

Report on Master Thesis

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

Student:	Bc. Markéta Červená
Advisor:	doc. Martin Gregor
Title of the thesis:	Supervisory Boards of Joint Stock Companies and Employee Co-determination in the Czech Republic

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

Short summary

This thesis builds a unique dataset with information on all 271 Czech joint stock companies with over 500 employees and two-tier boards that were subject to the re-introduced requirement on employee participation. It provides descriptive statistics on supervisory boards, coupled with a detailed description of the institutional environment. Secondly, random effects probit model for dynamic panel data is built to analyze the effects of mandatory employee participation (co-determination) policy on delegation of powers to the boards and gender balance. In particular, the author uses that over the period of investigation, the policy was repealed in 2014 but re-introduced in 2019.

Contribution

There is substantial contribution in building a new dataset (created out of two primary datasets, with a large manual work) and also in providing detailed understanding of the legal environment in which supervisory boards of joint stock companies operate and also detailed descriptive statistics that have been to date not available (e.g., on frequencies of one-tier boards, whether board sizes and board member durations correspond to default levels or not).

Regarding the analysis, the main result is that the mandatory employee participation policy has negatively impacted supervisory boards' powers to elect and recall executives. It is also interesting to see that the policy has not had an effect on gender composition of supervisory boards. These are obviously results of broader policy relevance.

Methods

The author has manually processed over 1200 documents (Articles of Association and Minutes of General Meeting) published in the business register to get a primary dataset of corporate governance features. She also constructed another primary dataset (based on Bisnode) on changes in the supervisory board membership and for each member, she complemented education and gender data using Linked-in, press releases and annual reports. She also merged the two datasets into year-company level aggregated information (mostly aggregated board characteristics).

From the family of dynamic binary response models for panel data, the author opted for random effects probit with Wooldridge-Chamberlain transformation, estimated using partial maximum likelihood method.

Literature

The review contains two parts. The first part is on legal aspects of employee participation. This is a very valuable part for economists who are not experts in this area. The second part briefly touches the role of gender, age, education and other observable characteristics of board members. This part is more selective and less up-to-date, but it must be said that the role of individual board characteristics (beyond representation) is not the key topic of this thesis.

Manuscript form

The thesis is very clearly written and without clutter. I couldn't find typos, only miss a period at the end of last sentence on p. 23.

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Overall evaluation and suggested questions for the discussion during the defense

In this thesis, I greatly appreciate effort to construct two new primary datasets that are exploited in the thesis and have potential to be analyzed even in the future. The thesis also gives very useful descriptive statistics about employee participation policies. Finally, the main result on the effect of the policy on delegation of powers to supervisory board is interesting, policy-relevant and can be explained by concern of shareholders over disagreement in the supervisory board.

My questions are more about possible follow-up research:

- Your interpretation of results for H1 is that shareholders' concern over employee participation is often unfounded: "*In the vast majority of cases, employee representatives in the supervisory board did not have sufficient voting power to pursue any decision against the will of shareholder representatives anyway (provided that shareholder representatives would be united behind a profit maximizing opinion).*" Based on your knowledge of the available company data, do you find it possible to identify companies with a greater disagreement among shareholders? In these companies, the majority shareholders may be unwilling to delegate powers to the board as the board is under lower direct control.
- Similarly, do we have any evidence on the alignment of interests between employees and majority shareholders? In other (mainly Anglo-Saxon) countries, it is often observed that employees side with the management (i.e., with majority shareholders) against activists. Can we say whether this translates to our environment?

The results of the Urkund analysis do not indicate significant text similarity with other available sources.

In my view, the thesis fulfills the requirements for a Master thesis at IES, Faculty of Social Sciences, Charles University, I recommend it for the defense and suggest a grade A.

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

CATEGORY	POINTS
Contribution (max. 30 points)	28
Methods (max. 30 points)	28
Literature (max. 20 points)	18
Manuscript Form (max. 20 points)	20
TOTAL POINTS (max. 100 points)	94
GRADE (A – B – C – D – E – F)	A

NAME OF THE REFEREE: Martin Gregor

DATE OF EVALUATION:

Referee Signature