummy variable for whether the individual is a single child or not, and that turned out to be very significant in a statistical sense: ie, if you are a single child you transfer less money to your parents. It was a very simple methodology, but my co-author and I were unhappy about it because of the endogeneity issue. That is, parents of single children are a certain type... there are lots of personality factors driving your fertility decisions. If you simply look at whether someone was born as a single child, you don’t know if their behaviour is because they

were a single child, or because they inherited personality traits from their parents. That is, the parents who have one child on average have a different personality than those who have more and this personality difference of the parents is reflected in the different behaviour of their children.”

So Meng and her fellow researchers designed a research project that would take advantage of the opportunity that the OCP provided to really isolate the effect of being an only child on behaviour from other factors such as inherited personality, and cultural and economic change.

“We sampled two cohorts of individuals with urban household registration who were born just before the policy [came into effect] and two cohorts with the same requirement but born just after the policy. We designed our experiments to compare behavioural difference between individuals who grew up as single children only because of the OCP and those who grew up with siblings.”

Cohorts were also balanced for gender. The urban registration requirement reflected the fact that the OCP was enforced most strictly in urban areas. The experiments were carried out in March 2010, when the subjects were aged between 26 and 34. The experiments took the form of a series of standard games drawn from the economic literature designed to elicit the extent of certain behavioural tendencies. The “dictator” game measures participants’ altruism by giving them a sum of money and offering them the option to donate some of it to an unidentified fellow participant who keeps all of it. The “trust” game starts in a similar vein but triples any sums received, where the recipients then have the option of giving some of it back to the original donor. This tests both the participants’ levels of trust and trustworthiness of the recipients — that is if you trust some one you will give more, believing they will give you back more. Whether and how much the recipient gives back tests his or her trustworthiness. The “risk” game places subjects in a simple investment situation with a 50-50 chance of gaining or losing. Finally, the “competition” game tested participants’ appetite for both competition and risk by giving them addition problems to solve and offering a greater reward per question for those who chose to compete with an anonymous fellow participant.

To complete the study, subjects were asked to take part in a post-experiment survey, designed to assess personality type and outlook on life. This incorporated the so-called Big Five Inventory commonly used to assess personality type in terms of Openness, Conscientiousness, Extraversion, Agreeableness and Neuroticism (often collectively referred to using the acronym OCEAN).

A straight comparison between those born before and after the introduction of the OCP suggests significant difference across all the personality measures but the research

“I was just lucky to have those parents – I didn’t choose to have them. There are loads of poor kids who also didn’t choose to have their parents, but they suffered because of it. That’s why we need to fight for a more equal society.”

“All these issues have to be carefully studied and thought about. If we don’t record the effects of these large changes, if nobody is working on them, and without data nobody can work on them, they will become very big and very serious.”

sought to isolate what was specifically the result of the OCP. As Meng explains:

“We used a special methodology to disentangle the various factors and identify the pure effect of growing up as a single child. That is, for those whose parents give birth to only one child *only* because of the policy, not because they would have chosen to have one child anyway. The policy gave us this exogenous shock to the fertility decision and that enabled us to isolate the policy effect. So we found that those who have grown up as a single child as a result of the policy are less likely to be trusting, less likely to be trustworthy, less competitive, more risk-averse, less conscientious and less optimistic.”

Publishing their results in the leading academic journal, *Science*, the researchers noted how previous research has shown that many of the attributes that Meng and her co authors were assessing are important determinants in both social and economic outcomes. For example, as they point out: “a willingness to take risks is an important component of entrepreneurship”, and that “being an only child as a result of the OCP is associated with taking less risk in the labour market.”¹ The implication is that not only is the policy having what would be generally regarded as a detrimental effect on personality traits and behaviour, but that it is also likely to have a significant effect in a wider economic context. Ominously, they conclude with the suggestion that for later generations born under the policy the effects of the policy would likely to be magnified.

The research is emblematic of Meng’s research career. Whether it be major catastrophes like the Great Famine, the Cultural Revolution, or the changes wrought by rapid economic development, such as the massive rural-urban migration of the last two decades, she has sought to highlight some of the social effects of these events which although not necessarily immediately apparent, can have

profound and far-reaching implications for individuals and society at large.

“If you look at my research, I really just want to look at these political events, these upheavals in society. I am interested in big phenomena and how they affect people’s lives. That’s very important to me.”

The imperative is perhaps best summed up by her work on the Rural-Urban Migration in China and Indonesia project (RUMiCI), of which she is Director. For several years RUMiCI has been recording the social and economic changes attendant on the influx of rural workers into urban areas during the period of China’s economic growth since the mid 1990s. According to the World Bank, in the ten years between 1996 and 2006, the number of rural migrants coming to the cities to work increased from 36 million to 150 million. As Meng expresses it, this is a “once in a lifetime opportunity” to record what is happening during this period of extraordinary change. Rural workers who migrate to cities face very restricted opportunities compared to their urban counterparts. They have limited access to employment opportunities, to social welfare, to schools for their children, to unemployment benefit or pensions. And so while the economy obviously needs them, society still treats them as outsiders:

“You are still a rural person, you have a rural passport”, Meng explains. “You are like an illegal immigrant. So how does the country solve this issue – it’s a huge problem – which must be solved and which is complicated. It’s not like the government can say – ok, we’ll just let rural migrants have everything and instantly. Where would the money come from? Even if money was not the problem, how to best design the changes in the system so that it can achieve both efficiency and equality for all Chinese citizens still requires a better understanding of the problem.”

And she concludes, perhaps encapsulating the motivation behind all of her research:

“All these issues have to be carefully studied and thought about. If we don’t record the effects of these large changes, if nobody is working on them, and without data nobody can work on them, then the adverse effects of many of these large changes will become very big and very serious. So that’s why I decided that I wanted to work on rural-urban migration. China was 70 to 80 per cent rural people at the time I began working on the issue. How do you make these people richer, give them a better life? This question is very important to me.” ■

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Inspired & inspiring

With over 80 students receiving awards, the College’s Prizes and Scholarships Ceremony provided ample testament to the depth of academic talent amongst our students.

The Prizes and Scholarships Ceremony is an opportunity for the College to publicly applaud the efforts of some of our top-performing students. It is also a chance for students to celebrate the fruits of their hard work with friends, family and fellow students, and to meet with donors, senior academics from the College and distinguished guests.

This year the College was delighted to welcome His Excellency Mr Biren Nanda, the High Commissioner of India; His Excellency Lt Gen Masud Uddin Chowdhury, High Commissioner of the People’s Republic of Bangladesh; Mr Teng Hoe Chua, Deputy High Commissioner of the Republic of Singapore; Mr Selvaraj Periyasamy Pillai, Minister, High Commission of the Democratic Socialist Republic of Sri Lanka; and Mr Ruslin Jusoh, Minister-Counsellor, High Commission of Malaysia.

Professor Jayne Godfrey, Dean and Director of the ANU College of Business and Economics gave the welcome address, congratulating students on their achievements and acknowledging the generous contributions of donors and sponsors. She also highlighted the contributions of the College’s academics who play such a vital role both in maintaining the College’s position as one of the best of its kind in Australia and in supporting the achievements of our successful students.

Singaporean student Cheryl Ng, in the final year of her Bachelor of International Business degree and a scholarship recipient on the night, gave the student address.

In the following pages we hear from Cheryl and three other recipients who demonstrate that there is a great deal more to their success than just good academic performance.



Professor Jayne Godfrey, Dean and Director of the ANU College of Business and Economics addresses students and guests at the annual Prizes and Scholarships Cermeony in May. Photo: CY Creations



Photo: Stuart Hay

Cheryl Ng

Bachelor of International Business

Research School of Management Research Internship Award 2013

ANU Singapore Alumni International Undergraduate Scholarship 2011

“These courses have not only stimulated me intellectually, but also inspired me to get involved in research – an area that I never expected myself to be interested in when I first started university.”

Singaporean student Cheryl Ng spent two years living in Malaysia attending an international high school. In 2010 she moved to Canberra to study at ANU and accept an impressive scholarship offer.

“One of my biggest achievements in life thus far is receiving the ANU Singapore Alumni International Undergraduate Scholarship. I was going to come to ANU regardless. But because of this award, I have met many wonderful and very clever people and have been presented with so many opportunities that have enhanced my university experience.”

Cheryl felt honoured and humbled to receive a scholarship, and credits the achievement with reinforcing her desire to excel.

Since commencing at ANU, Cheryl has studied in a diverse range of business areas including management, marketing, economics and finance along with complementary arts subjects such as cross-cultural communication, European history and international political economy.

“The courses I’ve taken have done more than impart knowledge. My lecturers and tutors have actively encouraged me to think critically and to question my learning. These courses have not only stimulated me intellectually, but also inspired me to get involved in research – an area that I never expected myself to be interested in when I first started university.”

Cheryl is set to complete her undergraduate program at the end of the year. However she was recently given the opportunity to undertake a research internship within the Research School of Management and as a result of this exposure Cheryl is now considering enrolling in Honours.

“With the guidance and support provided by the academics in the College, I will hopefully be conducting my own research for my Honours thesis next year.”

Cheryl believes that a balanced university life comprises more than just academic syllabus, and her studies have been accompanied with significant involvement in extracurricular activities. Cheryl lives on campus at Ursula Hall and acts as the International Representative on the Resident’s Committee. She is a Student Ambassador, a member of the Caving Club, was on the ANU Swimming Club founding committee, and has volunteered at a local Canberra hospital.

“Now that I am nearing the end of my undergraduate studies, I can confidently say that coming to the ANU has been one of the best decisions of my life. The experiences I have gained, the friends that I’ve made and the opportunities I have been given at ANU have made my time here unique and priceless.”

Brogan Goode

Bachelor of International Business

ANU College of Business and Economics Undergraduate Scholarship for an Aboriginal or Torres Strait Islander Student 2013

“Receiving this scholarship, along with so many other great opportunities and experiences that I have had throughout my time at ANU, has helped me believe that I can really make a difference in the wider indigenous community by advocating the importance of tertiary education and of setting goals for yourself.”

Brogan Goode is a proud Indigenous student from Darug country, in Blacktown, Sydney, and a dedicated undergraduate student who would like to share his story to inspire others.

“I initially had no vision of further education and no clear idea what I wanted to do. It was only after I spent a year studying abroad during high school that I could see the importance of a good education and I became determined to get the grades required for university entrance.”

Brogan was offered a place, but chose to defer his studies to work full-time in retail management positions. While the intent was to return after about 12 months, Brogan’s educational hiatus lasted nearly six years in total.

“I was slightly naïve about this decision and delay. But it felt right at the time. When I did return to university it was with a completely different mindset and I really valued everything that ANU has to offer.”

Brogan is now studying a Bachelor of International Business with an Asian specialisation, learning vital business skills combined with culture, politics, history and languages.

“I love the dynamics of my program. In one week I could be learning about three very different topics and yet at



Photo: CY Creations

the end of a semester they all seem to converge and complement one another. I always tell people that I am the luckiest student at ANU because I study such a diverse range of topics on a week to week basis.”

Now in the second year of his program, Brogan also serves as the 2013 Indigenous Officer on the ANUSA board and as a Student Ambassador for the ANU College of Business and Economics. Earlier this year, Brogan was delighted to learn that he had been awarded the ANU College of Business and Economics Undergraduate Indigenous Scholarship to support his studies.

“ANU is at a whole new level when it comes to the support networks and diversity of students. The community has changed the way I felt about tertiary education – if I knew how much support I would receive upon becoming an ANU student I would have jumped at the opportunity even sooner!”

“Receiving this scholarship, along with so many other great opportunities and experiences that I have had throughout my time at ANU, has helped me believe that I can really make a difference in the wider indigenous community by advocating the importance of tertiary education and of setting goals for yourself.”

William Gort

Bachelor of Economics (Honours)
Bob Gregory Honours Scholarship 2013
Commercial Representatives’ & Agents’ Association of Australia Limited Prize 2012
ANU College of Business and Economics Undergraduate Merit Award 2010

“There is a huge amount that economics is still yet to explain and evaluate. These unknowns are exciting and I hope to be part of the ongoing development of economic thought and public policy debates around the world.”



Honours student William Gort being presented his award by Professor Jayne Godfrey, Dean and Director of the ANU College of Business and Economics at the College’s Prizes and Scholarships Ceremony in May.

After growing up in inner city Melbourne, Will Gort moved to Canberra in order to explore a new city, meet new people, and study economics at the ANU:
“I find the academic opportunities at ANU, particularly in the field of economics, to be outstanding. The curriculum is challenging and engaging and the lecturers are very approachable and helpful.”

Will has lived on campus for many years, acting as Sports Representative, Treasurer and President of his residential Hall. He was elected to the ANU Student’s Association and gained a position as an ANU College of Business and Economics Student Ambassador, where he can share his story with other young people.

Will recently received a Bob Gregory Honours Scholarship to support further economics research during an Honours Year.
“This scholarship means a great deal to me. It is a vote of confidence in my abilities and my potential. Receiving this support has reinforced my devotion to my Honours study and allows me to focus on achieving my goals and aspirations for this year.”

Now midway through his Honours year, Will is taking postgraduate electives focusing on health economics and public policy issues. For his thesis, Will is researching card payment systems in Australia, and the appropriate regulation of merchant surcharge fees to consumers and interchange fees between banks.

“I enjoy economics because it is a discipline that gives you a rigorous framework to explain and solve complex issues and problems,” Will says. “The applications seem unbounded – whether it be to social choice, market equilibrium or monetary policy – it is the broad nature of economics which appeals to me.”

While he acknowledges that research may never be able to solve every single problem that we face, Will is eager to explore more:

“There is a huge amount that economics is still yet to explain and evaluate. These unknowns are exciting and I hope to be part of the ongoing development of economic thought and public policy debates around the world.”

Next year Will is returning to Melbourne to take up a graduate position with Deloitte Access Economics, using the skills and knowledge gained over the past four years. After working as a consultant in the private sector, Will’s future aspiration is to undertake further research through a PhD at an international institution.



Photo: CY Creations

Sashini Salgado

Bachelor of Commerce/Bachelor of Arts
ANU College of Business and Economics Community Engagement Award 2013

During her time at ANU, Sashini Salgado has been actively involved in an incredibly wide variety of extracurricular activities.

She has been a member of her Residential College Board, the Residents Associations, the International Students’ Department, and held the position of Senior Resident. Sashini represented her college in table tennis, volunteered with ANU Student Equity, the ANU Counselling Centre, and was offered a summer placement at the Sri Lanka High Commission of Canberra.

“I initially chose to study at ANU due to its global recognition and academic excellence. But once I started at university I learnt that it is so much more than that,” she says. “ANU has given me many incredible opportunities, exposed me to new interests and taught me to live an extremely enriching student life.”

In 2013 Sashini was successful in her application for the ANU College of Business and Economics Community Engagement Award which supports extracurricular learning outside of the traditional classroom environment.

“In everything I do I will always be reminded of the lessons that I learnt during this conference, helping me to always remember that I can be a part of the change.”

Sashini’s proposal was based on her desire to attend the 2013 Harvard World Model United Nations Conference (HWMUNC) held in Melbourne from 18-22 March.
The World Model United Nations is an annual conference organised by the Harvard University to bring together like-minded young individuals to discuss global issues and seek solutions in addressing such concerns.

“For the first time in its twenty-two year history the United Nations officially recognised and endorsed this conference. So that any resolution passed by youth delegates will be considered by, and potentially adopted into, the actual UN resolutions,” Sashini explains.

In 2013 there were 2,100 student delegates from more than 80 different countries at the conference, and Sashini was one of 25 students who represented the ANU.

“The conference was more than I ever hoped for. Everything from the atmosphere, the diversity of delegates, and the modern day global issues at hand made this week one of the best in my life. I was humbled and truly inspired by the passion I saw in my committee members.”

Sashini describes her time in Melbourne as an extraordinary experience – teaching her practical skills such as negotiation, compromise, listening and articulation, as well as introducing her to new ways of thinking. Sashini intends to apply these attributes and attitudes to her future endeavours:

“In everything I do I will always remember the lessons learnt during this conference, reminding me that I can be a part of the change.”

“I really appreciate the opportunities I have been given,” Sashini says. “All these experiences have helped me grow up so much and have made me a better, more confident person. I believe such outstanding engagement has made my ANU Commerce degree a holistic and practical one.” ■



Dr Dean Katselas. Photo: Penny Bradfield

Levelling the playing field

Finance lecturer **Dr Dean Katselas** is interested in the effects of inequality of information in capital markets – how those with access to better information have a potentially unfair advantage over their less knowledgeable counterparts. A new research project looking at the efficacy of reporting regulations in the mining sector has given him an interesting new avenue for his research. BY STEPHEN GREEN

It is often said that you have got to spend money to make money. Nowhere is that truer than in the mining industry, for so long the driver of Australia's economic success. The rewards may be high, but the costs are proportionally astronomical.

"These types of firms require particularly large amounts of capital," explains finance lecturer Dr Dean Katselas. "It's really how they make their money. Firms may generate growth via capital expenditure, but for these firms it's absolutely imperative, so the ease with which they can raise capital is of particular importance."

Moreover, a significant proportion of the costs that demand capital expenditure in the mining cycle occur long before any revenue can be generated from the resources themselves. The business of exploration, geological surveys, and research and development is time-consuming and expensive. Crucially, it is unlikely that the full extent of the natural resource to be mined will be known until quite late in this process.

Typically, at the stage when capital investment is first sought, companies cannot provide investors with as much information as they would like on the likely return on their investment. All investment is by its nature speculative, but there is a difference between shooting in the dark, and taking a calculated risk. So what is it that the capital investors really need in these circumstances?

The key word here is credibility. Investors need to be able to give credence to a company's public disclosures about its future assets – the natural resources to which it has access.

"The real value behind mining companies is the extent to which they have resources available..." says Dean. "From an investor's perspective, if a firm announced that they had conducted research which revealed significant, previously unknown mineral resources under their control, that's good news, because it positively affects firm value."

When public announcements like this are made, though, as has occurred on a number of occasions in the past, they may prove to be either gross exaggerations, or even worse, totally unfounded. This not only creates a lot of market volatility, but can significantly damage the ability of companies to raise capital in the future. For such reasons, Australia instituted the JORC code in 1989. Under the auspices of the Joint Ore Resources Committee, from which it gets its name, the code, which is mandatory for ASX listed companies, requires minimum standards in the public reporting of exploration results and mineral and ore resources.

"Its main objective is to instill a greater sense of credibility into the information that can be disclosed about these particular firms," says Dean. "We're talking about high risk, low probability outcomes. There may be research conducted which reveals the presence of mineral deposits, but in the early stages, their quality and quantity are highly uncertain. Nevertheless, these are still assets of potentially significant value."

Whilst the JORC code is well established in Australia, there has been little research into how successful it has been in its primary purpose of enabling mining companies to continue to secure capital.

Dean Katselas is co-researcher on a University of New South Wales led project, which will investigate just that, and the overall impact the code has had on investor confidence in the last couple of decades since its inception.

"This is particularly topical now", says Dean. "Not just because the mining industry is, of course, very important to Australia, but also other countries are now modeling their standards on what the Australian JORC principles contain. There is a lot of reliance being placed on it."

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The uninformed investors will lose against the informed investors because they are transacting at values which are inherently mispriced, in favour of the informed trader. The very perception of this can damage the integrity of capital markets.

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The project, which secured research funding from the Centre for International Finance and Regulation (CIFR), will also investigate the usefulness of employing similar reporting regulations in analogous industries (for example technology firms) where innovation forms a significant component of wealth generation, and therefore presents capital investors with similar challenges.

For Dean, the project has provided an interesting new setting to explore his main area of research: information asymmetry in capital markets.

"In brief, you generally have two types of investors: informed and uninformed. The informed investors have more precise information about a firm's value. The uninformed investors will lose against the informed investors because they are transacting at values which are inherently mispriced, in favour of the informed trader. The very perception of this can damage the integrity of capital markets."

Within the context of the JORC code, whilst the main issue is the credibility lent to headline statements about future assets, a second consideration which is certainly on the agenda for future research is the degree to which the information supplied is actually understood by investors. Much of the disclosures required by the code contain technical geological information, the full implication of which may take expensive expert opinion to understand. But how important is this information?

"My interest is very much in examining these issues in capital markets – and the mining industry fits quite well – you have a transparency problem generally and an information asymmetry problem in particular. There are those within the firm, or with close interaction with the firm, who have clearer information on matters affecting firm value, relative to the rest of the market. The JORC Code was developed to credibly address these matters, and we look forward to quantifying its outcome as our research progresses." ■

The right kind of carrot

Linking CEO pay to firm performance

How do you motivate CEOs to make the best long-term decisions for a firm? **Dr Emma Schultz** talks to **AMY TAYLOR** about the task of monitoring executives and providing them with the right incentives.

Senior finance lecturer Dr Emma Schultz has always been interested in the determinants and impacts of corporate governance mechanisms. But in the midst of ever-growing public scrutiny and controversy about executive pay packages, her research in the area could hardly be more topical.

Are CEOs paid to perform? And if they are, what influence might other corporate governance mechanisms have on how sensitive their pay is to firm performance?

For her latest article: *Corporate Governance and the CEO Pay-Performance Link: Australian Evidence*, forthcoming in the *International Review of Finance*, Emma, with Dr Gloria Tian of The University of New South Wales and Professor Garry Twite of The University of Texas examines how the pay of Australian CEOs relates to overall firm performance; and whether the sensitivity of pay to performance varies based on the other governance mechanisms in place.

“There are definite advantages to the corporate form,” she says. “However a notable disadvantage is the inevitable separation of ownership and control. That is, the people who are running the business don’t necessarily own it. This is problematic insofar as it means there isn’t a perfect alignment of manager and owner or shareholder interests.

“In part, this divergence of interests can be attributed to differing horizons of interest in the firm. Managers tend to be interested in a company’s performance for shorter periods of time, at the extreme, only for the term of their employment. In contrast, owners and shareholders will be interested in their firm’s performance for an indefinite period.”

So how might shareholders reduce this agency cost problem and ensure their management are interested in the firm’s long-term success?

“There are a number of ways to make managers act in a manner that is more congruent with shareholders’ best interests. These are referred to as ‘corporate governance mechanisms’,” Schultz explains. “Remunerating the firm’s CEO appropriately is one such way. If you remunerate and incentivise the top manager properly, everything else is more likely to follow because they’ll be steering other employees in the right direction.”

So, the question is: How do firms tie CEO pay to corporate performance? And are firms with other strong corporate governance mechanisms in place generally better at linking CEO pay and performance?

Previous research focuses on the first issue, measuring the average sensitivity and elasticity of total CEO pay to both market and accounting based measures of firm performance. Reassuringly, this research demonstrates that there is a positive correlation between pay and performance.

These studies also look at the relationship between performance and the varying components of pay – including known pay (salary and superannuation), short-term at-risk pay (cash bonuses) or long-term at-risk pay (shares and options).

By doing so, the research acknowledges that paying CEOs a salary regardless of how the firm performs will not motivate them to act in the same way as if their wealth was directly tied to firm performance. Additionally, while cash bonuses make CEO wealth a function of firm performance, the incentive focuses on the short-term.

Only making CEO wealth contingent on firm value (by remunerating them with shares and options) will incentivise top level managers to make decisions consistent with the long-term health of the firm, therefore better aligning their interests with shareholders.

What differentiates the research of Schultz and her co-authors from previous work is that, instead of simply

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Managers tend to be interested in a company’s performance for shorter periods of time... In contrast, owners and shareholders will be interested in their firm’s performance for an indefinite period.

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exploring the nature of the pay-performance link for the average firm, they examine how other governance mechanisms might impact upon it. In particular, how firm board and ownership structures affect the link.

They ask this question using Australian data, complementing existing US-dominated evidence. The relatively concentrated managerial ownership in domestic firms also allows the researchers to investigate the impact that different types of owners have on pay-performance sensitivity.

“Testing reveals that the existence of blockholders, people who own a large portion of the firm’s shares, has an important impact on the sensitivity and elasticity of CEO pay to firm performance. Importantly, as theory would predict, this impact differs based on shareholder identity.

“In particular, the presence of large independent shareholders sees an increased sensitivity of long-term at-risk CEO pay to firm performance. In contrast, concentrated insider shareholdings are associated with the increased sensitivity of short-term at-risk CEO pay, and decreased sensitivity of long-term at-risk pay, to performance. These findings support the importance of concentrated external shareholders as a corporate governance mechanism.”

It’s worth noting that there are governance mechanisms other than ownership structure available to help align manager and shareholder interests, and evidence suggests



Dr Emma Schultz. Photo: CY Creations

some might be substitutable for others. However, all else constant, Emma believes that her research “provides further evidence of the monitoring benefits afforded to shareholders by large concentrated external blockholders.”

Emma says the practical importance of having managers behave in shareholders’ best interests initially sparked her interest in quantifying the effectiveness of corporate governance mechanisms:

“When I was completing my undergraduate studies, I was exposed to many different areas of finance. I particularly enjoyed topics in corporate finance, notably learning about the pros and cons of the corporate form. So it was a natural progression for me to begin researching corporate governance as a way of minimising any of the negatives associated with this structure.” ■

Dr Schultz’s article can be viewed online at: <http://onlinelibrary.wiley.com/journal/10.1111/%28ISN%291468-2443/earlyview>

CATCH UP

Dr Yijuan Chen

Back in 2011 economist Dr Yijuan Chen spoke to *Margin* about his use of game theory to examine the efficacy of hospital report cards in the US. As he explains, his latest research is continuing the quality disclosure theme, but this time closer to home with a look at Australia's My Hospitals scheme.

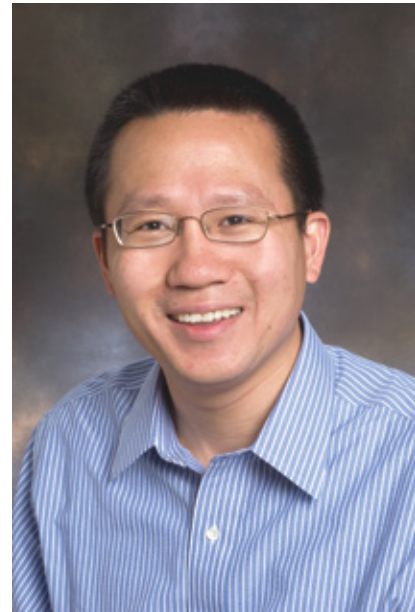


Photo: Stuart Hay

The Federal Government launched the My Hospitals website in 2010. Amongst a variety of information about the services and procedures available at each hospital, it includes details of waiting times at all public hospitals, categorised by surgical procedure and benchmarked against the national average. Whilst the obvious direct benefit of publishing waiting times is to provide a greater amount of useful information for potential patients, the long term objective is to incentivise hospitals to reduce their waiting times and therefore improve customer service. As he explains, Dr Yijuan Chen, of the Research School of Economics, and his colleagues have been examining this mechanism to see how effective this approach can be as a policy to reduce excessive waiting times.

"Policies typically fall into two categories," says Yijuan. "One is on the supply side: the government subsidises hospitals, and with more money, they increase their supply. Another option is to subsidise patients, by for example, providing some kind of tax benefit if they take out private health insurance. That would be to decrease demand. So the options are to increase the supply or decrease the demand for public hospitals. The drawback of both these policies is they rely heavily on funding. When everywhere the talk is about cutting budgets, and introducing austerity measures, neither policy will work.

"So then people started thinking what could be done: how could excessive waiting times be cut when we don't have a lot of money to spend? The pioneering policy in this field was started in 2004 in Portugal. They thought: "if we tell patients which hospitals have longer waiting times, which have shorter, then patients can choose". Assuming

that hospitals have the same quality, but just differ in operational efficiency, the rational patient will choose the hospital with the shorter waiting time. And this in turn gives hospitals the incentive to improve their service rate, because we assume they want to attract more patients.

"This original scheme in Portugal was quite successful. The National Health Service in the UK then adopted a similar system in 2006. With My Hospitals, Australia has arguably taken things a step further. These previous schemes only made waiting times available to patients, so you wouldn't find out about them until you were sick. It would be better, people argued, if we can give everyone, not just patients, this information, and so, why not publish it on the internet.

"Our paper is the first one on quality disclosure to focus on waiting time policy. It is also the first to take into account that the motivation is to provide hospitals with incentives, but that is based on the assumption that hospitals have the same or similar quality. It is also possible, realistically, that hospitals differ in quality and that this is likewise unknown to patients. However, patients may think, this hospital has a long waiting time – that may be because other patients know that this hospital has high quality and so they are willing to queue for this hospital instead of going to those with shorter waiting times. In this instance, long waiting times actually reflect a superior treatment quality. Ultimately this is going to result in even longer waiting times in hospitals already overwhelmed by patients – a potentially unintended consequence.

"This is not a unique phenomenon. For example, if you go to a new place and you have two restaurants to choose

from. One is crowded, and one next to it, offering similar food is nearly empty. You would rather wait for 10 or 15 minutes for the one that is crowded, than go to the one with empty seats.

"So in this paper we investigate two seemingly opposite driving forces. On the one hand, the policy may drive hospitals to improve their quality by increasing service rate. On the other hand, they may reveal quality information to the patients. This is what we call the signaling effect – they may signal quality information to patients [through their waiting times] and make them choose the hospitals based on this information.

"The theoretical study looks at these two effects: the competition effect that drives hospitals to improve quality, and the signaling effect that allows patients to distinguish high quality hospitals from low quality ones.

"We hypothesise two hospitals – one with higher quality, and one with lower quality, but these are unknown to patients – but they may infer this from the waiting times. The main result of this study is that if the policy can drive both these hospitals to increase their service rate, then the competition effect will outweigh the signaling effect.

"We provide a rigorous, technical proof in our paper, but the intuitive explanation is this. The high quality hospital increases service rate, and so attracts patients. When patients move from the low quality hospital to the higher quality hospital this means that the patient volume at the lower quality hospital also drops and makes it more attractive to patients. At the same time, the lower quality hospital is increasing its service rate which makes it more attractive still. This means that the higher quality hospital will not attract too many patients over the lower quality hospital – a one per cent increase in service rate will not lead to a one percent increase in patients, and overall the waiting times at the higher quality hospital also decrease. This is a nice scenario. Despite the signaling effect, which probably had not been identified by policy-makers, which might have led to longer waiting times, in this situation at least, we have seen that the policy still leads to lower waiting times."

Yijuan and his colleagues will present his paper at the International Health Economics World Congress and the Econometric Society Australasian Meeting in July and hope to follow up this theoretical study with more empirical research in the future. ■

Dr Yijuan Chen was talking to STEPHEN GREEN

For more information about current research at the ANU College of Business and Economics visit the research pages of our website at: cbe.anu.edu.au/cbe/research

COMING UP IN 2013

Altruism and business with Graham Tuckwell

Friday 5 July

Influential philanthropist Graham Tuckwell guests in a Q&A style public forum, also featuring ANU Young Alumnus of the Year, Sebastian Robertson. Also on the panel will be Professor Jayne Godfrey, Dean and Director of the ANU College of Business and Economics, and Professor Kieron Meagher, Director of the Research School of Economics. The moderator for the event will be distinguished College alumnus Alastair Walton.

ANU Young Business Leaders Challenge 2013

Friday 16 August

Teams of students from ACT schools compete in a range of business and economics related challenges for the title of ANU Young Business Leader of the Year.

ANU Brisbane Advisory Session

Friday 19 July

An opportunity for prospective students to meet with ANU representatives to discuss options and pathways to ANU.

students.anu.edu.au/events/

ANU Open Day 2013

Saturday 31 August

Visit the ANU campus and discover what you can study, where you can live and everything else you want to know about the University.

For information about study options at the ANU College of Business & Economics, or to arrange an appointment to talk to one of our representatives please email: info.cbe@anu.edu.au



Associate Professor Maria Racionero
Photos Penny Bradfield

Getting to grips with tax

Associate Professor Maria Racionero has been grappling with the theory of taxation for over a decade. As she tells STEPHEN GREEN, it is a field of enquiry that has exercised some of the big names in economic theory, and which continues to provide fruitful new avenues for her own research.

Tax may be proverbially one of the only certainties in life, but what is equally certain is that tax is never going to be perfect. Think of the familiar complaints: “this tax is unfair, it’s immoral; it puts too much burden on the poor;” or “the rich are getting away with it;” or “tax is too complicated – it’s too hard to understand;” or “there are too many taxes”. “Tax doesn’t have to be taxing”, proclaimed a recent advertising campaign by the UK Tax Office. Maybe not – for the man in the street. Yet the conundrum of trying to balance these many, often conflicting, challenges continues to tax some of the leading minds in economics. The likes of James Mirrlees, Joseph Stiglitz and George Akerlof, Nobel Laureates all, have played significant roles in the theoretical developments of the last few decades.

Associate Professor Maria Racionero of the Research School of Economics has continued in this distinguished tradition by making optimal taxation theory the central focus of her research throughout her career. This is an area of economics that seeks to define the best way to achieve the objectives of taxation – raising revenue for redistribution and government administration – whilst minimising distortions (the inevitable changes to individuals’ economic behaviour).

“The desirable characteristics of a tax system are usually listed as efficiency, equity, administrative simplicity and transparency, or political responsibility,” she explains. “The ones that have mostly concerned the optimal tax literature are efficiency and equity. How can you achieve a certain degree of equity at the least possible cost – that is, the least possible inefficiency cost.”

The giant in optimal tax theory is James Mirrlees, the Scottish economist who (with William Vickrey) won the Nobel Prize for Economics in 1996. As Maria explains, his 1971 paper, *An Exploration in the Theory of Optimum Income Taxation*, was a watershed in the history of the field, introducing the importance of asymmetric information in understanding taxation policy:

“Mirrlees’ contribution really marks out a before and after in optimal taxation. Before him, the models were often based on ad hoc restrictions on the tax instruments that could be used. There was no particular reason why there should be a linear income tax as opposed to a lump sum tax, which is the efficient tax by definition – where individuals cannot affect their liability by changing their behaviour. The inefficiency cost of taxes is due to the fact that an individual can alter their tax liability by changing their behaviour. In the case of income tax, they can work less. With a commodity tax, they can consume less. Mirrlees established that the absence of perfect information prevents us from using ideal taxes with no efficiency costs.”

Imperfect or asymmetric information describes the

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What we want to do is comment on how people use time, in particular looking closely at parents’ use of time and disentangling the different aspects of time use.

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situation where one economic agent knows something the other does not – information is asymmetric because it is not equally shared. It has come to be such an important factor in understanding much of public economics because it concerns the inability of a policy-maker to know some of the factors governing an individual’s economic behaviour. It can only make judgments based on the incomplete information it has:

“In Mirrlees’ model, individuals differ in innate ability, which is private information. The government cannot observe the innate ability of individuals... What it does observe is the income. That is the government observes the combination of innate ability and the amount of effort an individual puts in but cannot distinguish between the two.”

Inevitably, income is an imperfect guide to the innate ability, or indeed other characteristics of the individual that might affect his or her economic behaviour. This fact obviously limits the extent to which the efficiency of any tax system can be maximised. At the same time, understanding how individuals of differing ability behave under certain tax conditions can help avoid overly distortionary policies. One of the main results of the literature, demonstrated in a 1982 paper by Joseph Stiglitz, is quite counter-intuitive. Using a model with just two types of individual: high and low ability; he showed that it is actually optimal to impose distortions by means of a positive marginal tax rate, on low ability types. In other words, tax the lower earners more for each additional dollar. As Maria points out, whilst on the face of it this looks like trying to raise revenue from the lower income sectors of the population, it is actually about continuing to raise revenue from the higher earners:

“The important result of this literature is that it allows you to explain apparently counter-intuitive results like [this]. It is not to raise revenue from them [the lower earners], but to raise revenue from the higher earners by inducing the individuals at the top of the income distribution not to mimic the low ability types.”

Maria's own interaction with optimal taxation began early in her career with a paper drawing on her PhD thesis which expanded on the Mirrlees and Stiglitz models by adding an additional characteristic to the traditional one of innate ability – this was the individual's preference, and in particular, preference for leisure. One of the great advantages of an economic model is that it can simplify reality to a sufficient extent to powerfully elucidate otherwise latent underlying phenomena. At the same time, it might exclude other important factors that could be similarly revealing. Thus any field of economic research builds by making adjustments to the original theory.

Inevitably, then, introducing a second dimension into an economic model brings with it a great increase in complexity, and not just in a technical sense, as Racionero explains:

“The Mirrlees and Stiglitz models are based on the fact that with a single characteristic, although you do not observe that characteristic, you do know how individuals behave when there is a particular condition which these fulfill. This makes the analysis much simpler. When you have two characteristics, this condition [known as the ‘Spence-Mirrlees’ or ‘single-crossing’ condition] no longer holds – you have many more cases to deal with. But there is an additional conceptual and philosophical issue when you look at preferences for leisure. Innate ability is considered as a variable that you would like to compensate people [of lower ability] for. With preferences for leisure there is more of a discussion: we don't know if we should compensate people for their preferences, or hold them responsible for them. It's a grey area.”

Many optimal taxation models have a broadly utilitarian social objective – ie, maximising the sum of individual utilities. As long as everyone has the same or similar preferences this works, but if individuals have different preferences you can run into problems:

“If you add the utilities of individuals with different preferences, whilst you will tend to redistribute from high to low ability types, at the same time you could be redistributing from people who like working to people who like leisure.”

Plenty has been written on this issue in the last couple of decades, but Maria and her co-authors did not take a particular view in their paper, and worked within the utilitarian framework, but gave different weighting to different preferences. One of the primary results from this research ran contrary to previous literature and was again somewhat counter-intuitive:

“For certain weights we showed that it could be optimal to impose subsidies at the top of the distribution, where all the previous results in the literature said that it had to be

zero at the top – it could not be negative.’

This paper, co-authored by Robin Boadway, Maurice Marchand and Pierre Pestieau, and published in the *Journal of Public Economic Theory* in 2002, has proved to be Maria's most cited and has been a jumping off point for further research, not least by Maria herself. In a subsequent paper she examined preferences in greater depth – looking at the underlying reasons for preferences, again in the context of imperfect information, for example:

“People may have a high preference for leisure but for some this may be because of a disability, for others it may be just laziness, but they are indistinguishable because they display the same preference. So we tried to see whether the observation of some commodity consumption patterns – for instance health related goods - would allow us to distinguish those with the unobservable disability and so provide a rationale for commodity taxation.”

In all optimal taxation models, the key element is that asymmetry of information limits the extent of redistribution that can be achieved. One of the means used to tackle this problem and try to extend the area of distribution is a mechanism known as ‘tagging’, where an observable characteristic can be used as a proxy for the unobservable, underlying variable that could define a group's tax status. Much of the time, the observable variable has no normative value in itself, it just happens that there is a useful correlation. However, sometimes the observable variable has relevance in itself. For example, in some recent research, Maria was using time needs as the distinguishing characteristic of different groups:

“If there is any correlation between time need and the distribution of ability, you may wish to use time needs for the information it conveys about the distribution of ability, but at the same time you may wish to compensate individuals for those time needs [for example, people who have longer to commute, or who have children or parents to care for]. However, you may not be able to do that completely because you are already using the information in another way.”

The consideration of time needs also brings into play questions of responsibility again: for example, although parents might need more time to care for their children, they also have a choice about how many children they have and it could be argued, have a degree of responsibility for how much of their time childcare demands. Having touched briefly on the question in this research, Maria was prompted to explore the question of time needs in more depth, and this has led to her current research project in partnership with fellow ANU economist and labour economics specialist Professor Alison Booth and Professor Pierre Pestieau of the University of Liege.

“

It is always important to have the theoretical background. A theoretical model will tell us the things we have to care about, the main issues and the forces and parameters that we need to estimate.

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The project, which was awarded an Australian Research Council Discovery Grant earlier this year, aims to make use of elements of the labour economics literature and recent evidence about time use to develop a more sophisticated model of time allocation within the optimal taxation framework.

“The optimal tax literature has a very simple underlying model of the use of time: people either work, or have leisure – there is nothing else,” says Maria. “Working on tagging with time-needs made it apparent to me that there was a need to develop a more sophisticated treatment of time. Within labour economics there are models (for example the Becker model) where people have many more uses for their time, but this has not been embedded in the optimal tax literature. So that is how we came up with this project.”

The second more applied element of the project will focus on the specific area of parental time use, making use of the databases of the Australian Time Use and the Household, Income and Labour Dynamics in Australia (HILDA) surveys.

“What we want to do is comment on how people use time, in particular looking closely at parents' use of time and disentangling the different aspects of time use,” says Maria. “We are trying to look further into how they employ time and distinguishing between those activities that are more akin to labour such as home production, cooking or minding the children; those that are more like leisure; and those that are more about human capital investment – such as reading or teaching. It's not just a question of how people use time, but how this can inform childcare policy. A particular question has been highlighted recently with the parental leave scheme debate: should mothers or carers be given a flat rate, or should the rate depend on

their earnings? These kinds of questions should be easier to answer by understanding how different parents, with different characteristics, particularly education, employ their time.”

Optimal taxation theory has been criticised because deriving clear-cut answers to policy questions from it can be difficult, although as Maria has pointed out, it does provide some useful overall insights. By applying theory in a more closely circumscribed applied area, as with the questions of childcare policy, researchers can make useful contributions to policy development. But, as Maria emphasises:

“It is always important to have the theoretical background. A theoretical model will tell us the things we have to care about – the main issues and the forces and parameters that we need to estimate. I believe in empirical work based on sound theoretical research. Sometimes you see empirical research which just says – look, this happens. But why? How do you explain what is happening? You always need both.” ■

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Pat Boling. Photo: Andrew Taylor

Keeping the show on the road

ANU College of Business and Economics General Manager **Pat Boling** has some interesting experiences to share. She tells **AMY TAYLOR** about her typical work day, the challenges she faced as one of the first female leaders in Scouts Australia, and how she became a Member of the Order of Australia.

Pat Boling has a double degree with honours and has had a highly successful and varied career to date – spanning both public service policy and private sector management roles. Alongside her professional appointments, Pat supported her husband through health complications, raised two sons, and volunteered with Scouts Australia for over thirty years. Her extensive contributions to the community received recognition with a Centenary Award and induction as a Member of the Order of Australia.

The first in her family to attend university, Pat relocated from southern Sydney to Canberra to study a combined Bachelor of Law/Bachelor of Arts (Honours) at ANU. After graduation she was offered a position in the Australian Public Service. Pat worked for Commonwealth departments for nearly 25 years, with positions in the fields of corporate law, venture capital, tourism, and senior management – where she developed federal government

policies on a range of personnel and human resource matters.

“The mix of applying my law and arts degrees to policy making was really interesting,” says Pat. “I was given some fantastic experiences and opportunities during that time.”

In addition to her public service employment, Pat was also heavily involved in Scouts. At the age of 16 Pat became a local scout leader working with young cubs. Since that introduction she has remained involved with the organisation, volunteering with different age groups and eventually moving into policy and management roles within Scouts Australia.

In a time when Scouts was a largely male dominated community, Pat became the first woman in Australia to be a leader of Scout groups (aged 11 to 15 years old) at their annual Jamboree. She was also the first woman to

lead a State or Territory when she was appointed as Chief Commissioner for Scouts ACT in 1996.

“I am very passionate about what Scouts does – empowering kids to learn, grow confidence and build skills. Children learn so much from having an adventure,” Pat says. “And that’s not a gender specific message. I worked hard to make sure that females can be a part of this movement. Now the organisation has grown into one where girls and women can get involved at any age, in any role.”

For more than 30 years, Pat held leadership roles in Scouting. For six of those years, while still in full-time employment, Pat was responsible for leading the Canberra Scouting program including over 2,000 young people and 550 volunteer leaders. She trained and certified leaders of young people, and in management roles in Scouting for more than 20 years.

“It was a really challenging role to have on a voluntary basis. My time in Scouting was extraordinary and I worked with wonderful people – going on adventures which benefited both me as an adult and the young people we were accompanying.”

In 2001 Pat Boling was awarded a commemorative Centenary Medal for distinguished service to the ACT community. Then in 2004, she was appointed as a Member of the Order of Australia (AM) for her contribution to the scouting movement and her ongoing commitment to creating development opportunities for young people.

“When I was told that I’d received an Order of Australia medal I was extremely honoured. On the day of the ceremony I was amongst the most amazing company, a truly extraordinary cross section of Australians.”

After many years of volunteering with the Scouts and consulting for the public service, Pat took up a position at The Australian National University in 2007, originally starting in the ANU College of Arts and Social Sciences as HR Manager and then as Acting General Manager.

In June 2012 she moved to the ANU College of Business and Economics. As General Manager, Pat now oversees 42 professional staff from the administration teams in the College.

“I really love being General Manager. It’s a challenging but very diverse role. A GM is responsible for overseeing the provision of all the professional services, many of which are probably invisible, which ensure that our College can deliver on our research and educational objectives.”

The General Manager position spans the whole range of corporate services including human resources, information technology, finance, facilities and infrastructure, research services, student administration, marketing and

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We’ve all got skills and experience that can be applied in different areas. My priority is to help all our administrative teams develop their capacities, and to find innovative ways to support our academic endeavours.

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development. It’s difficult for Pat to describe her ‘typical’ day in the office because of the varied range of her duties:

“I usually get around two hundred emails per day which require attention, redirection or action. I spend a lot of time liaising with the managers from each of my admin teams. So far today I’ve had a meeting with a central ANU representative to discuss a new policy and to figure out what it means for the College; I’ve met with a Research School Director to discuss staffing and structural matters; and I’ve been assisting the Dean with a paper for the Vice-Chancellor.”

As the professional staff representative amongst College executives, Pat is often the first point of contact for any tricky situations:

“A key part of a General Manager’s role is to ‘unblock’ road blocks,” Pat says. “Whenever a team runs into a problem they approach the GM for assistance. It’s all about applying my knowledge, skills and experience to help find a way around it, find the resources, reorganise things within the business unit and so on, in order to help find a solution.”

Working as a professional staff member in a tertiary institution can be an intimidating task alongside such outstanding academics. But Pat believes that administrative personnel should claim their space – as professionally trained employees giving sound advice on an area of specialist expertise – and work together as colleagues with the University’s academic staff to support a common goal.

“We’ve all got skills and experience that can be applied in different areas. My priority is to help all our administrative teams develop their capacities, and to find innovative ways to support our academic endeavours. I hope that all of our staff members are excited about the work that they’re doing and proud of the support which they provide for the College.” ■



Class of 2013: our current student ambassadors.
Photos: CY Creations and Stuart Hay

Ambassadors with a difference

The ANU College of Business and Economics Student Ambassador program provides students with the chance to represent the College in a variety of ways. As AMY BURTON reports, it's more than just a chance to earn a bit of extra cash during your study. It is a real opportunity to broaden your experience, develop new skills and meet people.

The ANU College of Business and Economics has been running a Student Ambassador program since 2006. As well as over 20 current ambassadors, over 80 graduates have participated in the program over the years.

In the last few years, the program has significantly increased its scope and range. There are more students, with a wider range of experience, helping the College's Marketing and Development Team at more and more College or University events, talking about their study choices and their experiences at ANU.

Many of these students are busy with other commitments in addition to their study. Some are also CPA Ambassadors, work part-time in the ACT Government, or volunteer with an ANU student society. However, it is precisely this kind of energy and engagement in university life, coupled with the high level of their academic attainments that has marked them out as ambassadors with a difference.

Much of our ambassadors' value to the College is their ability to relate to prospective students: to provide a student's perspective on study and university life. This ability really comes to the fore at the annual ANU Open Day in late August, where thousands of potential ANU students and their families descend on the University campus armed with questions about what they can study, where they can live and what else is on offer for the eager student. Here the ambassadors show their worth, not just in being able to explain the finer details of their areas of study, or in providing invaluable insights into the student experience, but also in exemplifying what an ANU student can aspire to be.

Our current cohort of Student Ambassadors is very diverse: undergraduate and postgraduate, domestic and international, studying anything from Accounting and Economics, to Corporate Sustainability or Actuarial Studies. This diversity is an enormous asset in communicating to the wide variety of audiences with which they interact.

They assist at many smaller functions throughout the year, such as presentations to local high school students as well as bigger, more formal events including the College's annual Prizes & Scholarships ceremony. It has been traditional for one of our student ambassadors to give the student address at this event – at this year's event, International Business student Cheryl Ng had the honour (read Cheryl's profile on page 14).

Student ambassadors have become an integral part of the College's engagement with future students and with the wider community. They represent the student face of the College and they bring a great deal of credit to the institution as well as providing valuable assistance to the Marketing and Development Team in their efforts.

At the same time, all of the participating students gain an enormous amount from their involvement in the program with many opportunities to broaden their experience, hone their communication skills, and network with a wide variety of people. ■

Find out more about our Student Ambassador program at: cbe.anu.edu.au/cbe/current-students/cbe-student-ambassadors/

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As a CBE Student Ambassador I have the ability to make a difference. Knowing that another individual can be impacted by what I have to share is something really special.

”

Natalia Weir
Bachelor of Business Administration/Bachelor of Science





CPA CEO Alex Malley. Photo: CY Creations

Networking with The Naked CEO

A speed-networking event centred around the visit of CPA CEO Alex Malley gave ANU students the chance to gain new insights about business and employment opportunities that will prove invaluable in their future careers. ANU students and CPA Ambassadors, Yi Ding and Xi Wen Chan reflect here on a successful event that was enjoyed by students and guests alike.

As part of the re-launch of CPA Australia's The Naked CEO, finance and accounting students were offered an opportunity to engage with representatives from CPA Australia, The Australian National University, and professionals from the private and public sectors, at the inaugural CPA Australia Speed Networking Luncheon.

At the beginning of the event, CPA Australia's CEO Alex Malley gave a speech, touching on the gap between academia and the accounting services industry, and invited students to experience a rare glimpse inside the boardrooms of Australia's most successful companies by participating in The Naked CEO competition.

"The Naked CEO offers a look into some of the most thriving and exciting businesses operating in Australia today. Students will meet business owners, see how they handle the day-to-day challenges of running a business and, most importantly, experience first-hand the qualities it takes to be a successful leader." — CPA Australia

Similar to speed dating, the speed networking participants were allotted an 8-minute interval, during which they could interact with one of the six employers at the event and

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The wealth and quality of information exchanged and career tips provided by employers will definitely help students build long-lasting finance or accounting careers.

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develop their networking skills. The time limit ensured that students networked with industry professionals more effectively, as participants had to come straight-to-the-point and ask the most important and relevant questions. The event was so well-received that many participants and employers stayed for the free networking session over some light refreshments.

As leaders of the ANU team of CPA Student Ambassadors, we were able to apply event management and strategic leadership skills obtained at ANU to host the event. In planning for and executing the event, on top of keeping the big picture in mind (such as identifying the target audience, devising the event concept, and engaging employers), we also took care of the details (such as logistics, technical aspects, and educating participants about speed networking). To enhance the networking experience for participants, we provided articles and hint-cards with networking tips prior to, and on the day of the event, just in case students felt nervous or inexperienced when interacting one-to-one with professionals.

In addition to working behind-the-scenes while running the event, we also had the chance to participate in the speed networking session. The event provided a platform for students to make potential connections with industry professionals and network in their fields of interest. As with a group conversation, participants and employers were free to exchange their ideas and experiences, involving but not limited to their personal career-related triumphs and setbacks. In some cases, the employers even played the role of a mentor to offer some job tips for future graduates and interns. The speed networking event was nothing like a career fair or job recruitment opportunity, but the wealth and quality of information exchanged and career tips provided by employers will definitely help students build long-lasting finance or accounting careers.

Following the Speed Networking Luncheon, Alex gave a guest appearance in Dr Steven Wu's undergraduate lecture *Business Reporting and Analysis*, in which he inspired first year accounting students with his insights into what makes a great leader. Alex also talked about leadership, and how it involves taking calculated risks and making



Representatives from the Department of Finance and Deregulation share their knowledge and experience with students at the speed networking event. Photo courtesy of Yi Ding.

mistakes, as well as the importance of having a dream. He reassured us that not everyone will have a dream when they first start out, and emphasised that this is a normal situation, but he also went on to offer students some tips to help them find their true calling. Additionally, Alex shared some meaningful encounters in his current role as CPA Australia's CEO – most notably his interview with late American astronaut Neil Armstrong and his TV program "The Bottom Line" shown on Channel Nine. In all his initiatives, Alex seeks to drive the main message across – that is, effective leaders are not afraid to fail.

"... great leaders work hard. They surround themselves with good people, mentor others to reach their potential and keep an eye on the bottom line while taking calculated risks to achieve success." — Alex Malley, CPA Australia CEO

All in all, the Speed Networking Luncheon was a superb opportunity for participants to hone an elevator pitch, to build confidence at networking, and to grow professional connections, in a fast, fun, and friendly environment. CPA Australia CEO Alex Malley was also extraordinarily passionate about sharing his secrets of success with the next generation of young leaders in ANU.

For more information on The Naked CEO competition, visit: thenakedceo.com/competition

ANU College of Business and Economics and CPA Australia would like to thank the ANU Careers Centre, Dixon Advisory, the Australian National Audit Office, the Department of Finance and Deregulation, and IP Australia for their support. ■

ALUMNI

Despatch

Alumna **ALISSA IRGANG** reflects on the opportunities that studying at ANU have given her, both during her days as a student and in her subsequent career.



When I finished my five years at ANU, with a double degree in Actuarial Studies and Law (Honours) I happily embarked upon the wide world of possibility that ANU graduates have access to. I started my career as an actuarial analyst in general insurance in a graduate program that was competitive to get into and that was only the start of the incredible path that ANU set me on... But I'm jumping forward, so how did it all begin? Well, like most year 12 students I finished school (at Merici College in the ACT) with a burning desire to work in insurance... well, perhaps that's not entirely true, but I knew from early on that I wanted to work in risk analysis. So the combination of Actuarial Studies and Law was a natural step. In particular, I was drawn to ANU as it is one of the most highly ranked universities in the world, and is one of only a few universities in Australia to offer the degree combination I wanted to pursue.

My undergraduate years at ANU were fantastic and I can't imagine having had the wonderful experiences I had anywhere else. Campus life was exciting and I had the opportunity to work as a campus tour co-ordinator (to support my coffee addiction characteristic of all uni students studying late into the night), volunteer as a student mentor and get involved in the hustle and bustle of on-campus events and student societies. Whilst at ANU I was also offered the opportunity to study in Germany at the European Academy of Otzenhausen and



"My relaxed approach to exam preparation."
Photo courtesy of Alissa Irgang

thanks to my dedicated Honours Supervisor and her unwavering support I was fortunate to have my honours thesis published in a national law journal. Looking back now, it's amazing the number of opportunities that are available to ANU students and how much support the University offers its students. I loved my time at ANU so much that even after I finished my double degree I came back to ANU to complete post-graduate studies.

My time at ANU was fantastic and there's no doubt it gave me a leg up in the highly competitive world for graduates. Now two years after graduating, I work as a Senior Consultant for the global risk consulting company Protiviti. At Protiviti I perform strategy and performance reviews and financial modelling for a range of clients from Federal Government Departments to private companies to not-for-profit organisations. I've had the opportunity to lead teams, work closely with clients and drive projects from start to finish. Every day is different, challenging and exciting and with Protiviti I've already travelled overseas and around Australia for my work.

I've no doubt that the education I received at ANU not only opened doors for me as a graduate, but also equipped me with the analytical skills set and lateral thinking that I now use every day. And, as I move forward in my career, I know that with my ANU degrees I'll be prepared to face whatever the future holds. ■

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