Thesis Evaluation Report

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Title:	Is Revenue Management to Meet Earnings Benchmarks Informative?
Opponent	František Čech

Summary

The thesis puts forward and empirically tests a proposition that managers of firms that approach important earnings benchmarks (i.e. forecasted earnings, past year's earnings, and zero earnings) rationally choose the intensity and the channel of earnings management to signal to the stock market their private assessment of the company's future prospects. The thesis provides empirical evidence in support of this prediction for the most prominent earnings benchmark, i.e. forecasted earnings, and it provides mixed/weak results for the remaining two benchmarks.

Contribution

Jan's ambition to propose and empirically test a new prediction on the use of earnings management. His prediction is based on a conceptual argument that considers the reputation and litigation costs earnings management. The prediction derived based on findings in prior literature, however, in this specific form, it has not been proposed and tested in the past. While I consider some aspects of Jan's argument debatable, I note that making such an original proposition based on a theoretical cost-benefit analysis is significantly more ambitious than what is common in most Master's Theses that often simply replicate prior studies or are limited to an agnostic data-mining exercise. Such an ambition is essential in research papers. Therefore I believe that the Thesis provides a significant original contribution that goes beyond what is required at the Master's Thesis level.

Literature

Jan performs an extensive literature review. It is clear that he acquainted himself very well with relevant prior research and he understands the main questions that this stream of research addresses. I appreciate that the literature review is well-structured and that Jan guides the reader through the individual topics a logical fashion. Furthermore, I believe Jan does not view individual studies in isolation. Instead, he is able to highlight the interconnections and tensions

between individual papers and he discusses possible reasons for some of the conflicting findings. Even more importantly, I believe Jan actually uses the literature review as a point of departure for his own work. The literature review is not a simple collection of article summaries. Instead, it is an integral part of the Thesis used effectively as a source of motivation for Jan's theoretical prediction and for his research design choice.

Methodology

Jan uses a state-of-art methodology for estimating earnings management. In line with prior literature, he argues for higher validity of discretionary revenues as an earnings management proxy. Besides being a modern measure of estimating the effect Jan provides a compelling argument for why this (discretionary-revenue-based) methodology is suitable specifically for his empirical test. I believe it is fair to argue that if earnings management close to earnings benchmarks reflect managers' attempt to communicate their private information to the market, then one should expect the use of the more costly (revenue-based) rather than the less costly (expense-based) way of managing earnings. As a partitioning variable Jan uses a company's growth prospects proxied by the book-to-market equity ratio. He motivates the use of this variable with an argument based on prior research. I find his motivation convincing. I am sorry though that Jan does not include more tests using other partitioning variables and more robustness checks.

Form

I believe the thesis is well organized and it is written in good English that respects the academic style of writing. The individual parts are well interconnected. My only objection is that the presentation of the conceptual argument could be further simplified to help the reader easily understand it.

Conclusion

I believe Jan chose an ambitious topic that is interesting to investigate and that has non-trivial practical implications. I believe he handled the challenge well. He has acquired an in-depth insight into the literature and he used it to formulate a solid motivation for his prediction. He mastered a state of a state-of-art methodology and he used it to empirically test his prediction. He wrote up his Thesis in a coherent fashion that mostly guides the reader well through the individual arguments and empirical results. This year I had limited time to give Jan feedback on his work. He mostly worked independently and he delivered to me an almost-complete draft.

Jan has already addressed most of my questions and recommendations. The examination committee may wish to ask Jan (i) to elaborate on his argument on the relative costs of various forms of earnings management, (ii) to discuss the benefits and limitation of the discretionary revenues relative to abnormal accruals, and (iii) to discuss implications of his findings for stock market regulators.

It is my pleasure to recommend the Thesis for defense. I also recommend the examination committee to consider nominating it for the Deloitte Outstanding Thesis (DOT) Award.

Awarded Points and Grade

Contribution (max 30)	29
Methods (max 30)	28
Literature (max 20)	20
Form (max 20)	19
Total (max 100)	**96**
Grade (A – B – C – D – E – F)	**A**

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Referee's Signature

2 June, 2020

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Jiří Novák

Evaluation Date

Referee's Name

Grading Scale

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

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

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

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 Points	Grade
91 – 100	A
81 – 90	B
71 – 80	C
61 – 70	D
51 – 60	E
0 – 50	F