Gadjah Mada International Journal of Business
Vol. 24, No. 3 (September-December 2022): 324-341

Insiders, Outsiders and Performance of Vietnamese Firms

*Richard Beason[a], Tu Thi Thanh Tran[b], Dong Phuong Dao[c], Hong Minh Nguyen[*d]*
[a]University of Alberta, Canada
[b]International Francophone Institute, Vietnam National University Hanoi, Vietnam
[c]Coventry University, United Kingdom
[d]University of Economics and Business, Vietnam National University Hanoi, Vietnam

Abstract: The consensus in the finance literature is that a large proportion of inside ownership (defined as greater than 5% share ownership by non-institutional holders, managerial holdings, founding family holdings, cross-shareholdings by affiliated firms and ownership by creditors) tends to be associated with more unsatisfactory performance (as measured by ROE or ROA) when compared to firms with lower inside ownership, all else equal. However, this need not be the case if insiders act as monitors of the firm and have the same interest in returns as outsiders. Ownership structure and firm level financial performance have not been widely studied in Vietnam. Using data from 729 listed firms in Vietnam for 2018, we test the hypothesis that greater insider ownership has a negative impact on firm performance. We found that Vietnam's insiders play a monitoring role, exercising their relative power to ensure the firm's profitable functioning. These findings are inconsistent with research on Japanese groupings, as well as other findings. The Vietnamese stock market does not appear to be negatively affected by insider influence; indeed, insiders appear to act as positive monitors.

Keywords: Bank, ownership structure, insider investor, outsider investor

JEL Classification: G21, G23, G32

*Corresponding author's e-mail: tuttt@vnu.edu.vn
ISSN: PRINT 1411-1128 | ONLINE 2338-7238
http://journal.ugm.ac.id/gamaijb

Introduction

Firms in Vietnam are characterized by a relatively large proportion of insider holdings (39% on average), which are defined as the proportion of shareholding greater than 5%, and with heavy reliance on bank financing. The heavy reliance on bank financing is typical among developing countries due to under-developed corporate debt markets. This combination of high insider ownership and reliance upon bank financing reduces the power of minority interests and results in a diluted takeover mechanism (Dau, Morck and Yeung, 2021). We expect this will affect corporate performance measured by standard profitability variables, such as ROA and ROE . In this paper we will examine the relationship between the ownership structure of Vietnamese firms and firm performance, measured by ROA and ROE.

This paper tests the relationship between inside shareholder ownership, outside ownership (foreign), and bank ownership on firm performance in the Vietnamese context. We use both ROA and ROE as our performance variables for robustness, though the finance literature generally favors the use of ROA as a cleaner measure of profitability (see, for example, Bhagat and Brian, 2013; Dahya and McConnell, 2007). The results are generally consistent between profitability measures, with insiders (except banks) generally having a positive and significant impact on performance. Hence, our findings are consistent with a positive monitoring impact for insiders, as opposed to a negative entrenchment effect. Our paper is the first to come to this finding using market data.

The literature on entrenchment suggests that insiders might influence firms to deviate from profit maximization in two alternative (opposed) ways. Whereas the findings of Weinstein and Yafeh (1998) for Japan suggest the influence of banks results in sub-optimal risk-taking by borrower firms, due to the banks' inability to diversify risk through their lending portfolio, the entrenchment literature suggests otherwise. Instead, the "entrenched" firm (that is closely held by insiders, including banks) is insulated from takeover and tends to over-invest. However, the literature on "entrenchment" suggests an alternative hypothesis for investment behavior (Jensen, 1986, 2001). Indeed, the high degree of investment by Japanese firms during the bubble period outside of their core competency suggests that the latter problems of entrenchment outweigh those of risk aversion. Thus, in the Vietnamese case, with some significant cross-shareholding among non-financial entities but limited shareholdings by banks, the impact of cross-shareholding on firm performance is ambiguous *a priori*. This makes our finding of a positive monitoring effect by insiders highly significant.

Motivation and Background of The Vietnamese Economy

This situation in Vietnam is similar to that in Japan during its high-growth period (1955-1990). Weinstein and Yafeh (1998) find that firms with close bank ties enjoy greater access to capital under the main bank system, but suffer performance . They also find that such firms engage in less risky and profitable projects, in line with the findings of Nakatani (1984). Weinstein and Yafeh (1998), Morck and Nakamura (1999) find that the benefits from bank centred relationships accrue to the banks rather than residual shareholders. Mehrotra et al. (2010) find a similar bank-centric effect in mergers and

acquisitions in Japan. The major difference between Japan during its high growth period and the current situation in Vietnam is that banks are weaker monitors in the Vietnamese case. Banks in Japan during its high growth period maintained a high degree of cross-shareholdings with their major corporate customers, whereas banks in Vietnam hold negligible shares in their corporate customers, diluting their monitoring power.

That means "entrenchment," in the form of non-financial cross-shareholdings, could have a positive impact on firm performance (measured by ROA or ROE) if the insiders act as vigilant monitors. For example, Korean corporate groupings or Chaebol are typically associated with a powerful founding family. One could envision a situation where the founding family in such groupings performs the same function as an active takeover mechanism. Working with data on accruals quality, Beason et al. (2018) could find no evidence for such a monitoring effect but did find a positive impact on accruals quality in association with bank monitoring. The likely explanation for this result is that the banks in Korea perform a monitoring function in the absence of powerful independent shareholders.

After reunification in 1975-81, the Vietnamese economy could not meet the goals set out in its five-year plan. During the Economic Plan of 1981-85, there were already shifts toward a mixed economy. Economic data for the entire 1975-85 period are unreliable. From the mid-1980s, the so-called "DoiMoi" or economic opening reforms were initiated. It was during this period that Soviet assistance to its partners began to wane due to budgetary constraints resulting from the Afghan war and the Soviet arms race with the US. Vietnam became open to foreign investment and sought membership in international and regional organizations. Today Vietnam is a member of ASEAN and the WTO (joined 2007) and has various bilateral trade agreements.

During the initial years of liberalization, from 1987 until 1992, real economic growth was quite remarkable, but inflation was very high (see Appendix). After that, inflation was brought under control, though the central bank (State Bank of Vietnam) is not independent. Reliable data on government spending, revenue, deficit and debt were not available until 2000, but the level of debt/GDP is relatively modest (see Appendix).

Agricultural exports and tourism remain high growth industries, with the manufacture of electronics for export by foreign firms (such as Japanese and Korean firms) taking on increasing importance. Export orientation is essential, with the level of exports to GDP reaching as high as 40% in some years after the economic opening. The corporate debt market remains thin, as with most developing countries, so bank finance is predominant. As such, Vietnam can be considered a bank-centred financial system, serving as part of this paper's motivation. It is difficult to estimate the current levels of non-performing loans. However, many believe that during the mini-crisis of 2011, the level might have been around 15% of outstanding loans, though officially, the reported levels are much lower (Nguyen, Tu, 2017). There is a construction and real estate boom in Vietnam, and we believe the potential for another banking crisis exists. Overall, however, obtaining reliable lending and loan performance data on the banking sector is difficult.

Banks and corporate groups in Vietnam

The five largest banks in Vietnam, VietinBank (Vietnam Joint Stock Commercial Bank for Industry and Trade), BIDV (Bank for Investment and Development of Vietnam), Vietcombank (Joint Stock Commercial Bank for Foreign Trade of Vietnam), Agribank (Vietnam Bank for Agriculture and Rural Development) and Sacombank (Sai Gon Thuong Tin Commercial Joint Stock Bank) dominate many aspects of corporate finance in Vietnam. VietinBank, BIDV and Vietcombank are typically thought of as state-owned, but VietinBank, for example, is 20% owned by Japan's Tokyo-Mitsubishi UFJ bank group. Vietcombank, in turn, is 15% owned by Japan's Mizuho Bank. Sacombank is traded, though state interest is significant (Nguyen, Tu, 2017). In turn, these five largest banks hold shares in other Vietnamese banks, but do not themselves trade with the noted exception of Sacombank. Of the 13 traded banks in our sample, through general practice, it is as though they exist in a Glass-Stegal world in that their equity holdings of other firms are below 1% of outstanding shares. This result is not related to any regulatory policies. Government policy, however, is in favour of all banks ultimately becoming joint-stock companies, so this situation is likely to change over time (Nguyen, Tu, 2017).

Large corporate groupings are also an essential feature in Vietnam, much like Japan and Korea. Like many developing countries, Vietnam can be considered a dual economy. Large domestic corporate groupings characterize it, often with foreign participation, large foreign manufacturing and other facilities, along with many small enterprises and an informal economy. FLC, Vingroup, FPT, Alphanam, Hoa Phat, and REE are the most notable among the large groupings. For our purposes, these groups are important because they are often large shareholders (greater than 5%) of many listed firms. Small enterprises typically exist outside the regulated credit market, but state policy aims to eliminate this duality. Probably the most influential aspect of corporate groupings in Vietnam is that they are relatively "young." We believe this fact may work against the profit constraining entrenchment effects of corporate groupings observed in countries like Japan. As described in the next section, it shows a "concergence of interest " effect appears to dominate.

Literature Review

The effect of separation of ownership and control in the corporation has attracted academics since Berle and Means (1932) and Coase (1937). Berle and Means (1932) first introduced the ownership separation problem; insider ownership has been used to control managers' self-interest behavior.

There are two main theoretical foundations related to insider ownership and firm performance. Previous studies suggested that the insider ownership of shares in a firm generates two conflicting forces on management's behavior: The convergence of interest effect and the entrenchment effect (Jensen and Meckling, 1976; Fama and Jensen, 1983; Hart, 1983; Jensen and Ruback, 1983, Jensen, 1986)

According to the convergence-of-interest effect, as managerial insiders and shareholders' interests converge through equity ownership, the more significant the proportion of shares owned by insiders is, the better the firm performance should be. DeAngelo and DeAngelo (1985) argue that

insiders might resolve the asymmetric information problem related to investment opportunities by holding high stakes in a firm. Insiders' stock is a compelling incentive to enhance firm performance and align managerial interests with shareholder value. As a result, the relationship between insider managerial shareholdings and firm performance is expected to be positive. Wruck (1988) also provides evidence of a positive relationship, and similarly, Mehran (1995) argues a strong positive link between insider managerial ownership and corporate performance.

In contrast, the entrenchment effect argues that larger insider managerial shareholdings can entrench and insulate insiders from the market's influence for corporate control. A negative relationship arises between insider managerial shareholdings and firm performance. Fama and Jensen (1983) suggest that significant insider managerial ownership can create additional costs; when insiders own a substantial portion of a firm's shares, those insiders have significant voting powers from which they can influence their positions without endangering their employment or salaries. Therefore, excessive insider managerial ownership may have a negative impact on firm performance because that ownership condition may entrench the managers. Managerial entrenchment can be considered a cost of excessive insider ownership. Also, Stulz (1988) supposes that a high concentration of insider ownership makes hostile takeovers less likely, thus enforcing managerial entrenchment. The probability of a hostile takeover is low when a large proportion of shares are owned by insiders and virtually impossible beyond 50% insider ownership.

Besides, Demsetz (1983) argues that no relationship should exist between ownership structure and firm performance. Demsetz and Villalonga (2001) provide empirical evidence that no significant correlation between ownership structure and firm performance exists. The reason is that the diffused ownership may exacerbate entrenchment; it may alleviate some agency problems simultaneously: advantages and disadvantages may be offset, resulting in no significant effect. Cheung and Wei (2006) found no evidence that insider ownership and corporate performance affect each other when allowing for adjustment costs.

Alternatively, some other studies have further empirically investigated a quadratic relationship between insider ownership and firm performance. This means that firm performance first increases as insider managerial ownership increases, but then firm performance decreases after a certain level of insider managerial ownership. McConnell and Servaes (1990) find a curvilinear relationship between insider ownership and firm performance. Likewise, Han and Suk (1998) suggest that a curvilinear relationship for managerial entrenchment existed beyond the 41.8% point, while a linear relationship for the convergence-of-interests was found below 41.8% insider ownership. McConnell et al. (2008) later examined 4,141 other purchases by insiders during 1994 through to 1999. They found a curvilinear relationship (i.e., an inverted U-shape) exists between insider ownership and firm value. Morck et al. (1988) have estimated piece-wise regression with two breakpoints for insider ownership. They found a non-linear relationship and reported that at lower and higher levels of insider ownership; firm performance increased as insider ownership rose, showing a convergence-of-interests between managers and shareholders. However, firm performance decreased as insider ownership

increased to greater proportions, giving evidence of the entrenchment effect. Besides, using US companies, Wruck (1989) found an entrenchment effect within the range of 5 and 25% insider ownership. However, Morck et al. (1988) show that an entrenchment effect is not found between 5 and 25% insider ownership.

Park and Jang (2010) investigated the relationship between insider ownership and firm performance in the restaurant industry. There is an overall significant positive relationship between insider ownership and firm performance. They argue that the convergence-of-interests and entrenchment effects of insider ownership co-exist in this industry. While the convergence-of-interests effects are effective, awards to managers or the excessive granting of stock options could weaken firm performance due to entrenchment effects. Chen et al. (2012) have examined the impact of insider managerial ownership on publicly-traded tourist hotels' financial performance in Taiwan. They found an inverted U-shape represented the effects of insider managerial shareholding on hotel performance (ROA, ROE, and Tobin's Q), indicating that insider ownership has a significantly positive impact on hotel performance an optimal point (supporting the convergence-of-interests hypothesis). Further, when this portion is greater than the corresponding optimal points, it can significantly deteriorate hotel performance (supporting the entrenchment hypothesis).

As we can see, empirical studies reveal two main competing results in the relationship between insider ownership and firm performance. This means that, to some extent, there is a range of convergence-of-interests with insider ownership. However, past a particular point of excessive concentration of insider ownership, the managerial entrenchment effect dominates. Insider ownership has a positive linear influence on firm performance, revealing the benefits of insider ownership. However, there are extra costs related to insider ownership beyond a certain point, signifying that entrenchment costs may dominate insider ownership's benefits. These two different relationships are complementary because the convergence-of-interests hypothesis cannot adequately explain the performance decrease within a range of excessive insider ownership. However, the entrenchment hypothesis cannot adequately account for insider ownership's benefits.

To summarize, a number of studies empirically evaluate the effects of insider managerial ownership on corporate performance. However, findings have been mixed and inconclusive. Some studies about ownership have been conducted in Vietnam. Vinh (2014) has proposed that the higher the organizational ownership was, the higher the operational efficiency and firm value should be. Son et al. (2015) provide evidence that private ownership (which is the total value of the non-governmental legal entity's shares) positively impacts Vietnamese bank's profitability. Some studies, in contrast to ours, have found that foreign ownership has a negative effect on firm performance (Phong, 2017). A high proportion of state ownership reduces operational efficiency and increases companies' costs (Thao, 2019; Bao, 2019). However, no studies have focused on the effect of insider ownership on listed companies' firm performance in Vietnam. Therefore, this study is unique in studying the relationship between insider ownership, outside ownership, and bank ownership on firm performance using comprehensive firm level data.

Methodology

Model

As is standard in this literature, we that share prices the present discounted value of the firm's flow of expected earnings in equilibrium. This can be thought of as a standard dividend growth model of the typical form. In addition to this, however, we allowed for the ownership structure, and therefore the control and governance of the firm's impact on the actual future earnings flow, thereby impacting the returns. Essentially, an empirical model would be of the form:

$$R = \alpha + \beta_1 * X_1 + \beta_2 * X_2 + \varepsilon \qquad (1)$$

R is a vector of normalized returns (ROE or ROA) for the cross-section, X_1 is a vector of ownership measures, X_2 is a vector of control variables, and ε is the error term. Summary statistics for the X_1 vector of ownership measures are provided in Table 1. The control variables for X_2 the debt/asset ratio and firm size.

Data, Summary Statistics

Our data were from the two major exchanges for 2018. Unfortunately, the data provider only supplied data for 2018. A total of 729 firms actively traded during 2018, and we used data from those 729 firms for our analysis. The key ownership and variables are described in Table 1 below. Table 1 shows a high degree of insider ownership. Blocks (ownership holdings greater than 5% of shares) represent nearly 39% of the shareholdings. Concentration is a dummy variable that took the value of 1 if there were one or more shareholders with greater than 10% ownership, and 0 otherwise. Its mean was 40%. Foreign ownership averaged 10.4%, which was meaningful but was still swamped by insiders. Those related to the board of directors' (related person) holdings averaged nearly 1.5%, with CEOs' holdings being about 3.8% of the firms' shares in the sample. Despite the importance of bank financing in Vietnam, banks held less than 1% of shares on average in our sample. The variables used in 1, 2, 3, 4 and 5 are defined in Appendix 2.

Table 2 presents the correlation matrix between all the regressors. As this table shows, the correlation coefficients between the regressors are relatively small. Thus, multicollinearity is not a serious problem in this study. Besides, block holdings, foreign share-

Table 1. Summary Statistics

Variable	N	Mean	Std. Deviation	Min	Max
ROA	729	0.055	0.083	-0.370	0.812
ROE	729	0.105	0.167	-1.687	1.607
Own_Blockholding	729	0.387	0.300	0.000	1.000
Own_Bank	729	0.008	0.069	0.000	0.799
Own_Foreign	729	0.104	0.145	0.000	0.776
Own_Concentration	729	0.398	0.490	0.000	1.000
Own Related Person	729	0.015	0.042	0.000	0.358
Own_CEO	729	0.038	0.079	0.000	0.612
Debt to Assets	729	0.471	0.238	0.000	0.993
Firm Size	729	11.978	0.759	10.201	15.118

Table 2. Correlation matrix

	ROA	ROE	Own_ Block-holding	Own_ Bank	Own_ Foreign	Own_ Concen-tration	Own Related Person	Own_ CEO	Debt to Assets	Firm Size
ROA	1									
ROE	0.823	1								
Own_ Blockholding	0.105	0.086	1							
Own_Bank	-0.016	-0.019	0.157	1						
Own_Foreign	0.123	0.095	0.170	-0.007	1					
Own_ Concentration	-0.057	-0.027	-0.472	-0.049	-0.121	1				
Own Related Person	0.060	0.091	-0.270	-0.036	-0.044	0.272	1			
Own_CEO	0.037	0.054	-0.383	-0.047	-0.079	0.437	0.170	1		
Debt to assets	-0.286	-0.102	0.023	-0.050	-0.110	0.053	0.040	0.080	1	
Firm size	-0.004	0.119	0.102	0.047	0.312	-0.152	-0.025	-0.055	0.170	1

holding, CEOs' ownership, and ownership by those related to board members all exhibit positive correlations with ROA and ROE, while bank holdings and concentration exhibit negative correlations. This would indicate that these variables might have a positive or negative effect on firm performance.

Discussion

Pre-tests and data

We performed the White Test for heteroscedasticity producing a chi-squared value of 40.89, giving a p-value of 0.561 for the results on ROA (Table 3 below), indicating that heteroscedasticity not present. Similarly, for ROE we obtained a chi-squared value of 23.62 for a p-value of 0.993, also indicating that heteroscedasticity was not present. These findings for both variables were also confirmed by the Spearman test. We also tested for multicolinearity using the VIF test. In Table 3 below, a VIF value below 2 is consistent with no multicolinearity between the independent variables.

Null hypotheses and results

The simple null hypothesis was that the ownership variables would have no im-

Table 3. VIF Test

Variable	VIF value
Block	1.508
Bank	1.040
Foreign	1.479
CEO	1.513
Concentration	1.772
Related	1.208

Table 4. Regression results: ROA dependent variable as a function of ownership and control variables, 2018 Financial Year

Dependent Variable	ROA	Mean=0.105	Standard deviation=0.167
Independent variable	Estimated coefficient	p-value	t-ratio
Constant	0.087*	0.083	1.47
Block holdings	0.036***	0.003	2.65
Bank holdings	-0.039*	0.041	-2.05
Foreign holding	0.063**	0.008	2.67
CEO holdings	0.106**	0.013	2.36
Concentration	-0.011	0.135	1.42
Related holdings	0.192**	0.011	2.28
Debt to assets	-0.003***	0.000	3.40
Firm size	-0.004	0.324	1.00
Regression statistics	Adjusted R^2=0.077	Nobs=729	Regression F=7.46
Industry dummy	Yes		

*Significance at 10%. **Significance at 5%. ***Significance at 1%

Table 5. Regression results: ROE dependent variable as a function of ownership and control variables, 2018 Calendar year

Dependent Variable	ROE	Mean=0.055	Standard deviation=0.083
Independent Variable	Estimated Coefficient	p-value	t-ratio
Constant	-0.274***	0.003	3.06
Block holdings	0.071***	0.001	2.80
Bank holdings	-0.108***	0.003	2.96
Foreign holdings	0.024	0.557	0.57
CEO holdings	0.206***	0.015	2.45
Concentration	-0.01	0.564	0.58
Related holdings	0.459***	0.001	3.22
Debt to assets	-0.012***	0.000	15.96
Firm size	0.039***	0.000	4.19
Regression Statistics	Adjusted R^2 =.202	Nobs=729	Regression F=23.991
Industry dummy	Yes		

*Significance at 10%. **Significance at 5%. ***Significance at 1%

pact on firm performance. The alternative hypothesis was that the various ownership variables would have a statistically significant impact on firm performance. This, however, did not adequately describe what we could expect to learn from the results. As outlined in the introduction to the paper, the typical or expected result would be that greater ownership by insiders would have a negative impact on firm performance, consistent with the literature on entrenchment (Jensen, 1986, 2001). Specifically, this view was based on the belief that block-holding, concentration, related persons and CEOs' ownership should be negatively related to firm performance. Foreign ownership would be positively related to firm performance under this view, with foreigners acting as monitors. Bank ownership could be either positive or negative (positive if a monitoring effect dominates, negative if banks are insiders). In the Vietnamese case, we anticipated that corporate groupings

were relatively young, and often linked to founders who may act as vigilant monitors. As such, the types of inside ownership described above may be associated with better firm performance. We also had some prior beliefs concerning the signs of the control variables, and these will be discussed below. The results are presented in the following two tables.

The results of Table 4 are generally consistent with the monitoring hypothesis. Table 3 uses ROA as the profitability measure, whereas Table 5 presents results using ROE as the profitability measure. Generally, ROA is the preferred profitability measure in studies such as this one as it is uncontaminated by debt interest payments and extraordinary items. Furthermore, analysis of entrenchment/insider behavior focuses on ROA measures due to potentially large movements in the value of the shareholders' equity. This can be remedied by using panel data, which is discussed below in terms of extensions. Furthermore, the ROE results was somewhat problematic for us, given that Vietnamese equity prices rose by over 64% on average in 2017 and then fell by nearly 13% in 2018. The adjusted R-squared for ROA and ROE was 7.7% and 20.2% respectively. The range of adjusted R-squared was reasonable for ROA, ROE and similar to that found by previous studies (see, for example, Son et al. 2015; Bennouri et al. 2018). While the ROE results would seem to be more reliable given the higher regression F, both values were reasonably high given the number of observations. We therefore focus on the results of Table 4 using ROA as the profitability measure for conformity with other studies. Overall, the results using either profitability measure were similar.

In terms of similarities of results, block holdings, CEOs' ownership, and ownership by those related to board members had a statistically significant positive impact on both normalized profitability measures. In contrast, the normalized amount of debt was statistically negative in both cases. The role of banks as risk averse monitors reducing profitability was similar to the Japanese case. We can reject the null hypothesis of no impact for the regression results for these variables for both dependent variable measures in these cases, to focus on these results first. In contrast to the frequent finding of a negative influence, the insiders' role seemed to be positive in the Vietnamese case for the calendar year 2018. In the absence of other evidence, this would imply that Vietnam's insiders performed a positive monitoring role, exercising their relative power to ensure the firm's profitable functioning. In terms of international comparison, this was in stark contrast to the post-war high growth period in Japan, where insiders functioned as in the entrenchment hypothesis. Banks, on the other hand, did seem to perform as per the bank entrenchment hypothesis (Jensen, 1986, 2000; Morck and Nakamura, 1999; Beason, 1998). The major difference in terms of banks in the Vietnamese case is that they were very minor shareholders, compared to the Japanese case.

The logic here is simple, though in contrast to the entrenchment hypothesis, and more in line with family-related industrial groups such as in the Korean case (Beason et al., 2018). That is, a high degree of entrenchment in terms of either block holdings or concentration might typically allow managers to deviate from profit maximization. Alternatively, the close block/family holdings might serve as an effective monitoring mechanism, given that family wealth is a function of firm performance. Thus, our results linking block holdings, CEO ownership, and re-

lated ownership to firm performance to both dependent variables reflected this relationship between the close ties to the firm and a strong monitoring relationship. Moreover, this was also reasonable in Vietnam. Many listed companies in Vietnam were previously state-owned enterprises, with CEOs holding a large number of shares, aligning their interests with higher profitability. Other block holders also appeared to have their interests aligned with higher profitability.

Some other observations proved useful. Very high concentrations, such as shareholders or blocks holding a 10% or greater stake were statistically insignificant regardless of the profitability measure chosen. In our sample, this essentially reflected that all positive monitoring effects were already captured in the block holding measure. However, in general, one would have expected this relationship to be non-linear, with a negative impact beyond some ownership level. Quite possibly, our inability to find a statistically significant adverse impact beyond some level of ownership was a result of the fact that we were only able to use a simple cross-section, due to data limitations.

The dichotomy of results for foreign (purely independent) shareholding was almost certainly due to the impact of cross-sectional versus pooled analysis, and the fact that the ROE results were likely to be less reliable than the ROA results due to the "cleaner" nature of the ROA measure. Almost certainly, foreigners were the purest form of the outsider, and the extent of their shareholding should have had a positive impact on profitability. We found this for the ROA measure but not ROE. Again, this was likely related to the nature of the ROE measure and the fact that our sample was a one-year cross-section. For example, 2017 was a year of extreme returns, with stock prices rising by nearly 65%, as measured by MSCI .

On the other hand, after profit-taking, 2018 was characterized by a 12.7% decline in share prices averaged over our two exchanges, as measured by MSCI. This impact of profit-taking reduced our denominator measure for ROE and, therefore, affected the foreign shareholders' measured impact for our sample year. Again, this was a limitation of our simple cross-section. We expected that there would be consistent foreign ownership and profitability measures once we could extend to a panel data set.

Furthermore, we divided the firms into eight different sectors (level 1), including Banks, Basic Materials, Consumer Goods, Consumer Services, Financials, Health Care, Industrials, Oil & Gas, Technology, and Utilities. When we controlled for industry differences; extended analyses further showed that the sign of relationship between variables were hold (see Appendix 3, 4)

In terms of the control variables, we had no strong opinions about firm size, except that firm size would have an impact on liquidity, thereby possibly affecting profitability. Again, however, we found a positive and significant impact in terms of ROE (which should be affected by the market's interpretation of the positive impact of size-liquidity on profitability). In contrast, the impact on ROA was nugatory . On the other hand, the debt structure was entirely consistent in terms of its impact on ROE and ROA (negative), as was expected. Indeed, all else being equal, debt charges (a cost variable) must have negatively impacted any normalized profitability measure. This control variable served to ensure the proper specification of our empirical models.

Extensions

Our results were reasonable, though the positive and significant impact of foreign holdings on profitability with the ROA measure contrasted with the statistically insignificant impact under the ROE measure. We did not consider this a major problem due to the "cleaner" nature of ROA as a measure of profitability. In nearly every study of ownership structure, control and performance, foreign shareholdings have been the most "outside," and therefore associated with a positive impact on profitability or returns. We did not doubt that this relationship would extend to Vietnam and put most of our credence on the results using the ROA measure. Nevertheless, our future significant extension will be to hand collect/input data for an additional four year period for a total of five years and 729 firm observations, once access to the data is again possible after COVID.

A further extension is comparability. As outlined in the introduction, we have some basis for comparison with similar research for Japan and Korea. In comparison with Japan, our results were generally at odds, at least in terms of ownership structure, bank/financial sector ownership and firm performance. In Japan's case, insiders generally exerted a negative influence (or at least until the 2000s), including the banks' role. In Korea, by focusing on the quality of accruals estimates (rather than general firm performance), it was found that insiders had a positive influence, perhaps as concerned monitors. Our results in this paper are compatible with those results. In future extensions, we will seek to pool data for Vietnam, China, Japan, and Korea to understand the similarities and differences in ownership structure, control, and performance.

Conclusions

In this paper, we have attempted to place Vietnam within the general context of the ownership-control and entrenchment debate. Our results are more generally consistent with insiders serving as monitors as opposed to insiders acting as rent-seekers. Our findings for pure outsiders, such as foreigners, are sensitive to the dependent variable's choice, though the findings using ROA (the preferred measure) are consistent with foreigners acting as monitors. Overall, the Vietnamese stock market does not appear to be negatively affected by insider influence. Indeed, insiders appear to act as positive monitors. This is generally speaking consistent with previous findings, with respect to large Korean groupings, but inconsistent with Japanese groupings.

Acknowledgement

We would like to thank the sponsor of the Vietnam National University Hanoi for supporting the research group in data collecting from the research project no. QG21.44.

References

Bao, P. Q. (2019). Study on impacts of climate change and ownership structure on the performance of power generation companies in Vietnam (Doctoral dissertation, University of Economics Ho Chi Minh City).

Beason, D. (1998). Keiretsu affiliation and share price volatility in Japan. *Pacific-Basin Finance Journal*, 6(1-2), 27-43.

Beason, D., Dong-Soon, K., Renee, K., and Vikas, M., (2018), Accruals Quality and the role of insiders in Korea, working paper.

Bennouri, M., Chtioui, T., Nagati, H., & Nekhili, M. (2018). Female board directorship and firm performance: What really matters? *Journal of Banking & Finance*, 88, 267-291.

Bhagat, Sanjai, and Brian Bolton. "Director Ownership, Governance, and Performance." *The Journal of Financial and Quantitative Analysis*, vol. 48, no. 1, 2013, pp. 105-35.

Berle, A., Means, G., 1932. The Modern Corporate and Private Property. McMillan, New York, NY

Chen, M. H., Hou, C. L., & Lee, S. (2012). The impact of insider managerial ownership on corporate performance of Taiwanese tourist hotels. *International Journal of Hospitality Management,* 31(2), 338-349.

Cheung, W. A., & Wei, K. J. (2006). Insider ownership and corporate performance: Evidence from the adjustment cost approach. *Journal of Corporate Finance*, 12(5), 906-925.

Coase, R. H. (1993). The nature of the firm: origins, evolution, and development. Oxford University Press, USA.

Dau, L.A., R. Morck and B. Yeung (2021). Corporate Governance, Business Group Governance and Development Traps: A Coasean Synthesis and Extension. *Journal of International Business*, forthcoming.

Dahya, Jay, and John J. McConnell. "Board Composition, Corporate Performance, and the Cadbury Committee Recommendation." *The Journal of Financial and Quantitative Analysis*, vol. 42, no. 3, 2007, pp. 535-64.

DeAngelo, H., & DeAngelo, L. (1985). Managerial ownership of voting rights: A study of public corporations with dual classes of common stock. *Journal of Financial Economics*, 14(1), 33-69.

Demsetz, H. (1983). The structure of ownership and the theory of the firm. *The Journal of law and economics*, 26(2), 375-390.

Demsetz, H., & Villalonga, B. (2001). Ownership structure and corporate performance. *Journal of corporate finance*, 7(3), 209-233.

Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and control. *The journal of law and Economics*, 26(2), 301-325.

Han, K. C., & Suk, D. Y. (1998). The effect of ownership structure on firm performance: Additional evidence. *Review of Financial Economics*, 7(2), 143-155.

Hart, O. D. (1983). The market mechanism as an incentive scheme. *The Bell Journal of Economics*, 366-382.

Hoshi, T., Kashyap, A., & Scharfstein, D. (1990). The role of banks in reducing the costs of financial distress in Japan. *Journal of Financial Economics*, 27(1), 67-88.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305-360

Jensen, M., 1986. Agency Costs of Free Cash Flow, Corporate Finance and Takeovers. *American Economic Review Papers and Proceedings*, 76: 323-329.

Jensen, M., 2001. Value Maximization, Stakeholder Theory and the Corporate Objective Function. *European Financial Management*, 7: 297-317.

Jensen, M. C., & Ruback, R. S. (1983). The market for corporate control: The scientific evidence. *Journal of Financial Economics*, 11(1-4), 5-50.

Kaul, A., Mehrotra, V., & Morck, R. (2000). Demand curves for stocks do slope down: New evidence from an index weights adjustment. *The Journal of Finance*, 55(2), 893-912.

McConnell, J. J., Servaes, H., & Lins, K. V. (2008). Changes in insider ownership and changes in the market value of the firm. *Journal of Corporate Finance*, 14(2), 92-106.

McConnell, J. J., & Servaes, H. (1990). Additional evidence on equity ownership and corporate value. *Journal of Financial Economics*, 27(2), 595-612.

Mehran, H. (1995). Executive compensation structure, ownership, and firm performance. *Journal of Financial Economics,* 38(2), 163-184.

Mehrotra, V., Van Schaik, D., Spronk, J., & Steenbeek, O. (2011). Creditor-focused corporate governance: evidence from mergers and acquisitions in Japan. *Journal of Financial and Quantitative Analysis*, 1051-1072.

Morck, R., and M. Nakamura. "Banks and Corporate Control in Japan." *Journal of Finance*, 54 (1999), 319-339.

Morck, R., Shleifer, A., & Vishny, R. W. (1988). Management ownership and market valuation: An empirical analysis. *Journal of Financial Economics*, 20, 293-315.

Nakatani, I. (1984). The economic role of financial corporate grouping. The economic analysis of the Japanese firm, 20, 227-258.

Nguyen, T, N., & Tu, T, T.T., (2017), Overview of Vietnamese Banking, Conference on Banking, Vietnam National University.

Park, K., & Jang, S. S. (2010). Insider ownership and firm performance: An examination of restaurant firms. *International Journal of Hospitality Management*, 29(3), 448-458.

Phong, N. A. (2017). Impact of scale and foreign ownership on firm performance. *Hue University Journal of Science: Economics and Development*, 126 (5C), 75-85.

PricewaterhouseCoopers (2017), "The World in 2050" (PDF).

Shleifer, A. (1986). Do demand curves for stocks slope down?. *The Journal of Finance*, 41(3), 579-590.

Son, N. H., Tu, T. T. T., Cuong, D. X., Ngoc, L. A., & Khanh, P. B. (2015). Impact of ownership structure and bank performance-an empirical test in Vietnamese banks. *International Journal of Financial Research*, 6(4), 123.

Stulz, R. (1988). Managerial control of voting rights: Financing policies and the market for corporate control. *Journal of Financial Economics*, 20, 25-54.

Thao, Â. T. P. (2019). The impact of state ownership on the performance of listed companies on the HOSE and HNX

Vinh, V. X. (2014). Ownership structure, firm performance and corporate value on Vietnam's stock market. *Development and Integration Journal*, 16, 28-32.

Weinstein, D. E., & Yafeh, Y. (1998). On the costs of a bank-centered financial system: Evidence from the changing main bank relations in Japan. *The Journal of Finance*, 53(2), 635-672

WorldBank.org. (2017) "VDR.pdf" (PDF).

Wruck, K. H. (1989). Equity ownership concentration and firm value: Evidence from private equity financings. *Journal of Financial Economics,* 23(1), 3-28.

Appendix 1: Summary statistics for the Vietnamese economy

Year	Real GDP Growth	Inflation (%)	Government Debt/GDP
1987	2.5	360.4	
1988	5.1	374.4	
1989	7.8	95.8	
1990	5.0	36.9	
1991	5.8	81.8	
1992	8.7	37.7	
1993	8.1	8.4	
1994	8.8	9.5	
1995	9.5	16.9	
1996	9.3	5.6	
1997	8.2	3.1	
1998	5.8	8.1	
1999	4.8	4.1	
2000	6.8	-1.7	31.4
2001	6.9	-0.3	32.3
2002	7.1	4.0	35.2
2003	7.3	3.3	38.8
2004	7.8	7.9	37.4
2005	7.5	8.4	36.5
2006	7.0	7.5	38.4
2007	7.1	8.4	40.9
2008	5.7	23.1	39.4
2009	5.4	6.7	45.2
2010	6.4	9.2	48.1
2011	6.2	18.7	44.6
2012	5.2	9.1	48.4
2013	5.4	6.6	51.8
2014	6.0	6.6	55
2015	6.7	0.6	57
2016	6.2	2.7	59.8
2017	6.8	3.5	58.2

Source: IMF 'Report for selected countries and subjects' 2018

Appendix 2: Description of key variables

Variable	Measurement/Description
Block holdings	Ownership holdings > 5% of shares outstanding.
Bank holdings	% of shares outstanding held by banks.
Concentration	Dummy variable=1 if one or more shareholders owns>10% of shares outstanding.
Related person	% of shares outstanding held by persons related to the board of directors.
CEO	% of shares outstanding held by the CEO.
Debt to assets	Value of corporate debt relative to value of assets.
Firm size	Natural logarithm of total assets of the firm.
Foreign holdings	% of shares outstanding held by foreigners.

Appendix 3: Regression results: ROA dependent variable as a function of ownership and control variables with different sectors

Dependent Variable	ROA	Mean = 0.105	Standard deviation = 0.167
Independent Variable	Estimated Coefficient	p-value	t-ratio
Constant	-0.121**	0.042	-2.04
Block holdings	0.038***	0.002	3.14
Bank holdings	-0.071***	0.005	-2.79
Foreign holdings	0.010	0.184	-1.33
CEO holdings	0.127***	0.002	3.04
Concentration	-0.010	0.184	-1.33
Related holdings	0.222***	0.010	2.60
Debt to assets	-0.132***	0.000	4.04
Firm size	0.020***	0.000	4.04
Bank	-0.181***	0.000	-8.86
BMI	-0.037***	0.003	-2.94
CGI	-0.023*	0.099	-1.65
IND	-0.025**	0.031	-2.16
FIN	-0.026**	0.032	-2.15
HC	0.009	0.698	0.39
CS	0.003	0.851	0.19
OG	-0.068***	0.000	0.015
Tech	0.006	0.874	0.039
Regression statistics	Adjusted R^2=0.189	Nobs=729	Regression F=10.83

*Significance at 10%, **Significance at 5%, ***Significance at 1%

Appendix 4: Regression results: ROE dependent variable as a function of ownership and control variables with different sectors

Dependent Variable	ROE	Mean = 0.055	Standard deviation = 0.083
Independent Variable	Estimated Coefficient	p-value	t-ratio
Constant	-0.367***	0.001	-3.20
Block holdings	0.078***	0.005	2.79
Bank hoAldings	-0.131***	0.003	-2.94
Foreign holdings	-0.006	0.890	-0.14
CEO holdings	0.221***	0.009	2.61
Concentration	-0.006	0.727	-0.35
Related holdings	0.479***	0.001	3.22
Debt to assets	-0.105***	0.008	-2.67
Firm size	0.043***	0.000	4.34
Bank	-0.132***	0.003	-3.01
BMI	-0.070***	0.004	-2.86
CGI	-0.021	0.370	-0.90
IND	-0.045***	0.006	-2.74
FIN	-0.027	0.152	-1.43
HC	-0.008	0.807	-0.24
CS	0.026	0.467	0.73
OG	-0.116***	0.000	-5.33
Tech	0.023	0.717	0.36
Regression statistics	Adjusted R^2=0.093	Nobs=729	Regression F=5.75

*Significance at 10%, **Significance at 5%, ***Significance at 1%