

## SCIENTIFIC ADVISOR'S REFERENCE

<b>Program:</b>	Master in Corporate Finance
<b>Student:</b>	Alina A. Ovchinnikova
<b>Title of thesis:</b>	Cost Efficiency of Large Russian Banks: Impact of Board of Directors and Executive Board Composition

**Justification of the topic choice. Accuracy in defining the aim and objectives of the thesis.** Justification of the topic choice; accuracy in defining the aim and tasks of the thesis; originality of the topic and the extent to which it was covered; alignment of the thesis' topic, aim and objectives.

A study of commercial banks efficiency in Russia is relevant, given that this is a growing industry where corporate governance issues could be acute and important to analyze. The aim of the research is to find out the relationship between the cost efficiency of large commercial banks and key characteristics of supervisory boards and executive board. In order to achieve these goals the author stated and consequently fulfilled the tasks related to the analysis of the efficiency concepts, approaches to performance assessment, and characteristics of the board of directors and executive board. The author substantiated the possible influence of these characteristics on the bank's costs efficiency. But it is worth noting that the issue of corporate governance for banks is not fully covered in the paper.

**Structure and logic of the text flow.** Logic of research; full scope of the thesis; alignment of thesis' structural parts, i.e. theoretical and empirical parts.

The structure is logical. Introduction contains the aim and objectives of the study. First chapter is devoted to the literature review on different approaches to efficiency assessment. The classification of efficiency measurement methods is presented, the author discusses their advantages and shortcomings, explains the choice of the measure to be used in the study. In this part the author analyzes the literature on corporate governance in banks, particularly on characteristics of board of directors and executive board. An empirical study is conducted on the sample of Russian banks, thus the author analyzes specifics of Russian banks activities, disclosure, board of directors and executive board. Theoretical part is consistent with the empirical part.

**Quality of analytical approach and quality of offered solution to the research objectives.** Adequacy of objectives coverage; ability to formulate and convey the research problem; ability to offer options for its solution; application of the latest trends in relevant research are for the set objectives.

Although the thesis has a research nature, contains practical implications, the number of critical comments are to be advanced.

The research question deserves critical remarks: "Do board and executive group characteristics have any impact on Russian banks' cost efficiency measured with DEA?"

1. Research question should not contain the indication of the metric of measurement. It is even more so, given that hypotheses already include the proposition on the efficiency metric, and empirical study was conducted for three various efficiency metrics, not only the DEA measured.

2. With regard to the methodology and the model itself, besides the inclusion of key factors in the model, the author should have included control variables as well, like the company size. The author indicated previous studies, related to the company size and efficiency, in the literature review.

**Quality of data gathering and description.** Quality of selecting research tools and methods; data validity adequacy; adequacy of used data for chosen research tools and methods; completeness and relevance of the list of references.

1. The data are valid.

2. As a critical remark it should be emphasized the irrelevance of using the multifactor regression model (9 factors) for the sample of only 31 companies (p. 43, tables 5 and 6).

3. The results of econometric analysis and their discussion should also be criticized. It follows from the table 6 that the estimation parameters on the variables BD\_EXP (Board experience Average time (in years) for which member of board is occupying this position ) and BD\_SIZE (Size of the board ) are negative (-0,059853 and -1,095956 respectively), and on the variables EG\_EXP (Executives' experience Average time (in years) for which member of executive group is occupying this position) and EG\_SIZE they are positive (0,700345 and 1,885165 respectively). From the table 8 it follows that variables BD\_AGE (parameter estimation 0,006) and EG\_AGE (parameter estimation 0,014) are significant.

But in the section 2.9, in discussion, the author makes the following conclusions (p. 46):

"Our main findings from regression analysis are:

1. board size is negatively related to bank's cost efficiency;
2. executive group size is positively related to bank's cost efficiency;
3. **average experience of members of executive board in bank is negatively related** to bank's cost efficiency;
4. **average experience of members of executive board in bank is positively related to bank's** cost efficiency;
5. **average age of members of board is negatively related** to bank's cost efficiency;
6. **average age of members of executive board is negatively related** to bank's cost efficiency"

There is an obvious inconsistency between the regression model estimation results and their interpretation.

**Scientific aspect of the thesis.** Independent scientific thinking in solving the set problem/objectives; the extent to which the student contributed to selecting and justifying the research model (conceptual and/or quantitative), developing methodology/approach to set objectives.

The thesis is conducted independently.

The author applied existing methodology used in previous studies to identify the link between board of directors characteristics, executive board composition and cost efficiency.

Provided that the author made a number of serious methodological mistakes, the paper doesn't make a significant contribution to existing research.

**Practical/applied nature of research.** Extent to which the theoretical background is related to the international or Russian managerial practice; development of applied recommendations; justification and interpretation of the empirical/applied results.

The applied value of the research would be high (recommendations on the board size, age and other characteristics for companies), if it were not for the *incorrect methodology* used.

**Quality of thesis layout.** Layout fulfils the requirements of the Regulations for master thesis preparation and defence, correct layout of tables, figures, references.

The layout of the thesis meets the requirements for master thesis preparation.

**! Note:** Unfortunately, I need to say that Alina Ovchinnikova did not communicate with me as a supervisor on regular basis. Most probably, this is the cause for many mistakes and omissions, which I mention in this review.

The Master thesis of Alina A. Ovchinnikova not completely meets the requirements for master thesis of MCF program but the author of the thesis can be awarded the required degree in the case of successful defense.

Date

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