

# Report on Bachelor Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

<b>Student:</b>	<b>Jan Picálek</b>
<b>Advisor:</b>	<b>Mgr. Aleš Čornanič</b>
<b>Title of the thesis:</b>	<b>State ownership and ownership concentration as determinant of dividend policy</b>

## **OVERALL ASSESSMENT** (provided in English, Czech, or Slovak):

*Please provide your assessment of each of the following four categories, summary and suggested questions for the discussion. The minimum length of the report is 300 words.*

### **Contribution**

The intended contribution of the thesis is to provide an updated research of impact of ownership concentration and state ownership (non-performance factors) on probability of dividend payments and their magnitude. The author provides reasonable update of previous research with methodological modification using European data from 2013 to 2017. I highly appreciate that the author is not only applying existing research on different dataset (China vs Europe) but also using different and more accurate proxy for ownership concentration (Herfindahl Index). The use of different proxy is well motivated and explained. Unfortunately, the additional promising contribution in form of analysing also regulated industries in SOE environment is not fully utilized as there is missing information about break-down of sample by industries (full, SOE, non-SOE) to show whether including or excluding regulated industries could have any effect on results.

### **Methods**

The author primarily uses random effects model to analyse the impact of ownership concentration and state ownership on level of dividend pay-out ratio. For analysing the impact of ownership concentration and state ownership on probability of dividend payment the PROBIT model is used.

In methodological section, the author discusses application of fixed effects vs random effects model in his research settings. I highly appreciated the discussion. Furthermore, testable forms of both models are formulated. With respect to data, the author uses financial. The individual variables of dataset is well described and clearly defined. The author also provides motivation for each variable based on relevant literature. From the reader's perspective, I really like the descriptive statistics of dataset that indicate the central tendency and variability of individual variables. Moreover the author also presents correlation matrices (Pearson and Spearman).

Regarding presented Descriptive statistics (Table 1), I am little bit surprised by fact that the minimum value of Ownership Concentration is equal to 0.00 which implies really fragmented ownership (especially in SOE section). Because with respect to used methodology (Herfindahl index of seven largest shareholders is calculated) it means that for certain company the largest shareholder has less than 7.5% of total shares as  $0.075^2 = 0.005625 \approx 0.01$ . I understand that there could be rounding effect as well as potential effect of outlier treatment. Nevertheless, it would be beneficial and interesting to comment these minimum values and maybe very briefly describe examples of such fragmented cases as ownership concentration is one of the key variables in the thesis.

From methodological point of view, I highly appreciated that author firstly tests heteroscedasticity and autocorrelation assumptions of the models and after detection of heteroscedasticity and

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autocorrelation provides relevant treatment. Finally I like the robustness check in form of presenting results of models without lagged variables in Appendix.

## Literature

The author has performed a thorough literature review. The literature review offers a balanced survey of historical and the most recent studies. The literature review starts with general introduction into research field starting with pioneer works of Miller & Modigliani (1961) and Lintner (1956). Furthermore, the author presents the relevant literature broken down by individual dividend policy theories (agency theory, tunnelling theory, signalling theory and dividend smoothing theory). I highly appreciate the attempt to present the gradual development of individual theories. The second part of the literature section is focused on existing literature in area of ownership concentration and state ownership as factors influencing firm's dividend policy.

Unfortunately, the overall impression from Literature section and quoting relevant literature is spoiled by several imperfections (see Manuscript form) and fact that in several cases the article is listed in Bibliography but I cannot find appropriate citation in text (e.g. *Andres, C., Betzer, A., Goergen, M., & Renneboog, L. (2009)*; *Chen, J. M. (2017)*; *Esqueda, O. A. (2016)*; *Kaźmierska-Jóźwiak, B. (2015)*). This is confusing for the reader and could even lead to questioning the proper quotation approach. Nevertheless I assume that the author simply forgot to delete unused bibliographic references during writing process.

## Manuscript form

The thesis is standardly structured and written in decent English. The text itself is understandable and easy to follow. Nevertheless there are several typos and imperfections mainly related to Literature and Bibliography section that lower the overall impression.

Some minor imperfections and typos

- In Bibliography section, several different formats are used for referred articles (e.g. mostly use start case vs All-caps – JOHN, K., & WILLIAMS J. (1985))
- Pg. 2, typo in reference Berle & Means (1967), because the referred article is from 1968 as properly stated in Bibliography
- Pg. 11, typo in reference Meyers (1998) instead Myers (1998) as properly stated in Bibliography
- Pg. 19, Reference to article is used in form of (Erem Ceylen, 2018) but in Bibliography section article could be find under from Ceylen, E. (2018)
- Pg. 35, inconsistency in reference of French, K.R., & Fama, E.F. (2001) in Bibliography because in text this article is referred as Fama & French (2001).
- Pg. 35, inconsistency in reference of Pajuste, A., & Maury, C.B. (2002) in Bibliography because in text this article is referred as Maury & Pajuste (2002) e.g pg. 13.
- Pg. 35, typo in reference Dixon, W. J. (2007), but the referred article is from 1960 as properly cited in footnote pg. 22

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- Pg. 35, inconsistency in reference of Frederick (2011) that is Bibliography referred as Richard Frederick, W. (2011)
- Pg. 35, inconsistency in reference of Reyna (2017) that is Bibliography referred as Reyna San Martín, J. M. (2017)

## Suggested questions for the discussion during the defense

- (i) *The author mentioned in text that he decide to not exclude regulated industries. Unfortunately there is no breakdown of sample by industries in thesis. Nevertheless does the author expect any effect on thesis results in case of excluding regulated industries from sample? If so why?*
- (ii) *The analysis covers period after global financial crisis (2013-2017). It would be interested to analyse and see whether the results would be robust and persistent also for turbulent times (e.g. 2009 – 2012). Does the author have some expert opinion/guess about this?*

## Summary

I do find this thesis meeting academic standards for bachelor theses written at IES. I can recommend the thesis of Jan Picálek to defense at the IES FSV UK. With respect to comments above, I suggest grade "C".

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

CATEGORY	POINTS
<i>Contribution (max. 30 points)</i>	25
<i>Methods (max. 30 points)</i>	24
<i>Literature (max. 20 points)</i>	13
<i>Manuscript Form (max. 20 points)</i>	13
<b>TOTAL POINTS (max. 100 points)</b>	<b>75</b>
<b>GRADE (A – B – C – D – E – F)</b>	<b>C</b>

**NAME OF THE REFEREE: Mgr. Aleš Čornanič**

**DATE OF EVALUATION: 30.5.2019**



**Referee Signature**

**EXPLANATION OF CATEGORIES AND SCALE:**

**CONTRIBUTION:** *The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.*

Strong	Average	Weak
30	15	0

**METHODS:** *The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.*

Strong	Average	Weak
30	15	0

**LITERATURE REVIEW:** *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

Strong	Average	Weak
20	10	0

**MANUSCRIPT FORM:** *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.*

Strong	Average	Weak
20	10	0

**Overall grading:**

TOTAL	GRADE
91 – 100	A
81 - 90	B
71 - 80	C
61 – 70	D
51 – 60	E
0 – 50	F