

REPORT ON THE MASTER THESIS

IEPS – International Economic and Political Studies, Faculty of Social Sciences, Charles University

Title of the thesis:	Transnational Corporations and the Strategies of Profitability by Administrative Ordering
Author of the thesis:	Samir Taghiyev
Referee (<i>incl. titles</i>):	Doc. Ing. Vladimír Benáček, CSc.

Remark: It is a standard at the FSV UK that the Referee's Report is at least 500 words long. In case you will assess the thesis as "non-defendable", please explain the concrete reasons for that in detail.

SUMMARY OF POINTS AWARDED (*for details, see below*):

CATEGORY	POINTS
<i>Theoretical background (max. 20)</i>	14
<i>Contribution (max. 20)</i>	10
<i>Methods (max. 20)</i>	6
<i>Literature (max. 20)</i>	20
<i>Manuscript form (max. 20)</i>	16
TOTAL POINTS (max. 100)	66
The proposed grade (1-2-3-4)	2,25

You can even use a decimal point (e.g. giving the grade of 2.5 for 60 points).

Comments of the referee on the thesis highlights and shortcomings (following the 5 numbered aspects of your assessment indicated below).

1) Theoretical background:

First I must go back to an issue which was already raised by Dustin Lane during the discussion of this thesis at the Master Thesis Seminar in May. Lane pointed out that the words "administrative ordering" in the title could have many meanings: a) Administrative ordering are laws and regulations handed down by state institutions demanding firms to pay for damages or seize activities due to a breach of law. b) It can be the organization in the board of directors and managers (administrators) and their decision making. c) The location of head offices vis-à-vis the corporate optimal taxation policies (as a narrow subset of the previous) – which was somehow revealed in the text as the topic of this thesis. Proviso: the author could have chosen a less ambiguous title of the thesis.

The first two chapters present a very illustrative review how the TNC and globalization are mutually interconnected and what kind of impacts on economies the TNC have. The review of the up-to-date literature is well represented. Nevertheless, for a thesis aspiring for an honour grade I would expect a much more substantial theoretical (economic) analysis: e.g. how the increasing returns to scale, market structure, market imperfections and the choice of business strategies shape the performance of TNC.

2) Contribution:

It is a paradox that the fact that this thesis is underpinned by a vast review of literature (which is on the one hand highly positive), also backfires. The endeavor of the author to refer nearly in all paragraph to world literature (and with that to overviews) crowds out at the same time the space for own contributions of the author. For example, the author's own comments/ explanations on why establishing the common comprehensive legal regulatory framework failed (p. 27) is rather superficial. He could expand the argument to more concrete aspects of failure: e.g. who were the agents who brought the negotiations to a standstill in many partial issues, what kind of motivation they had, why the opposing parties lost and what kind of role international institutions (UNCTAD, UN Commission, ILO, WTO, World Bank, European Commission, ...) played there, etc.

By so intensive usage of references it is often very difficult to assess what is the own idea of the author and what has been taken from outside. E.g. those were the cases studies (otherwise very interesting) explaining the tax optimization of Apple, Starbucks and Microsoft.

I would also expect that the description of transfer pricing (p. 38) would cover much more than mere half of a page.

There is a problem with the substantial claim in this thesis that is not sufficiently covered: that TNC target low taxes as their strategic objective. Instead, an optimal income and taxation regimes should have been applied. I.e. TNC must thus target a multiple of strategies: highest long-term profit (that must be then decomposed into achieving high prices, high sales and low costs) combined with the highest equity value (or even enterprise value) growth. The choice of tax haven is a derived secondary strategy of the previous two. What would be gained otherwise from low taxes if the profit to be taxed would be very low?

As an aftermath of the previous, the thesis missed discussing the concept of tax shield, i.e. the reduction in income taxes due to taking advantage of the allowable deductions from the taxable income. As the interest on debt is a tax-deductible expense in some countries, debts concentrated in them (due to loans or IPO flotation) create a tax shield. Since a tax shield is one of the many ways to boost cash flows, it contributes to increase the enterprise value. Thus it is an important aspect of TNC business valuation, which brings the company high rents from equity sales. Even though all these aspects are mentioned randomly in the thesis, they are not subjected to a synthetic treatment. This could have been done in ch. 3 or in ch. 4.1.

3) Methods: By relying so much on the references and citations, the author also weakened his own analysis (e.g. by collecting data on MNC and using them for hypothesis testing) or by applying formal methods in explaining the decision-making of MNCs. I think this is the weakest aspect of this thesis.

4) Literature: I praise the choice of extensive and relevant world literature. (Here I do not assess that such a vast literature did not lead to more fundamental analysis.)

Question for the exam: How did you get to such an extensive literature that you have quoted? Which library offered you such an excellent service?

5) Manuscript form:

In general, the thesis is well written and thus easy and interesting to read. Nevertheless, there are some inconsistencies that deserve mentioning:

a) There is a nearly complete repetition of the chapter 2, i.e. pp. 6-24, in the part describing the initial proposal of the thesis. I gather that this was some misunderstanding: the initial proposal us expected to be 1-2 pages.

b) Missing Table 1 and Figure 1 in the electronic PDF version I have received (see e.g. p. 19).

c) Some words are causing confusions, e.g.:

“host versus recipient countries that are considered different” (pp. 20-21) – I would judge these are synonyms. The difference should be between the investing and the host countries.

c) Instead of “market conjuncture” the more common “market structure” should be used (pp. 21-22).

d) The expression “overprofit” is non-standard. There are economic rents that are more appropriate and common.

e) Some sentences were not clear, e.g. p. 20: “If the level of expected profits is lower than the investment required, obviously the TNC will never choose this particular economy, and therefore will not include it in its geographical presence”.

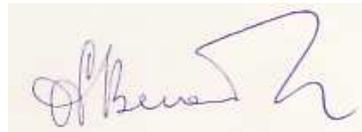
Since the thesis is based on extensive references to books, I have checked it by Urkund programme. The result was that less than 3% of the text wording was found identical with the text in published resources. That is a very low figure, so the text can be considered an original contribution.

Conclusion of the referee:

This thesis addresses an important aspect of modern international businesses: the official geographic location of the corporation that has serious long-term impacts on both the economic results and the management of enterprise. It is based on high-powered literature but the own contributions of the author are rather modest and his methods of analysis are weak. I recommend this thesis for defence and my proposed grade is 2 (very good).

Question for the exam: Explain your view on the following problem: The share of large firms (corporations including TNC) on total private employment is 30% and their share on total private value added is 40% (in average by countries in both cases). Why these shares did not change much in the last 25 years?

DATE OF EVALUATION: 30 August 2014

A handwritten signature in blue ink, appearing to read 'A. Bensch', is written on a light-colored rectangular background.

Referee Signature

The referee should give comments to the following requirements:

1) THEORETICAL BACKGROUND: Can you recognize that the thesis was guided by some **theoretical fundamentals** relevant for this thesis topic? Were some important theoretical concepts omitted? Was the theory used in the thesis consistently incorporated with the topic and hypotheses tested?

Strong Average Weak
20 10 0 points

2) CONTRIBUTION: Evaluate if the author presents **original ideas** on the topic and aims at demonstrating **critical thinking** and ability to draw conclusions based on the knowledge of relevant theory and relevant empirical material. Is there a distinct **value added** of the thesis (relative to knowledge of a university-educated person interested in given topic)? Did the author explain **why** the observed phenomena occurred? Were the policy implications well founded?

Strong Average Weak
20 10 0 points

3) METHODS: Are the **hypotheses** for this study clearly stated, allowing their further verification and testing? Are the theoretical explanations, empirical material and **analytical tools** used in the thesis relevant to the research question being investigated, and adequate to the aspiration level of the study? Is the thesis **topic comprehensively analyzed** and does the thesis not make trivial or irrelevant detours off the main body stated in the thesis proposal? More than 10 points signal an exceptional work, **which requires your explanation "why" it is so**.

Strong Average Weak
20 10 0 points

4) LITERATURE REVIEW: The thesis demonstrates author's full understanding and **command of recent literature**. The author quotes relevant literature in a proper way and disposes with a representative bibliography. (Remark: references to Wikipedia, websites and newspaper articles are a sign of **poor research**). If they dominate you cannot give more than 8 points. References to books published by prestigious publishers and articles in renowned journals give much better impression.

Strong Average Weak
20 10 0 points

5) MANUSCRIPT FORM: The thesis is **clear and well structured**. The author uses appropriate language and style, including academic **format** for quotations, graphs and tables. The text effectively refers to graphs and tables, is easily readable and **stimulates thinking**.

Strong Average Weak
20 10 0 points

Overall grading scheme at FSV UK:

TOTAL POINTS	GRADE	Czech grading	US grading
81 – 100	1	= excellent	= A
61 – 80	2	= good	= B
51 – 60	3	= satisfactory	= C
41 – 50	3	= satisfactory	= D
0 – 40	4	= fail	= not recommended for defence