IMESS DISSERTATION

Note: Please email the completed mark sheet to Year 2 coordinator
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imess

Please note that IMESS students are <u>not</u> required to use a particular set of methods (e.g. qualitative, quantitative, or comparative) in their dissertation.	

Student:	Bc. Hayley Pallan
Dissertation title:	The Role of Innovation and Competitive Pressure: A Case Study of Czech and Slovak Firms

	Excellent		Satisfactory		Poor
Knowledge *Knowledge of problems involved, e.g. historical and social context, specialist literature on the topic. Evidence of capacity to gather information through a wide and appropriate range of reading, and to digest and process knowledge.*		x			
Analysis & Interpretation *Demonstrates a clear grasp of concepts. Application of appropriate methodology and understanding; willingness to apply an independent approach or interpretation recognition of alternative interpretations; Use of precise terminology and avoidance of ambiguity; avoidance of excessive generalisations or gross oversimplifications.*		x			
Structure & Argument *Demonstrates ability to structure work with clarity, relevance and coherence. Ability to argue a case; clear evidence of analysis and logical thought; recognition of an arguments limitation or alternative views; Ability to use other evidence to support arguments and structure appropriately.*		x			
Presentation & Documentation *Accurate and consistently presented footnotes and bibliographic references; accuracy of grammar and spelling; correct and clear presentation of charts/graphs/tables or other data. Appropriate and correct referencing throughout. Correct and contextually correct handling of quotations.*	x				

ECTS Mark:	2/B	**UCL Mark:**		**Marker:**	PhDr. Pavel Vacek, Ph.D.
Deducted for late submission:				**Signed:**	
Deducted for inadequate referencing:				**Date:**	15 June 2015

MARKING GUIDELINES

A (UCL mark 70+): *Note: marks of over 80 are given rarely and only for truly exceptional pieces of work.*
Distinctively sophisticated and focused analysis, critical use of sources and insightful interpretation. Comprehensive understanding of techniques applicable to the chosen field of research, showing an ability to engage in sustained independent research.

B/C (UCL mark 60-69):
A high level of analysis, critical use of sources and insightful interpretation. Good understanding of techniques applicable to the chosen field of research, showing an ability to engage in sustained independent research. 65 or over equates to a B grade.

D/E (UCL mark 50-59):
Demonstration of a critical use of sources and ability to engage in systematic inquiry. An ability to engage in sustained research work, demonstrating methodological awareness. 55 or over equates to a D grade.

F (UCL mark less than 50):
Demonstrates failure to use sources and an inadequate ability to engage in systematic inquiry. Inadequate evidence of ability to engage in sustained research work and poor understanding of appropriate research techniques.

CONTINUES OVERLEAF
PLEASE PROVIDE SUBSTANTIVE AND DETAILED FEEDBACK!

Constructive comments, explaining strengths and weaknesses (*at least 300 words*):

In her master thesis, Hayley Pallan studies the relationship between domestic and foreign competitive pressure and firm performance. The main findings are (see page 66): A) *"foreign competitive pressure is statistically significant and positively associated with firm performance for Czech firms. These result for Czech firms indicate the presence of competition-related spillovers, and demonstrate that it is possible to benefit from foreign presence in the economy."* B) *"For Slovak firms, foreign competition is not statistically significant."* C) *"Overall, in both cases, the perception of domestic competition does not seem to matter as much."*

Specifically, the author tries to measure the effect of perceived competitive pressure from domestic and foreign firms (measured on scale from 1 to 4) on the value of sales (in logs). For a subset of Czech firms and Slovak firms she estimates whether an increase in perceived competitive pressure from foreign firms increases firms' sales, ceteris paribus. She finds that an increase in foreign competitive pressure by one, increases sales by 30 per cent.

There are several points that I like about Hayley's work:

- In her empirical part, the author uses the Enterprise Survey data from the World Bank. The BEEPS is a very good source of firm-level data.

- The author works with STATA statistical software, which is an ideal program for microeconometrics.

- The author is well aware of econometric shortcomings in her work (causality, endogeneity, cross-section structure of her database and its consequences).

- The thesis is well written and nicely organized.

I have several comments:

1. In my opinion, the econometric results are not too much meaningful. Researcher with cross section structure of data simply cannot capture effects that can be revealed only in the long run – and "competition-related spillovers" are exactly such effects. Cross section data do not allow to control for time-invariant firm specific effects either. E.g. some firms have better managers than others and therefore they are more productive. On top of that, the author works with data for only 46 Czech firms and similar number of Slovak firms.

2. The author uses data from a crisis year 2009 and tries to see it as an advantage. I do not find it as an advantage. The model tries to capture effects of perceived competition pressure of domestic and foreign firms on value of sales. This is very fragile, ephemeral if catchable at all effect that can be revealed after some time lag. During crisis, firm sales decrease drastically across whole industries and these abrupt and drastic changes do not have any link to perceived competitive pressure.

3. The author should avoid using an informal language. E.g. on page 1: "another hot topic" – this phrase is more informal than one expects to find anywhere in a thesis. I suggest using phrases like "a subject undergoing intense study" or "receiving close review," or "of broad and current interest."

4. In my opinion, the author misinterprets the article by Javorcik (2004). On page 9, Hayley claims: *"The theoretical logic behind spillovers has also been demonstrated empirically. For example, Javorcik (2004) analyzes firm level data for Lithuanian companies and finds that there are positive effects even across industries that results from foreign firm activity in the domestic market."* Well, the literature on productivity spillovers from foreign direct investment has kept finding **negative effects** of multinationals on domestic firms in the same industry – multinationals may be more productive and they „steal business"from weaker less productive domestic firms. So the effect of FDI (intra-industry spillovers) may be negative. Therefore, researchers have focused on possible inter-industry productivity spillovers – an idea that domestic suppliers may benefit from supplying to multinationals. And this is exactly what Javorcik (2004) did in her article.

5. The author claims that (page 12 and 13): „*Policy changes and experiments have been products of financial and economic crises – the largest of which was arguably the experience of economic and political transformation in post-eastern bloc and post-soviet countries.*" I would not dare claiming this. Although, bread (i.e. economics) is very important, people also strive for freedom and human rights. Can we really claim that economic situation led to a collapse of communism in central Europe?

6. There are several channels of productivity spillovers that the author do not mention at all. Apart from the "competition-related spillovers" there is a vast literature on productivity spillovers from exporting and importing (of production inputs).

Despite all my critiques and remarks, I find the thesis to be a very solid piece of work. In particular, I appreciate that Hayley Pallan understands shortcomings of her empirical analysis and presents these shortcoming openly. For example, on page 42, she writes: *"Aside from the use of cross sectional data that limits the reliability of the results, another main issue is endogeneity bias. Endogeneity makes it difficult to make claims regarding causality. Therefore, this thesis can only make conclusions about the associations between competitive pressure and firm performance. For example, if there is a positive link between these two measures, this could suggest that competitive pressure improves firm performance. On the other hand, a positive link could also suggest that with better firm performance, the competitive pressure in the economy increases (as more firms have incentives to develop more products in order to survive and compete with others)."*

To conclude, I appreciate the work done and recommend a grade of 2/B.

Specific questions you would like addressing at the oral defence (*at least 2 questions*):

    a)   If a manager answers in the survey that he or she feels pressure from either domestic or foreign firms to develop new products, this may well mean that they have a problem to keep their existing market position. Wouldn't be reasonable to expect a reduction of sales instead of an increase of sales?

    b)   There will be for sure a high heterogeneity between industries – in which industries would you expect larger positive competition pressure effects on productivity of firms?