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EFFECT OF FOREIGN OWNERSHIP ON FIRM PERFORMANCE IN VIETNAM[1]

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Abstract: The aim of this paper is to investigate the impact of size and foreign ownership on the performance of listed companies on Vietnam stock market over period 2009-2016. We find that the size and foreign ownership have negative correlation with firm performance (measured by Tobin's Q) while the firms with the foreign ownership of more than 50% have positive effect on Tobin's Q. In addition, the factors as financial leverage, liquidity, the number of employees and age also affect the value of listed firms. Based on these results, we make some suggestions to enhance the performance management and firm value for company which was listed on Vietnam's stock market in the future.

Key Words: firm performance, foreign ownership, Tobin's Q, size

JEL Classification: C19, G13, G14

1. INTRODUCTION

In recent years, there has been an increasing interest in the impact of firm size and ownership structure (including foreign ownership) on profitability or firm performance. However, debate continues about the relation of these factors.

Big companies have more advantages in competitive industries than small ones. The first reason is that big companies tend to have higher earnings due to their large share. Furthermore, large-caps are able to capture investment opportunities in the capital-intensive industries because they have good financial position. Large firmsthus have more investment opportunities in more profitable and less competitive industries(Bayyurt, 2007). The findings of (Majumdar, 1997),(Ozgulbas, Koyuncugil, & Yilmaz, 2006), (Karadeniz & İskenderoğlu, 2011), (Saliha & Abdessatar, 2011), (Shubita & Alsawalhah, 2012) also support to positive relationship between firm size and performance. In contrast, (Shepherd, 1972), (Becker-Blease, Kaen, Etebari, & Baumann, 2010), (Banchuenvijit, 2012) show the negative relation of these factors. Meanwhile, (Simon, 1959), (Whittington, 1980), (Humera, Maryam, Khalid, Shudas, & Bilal, 2011) find no effect of firm size on firm performance. In general, the relationship between firm size and performance is still one of argument topics, so it becomes more attractive with researchers.

In 2015, Vietnam government enforced the Decree 60/2015/NĐ-CP which permitted companies start to rise the proportion of foreign owner whose company has foreign ownership ratio from 50% or more. This regulation can affect the efficiency of enterprises and the efficiency of investors in the stock market. Is this effect negative or positive?

In 2016, Vietnam stock market which stays the same as Argentina, Sri Lanka, Bangladesh ones is ranked frontier market by Morgan Stanley Capital International (MSCI). The ranking rise from frontier to emerging market is the aim of stock market development in this period. Following MSCI, Vietnam stock market is meeting two of three criteria of emerging market respectively "economics development" and "size and liquidity".

However, third criteria of foreign stake limitation is a barrier to the improvement of ranked market. Therefore, whether increase in foreign ownership percentage helps enhancement of firm performance is a question which Vietnam policy makers is considering. In addition, recently foreign ownership is appealing to many studies in the world. (Bilyk, 2009),(Aydin, Sayim, & Yalama, 2007), (Douma, George, & Kabir, 2006), (Gurbuz & Aybars, 2010) notes that oversea investors stake positively impacts on firm performance while (Iuliana Oana Mihai & Mihai, 2013), (Mihai, 2012), (Aitken & Harrison, 1999), (Konings, 2001) argue that there is no relationship between them.

Consequently, does increase in firm size enhance firm performance? Or increase in the percentage of foreign ownership enhance firm performance through transfer of technology, capital and the style of management? The purpose of this study is to investigate an evidence on the effect of firm size and foreign ownership on the performance of listed companies on Vietnam stock market.

2. LITERATURE REVIEW

There is a large volume of published studies paying particular attention to firm performance measures. One of the pioneering papers on firm performance was conducted by (Santos & Brito, 2012). They propose seven group of performance dimensions as follow: growth, profitability, market value, customer and employees' satisfaction, and social and environmental performance. In order to reflect stock price and investors' opinion about the performance of listed firms, market value is presented by Tobin's Q.

When more units of a good or a service can be produced on a larger scale, yet with on average fewer input costs, economies of scale are said to be achieved. Alternatively, this means that as a company grows and production units increase, a company will have a better chance to decrease its cost. Thus, large firms which have advantages of capital, share and so on may improve their performance better than small ones. The empirical studies show that there are ways that firm size affects its performance respectively positive, negative and no linking between them depending on the research's period and slope.

Ownership structure contains ownership concentration and ownership mix(Gürsoy & Aydoðan, 2002). Ownership concentration is that shareholders own the most shares, and face the most risk and controlling cost. Ownership mix includes various ownerships linking to the shareholders' characteristics such as foreign, private, and state ownership.These forms of ownerships are mentioned in the papers of (Kiruri & Olkalou, 2013), (Kim, Rasiah, & Tasnim, 2012). As the same as firm size, the impact of ownership structure on firm performance may be positive or negative depending on market and effect of ownership rights.

3. METHODOLOGY

These argumentsindicated in introduction lead to our hypothesizes as follows:

H1: Firm size have positive effect on firm performance in listed companies

H2: Foreign ownership enhance firm performance in listed companies

As mentioned in literature and the studies of (Serrasqueiro & Maçãs Nunes, 2008) and (Douma *et al.,* 2006), we use multivariable regression in order to test of the influence of firm size and foreign stake on firm performance as follows:

$$\textbf{Tobin's } Q_{i,t} = \alpha + \beta_1 * lnta_{i,t} + \beta_2 * foreign_{i,t} + \beta_3 * lev_{i,t} + \beta_4 * liq_{i,t} + \beta_5 * lnemp_{i,t} + \beta_6 * age_{i,t} + \beta_7 * dummy_{i,t} + \varepsilon_{i,t}$$

Including

- There is no data to measure the market value of total debt because the debt instruments market is not established in Vietnam. Therefore, Tobin's Q of listed companies in this study is similar to in the previous researches of (Zeitun & Gang Tian, 2007), (Douma *et al.,* 2006), (Minh & Hiền, 2014). Particularly, Tobin's Q (tbq) is computed by equation:

$$Tobin's\ Q = \frac{(Market\ value\ of\ equity + Book\ value\ of\ total\ debt)}{Book\ value\ of\ total\ assets}$$

- lnta is natural logarithm of total assets in billions of Vietnam Dong at the end of financial year.

- foreign (%) is the percentage of foreign investors in total shares of listed firm at the end of financial year.
- age is the total number of years that firm is in the form of joint stock company.
- lnemp is the natural logarithm of total number of employeesin listed company at the end of financial year.
- lev (%) is the financial leverage of listed firm. lev is equal total debt dividend total assets at the end of financial year. (total debt and total assets in billions of Viet Nam Dong).
- liq (%) is liquidity of listed firm which is computed current assets dividend short-term debt at the end of financial year. (both current assets and short-term debt in billions of Viet Nam Dong).
- Dummy is equal 1 if the firm i with foreign ownership ratio from 50% or more. In contrast, dummy is equal 0 if the firm i with foreign ownership ratio is less than 50%

Data

Research data derived from Stoxplus, including companies listed on Hanoi and Ho Chi Minh Stock Exchange over period from 2009 to 2016. We exclude the firms which are not enough the data of employment. Thus, the number of sample listed companies decrease each year (see table 1).

Table 1
The proportion of sample in total listed firms

Year	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*
Total number of listed firms	412	596	643	654	639	645	674	692
Total number of sample firms	227	419	491	545	563	578	588	559
Percentage of sample (%)	55.10	70.30	76.36	83.33	88.11	89.61	87.24	80.78

(*Sources:* Authors' calculations)

In 2009, the percentage of sample is smallest over study period, at approximately 55%. The reason is that a large number of listed companies did not comply with regulations of State Security Commission about disclosure information of management report. However, the proportion of sample firms increase gradually from 2009 to 2016. This implies that listed firm has improved the level disclosure on management report.

4. RESULTS AND DISCUSSION

Descriptive Statistics

Table 2
Summary statistics for variables of model

	Obs	*Min*	*1st Qu.*	*Median*	*Mean*	*3rd Qu.*	*Max*
tbq	3930	0.185	0.809	0.949	1.109	1.235	7.055
lnta	3930	23.280	26.060	26.960	27.060	27.990	32.826
foreign	3930	0.000	0.003	0.027	0.092	0.120	0.645
lnemp	3930	1.609	4.852	5.836	5.821	6.706	10.307
age	3930	1.00	6.00	9.00	9.38	11.00	39.00
lev	3930	0.003	0.322	0.495	0.496	0.670	0.971
liq	3930	0.058	1.137	2.489	2.390	2.438	137.521

Sources: Authors' calculations

Firstly, it is noticeable that Tobin's Q of listed firms is relatively high between 2009 and 2016. Particularly, average of Tobin's Q stand at 1.1, this show that the market value of listed company is greater than book value of those. Specially, the market value of several symbol tickers such as VNM, BMP, SKG and MWG is more 5 times than those book value. This is because investors pay much attention to the firm operation and they expect to the firm growth. Consequently, increase in demand of companies' stock lead to market value greater than book value.

Secondly, sample firms have been in the form of joint stock companies for a long time. Average firm age is roundly 9 years. During 2009-2016 period, those firms always have high debt ratio whose average is about 50%.

Finally, foreign shareholders own a small proportion of shares in listed companies in Vietnam over period 2009 to 2016. Foreign ownerships average about 9.2% and many firms have less than 10% foreign owner. This is because oversea investors mainly carry out financial investment aiming to receiving dividend and capital gains, instead of controlling and running companies.

Table 3
The number and percentage of listed companies in terms of foreign ownership over period 2009-2016

The Percentage of foreign Ownership	*2009*		*2010*		*2011*		*2012*		*2013*		*2014*		*2015*		*2016*	
	Number of firms	*Weight (%)*	*Number of firms*	*Weight (%)*	*Number of firms*	*Weight (%)*	*Number of firms*	*Weight (%)*	*Number of firms*	*Weight (%)*	*Number of firms*	*Weight (%)*	*Number of firms*	*Weight (%)*	*Number of firms*	*Weight (%)*
Foreign >=50%	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	1	0.17	6	1.07
>=40%Foreign <50%	10	4.42	14	3.34	18	3.67	27	4.95	35	6.22	43	7.44	34	5.78	42	7.51
>=30%Foreign <40%	9	3.98	21	5.01	18	3.67	18	3.30	20	3.55	20	3.46	30	5.10	23	4.11
>=20%Foreign <30%	19	8.41	21	5.01	30	6.11	36	6.61	37	6.57	37	6.40	44	7.48	54	9.66
>=10%Foreign <20%	31	13.72	44	10.50	39	7.94	55	10.09	75	13.32	89	15.40	92	15.65	83	14.85
>=5%Foreign <10%	30	13.27	43	10.26	49	9.98	53	9.72	56	9.95	72	12.46	83	14.12	83	14.85
>=0%Foreign <5%	121	53.54	244	58.23	294	59.88	321	58.90	314	55.77	296	51.21	275	46.77	257	45.97
Foreign =0%	6	2.65	32	7.64	43	8.76	35	6.42	26	4.62	21	3.63	29	4.93	11	1.97
Total	**226**	**100**	**419**	**100**	**491**	**100**	**545**	**100**	**563**	**100**	**578**	**100**	**588**	**100**	**559**	**100**

(*Sources:* Authors' calculations)

We use fixed effect model and random effect model. Then, Hausman test is applied to choose a feasible model. We continuously check the defects of panel data including using variance inflation factor (VIF) to test multicollinearity, Breush-Godfrey/Woolridge test to find out serial correlation and Breusch-Pagan test for heteroskedasticity. Lastly, White and Arellano approaches in the PLM and SANDWICH packages in R programe to troubleshoot defects in our model(Torres-Reyna, 2010), (Croissant & Millo, 2008), (Zeileis, 2004), (Kleiber & Zeileis, 2008).

In Hausman test, P-value < 0.05 means that using fixed effect is better than random effect when examining the effect of size, foreign ownership on Tobin's Q. The results of VIF show that our model is not multicollinearity. However, fixed effect model we choose meets serial correlation and heteroskedasticity. Fortunately, these errors are treated by White and Arellano approaches.

Table 4
Fixed effect model regression with Tobin's Q

Variables	*Dependent variable: Tobin's Q*	
	Coefficient	*Pr (> |t|)*
lnta	-0.2197(***)	0.000
foreign	-0.1633	0.230
lev	0.3021(***)	0.000
liq	-0.001	0.181
lnemp	-0.004	0.719
age	-0.001	0.921
dummy	0.1731(*)	0.040
R-Squared		0.09297
Hausman test		< 2.22e-16
Breusch-Godfrey/ Wooldridge test		< 2.2e-16
Breusch-Pagan test		< 2.2e-16
Vif		1.81

Note: '***' significant at 1%, '*' significant at 5%

(*Sources:* our calculations)

Surprisingly, the coefficient of firm size is negative and have significant at 1% (p- value = 0). Thus, we reject H1 hypothesis. In other words, firm size affects adversely on firm performance. Our finding is the same as (Vinh, 2014) conclusion. For Vietnamese listed companies, greater firm size leads to decrease more than in efficiency. Also, if total assets go up to 1%, then Tobin's Q goes down to 0,21%. Increasing in total assets makes rise in equity through issuing shares. This causes dilution of stock price which indirectly decrease Tobin's Q. Similar to firm size, coefficient of foreign ownership is negative, so H2 hypothesis is rejected. In general foreign stake does not help companies improve their performance. The result is explained that oversea investor focus on financial investment but they do not participate in broad of director. The obvious evidence is foreign funds in Vietnam. They tend to set up exchange trade funds such as FTSE Vietnam index ETF, Market Vector Vietnam ETF, MSCI Frontier Markets Index ETF and iShares MSCI Vietnam Investable Market Index Fund ETF. But dummy is positive to the Tobin's Q, this result show that firms with a foreign ownership ratio of more than 50% are more effective than the others with less than 50%. Those actions make increase in foreign ownership in listed companies and impact on firm's performance

Furthermore, liquidity, firm age and the number of employees which is negative correlation with Tobin's Q, but they are not significant. In contrast, debt ratio has positive effect on firm performance, and significant. The longer companies exist, more sustainable corporate governance. This helps improvement of their performance. (Majumdar, 1997) find out the same result. Moreover, companies use effectively financial leverage in profitable assets, which lead to investor's expectation on firm growth, consequently Tobin's Q will go up.

5. CONCLUSIONS AND RECOMMENDATIONS

In this investigation, the aim was to examine the effect of size and foreign ownership on the performance of Vietnamese listed firms from 2009 to 2016. Multiple regression analysis revealed that foreign investors stake and increasing size do not help firms improve their Tobin's Q but after Decree 60/2015/ND-CP there are many company start to rise the proportion of foreign owner whose company has foreign ownership ratio from 50% or more, our result shows that these firms have been efficiency from the others

However, the findings in several countries show that increase in foreign stake will bring long-term benefits to both stock market and listed companies (Bilyk, 2009; Douma *et al.,* 2006)...Particularly, greater foreign ownership creates the liquidity and size of stock market. This helps accelerate the equitization of state companies in Vietnam. Liquidity accompany with merger and acquisition as well as rise in the number of IPO companies. These companies all have good financial position and want to attractive oversea investors before IPO in order to avoid legal procedures related to the percentage of ownership due to conditional business. Furthermore, having foreign stake improves the quality of stocks in the market. The involvement of foreign investors will bring more than capital, new form of corporate governance and technological innovation.This leads to enhance the competitiveness of companies, then boost the price of their stock.In general, therefore, it seems that Vietnamese government continuously revised the regulations on increasing foreign ownership. Also, government reviews the standards of MSCI to Vietnam stock market to be raised to emerging market soon. This generates the hicks of capital (increase size and liquidity), and corporate governance (improvement of investment efficiency and management). Thus, companies develop sustainably and increase the value for shareholders.

Besides, our findings suggest that firms should be carefully when they want to expand operating business. One of reasons is that rise in total assets causes the potential risk of losing control. Another reason is that investment outside sector make operating of companies less effective, then their stock price is less than their face value.

Finally, a number of important limitations need to be considered. First, this study only mentions to linear relationship between foreign ownership and performance in Vietnamese listed firms. However, some papers in the world apply nonlinear relationship between two dimensions. Furthermore, we do not have broken down foreign stake and size by industries. Future researches may analysis the impact of size and foreign ownership on performance of Vietnamese listed firms by industries.

NOTE

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