VIETNAM NATIONAL UNIVERSITY OF HO CHI MINH CITY
UNIVERSITY OF TECHNOLOGY

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OWNERSHIP STRUCTURE, BOARD CHARACTERISTICS AND FIRM PERFORMANCE IN VIETNAM

Subject: Business Administration
Code: 62340501

PhD THESIS SUMMARY

HO CHI MINH CITY, 2017

The Thesis was completed in **University of Technology –VNUHCM**

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The thesis will be defended before thesis committee at
.....
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on

The thesis information can be looked at following libraries:

- General Science Library Tp. HCM
- Library of University of Technology – VNU-HCM

LIST OF PUBLICATIONS

1. Nguyen, T. T. (2014). *Factors influencing Voluntary Disclosure of Vietnamese listed companies*. EBES, Singapore, ISBN: 987-605-64002-7-8
2. Nguyen, T. T. (2015). *Internal Governance Mechanisms and Firm Performance: The Case of Vietnam*. ICBMLS, Singapore, ISSN 2454-5899
3. Nguyen, T. T. (2015). Internal Governance Mechanisms and Firm Performance: The Case of Vietnam. *PEOPLE: International Journal of Social Sciences*, Special Issue, 254-269.
4. Nguyen, T. D., Nguyen, H. T. and Nguyen, T. T. (2013). *Role of Dividend Policy to Shareholders Value and Risk in Condition of Disclosure & Transparency*. IFMA, Indonesia, ISBN: 987-602-14716-0-9.
5. Nguyen, H. T., Tran, T. D., Nguyen, H. N. H., Vo, N. T.T. and Nguyen, T. T. (2016). Quản Trị Công Ty và Quá Trình Điều Chỉnh Động Cấu Trúc Vốn – Quan Sát Từ Các Doanh Nghiệp Niêm Yết Trên Thị Trường Chứng Khoán Việt Nam. *Tạp Chí Khoa Học Đại học Mở TP.HCM*, 50 (5), 25-40.

ABSTRACT

Ownership structure is crucial to corporate governance as it explains sources of agency conflicts. Roles and impacts of different corporate owners on corporate performance and governance have been studied worldwide, except for the role of State-Owned Holding Company (SOHC). This study examines the role of SOHC in the management and governance of listed companies with State capital in Vietnam, in comparisons with other owners in general government linked companies (GLCs) and non-government linked companies (non-GLCs).
The result shows that SOHC-linked companies (SLCs) deliver superior returns and enjoy higher valuations than GLCs and non-GLCs as a result of higher profitability, and lower leverage ratio. The evidence shows that when SOHC hold a dominant ownership, it exercises positive control on firms, which results in better market performance.

Further analysis shows that SLCs hold more cash and the shareholders appreciate the cash hold by the SLCs, robust to the firms' characteristics. Without evidence that SLCs have special privileges and lower business risks, the better shareholder value of cash in SLCs is revealed to come from better corporate governance. This study contributes to the literature of ownership structure and corporate governance and provides an evidence for SOHC as a positive ownership and monitoring mechanism in improving corporate governance and firm performance in companies with State-owned capital in Vietnam.

The study also looks at the impacts of other owners in listed companies, family ownership, foreign ownership, and board characteristics, board independence on firm performance and yields evidence for various impacts of internal governance mechanisms on firm performance.

CHAPTER 1 INTRODUCTION

1.1 Overview

The separation between ownership and control in companies creates a better way to raise capitals from society to expand business operations but on the other hand creates conflicts of interests between shareholders and agents. The initiatives to minimize these conflicts formed corporate governance framework in different countries. The principles of corporate governance were introduced by OECD in 2004 with a purpose to support governments in assessing and completing the legal framework and institutional environments for effective operating environments while providing the guidelines for the stock markets, investors and stakeholders involved into management activities.

In transition economies like Vietnam, corporate governance concept is not only new for local companies but also hazed for government, investors and stakeholders. Corporate governance principles have not been applicable for listed companies until 2007. As a result, it is necessary to study impacts of corporate governance aspects on firm performance in which ownership is an objective for this study. The findings would contribute both to theoretical understanding of corporate governance and practical implications for regulatory enhancement.

State-owned enterprises (SOEs) have dominant role in Vietnam as a result of the replication of Soviet Union model in 1950s. The policy of executing SOEs with five-year plans was a failure without any evident achievement causing economy recession in 1980s and lead to economy renovation named "Đổi mới" starting in 1986 (Vu, 2002; Vu, 2003; Nguyen et al., 2012). SOE Equitization was also initiated in 1992 as a part of this renovation process. There were 3,900 equitized SOEs until 2015 (Nguyen et al., 2012; Phan, 2015). Although the performance of equitized companies were recognized (Vu, 2003; Nguyen, 2010), the deterioration was also recorded recently (Nguyen, 2010). Some equitized companies are struggled with bad debts, excessive workforce and

valuating properties (Vu, 2003; Nguyen, 2010) raising concerns on post-equitization problems (Nguyen, 2010). This also arouses attentions to SOEs corporate governance problems regarding multiple conflicting objectives, political intervention, and a lower degree of transparency of SOEs (Wong, 2004).

In 2005, State Capital Investment Corporation (SCIC) was established to act as a State-owned holding company (SOHC) in corporations with the State's capital in Vietnam. SCICI is a model of State-owned holding company with the mission to be the government's strategic investor, active shareholder and a professional financial consultant[1], which is expected to be capable to generate maximum value and sustainable returns on investments. The holding structure seems to well serve the purpose of resolving conflicting objectives and political intervention at SOEs as the holding structure is a layer shielding the SOEs from politics and government intervention while transparency can be best improved by opening access of ownership to the public (Wicaksono, 2009).

SOHC is a new model and has not been proved to be effective in various countries. In emerging countries with weak regulatory environment like, very limited study on the role SOHC has been done. Although it is seen that SOHC is an effective model in countries like Singapore, Vietnam could be a different case. The effectiveness of SOHC model in Vietnam is a research gap that needs to examine.

The direct relationship between ownership structure and firm performance has been examined and demonstrated in many studies. However, in recent years, indirect relationship between ownership structure and firm performance has increasingly been examined (Hu and and Izumida). Ownership structure has important role in corporate strategies and in turn, influence corporate performance. This study aims at studying the impact of different corporate

[1] www.scic.vn

owners on firm performance, with special focus on the State-own-holding company role.

Corporate policies in cash holdings has various implications, among which governance implication is the main focus of this study. As cash is a neutral asset, the study of shareholder value of cash holding could contribute an unbiased evidence for good corporate governance. Therefore, the next test in this study is to examine the role of SOHC in corporate governance of firms using cash holding policies and its impact on shareholder values.

1.2 Research Gaps

Separation of ownership and control is the source to agency problem in corporations. Key owners have different business objectives and control types (Jensen and Meckling, 1976; Eishenhardt, 1989). There are several owners that normally were discussed in literature, including the state, institutional investors, family owners, owners from aboards, among others (McConnell and Servaes, 1990; Short and Keasey, 1999; Denis and Sarin, 1999; Carter et al., 2002; Anderson and Reeb, 2003; Ang and Ding, 2006; Chen et al., 2006; Gorton and Kahl, 2008; Hu and Izumida, 2008). There have been previous researches that have looked at the relation between the ownership and control styles of these owners on making corporate decisions and then impact on corporate performance and governance (Mak and Li, 2001; Hu and Izumida, 2008).

Observations around the world has shown that different owners may exercise dominant roles in different economies, US and UK are dominant by institutional investors, while Asia is dominant by the State and family owners (Nam et al., 1999; La Porta et al.; 1999; Clarke, 2007; Dinga, 2005; Driffield and Pal, 2007). While the role of institutions and family ownerships have been widely studied, the role of State ownership in state-dominant economies have been counted only a few (Bruton et al., 2015). State owners are different from institutional owners or family owners as the State is not driven solely by the benefits of shareholders, but also social benefits, such as unemployment

reduction, social group development. Also, the State has representatives in corporation who not only pursue the benefit of shareholders but also his or her own private values (Wong, 2004; Wicaksono, 2009; Kamal, 2010; Lin, 2012; Chen, 2013). The corporation with State ownership is therefore expected not to bring expected profitability and values to corporations.

In some economies where the State exercises a dominant role, there is a model of SOHC being established to exercise the ownership and control role in corporations with expectation of professionalism with an exercise of good governance. Temasek of Singapore is one among the cases that is called a successful model. Ang and Ding (2006) as well as Chen (2013) evidence that Temarsek bring significant values to the country. Though some countries with State dominance also follow this model, few studies discuss the success of the model (Wicaksono, 2009; Chen, 2013). In Vietnam, a country with dominant role of State ownership and an introduction of SOHC in 2005, there is a need to examine the effectiveness of this model in corporations with State ownership and this study fulfill this need for the context of Vietnam.

Cash holding decisions are among corporate financial policies that attract much research attention (Amess et al., 2015; Jamil et al., 2016; Chang et al., 2017). Cash holding of corporations with good governance is proved to bring value to shareholders. In this research, the roles of dominant owners are examined for their impacts on corporate governance. This study fills the gap by testing the role of various owners to proxy for their styles of governance and examine the shareholder value of cash holding of corporations with SOHC ownership, among other owners. As cash is a neutral and unbiased asset, using cash holding models to test the role of SOHC is novel and expected to yield an unbiased evidence for the efficiency of corporate governance of firms with SOHC ownership.

1.2 Research Objectives

Most succinctly, this study aims at achieving the following objectives:

- Overall, to study the roles of ownership structure and board characteristics on firm performance. The ownership structure being studied include the State ownership, family, and foreign ownership in corporations.

- Specifically, to study the effectiveness of SOHC model in corporations with State ownership in comparison to government-linked corporations without SOHC (GLCs) and non-GLCs. The study makes the first effort in Vietnam to assess the performance of SOHC facilities in making corporate financial decisions, and achieving firm accounting and market performance. Given that SOHC is an experimental model in developing countries like Vietnam, the findings would be one of the initial contributions to literature of this kind of special state ownership. The effectiveness of SOHC model in an underdeveloped corporate governance environment would contribute valuable implications for equalization process in Vietnam.

- To study the impacts of ownership structure on corporate cash holdings and their interactive effects on shareholders' value. Good corporate governance is demonstrated to have positive effect on firm value by improving the value of cash holdings. This would be explored in the Vietnamese context but through a new model with SOHC playing the leading role. As cash is a neutral asset, the positive impact of SOHC role on shareholders' value of cash holding would yield an unbiased evidence of the role of SOHC in improving corporate governance.

CHAPTER 2 STATE-OWNED HOLDING COMPANY

2.1 State-Owned Holding Company

Wong (2004) stated that problems of SOEs governance are multiple conflicting objectives, political intervention and lack of transparency. The holding structure seems to well serve the purpose of resolving the first two problems at SOEs as the holding structure is also believed to be able to serve as a layer shielding the SOEs from politics and government intervention while transparency can be improved by opening access of ownership to the public (Wicaksono, 2009).

Placing SOEs under the control of an SOHC rather than the direct ownership of the state might reduce the conflict inherent in the state's roles as both shareholder and regulator (Chen, 2013). SOHC acts as a safety valve between a regulator and a regulated firm (Hamdani and Kamar, 2012). This would allow the government the flexibility to deal with a particular target firm or industry, and may help avoid a dilemma in which a heavy regulatory enforcement action harms the government's interests as a shareholder (Chen, 2013).

2.2 SCIC

Vietnam has The State Capital Investment Corporation (SCIC) which could be considered as special state-owned enterprise in comparison to other SOEs. State Capital Investment Corporation (SCIC) was established in Vietnam in 2005 as a state-owned holding company (SHOC). SCIC holds the state's share in the equitized SOEs. SCIC represent the state capital interests in enterprises and invest in key sectors and essential industries and to become a strategic investor of the government that is capable of generating maximum value and sustainable returns on investments. Their missions are to be the government's strategic investor, active shareholder and a professional financial consultant (www.scic.vn).

CHAPTER 3 LITERATURE REVIEW

3.1 Agency Theory

Agency theory models the relationship between the principal and the agent. Jensen and Meckling (1976) defined an agency relationship as *"a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent"*. In the context of the firm, the agent (manager) acts on behalf of the principal (shareholder) (Eisenhardt, 1989; Jensen and Meckling, 1976).

The principal has to use agent because he does not have enough ability to maximize value of his own property. The owner also use agent when he has resources restrictions. As part of this, the principal will delegate some decision-making authority to the agent and the welfare of the principal is affected by the choices of the agent. Therefore, the major issue is the information asymmetry between managers (agents) and shareholders (owners). In this relationship, insiders (managers) have an information advantage. The agent may take unobservability activities to enhance his personal goals (Eisenhardt, 1989; Jensen and Meckling, 1976).

3.2 Corporate Governance

Corporate governance is a term that refers broadly to the rules, processes, or laws by which businesses are operated, regulated, and controlled (Obi, 2009, cited Kasum and Etudaiye-Muhtar, 2014). Corporate governance is often viewed as both the structure and the relationships which define corporate direction and performance. Corporate governance is also a mechanism to reduce or eliminate agency problem (Singh, 2012) and improve market performance and long-run operating performance.

3.3 Corporate Cash Holdings and Firm Value

Cash holding is necessary for firm's growth (Magerakis, 2015). Companies with higher cash achieve better performance and profitability than their competitors (Fresard, 2010). Holding cash would reduce transaction costs and reduce the uncertainty of a company's cash-flow (Chen & Chuang, 2009). Dittmar and Mahrt-Smith (2007) found that good governance has a considerable impact on firm value through its impact on cash holdings while Ku et al. (2013) found a negative relationship between firm value and interactive term of state ownership and the excess cash.

3.4 Hypothesis Development

Many studies have found that state ownership is often linked to low efficiency (Bai et al., 2004; Ding et al., 2007). Vietnam has SCIC which is SOHC. This company participates into SOEs equitization to enhance efficiency of state capital utilization. SOHC is more likely to push for more transparency and better corporate governance to earn long-term profits (Chen, 2013).

Hypothesis 1: SOHC ownership has a positive impact on firm performance.

Hypothesis 2: Government ownership has a negative impact on firm performance.

Family ownership concentration could increase the expropriation of non-family minority shareholders (Bloom and Van Reenen, 2006). In family companies, unqualified members could be appointed to key positions without competition (Claessens et al., 2000).

Hypothesis 3: Family ownership has a negative impact on firm performance.

Pfaffermayr and Bellak (2000) argue that affiliating with foreign firms help local companies have access to newer and superior technologies and lead to superior performance.

Hypothesis 4: Foreign Ownership has a positive impact on firm performance

The independence role allows outsider directors provide advice and resources in helping the firm to succeed (Hillman and Dalziel, 2003)

Hypothesis 5: The proportion of independent directors on the board has a positive impact on firm performance

The board is unable to unable to effectively monitor and evaluate the CEO if CEO is also the Chairman (Peng et al., 2007)

Hypothesis 6: The duality has a negative impact on firm performance.

Corporate governance is found to have impact on corporate cash holding (Magerakis, 2015). Good corporate governance could utilize cash holding to have better performance (Dittmar et al., 2003).

$H_{CH}1$: SCIC Ownership is positively correlated with the firms' cash holdings.

$H_{CH}2$: Government Ownership is negatively correlated with the firms' cash holdings.

$H_{CH}3$: Family Ownership is negatively correlated with the firms' cash holdings.

$H_{CH}4$: Foreign Ownership is positively correlated with the firms' cash holdings.

$H_{SHV}1$: Interaction term between SCIC Ownership and excess cash is positively correlated with firms' value.

$H_{SHV}2$: Interaction term between Government Ownership and excess cash is negatively correlated with firms' value.

$H_{SHV}3$: Interaction term between Family Ownership and excess cash is negatively correlated with firms' value.

$H_{SHV}4$: Interaction term between Foreign Ownership and excess cash is positively correlated with firms' value.

CHAPTER 4 DATA AND METHODOLOGY

3.1 Data

Data for variables were collected from all the firms that are listed on Ho Chi Minh Stock Exchange (HOSE) and Hanoi Stock Exchange (HNX) before 31/12/2009, which totally sums up to 242 firms for the period of 5 years starting from 2009 to 2013. Data are collected from the annual reports and prospectuses of the listed companies published on HOSE and HNX along with audited financial statements provided by Tai Viet Corporation (Vietstock) and Ho Chi Minh City Securities Corporation (HSC). The ownership data were manually obtained from each annual reports and prospectuses. These data were verified with transaction recorded by VCCorp Corporation (CafeF) subjecting to compulsory information disclosure, especially for family member's ownership which are only published under each related parties' transactions. The audited financial statements data are separately provided by Tai Viet Corporation (Vietstock) and Ho Chi Minh City Securities Corporation (HSC).

3.2 Regression Models

Regression models to determine the nature of the direct relation between Ownership Structure and firm performance:

$$\{TOBIN|MB\}_{jt} = \beta_0 + \beta_1 SCIC\ Ownership_{jt} + \beta_2 Government\ Ownership_{jt} + \beta_3 Family\ Ownership_{jt} + \beta_4 Foreign\ Ownership_{jt} + \beta_5 Growth\ Rate_{jt} + \beta_6 Leverage_{jt} + \beta_7 Size_{jt} + \beta_8 HOSE\ Dummy + \sum_{k=9}^{m} \beta_k Industry_k + \sum_{p=m+1}^{l} \beta_p Year_p + \varepsilon_{jt} \quad (1A)$$

$$\{TOBIN|MB\}_{jt} = \beta_0 + \beta_1 Dominant\ Ownership_{jt} + \beta_2 SCIC\ Ownership\ Dummy_{jt} + \beta_3 SCIC\ Ownership\ Dummy_{jt}\ x\ Dominance\ Ownership_{jt} + \beta_4 Government\ Ownership\ Dummy_{jt} + \beta_5 Government\ Ownership\ Dummy_{jt}\ x\ Dominant\ Ownership_{jt} + \beta_6 Family\ Ownership\ Dummy_{jt} +$$

$\beta_7 Family\ Ownership\ Dummy_{jt}\ x\ Dominant\ Ownership_{jt} + \beta_8 Growth\ Rate_{jt} + \beta_9 Leverage_{jt} + \beta_{10} Size_{jt} + \beta_{11} HOSE\ Dummy + \sum_{k=12}^{m} \beta_k Industry_k + \sum_{p=m+1}^{l} \beta_p Year_p + \varepsilon_{jt}$ (2A)

Regression model to determine the nature of the relation between ownership structure and corporate cash holdings:

$Cash\ to\ Net\ Assets_{j,t} = \beta_0 + \beta_1 Market\ to\ Book\ to\ Net\ Assets_{j,t} + \beta_2 Size_{j,t} + \beta_3 Cash\ Flow\ to\ Net\ Assets_{j,t} + \beta_4 Industry\ Sigma_{j,t} + \beta_5 Net\ Operating\ Working\ Capital\ to\ Net\ Assets_{j,t} + \beta_6 Capital\ Expenditure\ to\ Net\ Assets_{j,t} + \beta_7 Leverage_{j,t} + \beta_8 Dividend\ Dummy_{j,t}\ \beta_9 SCIC\ Ownership_{jt} + \beta_{10} Government\ Ownership_{jt} + \beta_{11} Family\ Ownership_{jt} + \beta_{12} Foreign\ Ownership_{jt} + \sum_{k=13}^{m} \beta_k Industry_k + \sum_{p=m+1}^{l} \beta_p Year_p + \varepsilon_{it}$ (3A)

Regression model to determine the nature of the relation between ownership structure and firm value in term of interaction with excess cash:

$\frac{MV_{jt}}{NA_{jt}} = \beta_0 + \beta_1 \frac{E_{jt}}{NA_{jt}} + \beta_2 \frac{dE_{jt}}{NA_{jt}} + \beta_3 \frac{dE_{j,t+2}}{NA_{jt}} + \beta_4 \frac{D_{jt}}{NA_{jt}} + \beta_5 \frac{dD_{jt}}{NA_{jt}} + \beta_6 \frac{dD_{j,t+2}}{NA_{jt}} + \beta_7 \frac{I_{jt}}{NA_{jt}} + \beta_8 \frac{dI_{jt}}{NA_{jt}} + \beta_9 \frac{dI_{j,t+2}}{NA_{jt}} + \beta_{10} \frac{dNA_{jt}}{NA_{jt}} + \beta_{11} \frac{dNA_{jt+2}}{NA_{jt}} + \beta_{12} \frac{dMV_{j,t+2}}{NA_{jt}} + \beta_{13} Ownership_{jt} + \beta_{14} Excess\ Cash_{jt} + \beta_{15} Ownership_j\ x\ Excess\ Cash_{jt} + \sum_{k=13}^{m} \beta_k Industry_k + \sum_{p=m+1}^{l} \beta_p Year_p + \varepsilon_{jt}$ (4A)

$Excess\ Return_{j,t} = \beta_0 + \beta_1 \frac{\Delta C_{jt}}{M_{j,t-1}} + \beta_2 \frac{\Delta E_{jt}}{M_{j,t-1}} + \beta_3 \frac{\Delta NA_{jt}}{M_{j,t-1}} + \beta_4 \frac{\Delta I_{jt}}{M_{j,t-1}} + \beta_5 \frac{\Delta D_{jt}}{M_{j,t-1}} + \beta_6 \frac{C_{j,t-1}}{M_{j,t-1}} + \beta_7 L_{jt} + \beta_8 \frac{NT_{jt}}{M_{j,t-1}} + \beta_9 \frac{C_{j,t-1}}{M_{j,t-1}}\ x\ \frac{\Delta C_{jt}}{M_{j,t-1}} + \beta_{10} L_{jt}\ x\ \frac{\Delta C_{jt}}{M_{j,t-1}} + \beta_{10} Ownership_{jt} + \beta_{11}\ Ownership_{jt}\ x\ \frac{\Delta C_{jt}}{M_{j,t-1}} + \sum_{k=12}^{m} \beta_k Industry_k + \sum_{p=m+1}^{l} \beta_p Year_p + \varepsilon_{jt}$ (5A)

CHAPTER 5 RESULTS

4.1 Data Description

Table 1 Descriptive statistics of observed variables

Stats	N	Mean	Median	Min	Max	Standard Deviation
s own	1210	0.0355	0	0	0.578	0.107
g own	1210	0.274	0.260	0	0.797	0.236
f own	1210	0.048	0	0	0.810	0.142
fr own	1210	0.104	0.038	0	0.497	0.137
dom	1210	0.304	0.303	0	0.873	0.207
b indep	1210	0.134	0	0	0.714	0.169
d dual	1210	0.374	0	0	1	0.484
size	1210	27.09	27.08	23.18	33.27	1.555
lev	1210	0.515	0.544	0.0056	0.957	0.222
growth	1210	0.243	0.106	0	30.15	0.995
b size	1210	5.595	5	3	11	1.160
d hose	1210	0.500	0.500	0	1	0.500
tobin	1210	1.007	0.915	0.261	5.151	0.408
mb	1210	0.980	0.784	0.115	6.405	0.729

4.2 Regression Results

4.2.1 Performance Comparisons between SLCs and non-SLCs

Market values based performance measures are examined through Tobin's Q, market-to-book (MB) ratios, excess return and price-to-earnings per share (P/E). The Tobin's Q and MB are significantly higher among SLCs than both GLCs and non-GLCs at the 1% level. The financial profitability is examined by ROE and ROA in which SLCs outperform both GLCs and non-GLCs for ROE at 1% significant level. SLCs outperform non-GLCs for ROE at 5% significant level. A deeper analysis indicates that SLCs have higher capital expenditure on net assets (total assets – cash & cash equivalent) in comparisons to GLCs and non GLCs at 10% significant level. These ratios indicate that SLCs spent more on investment than other counterparts.

4.2.2 Multivariate Linear Regression

The results indicate that ownership structure, board characteristics and firm performance have relationship in which SCIC Ownership, Government

Ownership, Foreign Ownership, Duality, Leverage, Size and Exchange are found to have positive significant impacts on firm performance while Board Independence and Board Size are found to have negative relationships. Family Ownership and Growth Rate do not impact firm performance.

4.2.3 Interaction Multivariate Regression

Positive coefficients on Dom x D_S_Dom across sub-models suggest that the more dominant the SCIC, the greater its impact on a company's performance improvement.

D_Family, representing for largest shareholder is Family, is found to have negative impact on firm performance for Sub-Models.

4.2.4 Regression on Ownership Structure and Corporate Cash Holdings

Regression on ownership structure and corporate cash holdings shows that SCIC ownership and foreign ownership have significant relationships with positive coefficients.

4.2.5 Regression on Ownership Structure, Excess Cash and Firm Value

The results show that SCIC ownership and foreign ownership have positive relationships with the ratio of market value and excess return. Specifically, SCIC ownership and foreign ownership significantly increase the value of cash holdings. The result indicates that the value of excess cash is statistically and economically significantly greater if the firm is managed by SCIC or foreign investor. Government ownership is found to have negative relationship with market value on interaction with excess cash.

4.3 Conclusion

Regressions on Model 1 indicate that ownership structure, board characteristics and firm performance have relationship in which SCIC Ownership, Government Ownership, Foreign Ownership, Leverage, Duality, Leverage, Size and Exchange are found to have positive significant impacts on firm

performance while Board Independence and Board Size are found to have negative relationships. Family Ownership and Growth Rate do not impact firm performance.

The interaction analysis in Model 2 shows that the more dominant the SCIC, the greater its impact on a company's performance improvement. Moreover, Model 2 also found that if the dominant owner is family, company performance would be negatively impact.

In general, the results support 3 hypotheses H1, H3 and H4 while reject H2. The controlled variable firm leverage, size and listed on HOSE have positive impacts on firm performance while growth rate does not have significant impact. Industry and year controlled variables are found to have impacts on firm performance indicating that firm performance could be affected by external environmental factors.

Regression on ownership structure and corporate cash holdings shows that SCIC ownership and foreign ownership have positive significant relationships with cash holdings. This finding supports evidence from Opler at al. (1999) in which firms do well tend to hold more cash than predicted regarding cash holdings allows firm pursuing investments opportunities and reduces the risk of financial distress according to trade-off model (Ferreira & Vilela, 2004; Hedman & Persson, 2014; Magerakis, 2015). The results support $H_{CH}1$, $H_{CH}3$ and $H_{CH}4$ while reject $H_{CH}3$.

SCIC ownership and foreign ownership, moreover, significantly increase the value of cash holdings: the coefficient on the interaction variable between excess cash and these types of ownership are consistently positive and significant. The result indicates that the value of excess cash is statistically and economically significantly greater if the firm is managed by SCIC or foreign investors. It demonstrates that good performance companies not only hold more cash but also this excess cash has greater value. The results support for $H_{SHV}1$, $H_{SHV}2$ and $H_{SHV}4$ while not support for $H_{SHV}3$.

CHAPTER 6 DISCUSSIONS AND CONCLUSION

5.1 Summary of Main Findings

An important objective of this study is to compare various financial and market performance of SCIC linked companies (SLCs) with other GLCs and non-GLCs, which have different ownership structure and the key difference being government ownership. On average, SLCs deliver superior returns and are valued more highly than GLCs and non-GLCs (Tobin's Q, market-to-book, ROE and ROA). DuPont analysis indicates that SLCs have lower leverage and maintain significantly higher cash-to-assets ratio than GLCs and non-GLCs. Ready cash allows SLCs to fulfill greater interest payments and unexpected cash shortfalls. SLCs perform better than GLCs and non-GLCs in many performance measures and do not seem worse in other measures. Respectively, they are more highly valued. The results support the view that investors in Vietnamese market do value the corporate governance standards of SLCs than other GLCs or non-GLCs.

In more details, in this study, to answer for question on the effectiveness of SOHC model in Vietnamese market, the ownership of SCIC institution in listed firm is studied. This study found that SOHC Ownership, State Ownership, Foreign Ownership have positive impacts on firm performance. The interaction analysis revealed that the more dominant the SCIC Ownership, the greater its impact on a company's performance improvement. Moreover, interaction analysis also found that if the dominant owner is family, company performance would be negatively impact. These results consolidate the principal-principal agency theory as well as contribute to the understanding of Board member ownerships. Mainly, this research contributes to both theory and practice in corporate governance research. These findings are effective reference to policy makers, investors and relevant stakeholders to figure an enthusiastic corporate governance for Vietnam.

This study contributes to the recent and strong development of corporate governance literatures. Corporate governance recently received intense attention from regulators and investors in the Asia-Pacific region especially after it was considered as one of the key factors caused the Asian Financial Crisis in 1997 (Cheung et al., 2014). Better corporate governance is supposed to lead to better corporate performance (Nam and Nam, 2004; Cheung et al., 2014) as good corporate governance increases the market valuation of companies (Newell and Wilson, 2002; Cheung et al., 2011). Despite many studies investigating the benefits of good corporate governance practices on firm value, there remains little evidence of the benefits among Asian emerging markets (Cheung et al., 2014).

Having been a centrally controlled economy, it is revealed a dominant role of the State in Vietnamese economy. The state ownership in firms remains significant despite a steady decline in their contribution to GDP growth (Taussig et al., 2015). SOE ownership structure, moreover, is a specialty under view of agency theory, which is the dominant theory perspective for analyzing corporate governance problems (Wicaksono, 2009). Conflicting objectives, agency issues (political interference) and lack of transparency, are considered the main problems of SOEs (Kamal, 2010). Most SOEs pursue multiple – and conflicting – objectives (Wong, 2004; Lin, 2012; Chen, 2013). Therefore, there is a concern of SOEs' performance as many studies have found that state ownership does not produce superior firm performance, but it is often linked to low efficiency (Hu et al., 2009).

Regarding the role of State-Owned Holding Company (SOHC), the SOHC-Linked companies are found to have positive correlation with firm performance. Similar to the results found in Singapore with Temasek model where better governance exists (Ang and Ding, 2006), the result of Vietnam demonstrates that SOHC is a suitable model to mitigate the problems of SOEs governance including multiple conflicting objectives, political intervention, and a lower degree of transparency in a weak corporate governance environment.

SOHC is a model in which government does not directly manage the enterprises as in traditional model. An investment company is established and represents the ownership of the government in companies. In Vietnamese context, SCIC is a SOHC. SCIC represents the state capital interests in enterprises and invest in key sectors and essential industries and to become a strategic investor of the government that is capable of generating maximum value and sustainable returns on investments. Wong (2004) stated that problems of SOEs governance are multiple conflicting objectives, political intervention, and a lower degree of transparency and therefore linked to inefficiency. The holding structure seems to well serve the purpose of resolving the first two problems at SOEs as the holding structure is also believed to be able to serve as a layer shielding the SOEs from politics and government intervention while transparency can be best improved by opening access of ownership to the public (Wicaksono, 2009). The long-term interest of the target company might be more aligned with the SOHC's long-term interest. SOHC is more likely to act as an active investor and push for more transparency and better corporate governance to earn long-term profits. SOHC is also restricted by regulations on stock market. Placing SOEs under the control of an SOHC rather than the direct ownership of the state might reduce the conflict inherent in the state's roles as both shareholder and regulator (Chen, 2013). SOHC acts as a safety valve between a regulator and a regulated firm (Hamdani and Kamar, 2012). This would allow the government the flexibility to deal with a particular target firm or industry, and may help avoid a dilemma in which a heavy regulatory enforcement action harms the government's interests as a shareholder (Chen, 2013). Temasek holding has been touted in the media as well-governed. Empirical evidences show that Temasek linked companies have higher valuations and better corporate governance (Ang and Ding, 2006). Companies in which Temasek has direct stakes have a higher proportion of independent directors and are more likely to have an independent director serving as chairman, indicating a higher quality of corporate governance (Chen, 2013). However, Temasek model could work properly in a system where good and

clean governance exist (Wicaksono, 20009). Following model of Chen at al. (2006), the interaction analysis revealed that the more dominant the SCIC Ownership, the greater its impact on a company's performance improvement. As Vietnam is a premature capital market economy with developing corporate governance framework, the evidence of effectiveness of SOHC in Vietnam would contribute to the understanding of role of SOHC model in a week corporate governance environment.

Interestingly, however, this study found that state ownership has positive correlation with firm performance. This result is contradicted with other results in which state ownership is often linked to low efficiency and low firm performance (Bai et al., 2004; Ding et al., 2007; Nee et al.; 2007; Phung and Hoang, 2013; Tran et al., 2014). The study of Tran et al. (2014) used different types of companies ranging from private to public companies therefore the result could reflect the findings of other markets in which SOEs are facing with three main challenges. This result is partially compatible with study of Phung and Hoang (2013) as they found that state ownership could improve firm performance when the ownership is not concentrated and vice versa. This could be a result of a variety of special privileges granted to SOEs and give them a leg up on their non-state competition (Taussig et al., 2015). SOEs are still receiving subsidies policies from the government, and also enjoy beneficial policies/favor from the government and therefore enjoying competitive advantages over private entities in their industries. First, SOEs enjoy from the government means that they are discounted from the risk of bankruptcy even as losses accrue. Second, SOEs are able to turn a “state monopoly” into an “enterprise monopoly,” wherein they dominate the market and control prices with little evidence of special attention to hard-to-define issues of the greater public good. Third, SOEs can exploit Vietnam’s “ask and grant” norm, whereby extra state support is seemingly always forthcoming when SOEs complain of any difficulties. Finally, SOEs clearly enjoy preferential access to the country’s scarcest business resources, especially credit and land (Taussig et

al., 2015). The improvement of corporate governance in recent years, the anti-corruption campaign from government and the privatization acceleration could be explanation for this positive impact as well.

Being well studied in corporate governance literature, ownership structures are central distinguishing features of financial systems. Considering ownership structure, particular attention has been paid in the corporate governance literature. Recently, conflicts between Controlling Shareholders and Minority Shareholders causing principal–principal conflicts are taken into consideration especially in Asian countries where the ownership concentration is dominant (Gönençer, 2008; Claessens and Fan, 2002; Claessens et al., 2000; Young et al., 2008; Driffield and Pal, 2007; Nam et al., 1999). Majority control gives the larger shareholders considerable power and discretion over key decisions (Stiglbauer, 2011). The efficacy of ownership concentration is a controversy of monitoring versus expropriation role. In 1980s, concentration ownership is believed to limit agency problem as higher concentration of ownership gives large shareholders stronger incentives and greater power at lower cost to monitor management (Hu and Izumida, 2008). However, interests of large shareholders could be diverged from minority shareholders' benefits (Hu and Izumida, 2008). Controlling shareholders could exploit the interests of minority shareholders (Hu et al., 2008). Methodologies to measure ownership concentration of almost studies after the research of Demsetz and Lehn (1985) accumulate the ownership five, ten, or twenty largest shareholders. However, Earle et al. (2005) argued that group accumulation could conceal the interactions among large shareholders and the pattern of concentration. The approach of measuring ownership concentration by largest blockholder is supposed to be better than group measurement.

Particularly, interaction analysis also found that if the dominant owner is family, company performance would be negatively impact. This result is contradicted to result of Anderson and Reeb (2003) in US market. However, it is consistent with findings of Connelly at al. (2008) and Giovannini (2010). The

finding, therefore, supports arguments of Yeh et al. (2001) and (Bloom and Van Reenen, 2006) in which family representation on the board leads to centralization in authority and decision-making power and as a result could increase the expropriation of non-family minority shareholders. It also supports for argument of Claessens et al. (2000) who argue that in family companies, unqualified members could be appointed to key positions without competition. Moreover, because of close relations and informal linkages, family managers are less to be monitored (Young et al, 2008).

Regarding the role of foreign investments, the foreign ownership is found to have positive correlation with firm performance. This result is totally compatible with previous studies (Gugler, 1998; Dwivedi and Jain, 2005; Phung and Hoang; 2013). This result supports argument of Pfaffermayr and Bellak (2000) that affiliating with foreign firms help local companies have access to newer and superior technologies and lead to superior performance. Foreign investors from developed markets come with capital and knowledge. They could use their powers to impact to invested companies. Foreign companies transfer advanced technologies and provide access to international capital markets (Caves, 1996, cited Aitken and Harrision, 1999). It is essential to create mechanisms for foreign investors to have more active roles and thereby build up effective corporate governance.

Furthermore, regression on ownership structure and corporate cash holdings shows that SCIC ownership and foreign ownership have positive significant relationships with cash holdings. This finding supports evidence from Opler at al. (1999) in which firms do well tend to hold more cash than predicted regarding cash holdings allows firm pursuing investments opportunities and reduces the risk of financial distress following trade-off model & precaution motive (Ferreira & Vilela, 2004; Hedman & Persson, 2014; Magerakis, 2015). Government ownership is found to have positive relationship with cash holding. Family ownership is negatively impacted cash holdinsg.

SCIC ownership and foreign ownership, specifically, significantly increase the value of cash holdings: the coefficient on the interaction variable between excess cash and these types of ownership are consistently positive and significant. Government ownership, however, decreases value of excess cash. The result indicates that the value of excess cash is statistically and economically significantly greater if the firm is managed by SCIC or foreign investors. It demonstrates that good performance companies not only hold more cash but also this excess cash has greater value. The findings consolidate the results of Dittmar & Mahrt-Smith (2007) and Schauten et al. (2011) who found good corporate governance has positive impact on firm value through its impact on cash.

5.2 Implications for Theory

The results of this study made understanding for the development of an effective practice of internal mechanism corporate governance in Vietnamese market. The results consolidate the theory of agency to explain for the relationship between the managers and shareholders and the relationship between controlling shareholders and minority shareholders. The positive impacts of SCIC ownership, government ownership, foreign ownership on firm performance are compatible with previous findings and support arguments of the role of these shareholders as active monitoring owners as a result of presence of high proportion of ownership could mitigate the impacts of the separation between ownership and control (Berle and Means, 1932).

State ownership is found to have positive correlation with firm performance provide a different approach to traditional understanding of SOEs corporate governance theory. Agency relationships are used to explain for corporate governance issues. However, corporate governance for SOEs is different because the difficulty of defining the ultimate principal at SOEs hinders the development of appropriate mechanisms for aligning the agent’s interest with the principal’s (Wicaksono, 2009). SOEs could be attributed to the three main

challenges facing SOE corporate governance including multiple and conflicting objectives, excessive political interference and opacity (Wong, 2004; Wicaksono, 2009). SOEs are found to have poor corporate governance (Wong, 2004). The finding of this study for the positive correlation between state ownership and firm performance is not a contradiction to above arguments. The result, however, has a spotlight on variety of special privileges that give SOEs a leg up on their non-state competition and SOEs could enjoy preferential access to the country's scarcest business resources, especially credit and land given them advantages to private competitors (Taussig et al., 2015). The result, therefore, contribute more understanding about SOEs corporate governance issues in which the state faced a core challenge of shifting from control through direct ownership of SOEs to governance of non-state firms through reliable and transparent rules and institutions (Hoff and Stiglitz, 2002; Taussig et al., 2015). The finding suggests taking into account other factors related to specific business environment beside existed three main challenges of state ownership.

The effectiveness of SOHC model provides a new understanding of SOEs. The result is contradicted with argument about the low efficiency of SOEs. The difficulty in determining the principal at SOEs impedes the development of an appropriate mechanism for aligning the agent's interest with the principal's as explanation of agency theory is believed to resolve by SOHC model. SOHC is more likely to act as an active investor and push for more transparency and better corporate governance to earn long-term profits. SOHC is also restricted by regulations on stock market. Placing SOEs under the control of an SOHC rather than the direct ownership of the state might reduce the conflict inherent in the state's roles as both shareholder and regulator (Chen, 2013). SOHC acts as a safety valve between a regulator and a regulated firm (Hamdani and Kamar, 2012). This would allow the government the flexibility to deal with a particular target firm or industry, and may help avoid a dilemma in which a heavy regulatory enforcement action harms the government's interests as a shareholder (Chen, 2013). The positive correlation between SOHC and firm

performance demonstrated the effectiveness of this model even in a lack of good corporate governance environment. This model would be in line with Wong's (2004) three pillars of SOE reform: avoiding conflicting objectives, minimizing political intervention and improving transparency (Wicaksono, 2009). Agency theory perception of state-owned enterprises is pessimistic regarding to conflicting interests arising in monitoring and controlling by government institutions (Wicaksono, 2009). SOHC model effectiveness even in weak legal environment contributes a new understanding of state ownership in corporate governance.

Agency theory, the dominant theory of corporate governance, models the relationship between the principal and the agent. In the context of the firm, the agent (manager) acts on behalf of the principal (shareholder) in condition of separation between ownership and control and conflict of interests between parties (Eisenhardt, 1989; Jensen and Meckling, 1976). Instead of traditional principal–agent conflicts emerged in most studies in developed economies, principal–principal conflicts have been identified as a major concern of corporate governance in emerging economies, especially in Asian. Principal–principal conflicts between controlling shareholders and minority shareholders result from concentrated ownership, extensive family ownership and control, business group structures, and weak legal protection of minority shareholders (Young et al., 2008). There could be expropriation of minority shareholders from large shareholders (Claessens et al., 2000). Jensen and Meckling (1976) argued that a sufficient high level of managerial ownership aligns the interests of managers and shareholders hence improve the firm performance. However, managers with a significant equity to protect his position from outside control would not contribute best effort and could decrease the firm performance (Fama and Jensen, 1983). The finding of family ownership negative impact consolidates this argument in which family representation on the board leads to centralization in authority and decision-making power and as a result could

increase the expropriation of non-family minority shareholders (Yeh et al., 2001; Bloom and Van Reenen, 2006).

This study contributes understanding of corporate governance and cash policy through relationship between ownership structure and value of cash holdings. The findings on relationships between ownership structure and corporate cash holdings in which SCIC ownership and foreign ownership are found have positive significant relationships with cash holdings consolidate evidence supportive of a static trade-off model and precaution motive. Like Opler et al. (1999) and Ferreira & Vilela (2004) whose studies supports for trade-off model, SCIC and foreign ownerships consolidate the arguments that successful companies tend to hoard more cash. Regarding trade-off model, cash holding reduces the risk of financial distress as it provides a safe replacement for unexpected expenses or external financial constraints. Secondly, cash holding allows firm pursuing investments opportunities in times when external funds are not available. Finally, cash holding reduces costs of raising external funds or liquidating current existing assets (Ferreira & Vilela, 2004; Hedman & Persson, 2014; Magerakis, 2015). This result supports precautionary motive to hold cash of business in which firms hold cash as precaution to cover unforeseen potential necessities (Opler et al., 1999; Ferreira & Vilela, 2004; Magerakis, 2015). Besides, it also supports transaction motive which concludes that companies hold cash for operating expenses to meet payment responsibilities (Opler et al., 1999; Bates et al., 2009). This finding implies that corporate governance has impacts on operating and investment decisions through cash holdings' decisions.

SCIC ownership and foreign ownership, specifically, increased the value of cash holdings: the coefficient on the interaction variable between excess cash and these types of ownership are consistently positive and significant with firm value. It demonstrates that good performance companies not only hold more cash but also this excess cash has greater value. The finding consolidates the argument of corporate governance have impact on corporate cash holding

(Magerakis, 2015) in which poor corporate governance could waste cash and destroy firm value while good corporate governance could utilize cash holding to have better performance (Dittmar et al., 2003). The result indicates that the better shareholder value of cash in SLCs is revealed to come from better corporate governance and it provides evidence for SOHC as a positive ownership and monitoring mechanism in improving corporate governance and firm performance in companies.

Literature documented that legal and political institutions influence corporate governance efficacy in different countries (Limpaphayom et al., 2015). The finding of positive correlation between HOSE listed and firm performance also consolidates the finding of Limpaphayom et al. (2015) on the critical role of market environment in corporate governance efficacy and firm valuation.

5.3. Implications for practice

This study provides policy makers, managers, investors and stakeholders in Vietnam with more comprehensive perceptions on the influence of the ownership structures and board characteristics to the firm performance. Therefore, regulators could make policy adjustments on corporate governance regulations to be compatible with Vietnam's conditions as well as international practices such as the efficiency of SOHC model could be encouraged and replicated. It also helps managers make adjustments, improvements in corporate governance at company level in order to achieve better firm performances. The study also helps the investors and other stakeholders understanding better the problems of corporate governance in Vietnam. Therefore, it can help them in making decisions in investments, choosing board directors, or making corporate governance policy.

Firstly, the State Securities Committee should closely with work international organizations such as the World Bank and IFC to build effective corporate governance framework aligned to international standards in which the key elements need to be focused on are internal mechanisms. The ownership

structure is demonstrated to have impacts on firm performance. As a result, the positive related factors should be encouraged like SOHC or Foreign ownership while the negative related factors should be eliminated as family ownership. The encouragement or elimination could be implemented by constraints in corporate governance framework or regulations.

The role of SOHC is found to have positive impact on firm performance which demonstrates the effectiveness of this model in Vietnam. This is the answer for the concern of the workability of SOHC model in the lack of good corporate governance environment of Vietnam. Temasek is found to be effective in Singapore where good and clean governance exist and once again it is also effective in Vietnam with SCIC model. SCIC is successful likenesses of Singapore Temasek model. Therefore, it would contribute effective solution for privatization in Vietnam which is accelerated in recent years. SCIC or other State-Owned Holding Companies could have more dominant roles to improve performance of SOEs or GLCs which are believed as ineffective and full of corruption. However, Temasek is operating in developed and transparent financial market and managed by professional directors which is not easy to imitate. It is a challenge in building a successful SOHC model and requires a lot of efforts at all levels of management in the formulation of policies and selection criteria for executive team in terms of Vietnam. SCIC has close relationship with Temasek and the sharing of operating experience of the two companies also will be useful for improving the operation of SCIC and for the Vietnamese fund management companies in general. This finding also supports the efforts of government in recent years to accelerate equitization process. The decision to centralize state ownership to SCIC should be hard-pressed regarding the effectiveness of SCIC in addressing traditional state-owned agency problems.

There is negative correlation between family ownership as the largest owner and firm performance in Vietnam practice. This is explained as centralization in authority and decision-making power, unqualified key positions appointments

and less monitoring. Therefore, it requires more attentions on regulator to build-up mechanism to force family company to be more transparent for monitoring.

Secondly, investors could support regulatory during corporate governance framework development, especially for foreign investors who brings a wide-range of knowledge from international markets. An effective corporate governance framework, on the vice versa, would support investors in decision-making to choose effective company. Moreover, investors need to be more active in monitoring invested companies to drive these companies to be more efficient and transparent.

Thirdly, SCIC & foreign investors are found to have positive relationship with cash holdings and firm value. Therefore, corporate governance is demonstrated to have impact on corporate cash holdings in Vietnamese context. As poor corporate governance could waste cash and destroy firm value while good corporate governance could utilize cash holding to have better performance (Dittmar et al., 2003), an effective corporate governance framework would contribute to improve company performance through enhance roles of SCIC and foreign investors. The study also helps establish a successful basic strategy for improving the company's financial performance through good management of cash holdings.

Last but not least, every company needs to be aware of the important role of corporate governance and to force themselves to meet the strictest criteria to improve the business. Efficient company would receive attention from investors and stakeholders and its capital needs would easily be met to support for its growth.