

# Foreign Ownership and Firm Performance - Evidence in Vietnam

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## ARTICLE INFO

## ABSTRACT

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The paper aims to investigate the relationship between foreign ownership and firm performance in Vietnam. We use a data set including market and accounting variables of firms listed on Ho Chi Minh Stock Exchange (HOSE) for the period from 2007 to 2012. The results show a significant correlation between foreign ownership and firm performance. The regressions on each level of foreign ownership indicate that foreign ownership is found to be significantly and positively correlated with firm performance when foreigners own between 5% and 20% of shares in firms, while a negative correlation occurs where foreign holdings are more than 20%, specially and considerably negative where the level is more than 40%; and there is no significant relationship between the two variables where foreigners own less than 5% of shares.

## 1. INTRODUCTION

The relationship between ownership structure and firm performance has been examined in many published papers. However, the results are mixed in the literature. Some papers show no effect of ownership structure on firm performance, while others indicate that there is a correlation between these two factors. There are not much published research concerning this relation in Vietnam, an emerging market, and we attempt to enrich the literature by empirically investigating this nexus.

The fraction of foreign ownership in Vietnamese firms increases considerably in recent years although local investors are still dominant in Vietnamese firms, and most of management positions are still held by Vietnamese. However, as most foreign investors in Vietnamese firms are institutional investors, foreign ownership gradually plays an important role in creating value to the firms by bringing solid financial sources, modern technology, and management expertise and skills. In addition, increased foreign ownership results in the following: better disclosure, better accounting and auditing standards, good use of better auditors, increased incentive alignment, and greater monitoring. On the other hand, it may bring the reversed results due to short term investment horizon and increased monitoring costs.

Most Vietnamese believe that increasing foreign ownership will lead to better firm governance and value. A very recent draft regulation is expected to allow for an increase ceiling limit of foreign ownership in Vietnamese firms. Therefore, the question of whether foreign ownership drives firms to better performance in Vietnam is an interesting issue to be explored in this paper.

The present paper employs a selected sample of the companies listed on HOSE for the period from 2007 to 2012. Due to the data availability, the paper is limited to examine the impact of foreign ownership on firm performance without taking into account origin of foreign investors.

The paper has strong implications on its own merits. Emerging markets are generally considered as low information environment and they are providing unique settings to investigate the impacts of foreign ownership on firm value. Change in ownership structure is normally leading to change in corporate strategies; it is more likely to be more pronounced in emerging markets than in rich information settings of developed markets. In addition, a surge in foreign investors' presence in Vietnam stock

markets in recent years is a notable feature that draws attention to not only academic but regulators and other stakeholders.

The remainder of this paper is organized as follows. The literature review section summarizes previous studies on this topic. The data and the methodology employed in the paper are presented in the next section. The analysis section introduces the empirical findings. The final section concludes the paper.

## **2. LITERATURE REVIEW**

Since the early work of Berle & Means (1932) and Jensen & Meckling (1976), the ownership-performance relationship has been the subject of voluminous researches; however, no agreement has been reached. Most of the published papers rely on the theoretical foundation of agency theory in explaining the ownership and firm performance. This theory suggests that managers and shareholders have conflicting interests that affect the performance of firms. This theory also implies that different types of ownership will have different effects on firm performance due to their management skills, effectiveness of controls and relationship with different stakeholders.

Regarding the impact of foreign ownership on firm performance in emerging markets like Vietnam, it is expected that foreign investors help enhance firm performance due to advanced management and financial skills and knowledge, technology advantage and relationship with other stakeholders. However, the empirical results are mixed.

On the one hand, various studies find little or no evidence of link between ownership structure and firm performance (Benfratello & Sembenelli, 2006; Demsetz & Lehn, 1985; Demsetz & Villalonga, 2001; Globerman, Ries & Vertinsky, 1994; Griffith, 1999a; Griffith, 1999b; Himmelberg, Hubbard & Palia, 1999; Klunghland & Sunde, 2009; Mihai, 2012; Morck & Nakamura, 2000; Morck, Nakamura & Shivdasani, 2000; Welch, 2003).

On the other hand, many authors report a positive link between foreign ownership and firm value (Abidin, Kamal & Jusoff, 2009; Aitken & Harrison, 1999; Al-Shiab & Abu-Tapanjeh, 2005; Alonso-Bonis & Andrés-Alonso, 2007; Andersson, Nordwall & Salomonsson, 2004; Aydin, Sayim & Yalama, 2007; Bilyk, 2009; Burker, Casaburi & Menerva, 2009; Cho, 1998; Cornett, et al., 2009; Dinga, Dixon & Stratling, 2009;

Doms & Jensen, 1998; Drakos & Bekiris, 2010; Farooque et al., 2007; Fishman, Gannon & Vinning, 2005; Forsyth & Dwyer, 1968; Gelubcke, 2011; Ghahroudi, 2009; Girma, Greenaway & Wakelin, 2001; Grant & Kirchmaier, 2004; Hake, 2008; Harris, 2002; Harris & Robinson, 2003; Hess, Gunasekarage & Hovey, 2010; Hu & Zhou, 2006; Jiang, 2004; Kapopoulos & Lazaretou, 2007; Kuznetsov & Muravyev, 2001; Laurenceson & Qin, 2008; Lee, 2008; Lee & Chuang, 2009; Lisboa & Esperanca, 2006; McConnell & Servaes, 1990; Mudambi & Nicosia, 1998; Park, 2001; Pervan, Pervan & Todoric, 2012; Priya & Shanmughan, 2011; Szép, 2007; Temouri, Driffield & Higon, 2008; Wan, 1999; and Yasar & Paul, 2007). Most of these studies employ the panel data linear regression to investigate the foreign ownership - firm performance nexus.

A number of papers further examining the relationship between foreign ownership and firm performance in different degree of ownership in firm include Aitken and Harrison (1999), Blomström & Sjöholm (1999), Chhibber & Majumdar (1999), Dimelis & Louri (2002), and Takii (2004). For example, using U.S. data, Morck, Shleifer, & Vishny (1988) have empirically showed a non-linear relation between firm value and managerial ownership: firm value increases up to a certain level of managerial ownership (i.e. 5%) and then decreases as management holdings further rise. Similar results are found in McConnell & Servaes (1990), Hermalin & Weisbach (1991), and Kole (1995) using U.S. data. Other strands of papers employ non-linear regression to examine this relationship (Sun & Tong, 2003; Sun, Tong & Tong, 2002; Tian, 2001; Xu & Wang, 1999).

Nonetheless, there have been very few published studies on the topic of foreign ownership and firm performance relation employing Vietnam firm data. The purpose of this study is to examine whether there exists a relationship between foreign ownership and corporate performance in Vietnam. We argue that foreign ownership in Vietnam is at advantage in terms of management skills, and experience in corporate control, and that expertise in management and technology will improve firm performance.

### **3. MODEL AND DATA**

Data: We use listed firm level data on the HOSE for the period 2007-2012 for our analysis. Data are provided by HOSE. The selected firms must be listed on HOSE at least one year before the year of analysis and in operation at the time of research. In

addition, the selected firms must be non-financial firms. To be in compliance with our sample selection criteria, the final dataset is an unbalanced panel data set which includes 567 firm-year observations.

The literature reveals that most of previous researches have developed their own models based on the model introduced by Demsetz & Villalonga (2001). Our model is similar to the one suggested by Drakos & Bekiris (2010), which is the most recently modified version of Demsetz & Villalonga (2001)'s one. The model is presented as follows:

$$\text{Performance} = \beta_0 + \beta_1 \text{foreign\_own} + \beta_2 \ln\_assets + \beta_3 \text{debt\_asset} + \varepsilon$$

where: Performance is firm performance; measured by Tobin's Q. Tobin's Q is calculated as the sum of total year-end book value of debt and total year-end market value of equity, divided by total year-end book value of assets. Return on assets is calculated as profit after tax divided by total firm asset at year end; foreign\_own is foreign ownership, measured by proportion of shares owned by foreigners in the firms at year end; ln\_assets is firm size, calculated as logarithm of total assets at year end; debt\_asset is leverage, calculated as total year-end debt over total year-end assets.

Model for Non-Linear Relationship: Morck, Shleifer & Vishny, (1988) argue that the relationship between ownership and firm performance might not be linear. To capture this possibility, several studies investigate the nonlinear relationship between ownership and firm value (Sun & Tong 2003; Sun, Tong & Tong 2002; Tian 2001; Xu & Wang 1999). In order to test for the existence of a possible non-linear relation between Tobin's Q and foreign equity ownership, we employ an equation similar to the one in McConnell & Servaes (1990) who regress Tobin's Q against foreign ownership and squared of foreign ownership.

$$\text{Performance} = \beta_0 + \beta_1 \text{foreign\_own} + \beta_2 (\text{foreign\_own})^2 + \varepsilon$$

#### 4. RESULTS AND DISCUSSIONS

##### a. Descriptive Statistics:

Table 1 presents the statistic description of the dependent and explanatory variables in each fraction of foreign ownership concentration and in the whole studied sample.

**Table 1: Descriptive Statistics**

|  | <b>Mean</b> | <b>Median</b> | <b>Maximum</b> | <b>Minimum</b> | <b>Standard Deviation</b> |
|--|-------------|---------------|----------------|----------------|---------------------------|
| <b>0% &lt; Foreign Ownership &lt; 5%</b> |             |               |                |                |                           |
| PERFORMANCE                              | 1.1154      | 0.9728        | 3.3552         | 0.1124         | 0.5861                    |
| foreign_own                              | 0.0193      | 0.0154        | 0.0498         | 0.0001         | 0.0148                    |
| debt_asset                               | 0.5130      | 0.5353        | 0.9500         | 0.0026         | 0.2133                    |
| ln_asset                                 | 13.1655     | 13.0001       | 19.7228        | 11.6417        | 1.0486                    |
| <b>5% ≤ Foreign Ownership &lt; 20%</b>   |             |               |                |                |                           |
| PERFORMANCE                              | 1.4281      | 1.1786        | 14.6220        | 0.1870         | 1.3534                    |
| foreign_own                              | 0.1167      | 0.1118        | 0.1996         | 0.0501         | 0.0446                    |
| debt_asset                               | 0.4792      | 0.4979        | 0.8929         | 0.0311         | 0.2162                    |
| ln_asset                                 | 13.6992     | 13.7432       | 18.0207        | 11.3920        | 1.1862                    |
| <b>20% ≤ Foreign Ownership &lt; 40%</b>  |             |               |                |                |                           |
| PERFORMANCE                              | 1.6596      | 1.3823        | 7.9140         | 0.1342         | 1.1266                    |
| foreign_own                              | 0.2862      | 0.2822        | 0.3974         | 0.2002         | 0.0570                    |
| debt_asset                               | 0.4304      | 0.4176        | 0.9896         | 0.0657         | 0.1952                    |
| ln_asset                                 | 14.1535     | 13.9200       | 18.8419        | 11.8780        | 1.3145                    |
| <b>40% ≤ Foreign Ownership ≤ 49%</b>     |             |               |                |                |                           |
| PERFORMANCE                              | 1.6601      | 1.3532        | 6.1418         | 0.2279         | 1.1564                    |
| foreign_own                              | 0.4719      | 0.4873        | 0.4900         | 0.4069         | 0.0251                    |
| debt_asset                               | 0.4225      | 0.3633        | 0.8970         | 0.1283         | 0.2193                    |
| ln_asset                                 | 13.9645     | 13.5996       | 18.6916        | 11.8521        | 1.3608                    |
| <b>Whole sample</b>                      |             |               |                |                |                           |
| PERFORMANCE                              | 1.4319      | 1.2212        | 14.6220        | 0.1124         | 1.1018                    |
| foreign_own                              | 0.1918      | 0.1432        | 0.4900         | 0.0001         | 0.1680                    |
| debt_asset                               | 0.4675      | 0.4838        | 0.9896         | 0.0026         | 0.2137                    |

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|          |         |         |         |         |        |
|----------|---------|---------|---------|---------|--------|
| ln_asset | 13.6962 | 13.4801 | 19.7228 | 11.3920 | 1.2688 |
|----------|---------|---------|---------|---------|--------|

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PERFORMANCE is the Tobin's Q, measuring firm performance, which is calculated by the sum of the total market value of the firm, comprising the market value of equity and book value of total debt, divided by the firm's book value of total assets. Foreign Ownership (foreign\_own) is the percentage of shares owned by foreigners. Leverage (debt\_asset) is the proportion of Total Liabilities to Total Assets. Firm Size (ln\_asset) is calculated by log of Total Assets.

It can be seen from table 1 that foreign\_own had the minimum value of 0.0001. In other words, the smallest proportion of shares owned by foreigners in firms was at 0.01%. The mean proportion of equity held by foreigners was at 19.18%; and the highest ownership fraction that foreigners can hold in firm is 49%. This reflects the fact that the current securities laws enforce a limit of maximum 49% in non-financial firms for foreign investors.

Looking at each level of foreign ownership, the maximum value of Tobin's Q reaching 14.6220 at the level of foreign ownership between 5% and 20% coincides with the highest values of PERFORMANCE for the whole sample. The minimum value of PERFORMANCE for the whole sample is 0.1124, which comes from the lowest Tobin's Q corresponding to the level of foreign ownership less than 5%. At the level of foreign ownership between 20% and 49%, the value of PERFORMANCE varies from 0.1342 to 7.9140 and has the mean value of 1.6641. With foreign ownership proportion more than 40%, PERFORMANCE fluctuates from 0.2279 to 6.1418, and has an average of 1.6601.

Through the whole sample, Firm Size (ln\_asset) has the minimal value at 11.3920 (equivalent to 88.608 billion VNĐ) and the maximum at 19.7228 (corresponding to the total assets of 367.712 trillion Vietnam Dongs); Leverage (debt\_asset) reaches 0.0026 as minimal value, 0.9896 as maximal value, and 0.4661 as mean value in the whole sample. This indicates the firms are financed more through assets than liabilities.

#### **b. Correlations:**

Table 2 shows the correlations between the dependent variable and other three independent variables employed in the present paper. The correlation coefficient of 0.159 between the Tobin's Q and Foreign Ownership (foreign\_own) indicates that foreign ownership positively correlates with the Tobin's Q. In other words, the firms which have higher proportion of shares owned by foreigners tend to have better firm performance, and conversely.

**Table 2: Correlation Matrix**

|             | <b>PERFORMANCE</b> | <b>foreign_own</b> | <b>debt_asset</b> | <b>ln_asset</b> |
|-------------|--------------------|--------------------|-------------------|-----------------|
| Q           | 1                  |                    |                   |                 |
| foreign_own | 0.159              | 1                  |                   |                 |
| debt_asset  | -0.534             | -0.159             | 1                 |                 |
| ln_asset    | -0.128             | 0.236              | 0.324             | 1               |

PERFORMANCE is the Tobin's Q, measuring firm performance, which is calculated by the sum of the total market value of the firm, comprising the market value of equity and book value of total debt, divided by the firm's book value of total assets. Foreign Ownership (foreign\_own) is the percentage of shares owned by foreigners. Leverage (debt\_asset) is the proportion of Total Liabilities to Total Assets. Firm Size (ln\_asset) is calculated by log of Total Assets.

The correlation coefficient between the Tobin's Q and Leverage (debt\_asset) is at 0.534. This implies that firms with higher leverage tend to have lower Tobin's Q or vice versa. Firms which are financed more through debt tend to have lower firm performance than firms which are financed more by equity. This reflects the fact that during the period of analysis interest rates in Vietnam are very high, leading to current recession in Vietnamese economy.

The negative correlation between the Tobin's Q and Firm Size (ln\_asset) at -0.128 is consistent with the research by Demsetz & Villalonga (2001) and Drakos & Bekiris (2010), where ln\_asset is expected to produce a negative indication. The smaller the firms are, the higher firm performance tends to be.

### **c. Regression Results:**

In this section, the results of the empirical analyses are presented and discussed. To understand the ownership-performance relationship, we first regress the Tobin's Q on the proxy of overall foreign ownership for the whole of the sample. We then conduct other regressions between the Tobin's Q and the levels of foreign ownership to have a closer look at the relationship.

#### **- Regression on the whole sample**

The OLS results on the whole sample show that the R-squared value, which indicates the explanatory power of independent variables, is 0.2863. This means 28.63% of the variation in the Tobin's Q of the whole sample is explained by the



variation in the independent and control variables. With the Prob(F-statistic) value of zero, it is possible to infer that the model has some validity.

**Table 3: Ordinary Least Squares Regression Results**

| Dependent Variable: PERFORMANCE |             |        |             |        |             |        |             |        |              |        |
|---------------------------------|-------------|--------|-------------|--------|-------------|--------|-------------|--------|--------------|--------|
| Level of Foreign Ownership      | <5%         |        | 5% - <20%   |        | 20% - <40%  |        | 40% - 49%   |        | Whole sample |        |
| Variable                        | Coefficient | Prob.  | Coefficient | Prob.  | Coefficient | Prob.  | Coefficient | Prob.  | Coefficient  | Prob.  |
| foreign_own                     | -0.1622     | 0.9375 | 3.6505*     | 0.0934 | -2.8544*    | 0.0670 | -7.6193**   | 0.0284 | 0.5093**     | 0.0420 |
| debt_asset                      | -1.9634***  | 0      | -2.1553***  | 0      | -2.8482***  | 0      | -3.5324***  | 0      | -2.7124***   | 0      |
| ln_asset                        | -0.0431     | 0.2056 | -0.2481***  | 0.0055 | 0.0949      | 0.1805 | 0.1549**    | 0.0188 | 0.0221       | 0.5205 |
| c                               | 2.6930***   | 0      | 5.4340***   | 0      | 2.3581**    | 0.0295 | 4.5849**    | 0.0146 | 2.2996***    | 0      |
| R-squared                       | 0.573219    |        | 0.243059    |        | 0.221254    |        | 0.478861    |        | 0.290104     |        |
| Adjusted R-squared              | 0.565413    |        | 0.228777    |        | 0.203283    |        | 0.462908    |        | 0.286321     |        |
| F-statistic                     | 73.42415    |        | 17.01869    |        | 12.31165    |        | 30.01658    |        | 76.69129     |        |
| Prob(F-statistic)               | 0           |        | 0           |        | 0           |        | 0           |        | 0            |        |
| Observations                    | 168         |        | 163         |        | 134         |        | 102         |        | 567          |        |

Q is the Tobin's Q, measuring firm performance, which is calculated by the sum of the total market value of the firm, comprising the market value of equity and book value of total debt, divided by the firm's book value of total assets. Foreign Ownership (*foreign\_own*) is the percentage of shares owned by foreigners. Leverage (*debt\_asset*) is the proportion of Total Liabilities to Total Assets. Firm Size (*ln\_asset*) is calculated by log of Total Assets.

\*, \*\*, and \*\*\* denote statistical significance 10%, 5%, and 1%, respectively.

$R^2$  is to measure Goodness-of-Fit of the model as how well independent variables explain the dependent variable (Wooldridge, 2009, p.87).

Prob(F-statistic) is to test whether  $R^2$  is zero. As Prob(F-statistic) is equal to zero, the null hypothesis  $R^2=0$  is rejected at the 0.01 significant level.

As expected, the output presented in the last column of table 3 indicates that there exists a significantly positive relation between the Tobin's Q and foreign ownership. The coefficient for foreign ownership is positive at 0.5093 and significant at the 5% level. This supports the argument that the increased presence of foreign investors in

Vietnamese firms results in better corporate performance and the market has a higher valuation of firms. This result is consistent with previous studies by McConnell & Servaes (1990), Kapopoulos & Lazaretou (2007), Abidin, Kamal & Jusoff (2009), Drakos & Bekiris (2010), and Priya & Shanmughan (2011), which report a positive relation between firm performance and foreign ownership.

- Regression on fractions of foreign ownership

Aitken & Harrison (1999), Blomström & Sjöholm (1999), Chhibber & Majumdar (1999), Dimelis & Louri (2002), and Takii (2004) are among the studies which consider the possibility that firms characterized by different degrees of foreign ownership may perform differently.

We take into account previous researches and the current Vietnam law on securities and enterprise in deciding the ownership level breakpoints for this paper. The existing literature suggests various ranges of ownership levels. McConnell & Servaes (1990) use breakpoints of 5% and 25% in their study of insider ownership and market valuation. Cho (1998) divides the sample into smaller groups by level of insider ownership with breakpoints of 5%, 10%, 20%, 30%, and 40%. Hess, Gunasekarage & Hovey (2010) use 10% and 40% as breakpoints for state ownership when examining the ownership-performance relationship for the state shareholders in China. The breakpoints for this paper are set at 5%, 20%, and 40%.

According to Vietnam Securities Law, major shareholder means a shareholder owning directly or indirectly 5 per cent of the voting shares of the issuing organization. Vietnam Enterprise Law stipulates that one of the conditions to become a member of board of management is to hold at least 5% of total ordinary shares. The board of management is the managing body of the company, which has the full authority to make decisions in the name of the company and to exercise the company's rights and obligations. Therefore, a shareholder owning at least 5% of a company's ordinary shares may become member of board of management and may have influence on important decisions related to the company's operations and development. This is the reason why the breakpoint of 5% is chosen in this paper.

Vietnam Enterprise Law specifies that founding shareholders must own at least 20% of total ordinary shares, where a founding shareholder is defined as a shareholder involved in formulating, approving and signing the first Charter of the company, which prescribes all rights and obligations of the company's personnel, the company's

activities, organization, operations and development. From this it can be inferred that a shareholder with at least 20% of total ordinary shares may be a founding shareholder and, to some extent, may have impact on the company's operations and performance. For this reason, the breakpoint 20% is selected.

Vietnam Enterprise Law indicates that shareholders owning at least 40% and less than 50% of total shares can vote to elect at most 3 members of board of directors and controlling committee. The board of directors shall have at least 3 members and not more than 11. A meeting of the Board of Management shall be conducted where there are three quarters (3/4) of the total members attending. It means that in case where the board of directors consists of 11 members, the meeting cannot be held where 3 members are absent. In Vietnam context, a shareholder owning 40% of shares or more has considerable impact on the company's activities and corporate decisions, which in turn, affect the company performance. This is the rationale for which the breakpoint of 40% is selected.

Table 3 reveals different results when regressing on different levels of foreign ownership. The first column of table 3 depicts the estimates at the level of foreign ownership less than 5%, where the coefficient of foreign ownership is an insignificant event at the 10% level. This means that there is insufficient evidence to establish a linear relationship between foreign ownership and firm performance at the level of foreign ownership less than 5%. Hence, the answer to the first research question of this paper is negative. This finding is similar to those reported by Demsetz & Lehn (1985), Himmelberg, Hubbard & Palia (1999), Demsetz & Villalonga (2001), Klunland & Sunde (2009), and Mihai (2012). Nevertheless, it is interesting to observe that the coefficient is negative, which is contrary to the theoretical benefits of foreign investments. The insignificant coefficient at the level of foreign ownership less than 5% may imply that foreigners hold insufficient shares to be major shareholders, who can intervene the firms' operations and make important decisions in the firms.

At the level of foreign ownership between 5% and 20%, there exists a significantly positive relation between firm performance and foreign ownership. The coefficient for foreign ownership is 3.6505 and is statistically significant at the 10% level. In other words, a 1% point increase in foreign ownership will lead to a 0.0365 rise in the value of Q. This is consistent with the regression results of the whole sample and gives positive answers to the research questions. These findings are also consistent with

those reported by Aitken & Harrison (1999), Yasar & Paul (2007), and Pervan, Pervan & Todoric (2012), who argue that foreign equity participation has a positive impact on firm performance.

An interesting finding is the evidence that foreign ownership with proportion more than 20% appears to have a negative impact on the Tobin's Q. At the 20%-40% foreign ownership level, the coefficient for foreign ownership is negative at -2.8544 and significant at the 10% level. This infers that the Tobin's Q decreases by 0.0285 when foreigners increase their fraction of shareholding by 1% between 20% and 40%.

The slope becomes steep when the foreign ownership level reaches more than 40%. The coefficient is negative at -7.6193 and significant at the 5% level. This implies there is a considerably significant and negative relationship between the Tobin's Q and foreign ownership. In other words, 1% point increase in foreign shareholding at over 40% foreign ownership level will reduce the Tobin's Q by 0.0762 .

These findings differ from those reported by McConnell & Servaes (1990), Kapopoulos & Lazaretou (2007), Abidin, Kamal & Jusoff (2009), Drakos & Bekiris (2010), and Priya & Shanmughan (2011), who find ownership structure has a significant positive role in explaining corporate value. These findings, however, support those reported by Fishman, Gannon & Vinning (2005) and Lee & Chuang (2009), who argue that managerial ownership impacts negatively on firm performance. Hence, these results confirm the first research question of the paper and give a negative answer to the second one.

A likely reason for the different indications at different levels of foreign ownership is that ownership concentration and cultural difference affect firm performance. The more shares the owners hold, the more they would like to involve in firm operations. Diversified ownership structure may cause conflicts of interest between shareholders from different cultures. For instance, the host companies expect to increase their exporting when accepting foreign investment. Meanwhile, foreigners wish to penetrate and expand the domestic market.

With proportion of foreign ownership between 5% and 20%, foreign investors belong to the minor owner group, while Vietnamese are dominant shareholders. Therefore, it may be easier to reach consensus in making decisions on firm operations, which lead to an efficient use of foreign capital and technology and a good application of management skills.

At the higher levels of ownership, especially more than 40%, foreigners become more powerful in managing firms. They bring to the firms different business cultures through their ways management, which may cause divergence in firm management and lead to lower firm performance. Moreover, the conflicts of interest between large shareholders reduce firm performance (Dinga, Dixon & Stratling, 2009; Kuznetsov & Muravyev, 2001).

- Relationship between Firm Performance and Leverage

The results in table 3 indicate that the coefficient for leverage is consistently negative and significant at the 1% level through the whole sample and at each level of foreign ownership. This finding is consistent with most previous studies (Andersson, Nordwall & Salomonsson, 2004; Bilyk, 2009; Demsetz & Villalonga, 2001; Fishman, Gannon & Vinning, 2005; Hess, Gunasekarage & Hovey, 2010; Himmelberg, Hubbard & Palia, 1999; Kapopoulos & Lazaretou, 2007; Lee & Chuang, 2009; Welch, 2003), which find that financial leverage constitutes a significant negative correlation with Tobin's Q and argue that as debts rise, the costs associated with servicing them increase too, firm performance declines. Another possible reason in Vietnam case is that companies have inefficiently used debts by investing in unproductive projects.

Nonetheless, this is opposite to the findings by McConnell & Servaes (1990) and Abidin, Kamal & Jusoff (2009), where leverage is found significantly negatively related to Tobin's Q. They explained that interest payments reduce a firm's tax liability, which leads to increase in firm performance.

- Relationship between Firm Performance and Firm Size

Table 3 reveals different findings regarding relation between firm performance and firm size through the whole sample and at each level of foreign ownership. The results in the whole sample, and those at the levels of foreign ownership less than 5% and between 20% and 40% indicate that there is insufficient evidence to infer that there is a significant relation between firm size and firm performance, even at the 10% level. These results are consistent with previous findings of Demsetz & Villalonga (2001), Andersson, Nordwall & Salomonsson (2004), and Cornett et al. (2009).

An interesting point is that there is a significant negative impact of firm size on firm performance at the 1% level where the fraction of foreign ownership is between 5% and 20%. This contradicts the finding at the level of foreign ownership more than 40%,

which indicates that asset scale and Tobin's Q have a statistically significant positive relation at the 5% level.

The positive relation is explained by the argument that large firms make use of the economies of scale and scope (Abidin, Kamal & Jusoff, 2009; Bilyk, 2009; Himmelberg, Hubbard & Palia, 1999). Large firms have all options to invest in projects that are not available for smaller firms. With large proportion of foreign ownership (more than 40%), the firms benefit well from foreign financial strength to invest in their projects that local investors might not have enough capacity to finance.

The negative indication between firm size and performance is consistent with the findings by McConnell & Servaes (1990), Welch (2003), Lee & Chuang (2009), Drakos & Bekiris (2010), and Hess, Gunasekarage & Hovey (2010). This finding supports the view that larger firm size requires higher level of investments, which produces a negative indication to firm performance (Demsetz & Villalonga, 2001; Drakos & Bekiris, 2010). Lee & Chuang (2009) give another view that when the asset scale is greater, the company may already be in a mature stage, and the opportunity for future growth will be relatively lower. Himmelberg, Hubbard & Palia (1999) argue in that monitoring and agency costs can be greater in large firms, which lead to a decrease firm performance. This is a likely explanation for our case.

- Results of non-linear relationship

**Table 4: Results of Non-Linear Regression**

| Variable          | Coefficient | Std. Error | t-Statistic | Prob.  |
|-------------------|-------------|------------|-------------|--------|
| C                 | 1.0963      | 0.0847     | 12.9484     | 0.0000 |
| FOREIGN_OWN       | 3.8618      | 0.9990     | 3.8657      | 0.0001 |
| (FOREIGN_OWN)^2   | -5.9411     | 2.0258     | -2.9328     | 0.0035 |
| No. of Obs        | 213         |            |             |        |
| R-squared         | 0.0396      |            |             |        |
| F-statistic       | 11.9050     |            |             |        |
| Prob(F-statistic) | 0.0000      |            |             |        |

The results of nonlinear test in table 4 indicate a positive relationship between foreign ownership and firm performance. However, there is a negative relationship in the squared ownership variable. This indicates that foreign ownership can enhance firm

performance to a certain level and then will have a negative effect on firm performance. Therefore, it seems to be true that relationship between foreign ownership and firm value is not monotonic.

## 5. CONCLUSION

Consistent with most of the previous studies, our empirical findings reveal the existence of a significant relationship between foreign ownership and firm performance. When regressing on the whole sample, it is found that the foreign ownership and firm performance constitute a significantly positive correlation. However, the relationship changes by levels of foreign ownership. There is insufficient evidence to find a significant correlation between foreign ownership and firm performance where foreigners hold less than 5% of shares.

Foreign ownership is positively correlated with Tobin's Q when foreigners own between 5% and 20% of shares. Nevertheless, an increase in foreign ownership at substantial levels of foreign ownership (20%-40%, especially more than 40%) will cause a decrease in firm performance. The possible reason is that diversified ownership causes conflicts of interest, which reduce firm performance.

The paper has a number of policy implications. Firstly, we suggest that the increase in foreign ownership leads better firm performance. However, when foreign investors hold more than 20%, the performance decreases. Therefore, it is important to note that foreign investors create spillover effects to other firms in Vietnam markets. However, when becoming controlling and highly concentrated shareholders, the agency problems might arise.

Secondly, it is a time for the government to restructure the stock markets to increase liquidity and provide a channel for firms to attract capital. The results from this paper suggest that foreign ownership should be encouraged to invest in firms to a certain level and there should be a restriction in place. Thirdly, the results also imply that local firms should develop a clear strategy and better governance while practicing transparency to attract more foreign investors.

Finally, individual investors can use the analysis to make a decision for selecting stocks with a certain level of foreign ownership which enhance firm performance to maximize portfolio value.

The current paper considers the relationship between foreign ownership and firm performance with respect to different levels of ownership. We also investigate this relation using the non-linear model. The suggestions for future research include detailed investigation of this relationship in different industry and a simulation study with the hypothetically unlimited level of foreign ownership in firms■

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