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Impact of Ownership Structure on Financial Performance of Listed Companies on the Hanoi Stock Exchange

Ngo Tuyet Trinh

Research Project Leader: The Impact of Ownership Structure on Financial Performance of Non-Financial Listed Companies on the Hanoi Stock Exchange
Hanoi University of Natural Resources and Environment

Abstract:
This essay reviews studies on the types and levels of fragmentation in firm ownership, focusing on how ownership structure impacts firm performance. Using a property rights framework, the essay integrates sociological, organizational, legal, and economic research that explores the relationship between ownership organization and firm performance. Agency theorists typically assume that shareholders are uniform in nature, and that their impact on firm performance correlates directly with their equity stakes. However, empirical studies based on this assumption have not produced clear evidence. Class analysis perspectives view these mixed results as evidence that firms, regardless of ownership structure, primarily serve the capitalist class. An alternative view suggests that shareholders are not homogeneous, and certain types of shareholders use their formal authority, social influence, and expertise to capture property rights, thereby exerting significant influence on firm performance. The impact of various owners may vary based on industry characteristics, and the essay reviews literature supporting a contingency theory of ownership structure.

Keywords: state ownership, domestic ownership, foreign ownership, financial performance.

1. Introduction:

Entrepreneurial companies need external funding to support their growth and investment efforts to fully realize their profit potential. Additionally, they benefit from guidance on business operations, strategic planning, and industry best practices. These resources can be obtained through the involvement of non-executive directors or external board members, as seen in listed companies. The Hanoi Stock Exchange (HNX) serves as a crucial platform for publicly listed companies in Vietnam, reflecting the broader trends and challenges faced by these entities. Understanding how different ownership structures affect financial performance is essential for investors, policymakers, and corporate managers aiming to optimize business strategies and enhance market efficiency.

Global studies on the impact of ownership structure on corporate performance, while not a new topic, remain a compelling area of scientific research. In their empirical studies, many scholars have pointed out the significant influence of ownership structure on corporate performance. Specifically, experimental results have shown a positive impact on corporate performance from foreign ownership and management ownership (Abor & Biekpe, 2007)and state ownership (Jiang, Laurenceson, & Tang, 2008). On the other hand, empirical research has also revealed diverse effects of ownership structure on corporate performance. This includes findings such as the inverse U-shaped relationship between foreign ownership and corporate performance (Kapopoulos & Lazaretou, 2007). However, several studies have offered dissenting views on these results. For instance, Demsetz and Villalonga (2001), using regression analysis, argued that "ownership structure has no relationship with corporate performance."Alabdullah (2018), in his study, confirmed that foreign ownership has an insignificant effect on the financial performance of firms. These varied results are due to differences in research approaches, the use of different theoretical frameworks to explain outcomes, diverse research methodologies, and variations in study conditions.

This study aims to explore the impact of different ownership structures on the financial performance of companies listed on the HNX. By analyzing metrics such as Return on Assets (ROA) and Return on Equity (ROE), the research seeks to provide a comprehensive understanding of how ownership affects corporate profitability and efficiency. The insights gained will help stakeholders make informed decisions regarding investment, policy-making, and business management. The findings from this study are expected to contribute to the ongoing discourse on ownership and performance in emerging markets. They will offer valuable perspectives for improving corporate governance and strategic planning in Vietnam's rapidly evolving economic landscape.

2. Literature review

In their seminal paper *"A Survey of Corporate Governance" Shleifer and Vishny (1997)* Shleifer and Vishny explore the role of large shareholders in corporate governance, emphasizing their ability to monitor and influence managerial decisions. Large shareholders, particularly in privately held companies, are motivated to ensure that management maximizes firm value since they have significant financial stakes. The authors argue that this oversight reduces agency problems, where managers might otherwise act in their own interests at the expense of shareholders. However, they also caution that excessive ownership concentration can lead to "tunneling" or self-dealing, where controlling shareholders expropriate resources for personal gain, often to the detriment of minority shareholders. This dynamic creates a trade-off between the benefits of concentrated ownership for control and the risks of entrenchment and misuse of power.

"Disentangling the Incentive and Entrenchment Effects of Large Shareholdings,"(Claessens et al., 2002) Claessens and his colleagues examine the effect of ownership concentration in East Asian economies, where family-owned businesses and conglomerates dominate. Their findings indicate that companies with large family shareholders tend to perform better financially, as these shareholders often have long-term interests aligned with firm success. Families are also able to provide resources, networks, and strategic vision to the companies they control. However, the study reveals that when families involve themselves too deeply in day-to-day management, performance can suffer due to a lack of professional management practices. The research highlights that the positive effect of family ownership is conditional on the balance between family involvement and professional governance.

"Corporate Governance, Economic Entrenchment, and Growth," (Morck, Wolfenzon, & Yeung, 2005) the authors investigate the dual nature of concentrated ownership in emerging markets. They argue that concentrated ownership, particularly in developing economies, often results in better financial performance because large shareholders have a direct interest in monitoring management and curbing inefficiencies. This heightened control can improve resource allocation and reduce managerial misbehavior. However, the paper also discusses the risk of economic entrenchment, where a few powerful shareholders gain disproportionate control over the firm without holding a corresponding equity stake. This situation may lead to distorted corporate governance outcomes, where the controlling shareholders prioritize their interests over the firm's broader financial health, potentially stifling long-term growth and innovation.

La Porta, Lopez-de-Silanes and Shleifer (1999) in their influential study *"Corporate Ownership Around the World,"* La Porta and colleagues provide a comprehensive analysis of ownership structures and their impact on corporate governance across different countries. They conclude that ownership concentration is more prevalent in countries with weaker legal protections for investors, as large shareholders are often necessary to provide oversight in the absence of strong legal frameworks. Conversely, in countries with well-developed legal systems, dispersed ownership is more common, and corporate governance relies more on external mechanisms such as the legal system and financial markets. The authors argue that countries with robust protections for minority shareholders, particularly in developed economies, tend to have better corporate performance, as private ownership and institutional investors drive efficiency by ensuring accountability and reducing agency costs.

The paper *"Ownership Structure and Economic Performance in the Largest European Companies," Thomsen and Pedersen (2000)* Thomsen and Pedersen analyze the relationship between ownership concentration and financial performance in 435 large European firms. Their research shows that concentrated ownership, particularly from institutional investors such as pension funds or mutual funds, correlates with improved financial performance. Institutional investors often have the expertise and resources to monitor management effectively, aligning corporate strategies with shareholder interests. However, the study also highlights the risks of excessive concentration. When large shareholders hold too much power, they can influence management decisions in ways that favor their specific interests, such as excessive dividend payouts or asset stripping, which may harm long-term corporate health and minority shareholders' rights. This research underscores the importance of balancing ownership concentration with governance structures that protect all shareholders.

The ownership structure of enterprises in Vietnam plays a crucial role in the context of the country's transition from a centrally planned economy to a market-oriented one. Many studies in Vietnam have examined the impact of different ownership types, including state ownership, private ownership, and foreign ownership, on the financial performance of firms. Below are some notable studies in this field:

With the current economic situation and the context of globalization, recent political developments have significantly impacted business operations in Vietnam. The technological boom has made international trade easier than ever, but it has also introduced various risks. These risks can expose weaknesses in organizational structures, business processes, and production activities. To adapt to these rapid and continuous changes, businesses must innovate, particularly in their ownership structures.

The impact of ownership structure on business performance is a topic that has garnered considerable attention from scholars. In 2015, Le Duc Hoang's doctoral thesis titled "The Impact of Ownership Structure on Business Performance in Vietnam" (Lê, 2015) examined 101 companies with two key ownership components: state ownership and foreign ownership, listed on the stock exchanges in Hanoi and Ho Chi Minh City from 2008 to 2013, using Tobin's Q, ROA, and ROE indicators. By applying Hausman tests to the collected data and combining descriptive statistical analysis with regression results, Le Duc Hoang concluded that state ownership has a negative impact on business performance, while foreign ownership has a positive effect. However, Le Duc Hoang's study focused solely on companies in the construction sector, did not explore the diversity of ownership structures across other industries, and did not address the impact of the business sector factor.

Contrary to these findings, Phung and Mishra (2016), in their study published in the Economic Papers journal, Australian, used data from 644 non-financial companies between 2007 and 2012. Additionally, Võ Văn Dứt (2020) in his research "The Impact of Ownership Structure on the Performance of Listed Companies on the Vietnamese Stock Market," published in the Economics & Development journal, utilized an unbalanced panel with data from 502 non-financial companies listed on the Hanoi and Ho Chi Minh City stock exchanges. Using the GMM method, these studies found a U-shaped relationship between state ownership and business performance and a U-shaped inverse relationship between foreign ownership and business performance.

3. Theory

Initiated by (Ross, 1973), developed by Jensen and Meckling (1976) and used for nearly 50 years, agency theory is based on the divergence of interests and information asymmetry between two parties. This theory suggests that agency problems can exist between the owners or shareholders and the managers of a business, particularly regarding the difficulties owners face in ensuring that their resources are not appropriated or wasted on unattractive projects (Boycko, Shleifer, & Vishny, 1996)Scholars have employed this theory to explain the relationship between ownership structure and business performance. Specifically, Jensen and Meckling (1976) argue that 'agency costs will increase if the company's management owns only a small share of the company.' In such cases, the agents (managers) may use the company's resources for purposes that enhance their personal interests rather than maximizing the benefits for the company and shareholders. Vafeas and Vafeas and Theodorou (1998) also suggest that 'when managers hold a high share of the company, they are more likely to aim at maximizing the company's operational efficiency as well as shareholder benefits.' However, scholars have also proposed the opposite view, with Demsetz and Lehn (1985) asserting that 'there is no relationship between management's ownership ratio and the company's performance.'

Additionally, investors also try to maintain ownership structure by concentrating ownership within a group, allowing them to oversee managerial decisions to improve company performance Colpan and Yoshikawa (2012). This is explained by the fact that institutions receive more trust as they have professional working systems and more experience Edmans (2009). In his empirical study, Yeh (2019) showed a positive relationship between institutional ownership and business performance in companies. However, there is also an opposing view suggesting that 'if a company's board of directors is controlled by large institutions, they may steer the company's operations according to their own will, which could be detrimental to smaller investors.

Theory of Competition

The theory of competition suggests that a business's operational efficiency is more influenced by market competition than by its ownership structure. Under competitive conditions, both state-owned and private enterprises can achieve similar levels of efficiency.(Vickers, 1995) identifies two key ways that competition impacts performance: the incentive effect and the information effect. The incentive effect compels managers to continuously improve efficiency to stay in the market, while the information effect ensures that managers strive to meet investor expectations for returns, thereby enhancing operational efficiency.

Lin and Tan (1999) suggest that the poor performance of state-owned enterprises (SOEs) stems from soft budget constraints, which are financial supports from the state due to policy burdens. Therefore, if policy burdens are eliminated, privatizing SOEs is not necessary if they perform similarly to private enterprises in a fair competitive market. In summary, the theory of competition asserts that market competition is the primary driver of business efficiency. When information asymmetry is resolved and state policy burdens are lifted, businesses focusing on profit maximization will find that ownership structure has little impact on operational efficiency. Therefore, different types of ownership, whether state or private, may not significantly affect business performance.

Hypotheses: Considering theoretical and empirical framework, we will test the following two main hypotheses. Based on the above arguments, the following hypotheses are proposed:

H1: There is a positive relationship between forein ownership and company performance.

H2: There is a positive relationship between domestic ownership and company performance

H3: There is negative relationship between state ownership and company performance

3. Data and methodology

Research subject: The impact of ownership structure on corporate performance in non-financial enterprises.

Research scope: Data is sourced from Fiin Group JSC.

In terms of geography: non-financial companies listed on the Vietnamese stock market are identified, excluding financial companies such as insurance, securities, and banks. These entities are considered to have their own corporate governance rules and financial reporting standards, which may affect the research results (Davidson, Goodwin-Stewart, & Kent, 2005)."

Ownership Structure (OS) is studied with two ownership variables characteristic of listed companies on the Vietnamese stock market:

State Ownership: The percentage of state ownership.

Foreign Ownership: The percentage of ownership held by foreign shareholders.

Operational Efficiency is examined from the perspective of efficiency concerning the company's total assets at the end of the year, measured by the Return on Assets (ROA).

Control Variables specific to the listed companies in the sample include Private Ownership Ratio: The percentage of private ownership.

Quantitative models are constructed to analyze the correlation between ownership structure, financial leverage, and company performance, including:

$$\mathbf{ROA_{it} = \beta_0 + \beta_1*domestic_{it} + \beta_2*State_{it} + \beta_3*Forein_{it} + \beta_4*Zise + \beta_5*Lev + \mu_{it}}$$

Dependent Variables: ROA_{it}, used to measure the operational efficiency of company iii in year ttt based on financial indicators.

Independent Variables:

$Domestic_{it}$: The percentage of domestic ownership.

$State_{it}$: The percentage of state ownership.

$Forein_{it,:}$ The percentage of foreign ownership.

Company Size: The size of the company.

Financial Leverage: The degree of financial leverage.

4. Results and discussion

The study tests to choose an appropriate regression model between OLS and FEM by employing the F test and the Hausman test before analyzing factors affecting the truthfulness of financial reporting. As a result, the FEM model was selected for further tests. The results are shown in Table 1.

Tables 1: F test and Hausman test results

Overall model	Inspection results	Conclusion
Step 1: Comparison between OLS and FEM	F(5, 146) = 5.54 Prob > F = 0.0001	OLS model selection
Step 2: Comparison between OLS and REM	chibar2(01) = 8.93 Prob > chibar2 = 0.0014	REM model selection

(Source: due to statistical reports from software)

After selecting the REM Model, the authors examined the model's defects, including series correlation by the Wooldridge test and verification of variance by the Wald test. The test results are summarized and presented in Table 2.

Table 2. Results of testing the autocorrelation and variance of variance

Overall model	Inspection results	Conclusion
Verification of variance	chi2(1) = 33.49 Prob > chi2 = 0.0000	There is a phenomenon that the variance of the error changes
Test for the phenomenon of series correlation	F(1, 47) = 4.471 Prob > F = 0.0398	There is a phenomenon of series correlation

(Source: due to statistical reports from software)

The selected REM model appears to have defects of the research model, such as the variance of the error change and series correlation. Thus, the study uses the feasible general least squares method – (FGLS) to solve the above defects to ensure the obtained estimate is stable and efficient.

The researcher performed feasible generalized least squares (FGLS) for the overall model, with the results shown in Table 3.

Table 3. FGLS model regression results

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roa	Coefficient	Robust std. err.	t	P>|t|	[95% conf.	interval]
domestic	-.0000789	.0001743	-0.45	0.653	-.0004284	.0002707
state	-.0005648	.0000695	-8.13	0.000	-.0007041	-.0004254
foreign	-.0036323	.003085	-1.18	0.244	-.0098201	.0025554
size	.0071454	.0013439	5.32	0.000	.0044498	.009841
lev	-.0619405	.0253746	-2.44	0.018	-.1128356	-.0110455
_cons	.0058929	.0054841	1.07	0.287	-.0051067	.0168926
sigma_u	.04879434					
sigma_e	.0595226					
rho	.40191715	(fraction of variance due to u_i)				

(Source: due to statistical reports from software)

The weak and statistically insignificant relationship led the author to add interaction variables, **size_domestic** and **size_foreign**, and rerun the regression model with the results shown in Table 4.

Table 4. Regression results of the robust standard FGLS model

roa	Coefficient	Robust std. err.	t	P>|t|	[95% conf.	interval]
domestic	.0005224	.0001755	2.98	0.004	.0001703	.0008745
state	-.0008026	.0000525	-15.29	0.000	-.0009079	-.0006973
foreign	-.0088142	.0052268	-1.69	0.098	-.0192979	.0016695
size	.0067744	.0012861	5.27	0.000	.0041948	.0093539
lev	-.0346203	.0287106	-1.21	0.233	-.0922065	.0229659
size_domestic	-.0000479	.0000189	-2.53	0.014	-.0000858	-9.98e-06
size_foreign	.0005969	.0002905	2.06	0.045	.0000143	.0011795
_cons	-.0031049	.0079504	-0.39	0.698	-.0190514	.0128417
sigma_u	.05021948					
sigma_e	.05928383					
rho	.41778631	(fraction of variance due to u_i)				

(Source: due to statistical reports from software)

As can be seen in Table 4, The hypotheses H1, H3, are accepted, while hypotheses H2 are rejected. The results of the testing hypotheses are summarized in Table 5.

Table 5: The impact direction of factors

o.	Variables	Expected	Results
	Domestic	+	+
	foreign	+	Not meaningfuf
	State	-	-

The The hypotheses H1, H3, are accepted, while hypotheses H2 are rejected indicate that the domestic and state variables have a significant impact on Return on Assets (ROA), whereas the foreign and lev variables do not show strong statistical significance. Company size (size) has a positive effect on ROA, suggesting that as company size increases, ROA also improves. However, the impact of company size on ROA varies depending on the company's ownership structure. Specifically, the size_domestic interaction term indicates that the effect of company size on ROA decreases as a company increases its domestic ownership structure, while the size_foreign interaction term shows that the effect of company size on ROA increases as the company increases its foreign ownership.

5. Conclusion and policy implication

The regression analysis reveals several critical insights regarding the factors influencing Return on Assets (ROA) in the Vietnamese market. The variables domestic and state demonstrate a significant impact on ROA, indicating that firm-specific and state-related factors play a crucial role in determining the profitability of companies in Vietnam. In contrast, the foreign and lev variables do not show strong statistical significance, suggesting that foreign ownership and leverage may not be as influential on ROA in the Vietnamese context.

The analysis also highlights that company size has a positive effect on ROA, signifying that larger firms tend to have better profitability. However, the interaction terms between company size and ownership structure—size_domestic and size_foreign. Specifically, the size_domestic interaction term shows that the positive effect of company size on ROA diminishes when a company increases its domestic ownership structure. Conversely, the size_foreign interaction term indicates that the positive effect of company size on ROA strengthens when a company increases its foreign ownership.

These findings suggest that the ownership structure significantly influences how firm size affects profitability. In the Vietnamese market, firms with larger sizes benefit more from increasing foreign ownership rather than domestic ownership. This could be due to the advantages of accessing international markets, advanced technologies, and better managerial practices associated with foreign ownership, which potentially enhance operational efficiency and profitability.

The first recommendation is strategic Increase in Foreign Ownership: To maximize profitability, we should explore opportunities to increase foreign ownership within our company. This could involve seeking strategic partnerships or joint ventures with international firms, which can bring in new capital, expertise, and access to global markets. Engaging with foreign investors can also improve our operational efficiency and profitability, as evidenced by the positive impact of foreign ownership on ROA.

The second recommendation is **Support for Domestic Firms:** While foreign ownership has clear benefits, domestic firms should also receive support to improve their performance. Policies aimed at enhancing domestic firms' efficiency, such as access to technology and training, could help them leverage their size more effectively. Additionally, facilitating better access to domestic markets and resources may enable firms to maximize their profitability, even with a predominantly domestic ownership structure

The last suggestion focus on Firm Size: Given the positive impact of firm size on ROA, policies that support the growth and expansion of firms could have substantial benefits. Encouraging mergers and acquisitions, offering growth grants, and creating favorable conditions for scaling operations can help firms achieve the size needed to leverage economies of scale and improve profitability.

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