DIVESTMENT OF STATE-OWNED SHARES AND FIRM PERFORMANCE :THE CASE OF VIETNAM

By

HONG, Sungmin

THESIS

Submitted to

KDI School of Public Policy and Management

In Partial Fulfillment of the Requirements

For the Degree of

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ABSTRACT

DIVESTMENT OF STATE-OWNED SHARES AND FIRM PERFORMANCE :THE CASE OF VIETNAM

By

SUNGMIN HONG

In Vietnam, the privatization of state-owned enterprises (SOEs) through equitization has been in progress since 1992. Despite such efforts, state-owned shares remain high in most of the equitized SOEs. Thus, the national government of Vietnam started to pursue the divestment of state ownership in equitized SOEs for the purpose of genuine privatization. This paper focuses on identifying the effect of divestment of state ownership on the performance of enterprises. For a more detailed analysis, performance is classified into profitability and financial stability.

This research reviewed the ownership structure change of 740 listed companies in Vietnam from 2001 to 2017, and chose 58 companies that experienced significant divestment of state-owned shares for sample. I calculated the relative performance of selected firms to the market average for both pre- and post-divestment periods. Comparison of the data from these two phases showed that divestment in state-owned shares does not contribute the statistically significant improvement on the performance of enterprises.

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TABLE OF ABBREVIATIONS

CAGR	Compound Average Growth Rate
GDP	Gross Domestic Product
GSO	General Statistics Office
HNX	Hanoi Stock Exchange
HOSE	Hochiminh Stock Exchange
IAS	International Accounting Standard
IFRS	International Financial Reporting Standards
IPO	Initial Public Offering
ROA	Return on Asset
ROE	Return on Equity
SOE	State-Owned Enterprise
USD	US dollar
VND	Vietnamese dong

1. INTRODUCTION

Under Đổi Mới policy for economic reforms, Vietnam has pursued the restructuring of state-owned enterprises (SOEs) for more than 30 years. This reform is still in the progress, and privatization has been a key word of the restructuring policy. Privatization has been achieved in the form of "equitization", and which differs from general privatization programs in other countries in terms of ownership structure after equitization.

In the past 30 years since the start of this initiative, a large number of Vietnamese SOEs have been successfully equitized. However, state entities still hold a majority share of a number of equitized SOEs. In 2016, the Vietnamese government announced that it aimed to equitize 137 SOEs which are undergoing the process of the reform until 2020 (Government of Vietnam, 2016), showing a sign of accelerated equitization and divestment of SOEs. Add to this, the Vietnamese government approved the divestment of SOEs from 2017 to 2020 (Government of Vietnam, 2017). This move showed willingness of divestment.

At this perspective, this paper looks into the Vietnamese economy and the history of equitization in the country. Also, the study reviews existing studies on privatization, ownership structure, and performance, and finally examines whether significant divestment of state-owned share in enterprises improve the performance of listed enterprises.

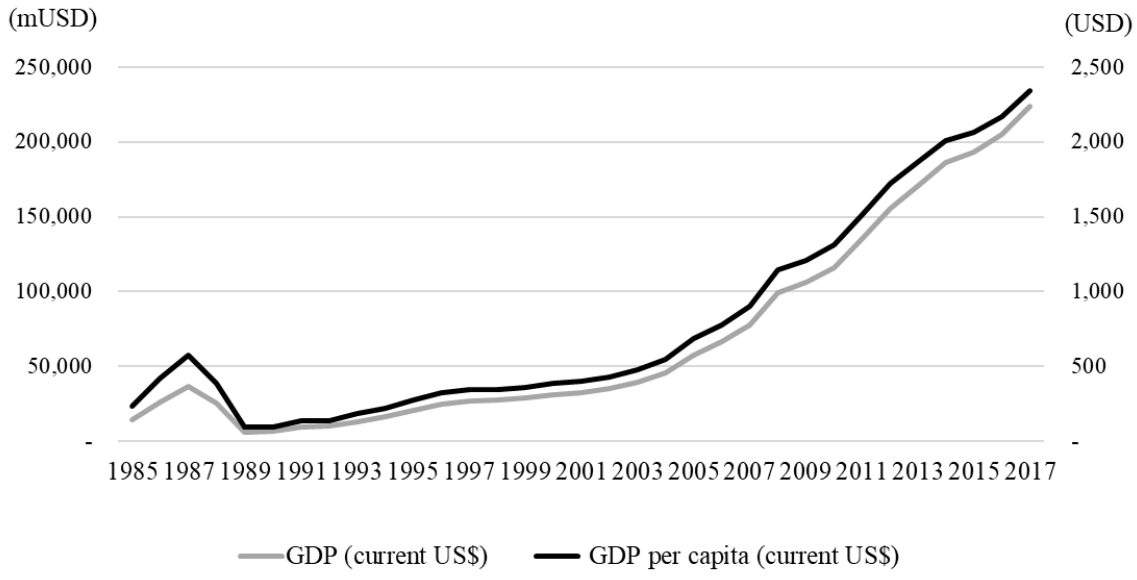
1.1 BACKGROUND OF THE STUDY

VIETNAMESE ECONOMY

The Gross Domestic Product (GDP) of Vietnam has been steadily increasing since 1985. Table

1 shows that the Vietnamese GDP was at USD 14,095 million in 1985, and it reached up to USD 223,864 million in 2017. Its GDP has increased nearly sixteen-fold for last 32 years, showing a Compound Average Growth Rate of (CAGR) 9.03%. The GDP per capita has also been growing. During the same period, it rose by more than 10 times with 7.51% of CAGR, and reached USD 2,343 in 2017. In 1986, under the Đổi Mới policy, several economic reforms were implemented that boosted rapid economic growth. The country had recorded a steep GDP growth, nonetheless, in 1977, due to the Asian Financial Crisis, growth rate significantly declined reaching 1.4% of economic growth rate. After the crisis, the Vietnamese economy had steadily recovered until the Great Recession in 2008. However, in overall, Vietnamese economy has showed steadily and strong GDP growth since 1985.

Figure 1. GDP and GDP per capital of Vietnam (1985 - 2017)



Source: World Bank National Accounts Data, and OECD National Accounts Data

EQUITIZATION IN VIETNAM

Equitization process in Vietnam is classified into four stages. The first stage, the pilot phase, began in 1992 wherein five SOEs were equitized. The next phase – called the extended pilot phase -ran for a period of 1996 to 1998 where 25 SOEs had been equitized. The equitization process then started to accelerate since 1998, and the period 1998 to 2011 is called the accelerated phase. In this accelerated phase, total of 3,946 SOEs were equitized. The last stage, called the restructuring phase, began in 2011.

Table 1. Phase of equitization and number of equitized SOEs

Phase	Time	Number of Equitized SOEs
Pilot phase	1992-1996	5
Extended pilot phase	1996-1998	25
Accelerated phase	1998-2011	3,946
Economic Restructuring phase	2011-2015	508

Source: Le (2017)

In 2011, the Vietnamese government announced the transformation of SOEs with 100% state capital into joint stock companies (Government of Vietnam, 2011). It clearly classified the category of SOEs under reform program (Government of Vietnam, 2016), and finally approved a list of SOEs to be divested (Government of Vietnam, 2017).

As the Vietnamese government pursued steady equitization, the number of SOEs significantly decreased. According to the Statistical Yearbook of Vietnam (2006, 2011, 2015, 2016), the number of SOEs has been declining as described in Table 2. In 2000, there were 5,759 SOEs out of the total 42,288 enterprises. This meant that the state owned 13.62% of enterprises in Vietnam. The number of SOEs and the ratio of SOEs to the total number of enterprises have been decreasing and by 2015, 2,835 enterprises were owned by the state, which accounted for 0.64% of total enterprises.

The number of employees in SOEs has also been declining. In 2000, 2,083 thousand people worked in SOEs, and this accounted for nearly 59.0% of the total of employees. However, this number decreased steadily, and by 2015 only1,372 thousand people worked in SOEs which represented about 10.7% of the total of employees. Moreover, the annual average capital has also been changing throughout the years. As presented in Table 3, VND 670 trillion over VND 998 trillion were in SOEs. However, these number changed drastically. In 2015, only VND 6,945 in trillion out of VND 22,144 trillion were in SOEs. The ratio of capital in SOEs over total also has halved, changing from 67.1% in 2000 to 31.4% in 2015.

Table 2. Number of Enterprises by type

# of Enterprises	2000	2001	2002	2003	2004	2005	2006	2007
State owned enterprise	**5,759**	**5,355**	**5,363**	**4,845**	**4,596**	**4,086**	**3,706**	**3,494**
Central	2,067	1,997	2,052	1,898	1,967	1,825	1,744	1,719
Local	3,692	3,358	3,311	2,947	2,629	2,261	1,962	1,775
Non-State enterprise	**35,004**	**44,314**	**55,237**	**64,526**	**84,003**	**105,167**	**123,392**	**147,316**
Collective	3,237	3,646	4,104	4,150	5,349	6,334	6,219	6,689
Private	20,548	22,777	24,794	25,653	29,980	34,646	37,323	40,468
Collective name	4	5	24	18	21	37	31	53
Limited Co.	10,458	16,291	23,485	30,164	40,918	52,505	63,658	77,647
JSC. with State capital	305	470	558	669	815	1,096	1,360	1,597
JSC. w/o State capital	452	1,125	2,272	3,872	6,920	10,549	14,801	20,862
Foreign investment enterprise	**1,525**	**2,011**	**2,308**	**2,641**	**3,156**	**3,697**	**4,220**	**4,961**
100% foreign capital	854	1,294	1,561	1,869	2,335	2,852	3,342	4,018
Joint venture	671	717	747	772	821	845	878	943
Total	**42,288**	**51,680**	**62,908**	**72,012**	**91,755**	**112,950**	**131,318**	**155,771**
State owned enterprise	***13.62%***	***10.36%***	***8.53%***	***6.73%***	***5.01%***	***3.62%***	***2.82%***	***2.24%***
Central	*4.89%*	*3.86%*	*3.26%*	*2.64%*	*2.14%*	*1.62%*	*1.33%*	*1.10%*
Local	*8.73%*	*6.50%*	*5.26%*	*4.09%*	*2.87%*	*2.00%*	*1.49%*	*1.14%*

# of Enterprises	2008	2009	2010	2011	2012	2013	2014	2015
State owned enterprise	**3,328**	**3,364**	**3,281**	**3,265**	**3,239**	**3,199**	**3,048**	**2,835**
Central	1,669	1,805	1,779	1,798	1,792	1,790	1,703	1,547
Local	1,659	1,559	1,502	1,467	1,447	1,409	1,345	1,288
Non-State enterprise	**196,778**	**238,932**	**268,831**	**312,416**	**334,562**	**359,794**	**388,232**	**427,710**
Collective	13,532	12,249	-	-	-	-	-	-
Private	46,530	47,839	48,007	48,913	48,159	49,203	49,222	47,741
Collective name	67	69	79	179	312	502	507	591
Limited Co.	103,091	134,407	163,978	193,281	211,069	230,640	254,952	287,786
JSC. with State capital	1,812	1,740	1,710	1,751	1,761	1,614	1,536	1,416
JSC. w/o State capital	31,746	42,628	55,057	68,292	73,261	77,835	82,015	90,176
Foreign investment enterprise	**5,626**	**6,546**	**7,248**	**9,010**	**8,976**	**10,220**	**11,046**	**11,940**
100% foreign capital	4,612	5,412	5,989	7,516	7,523	8,632	9,383	10,238
Joint venture	1,014	1,134	1,259	1,494	1,453	1,588	1,663	1,702
Total	**205,732**	**248,842**	**279,360**	**324,691**	**346,777**	**373,213**	**402,326**	**442,485**
State owned enterprise	***1.62%***	***1.35%***	***1.17%***	***1.01%***	***0.93%***	***0.86%***	***0.76%***	***0.64%***
Central	*0.81%*	*0.73%*	*0.64%*	*0.55%*	*0.52%*	*0.48%*	*0.42%*	*0.35%*
Local	*0.81%*	*0.63%*	*0.54%*	*0.45%*	*0.42%*	*0.38%*	*0.33%*	*0.29%*

Source: General Statistics Office of Vietnam (2006, 2011, 2015, and 2016)

Table 3. Number of employees by type of enterprises

Thousand	2000	2001	2002	2003	2004	2005	2006	2007
State owned enterprise	**2,089**	**2,114**	**2,260**	**2,265**	**2,250**	**2,038**	**1,900**	**1,763**
Central	1,301	1,351	1,444	1,464	1,517	1,432	1,373	1,299
Local	787	763	815	801	733	605	527	464
Non-State enterprise	**1,041**	**1,330**	**1,707**	**2,050**	**2,475**	**2,979**	**3,370**	**3,933**
Collective	182	152	160	161	158	160	149	149
Private	236	278	340	378	432	481	499	513
Collective name	0	0	0	1	0	0	0	1
Limited Co.	517	698	923	1,143	1,394	1,595	1,740	1,940
JSC. with State capital	62	114	144	161	184	281	367	435
JSC. w/o State capital	44	88	140	206	307	462	614	895
Foreign investment enterprise	**408**	**489**	**691**	**860**	**1,045**	**1,221**	**1,445**	**1,686**
100% foreign capital	286	364	536	688	865	1,028	1,237	1,459
Joint venture	122	125	155	173	180	192	208	227
Total	**3,537**	**3,933**	**4,658**	**5,175**	**5,770**	**6,237**	**6,715**	**7,382**
State owned enterprise	***59.0%***	***53.8%***	***48.5%***	***43.8%***	***39.0%***	***32.7%***	***28.3%***	***23.9%***
Central	*36.8%*	*34.4%*	*31.0%*	*28.3%*	*26.3%*	*23.0%*	*20.5%*	*17.6%*
Local	*22.3%*	*19.4%*	*17.5%*	*15.5%*	*12.7%*	*9.7%*	*7.8%*	*6.3%*

Thousand	2008	2009	2010	2011	2012	2013	2014	2015
State owned enterprise	**1,725**	**1,736**	**1,692**	**1,664**	**1,606**	**1,660**	**1,538**	**1,372**
Central	1,303	1,341	1,305	1,309	1,192	1,274	1,181	1,006
Local	423	394	387	356	415	386	356	365
Non-State enterprise	**4,691**	**5,266**	**5,983**	**6,681**	**6,759**	**6,855**	**7,148**	**7,713**
Collective	270	261	-	-	-	-	-	-
Private	566	572	631	556	543	503	483	470
Collective name	1	1	1	2	3	4	4	5
Limited Co.	2,218	2,534	3,087	3,367	3,439	3,534	3,765	4,104
JSC. with State capital	500	482	506	501	475	434	405	354
JSC. w/o State capital	1,136	1,416	1,759	2,256	2,298	2,380	2,492	2,780
Foreign investment enterprise	**1,829**	**1,920**	**2,156**	**2,551**	**2,720**	**3,051**	**3,449**	**3,773**
100% foreign capital	1,604	1,691	1,902	2,289	2,476	2,783	3,163	3,470
Joint venture	225	229	254	262	244	268	286	303
Total	**8,246**	**8,922**	**9,831**	**10,896**	**11,085**	**11,566**	**12,135**	**12,857**
State owned enterprise	***20.9%***	***19.5%***	***17.2%***	***0.51%***	***14.5%***	***14.4%***	***12.7%***	***10.7%***
Central	*15.8%*	*15.0%*	*13.3%*	*0.40%*	*10.7%*	*11.0%*	*9.7%*	*7.8%*
Local	*5.1%*	*4.4%*	*3.9%*	*0.11%*	*3.7%*	*3.3%*	*2.9%*	*2.8%*

Source: General Statistics Office of Vietnam (2006, 2011, 2015, and 2016)

Table 4. Annual Average capital by type

VND in Trillion	2000	2001	2002	2003	2004	2005	2006	2007
State owned enterprise	**670**	**782**	**859**	**933**	**1,128**	**1,445**	**1,742**	**1,939**
Central	578	680	734	798	968	1,261	1,541	1,718
Local	92	102	125	135	160	184	201	221
Non-State enterprise	**98**	**142**	**202**	**290**	**423**	**699**	**984**	**1,443**
Collective	8	8	9	11	13	17	19	23
Private	16	21	27	34	43	72	88	105
Collective name	-	0	0	1	0	0	0	0
Limited Co.	44	65	100	139	205	315	405	518
JSC. with State capital	10	27	39	56	77	125	192	289
JSC. w/o State capital	20	20	27	47	85	170	279	508
Foreign investment enterprise	**230**	**262**	**291**	**345**	**415**	**528**	**655**	**759**
100% foreign capital	84	107	132	161	218	307	405	488
Joint venture	146	155	159	184	197	221	251	271
Total	**998**	**1,186**	**1,352**	**1,567**	**1,966**	**2,672**	**3,382**	**4,140**
State owned enterprise	***67.1%***	***65.9%***	***63.5%***	***59.5%***	***57.4%***	***54.1%***	***51.5%***	***46.8%***
Central	*57.9%*	*57.3%*	*54.3%*	*50.9%*	*49.3%*	*47.2%*	*45.6%*	*41.5%*
Local	*9.2%*	*8.6%*	*9.2%*	*8.6%*	*8.1%*	*6.9%*	*6.0%*	*5.3%*

VND in Trillion	2008	2009	2010	2011	2012	2013	2014	2015
State owned enterprise	**2,743**	**3,002**	**3,702**	**4,569**	**4,947**	**5,793**	**6,251**	**6,945**
Central	2,453	2,733	3,398	4,181	4,503	5,324	5,757	5,681
Local	290	269	304	387	444	469	493	1,264
Non-State enterprise	**2,396**	**3,549**	**5,452**	**6,875**	**7,712**	**8,628**	**9,614**	**11,021**
Collective	41	49	-	-	-	-	-	-
Private	149	189	324	206	297	304	316	402
Collective name	0	0	1	1	1	1	3	3
Limited Co.	797	1,250	2,085	1,911	2,652	3,038	3,608	4,828
JSC. with State capital	471	568	813	1,173	1,025	1,031	962	834
JSC. w/o State capital	938	1,493	2,230	3,585	3,736	4,254	4,726	4,953
Foreign investment enterprise	**994**	**1,222**	**1,688**	**2,179**	**2,570**	**3,343**	**3,813**	**4,178**
100% foreign capital	669	848	1,050	1,604	1,928	2,478	2,939	3,384
Joint venture	325	374	637	575	642	865	873	794
Total	**6,133**	**8,994**	**10,841**	**13,623**	**15,228**	**17,764**	**19,677**	**22,144**
State owned enterprise	**44.7%**	**33.4%**	**34.1%**	**1.41%**	**32.5%**	**32.6%**	**31.8%**	**31.4%**
Central	40.0%	30.4%	31.3%	1.29%	29.6%	30.0%	29.3%	25.7%
Local	4.7%	3.0%	2.8%	0.12%	2.9%	2.6%	2.5%	5.7%

Source: General Statistics Office of Vietnam (2006, 2011, 2015, and 2016)

Table 5. Profit before taxes of enterprises by type of enterprises

VND in Billion	2010	2011	2012	2013	2014	2015
State owned enterprise	**115,193**	**144,881**	**170,669**	**201,603**	**185,116**	**157,065**
Central	90,526	122,378	143,660	174,880	157,603	121,621
Local	24,667	22,503	27,009	26,723	27,513	35,444
Non-State enterprise	**115,654**	**84,218**	**68,236**	**78,726**	**122,522**	**150,528**
Private	2,931	2,994	3,497	3,329	3,612	4,558
Collective name	53	115	7	103	85	139
Limited Co.	27,534	4,681	11,739	6,871	25,843	27,808
JSC. with State capital	34,164	34,581	26,961	27,897	29,873	33,688
JSC. w/o State capital	50,972	41,847	26,032	40,526	63,109	84,335
Foreign investment enterprise	**165,454**	**105,309**	**120,032**	**207,943**	**249,057**	**245,154**
100% foreign capital	80,832	65,886	70,653	139,748	150,512	170,640
Joint venture	84,622	39,423	49,379	68,195	98,545	74,514
Total	**396,301**	**334,408**	**358,937**	**488,272**	**556,695**	**552,747**
State owned enterprise	***29.07%***	***43.32%***	***47.55%***	***41.29%***	***33.25%***	***28.42%***
Central	*22.84%*	*36.60%*	*40.02%*	*35.82%*	*28.31%*	*22.00%*
Local	*6.22%*	*6.73%*	*7.52%*	*5.47%*	*4.94%*	*6.41%*
Non-State enterprise	***29.18%***	***25.18%***	***19.01%***	***16.12%***	***22.01%***	***27.23%***
Private	*0.74%*	*0.90%*	*0.97%*	*0.68%*	*0.65%*	*0.82%*
Collective name	*0.01%*	*0.03%*	*0.00%*	*0.02%*	*0.02%*	*0.03%*
Limited Co.	*6.95%*	*1.40%*	*3.27%*	*1.41%*	*4.64%*	*5.03%*
JSC. with State capital	*8.62%*	*10.34%*	*7.51%*	*5.71%*	*5.37%*	*6.09%*
JSC. w/o State capital	*12.86%*	*12.51%*	*7.25%*	*8.30%*	*11.34%*	*15.26%*
Foreign investment enterprise	***41.75%***	***31.49%***	***33.44%***	***42.59%***	***44.74%***	***44.35%***
100% foreign capital	*20.40%*	*19.70%*	*19.68%*	*28.62%*	*27.04%*	*30.87%*
Joint venture	*21.35%*	*11.79%*	*13.76%*	*13.97%*	*17.70%*	*13.48%*

Source: General Statistics Office of Vietnam (2006, 2011, 2015, and 2016)

In 2010, the total profit before taxes of enterprises was at VND 396,301 billion. Profit before taxes from SOEs hit VND 115,193 billion, accounting for 29.07% of the total profit. In the same year, non-state enterprises made up 29.18% of the total, and foreign-invested enterprises comprised 41.75%. In 2011, profit before taxes from SOEs then surged up to VND 170,669 billion or 47.55% of total profit before taxes. It increased again two years later and reached VND 201,603 billion before it started to decline. In 2015, profit before tax of SOEs recorded VND 157,065 billion which accounted for 28.42% of the total profit before taxes. In the same year, profit before taxes of foreign investment enterprises was at VND 245,154 billion or

44.35%, accounting for the largest share of the total foreign investment. Meanwhile, non-state enterprises took less share of the total profit before taxes, about 27.23%.

Table 6. Profit rate of enterprises by type of enterprises

Percentage	2010	2011	2012	2013	2014	2015
State owned enterprise	**5.31%**	**5.18%**	**5.59%**	**6.50%**	**6.04%**	**5.57%**
Central	5.10%	5.38%	5.58%	6.59%	6.06%	5.10%
Local	6.28%	4.29%	5.66%	5.98%	5.90%	8.12%
Non-State enterprise	**2.71%**	**1.48%**	**1.15%**	**1.25%**	**1.72%**	**1.84%**
Private	0.74%	0.61%	0.74%	0.67%	0.68%	0.88%
Collective name	12.90%	27.25%	1.01%	9.35%	8.40%	7.10%
Limited Co.	1.46%	0.18%	0.41%	0.22%	0.72%	0.67%
JSC. with State capital	7.55%	5.08%	4.53%	5.54%	5.95%	6.91%
JSC. w/o State capital	3.31%	2.15%	1.26%	1.85%	2.52%	2.79%
Foreign investment enterprise	**8.84%**	**5.06%**	**4.85%**	**6.70%**	**6.95%**	**5.80%**
100% foreign capital	4.22%	4.34%	3.70%	5.65%	5.16%	4.79%
Joint venture	18.77%	7.00%	8.73%	10.82%	14.82%	11.22%
Average	**4.53%**	**3.16%**	**3.13%**	**3.91%**	**4.04%**	**3.63%**

Source: General Statistics Office of Vietnam (2006, 2011, 2015, and 2016)

The profit rate of SOEs has been higher than that of non-state enterprises and average of total enterprises. In 2010, the average profit rate of SOEs was 5.31% which was higher than non-sate enterprises' rate and lower than that of foreign invested enterprises which recorded 8.84%. SOEs maintained a profit rate above five percent during the given period. Unlike SOEs, non-state enterprises recorded relatively lower profit rate which spanned from 1.15% to 2.71% from 2010 to 2015. Foreign investment enterprises showed the highest profit rate in the three categories. The profit rate of foreign investment enterprises lay from 4.85% to 8.84%, with an average of 6.63% which is higher than the average of SOEs, 5.80. Especially, a joint-venture form of foreign invested enterprises had an outstanding profit rate, arranged from 8.73% to 18.77%.

1.2 OBJECTIVE OF THE STUDY

Privatization of SOEs has been going in the form of equitization since 1992, and a huge number of SOEs have been successfully equitized. However, the nature of equitization is not a complete privatization. Instead, it is closer to partial privatization wherein majority of the stake remains at state-owned shares even after equitization. State entities still hold large shares of equitized SOEs, thus equitization in Vietnam is not considered a complete privatization. To achieve genuine privatization which means reducing the influence of state entities to improve operating efficiency, the Vietnamese government began to pursue divestment of the state-owned shares. Thus, to identify the effect of the divestment efforts, I examined whether the divestment of state-owned shares has substantially benefitted the enterprises.

1.3 DEVELOPMENT OF THE RESEARCH QUESTIONS

In this paper, the research question focuses on the relationship between the divestment of state-owned shares in enterprises and their performance. Thus, to analyze the impact of privatization through substantive divestment of state-owned shares, the main research question is:

Does the divestment of government's shares in SOEs improve the performance of SOEs?

In addition, performance of firms is classified into two categories, the profitability, and the financial stability. Thus, I seek to respond the following detailed research questions:

Does the divestment of state-owned shares improve the profitability and the financial stability of enterprises?

2. LITERATURE REVIEW

2.1 Privatization and stock market liquidity

According to Bortolotti, De Jong, Nicodano, and Schindele (2007), privatization has an impact on the stock market liquidity. Privatization has impact on the liquidity of the shares of privatized companies, and also has a spillover effect on the price of other non-privatized stocks as well (Bortolotti et al, 2007). From the investors' perspective, privatization provides new stocks to invest, and improves the chance of risk sharing. If a stock is cross-listed for foreign investors, the turnover of privatized stocks in the foreign market increases without affecting the turnover of non-privatized stocks. It decreases the risk borne by domestic investors and affects to the risk premium, and finally provides better liquidity of non-privatized stocks. (Bortolotti et al, 2007)

2.2 Privatization and stock market development

There have been several studies that looked into the relationship between privatization and the stock market development. Regarding country risk, Huibers and Perotti (1998) studied whether the change in country risk affected the return of privatized firms after privatization compared to the effects on the whole market. Privatized stocks in emerging markets were exposed more to political risks, and showed higher post-Initial Public Offering (IPO) performance partially explained by the progressive alleviation of political risk after privatization (Huibers & Perotti, 1998). Perotti and Van Oijen (2001) zoned into this relationship in terms of alleviation of the political risk. They compared the change in country level political risk measure of before and during privatization. For the measure of political risk, Perotti and Van Oijen (2001) used

Country Credit Rating by the Institutional Investor and International Country Risk. The sustained privatization resolves the country level political risk, political and legal uncertainties, and leads to stock market development. This finally improves investor confidence. (Perotti & Van Oijen, 2001)

On the other hand, Megginson and Boutchkova (2000) studied the impact of privatization on the world stock and bond market. They showed that privatization programs have increased total proceeds and government revenue. Regarding the impact on stock market capitalization and trading volumes, stock market capitalization as a percentage of GDP and trading volume increased dramatically, and the market value of privatized firms grew. When it comes to the ownership structure, privatization raised the number of shareholders in SIP companies (Megginson & Boutchkova, 2000).

Privatization in many countries is a good source for supply of stocks in the stock market, which eventually leads to stock market development. When SOEs are privatized and listed on the stock exchange, they increase the size of the equity market, and a strong market with a sufficient institutional framework is essential where market regulation is an important factor (Naceur, Boubakri & Ghazouani,2010). Chiesa and Nicodano (2003) identified that improved diversification opportunities, risk sharing opportunities, and increased participation of foreign investors contribute to stock market development.

2.3 Privatization and performance

In many countries, public corporations have been exposed to criticism on their inefficiency and corrupted management. Privatization has been a widely used policy for reform of state-owned economic entities. Especially in countries with strong public sectors and material fiscal deficits,

privatization has been encouraged to relieve unfavorable budget condition and also to improve performance of SOEs by reforming productivity. Thus, many preexisting studies have focused on the impact of privatization in performance of SOEs. In Egypt, privatization in the form of IPO has a strong positive impact on profitability, and operation efficiency, and shows a negative change in the leverage (Al Hinai, 2016). On the other hand, Jordanian enterprises showed improvement in liquidity and debt ratios after privatization (Al-Taani, 2013). In terms of the organizational culture, privatization provides better opportunities to privatized companies for growth. Also the reduction of conflicts between the management and the shareholders after privatization contributes to improved performance (Mutugi & Ngugi, 2013). In the empirical study on privatization in Nigeria, both the measure of profitability and operational efficiency improved after privatization (Usman & Olorunmolu, 2015). Also, in terms of cost reduction and innovation, managers in privatized companies have more incentives because the political interests in the firms are reduced (Otieno, 2012).

In many countries that implemented privatization policy, most of privatization process has begun partially. This is the same way as in Vietnam where equitization is a partial privatization. According to Gupta (2005), even if state shares retains control over a company(i.e. 50% share after partial privatization), partial privatization still has a favorable impact on profitability, productivity, and investment of a partially privatized company. The monitoring function of the stock market contributes to improve performance (Gupta, 2005).

However, not all studies argue that privatization has a favorable impact on firm performance. While a lot of studies with cases of firms in different countries show that privatization improves firm performances, Hagemejer, Tyrowicz, and Svejnar (2014) emphasized the importance of the endogeneity bias and argued that the substantial performance improvement is an unusual result.

2.4 Ownership structure and firm performance

The impact of ownership structure on the firm performance has been a common issue in terms of corporate governance. Previous studies on the relationship between ownership structure and firm performance showed mixed results. State-ownership in enterprises may help companies with access to resource and information and provision of credit for loan. On the other hand, a majority stake of state shares in enterprises may cause political intervention, and a management decision process that focuses on political bias rather than profit maximization.

In family firms, the ownership concentration in the single largest shareholder contributes to performance improvement, while the willingness of the largest shareholder to give the ownership to the professional mangers outside of the firm worsens the performance (Qin & Deng, 2008). Also, the impact of ownership structure varies by types of owners. In real estate industry in Indonesia, the ownership by the institutional investor is an significant factor that explains companies' performance while managerial ownership only has partial effect on performance (Saleh, Zahirdin, & Octaviani, 2017)

Some researches found that the ownership structure does not significantly influence to the firm performance. Demestz and Villalonga (2001) insisted that there is no statistically significant relationship between ownership structure and performance. A diffused ownership may lead to agency problems that increase unfavorable costs. However, its advantages commonly have a trade-off effect of negative problems (Demsetz & Villalonga, 2001). Internal factors other than ownership concentration such as firm size, inventory had more impact on firm performance. Ownership concentration did not show statistically significant impact on ROA (Pathirawasam, 2011). Even, the study of Nigerian listed companies showed that the relationship between ownership control and financial performance is a linear negative relation (Abosede Adebiyi & Kajola Sunday, 2011). In terms of right, ownership concentration negatively affects a firm

valuation because concentration undermines the gap between voting right and capital right (Chen, 2012). Phung and Mishra (2016) argued that there is a non-linear relationship between ownership structure and firm performance. According to their study, state ownership has a convex relationship with firm performance, and foreign ownership has concave relationship.

2.5 Equitization as privatization

Privatization in Vietnam has been done in the form of equitization. Equitization changes the equity ownership structure of enterprises. Tran, Nonneman, and Jorissen (2015) studied the relationship between state ownership and the company's performance by analyzing ownership switching from state-owned to private-owned. According to their study, the ownership shift from the state or collective ownership to the private ownership can steadily improve the performance of firms in terms of profitability (Tran et al, 2015). However, the majority ownership of state provides advantages to companies. Companies with major state ownership showed a tendency to have more chances to borrow easily. In addition, the Vietnamese government has also been providing non-collateral loans for subordinated companies at lower cost to increase employment and to attract investment in less profitable sectors (Mishra, 2011).

Gainsborough (2009) considered equitization in Vietnam a new form of state intervention rather than a complete privatization. In many cases, state-owned share in equitized SOEs remains high which the separation between ownership and management was not sufficiently achieved. Thus, investors in equitized companies still bear uncertainty. However, equitization as a state intervention has advantages in terms of performance because it produces incentives and provides capability that makes firms compete in a fierce business environment. It means managers in equitized SOEs tend to rely on state entities for operation. (Gainsborough, 2009).

3. HYPOTHESIS DEVELOPMENT

This study seeks to identify whether the significant divestment of state-owned shares has a positive impact on firm's performance defined according to profitability and financial stability. The research hypothesizes the following.

- H_1: The significant divestment of state-owned shares improves profitability of enterprises.
- H_2: The significant divestment of state-owned shares improves financial stability of enterprises.

4. METHODOLOGY

4.1 Target Company Selection

Most of previous researches that studied privatization of SOEs in Vietnam considered equitization as privatization. However, in this paper, for the purpose of analyzing the substantive effect of decline in state-owned shares on firm performance, only companies that experienced significant divestment of state-owned shares were selected. The significant divestment is defined in the typology specified in the table below.

Table 7. Classification of significant divestment

Type	Rationale	Change of state share
Type 1	Lose Control	>50% to >= 50%
Type 2	Lose Significant Influence	>20% to >= 20%
Type 3	Significant Change in Share%	More than 20%

Type 1 refers to cases where state-owned share has changed from over 50% to below 50%. Generally, 50% of share is a reference point for determining whether a shareholder has control

over a company. It is described in International Financial Reporting Standards 10 (IFRS 10), as written "In the most straightforward case, the investor that holds a majority of those voting rights, in the absence of any other factors, controls the investee." (IFRS foundation, 2018). If a state entity holds more than 50% of shares, it can make business related decisions of an invested company the through exercise of its voting rights. In addition, since the board of directors is usually appointed at the general meeting of shareholders, a state entity with a stake greater than 50% can control a major part of the management of the invested company. Thus, if state-owned share has changed from over 50% to below 50%, it is regarded as a significant divestment.

Type 2 means the cases that state-owned shares over the company declined from over 20% to less than 20%. Typically, 20% of share is a criteria to determine whether a shareholder has an ability to significantly influence a company's decision-making activities. According to International Accounting Standard 28 (IAS 28), significant influence means "the power to participate in the financial and operating policy decisions of the investee but is not control" (IFRS foundation, 2018). In addition, in IAS 28, it is also described that "If an entity holds, directly or indirectly, 20% or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case." (IFRS foundation, 2018). Thus, cases that state-owned shares over the company declined from over 20% to less than 20% are also considered significant divestment.

Type 3 refers when the state ownership is significantly reduced even if it does not fall into the above two categories. In this paper, I set 20% of change as a reference point to determine whether a decrease in state share is a significant of divestment or not.

Similar to other countries, private companies in Vietnam do not provide sufficient financial data and ownership information which are essentially required for this study. Publicly disclosed

information of public companies which are listed on Hanoi Stock Exchange (HNX) and Hochiminh Stock Exchange (HOSE) were used in this paper. And as of the end of June in 2018, a total 740 firms were listed in the Vietnamese stock market, 379 in HNX and 361 in HOSE. In this study, ownership structure of all 740 listed companies were reviewed.

As a result of the selection by the above criteria, a total of 58 companies whose state-owned shares decreased significantly between 2001 and 2016 were the ones selected. The information from their annual reports, audited financial statement, and Vietstock.com were used to identify the ownership structure of each individual firm. All companies without sufficient disclosed information in terms of the ownership structure were excluded from the target selection.

4.2 Measure of Performance

The ratios in the Table 8 were used to measure the profitability and financial stability of the target companies. For the measures for profitability, Return on Equity (ROE), Return on Asset (ROA), Operating Profit Margin (OP%), Net Profit Margin (NP%) were used. Meanwhile, Debt to Equity Ratio was used to measure the companies' financial stability. In this research, three years average value of each measure before and after divestment were applied to capture the volatility of each year.

Table 8. Measure of performance

Measure	**Formula**	**Nature**
Return on Equity (ROE)	NI / Total Equity	Profitability
Return on Asset (ROA)	EBIT / Total Asset	Profitability
Operating Profit Margin (OP%)	EBIT / Revenue	Profitability
Net Profit Margin (NP%)	NI / Revenue	Profitability
Debt to Equity Ratio (D/E)	Total Debt / Total Equity	Financial Stability

4.3 Comparison

I calculated the average value of the measures for each company for a period of three years prior to and three years after the divestment. However, the calculated value also covered the effect of market economic condition aside from the impact of divestment. To eliminate the effect from the market economic condition, I followed the steps below:

Table 9. Steps to identify the change after divestment

Steps	**Procedure**
Step 1.	Calculated the average value of each measure for all 58 target companies for a three-year period before and after divestment
Step 2.	Calculated the annual average value of each measure from the year 2001 to 2017 for all 740 listed companies.
Step 3.	The following values were calculated as for each measure of each target company: 1. Difference before divestment (Dif.bd) = [Three-year average before divestment from Step 1] − [Three-year average of annual average value from Step 2 before divestment year for a target company] 2. Difference after divestment (Dif.ad) = [Three-year average after divestment from Step 1] − [Three-year average of annual average value from Step 2 after divestment year for a target company] If Dif.bd or Dif.ad is positive number, the target company relatively outperformed the market. But if Dif.bd or Dif.ad is negative number, the company relatively underperformed the market.
Step 4.	The Dif.bd and Dif.ad of each company was compared and the change between the two values was also calculated. The same procedure was done on the average value of Dif.bd and Dif.ad for each measure of all sample companies.

The two year average value were applied to the companies that do not have sufficient observation period after divestment. All companies who experienced divestment after 2016 were excluded from the observation.

Table 10. Annual average market data by year

Measure	2002	2003	2004	2005	2006	2007	2008	2009
ROE	18.6%	18.8%	21.3%	22.2%	21.2%	17.3%	13.4%	19.0%
ROA	9.9%	9.3%	9.7%	8.7%	9.2%	8.6%	7.2%	9.7%
OP%	27.5%	23.8%	19.6%	12.9%	13.8%	12.6%	14.5%	17.9%
NP%	15.1%	13.8%	13.9%	10.5%	11.7%	9.5%	17.3%	15.9%
D/E	5.0	4.0	3.2	3.5	3.0	2.1	2.2	2.0
Average of previous 3 years								
ROE		*18.9%*	*19.6%*	*20.8%*	*21.6%*	*20.3%*	*17.3%*	*16.6%*
ROA		*9.3%*	*9.7%*	*9.2%*	*9.2%*	*8.8%*	*8.3%*	*8.5%*
OP%		*27.0%*	*23.7%*	*18.8%*	*15.4%*	*13.1%*	*13.6%*	*15.0%*
NP%		*17.4%*	*14.3%*	*12.7%*	*12.0%*	*10.6%*	*12.8%*	*14.2%*
D/E		*4.8*	*4.1*	*3.6*	*3.2*	*2.9*	*2.4*	*2.1*

Measure	2010	2011	2012	2013	2014	2015	2016	2017
ROE	17.1%	12.3%	8.3%	8.6%	9.3%	11.1%	8.9%	8.0%
ROA	9.4%	7.0%	5.9%	5.9%	6.2%	6.9%	6.4%	5.9%
OP%	17.7%	8.3%	(1.1%)	(3.3%)	(5.5%)	3.4%	1.4%	(4.1%)
NP%	15.2%	6.9%	(2.2%)	(6.8%)	(4.2%)	2.2%	7.3%	(7.4%)
D/E	1.9	2.0	1.9	2.0	1.8	1.8	1.8	1.9
Average of previous 3 years								
ROE	*16.5%*	*16.1%*	*12.6%*	*9.7%*	*8.7%*	*9.7%*	*9.8%*	*9.4%*
ROA	*8.8%*	*8.7%*	*7.4%*	*6.2%*	*6.0%*	*6.3%*	*6.5%*	*6.4%*
OP%	*16.7%*	*14.6%*	*8.3%*	*1.3%*	*(3.3%)*	*(1.8%)*	*(0.2%)*	*0.2%*
NP%	*16.1%*	*12.6%*	*6.6%*	*(0.7%)*	*(4.4%)*	*(2.9%)*	*1.8%*	*0.7%*
D/E	*2.0*	*1.9*	*1.9*	*1.9*	*1.9*	*1.9*	*1.8*	*1.8*

Source: Annual reports, audited financial statements, and Vietstock.com

5. DATA ANALYSIS

5.1 Data

Comparison of the Dif.bd and Dif.ad of each companies rendered the following results.

Table 11. Value of measure before and after divestment

Measure	Target Average		Market Average		**Difference**		
	Before	After	Before	After	**Before**	**After**	**Change**
ROE	11.55%	11.71%	12.02%	10.27%	**-0.46%**	**1.45%**	**1.91%**
ROA	6.08%	6.88%	7.07%	6.66%	**-0.99%**	**0.23%**	**1.21%**
OP%	8.51%	7.67%	3.98%	2.04%	**4.53%**	**5.63%**	**1.10%**
NP%	7.58%	6.81%	3.10%	1.85%	**4.49%**	**4.96%**	**0.47%**
D/E	1.68	1.65	1.98	1.86	**(0.29)**	**(0.21)**	**0.08**

All measures of profitability showed favorable changes after divestment. In case of ROE, the average ROE of target companies changed from 11.55% to 11.71% after divestment. Contrary to this, the market average ROE changed from 12.02% to 10.27%. The difference improved from -0.46% before divestment to 1.45% after divestment. This shows that the divestment of state-owned share improved the ROE of divested firms. The ROA showed similar findings. The average ROA of targets improved for 0.8%, from 6.08% to 6.88% while the market average was declined from 7.07% to 6.66%. The difference changed from -0.99% to 0.23% which means that the divested companies showed improved ROA after divestment.

OP% also improved with the average OP% of the target companies decreasing from 8.51% to 7.67%. However, the market average declined more significantly. Thus, the difference improved by 1.1%, from 4.53% before divestment to 5.63% after divestment.

OP% showed similar change with OP%. The average OP% of target companies declined for -

0.78%, but the change in market average was more significant, -1.25%. As a result, the difference increased for 0.47% after divestment.

Contrary to the result described earlier, the debt to equity ratio appeared to have worsened. Debt to equity ratio is the measure for financial stability, appeared to be worsened. The average debt to equity ratio of target companies before divestment was at 1.68. It decreased to 1.65 after divestment. However, the market average debt to equity ratio decreased more significantly, from 1.98 to 1.86. Thus, the difference increased from -0.29 to -0.21 which means deterioration.

Overall, based on the data from 58 target companies and 740 listed companies, it seems that divestment has positive impacts on profitability because ROE, ROA, OP%, and OP% were improved after the divestment of state-owned shares. Findings also show that divestment has negative impacts on financial stability as apparent in the change in debt to equity ratio.

5.2 T-Test

To identify the recorded changes are statistically significant, I applied statistical. A left-tailed test was applied since the interest of this study is on the higher performance after divestment.

Table 12. Test Information

Test Type	Independent Samples T-Test
Hypothesis	H_0: $\mu_1=\mu_2$ Means of the difference are equal before and after divestment
	H_a: $\mu_1<\mu_2$ Means of the difference after divestment are larger than the difference before divestment
Level of Significance	5% (0.05)

According to the Table 13, there is no statistically significant improvement in ROE after divestment. The P-value for one-tailed test is 0.167127 which is larger than 5%. Thus, the null hypothesis cannot be rejected, implying that ROE does not increase after divestment. ROA shows similar result. The P-value of it is 0.198833 which leads not to reject the null hypothesis. In the test of OP% and NP%, P-values of them are less than 5%, 0.366124 and 0.430717 for each measure. P-values for one-tailed test in all four measure for profitability are smaller than 5%. As a result, in this test, I failed to reject the null hypothesis. Thus, the significant divestment of state-owned shares does not positively improve profitability of divested enterprises.

The result for financial stability is similar. The P-value of one tailed test for debt to equity ratio is 0.414445 as described in Table1 13. Since the P-value of the test is smaller than the level of significance, I failed to reject the null hypothesis. Thus, the significant divestment of state-owned shares does not positively improve financial stability of divested enterprises.

Table 13. Test Result

	ROE		ROA		OP%		NI%		Debt to Equity	
	Dif.bd	*Dif.ad*	*Dif.bd*	*Dif.ad*	*Dif.bd*	*Dif.ad*	*Dif.bd*	*Dif.ad*	*Dif.bd*	*Dif.ad*
Mean	-0.00462	0.014462	-0.00988	0.002264	0.045284	0.056299	0.044869	0.049592	-0.29218	-0.20903
Variance	0.011355	0.011498	0.005706	0.006364	0.031602	0.029259	0.01682	0.026188	3.833427	4.86099
Observations	59	59	59	59	59	59	59	59	59	59
Pooled Variance	0.011427		0.006035		0.03043		0.021504		4.347209	
Hypothesized Mean Difference	0		0		0		0		0	
df	116		116		116		116		116	
t Stat	-0.96962		-0.84894		-0.34296		-0.17494		-0.21661	
P(T<=t) one-tail	0.167127		0.198833		0.366124		0.430717		0.414445	
t Critical one-tail	1.658096		1.658096		1.658096		1.658096		1.658096	
P(T<=t) two-tail	0.334253		0.397665		0.732248		0.861435		0.82889	
t Critical two-tail	1.980626		1.980626		1.980626		1.980626		1.980626	

6. CONCLUSION

Discussion

This paper examined how divestment of state-owned shares in Vietnamese listed companies affects their performance. The Vietnamese government has pursued privatization of SOEs through equitization since 1992. However, as equitization is done through partial privatization, state-owned shares are still high in most of equitized SOEs. Thus, divestment of state ownership is still in progress which leads to genuine privatization. Thus, this study examines not only the relationship between equitization and performance but also the effect of the decline of state ownership on the performance of enterprises. Performance is classified into two detailed parts, profitability and financial stability. The firm's profitability was measured through Return on Equity (ROE), Return on Asset (ROA), Operating Profit Margin (OP%), Net Profit Margin (NP%) while financial stability was measured by debt to equity ratio.

For the research, I reviewed the ownership structure change of 740 listed companies on HNX and HOSE. Out of the listed companies, 58 companies experienced significant divestment of state-owned shares. To identify the effects of divestment, I calculated the relative performance of 58 selected companies in the relation to the market average before and after the divestment, and analyzed the changes in the values of the indicators after divestment. The findings show that the significant divestment of state-owned shares improves profitability and worsens financial stability. However, T-Test results show that the changes before and after divestment are not statistically significant. Therefore, the divestment of state-owned shares in enterprises does not significantly improve their performance.

Limitation of the Study and Future Research

In this research, financial information and ownership structure of listed companies were used because of the lack of publicly disclosed information on non-listed firms. In other words, only 740 listed companies and 58 selected target companies are examined. However, most SOEs are non- listed firms.

Also, this study relies on annual reports, audited financial statements, and data from the Vietstock website for all financial information and ownership structure of the companies. It may be necessary to verify the reliability and completeness of the disclosed information. In the case of Vietnamese companies, there are cases in which insufficient information are provided even in listed companies. In addition, I did not perform any additional verification of the accuracy of accounting information in the disclosed information.

Business and the firm's internal factors such as industry, company size, and the number of employees were not considered in this paper. Each industry has different business features, and business and firm internal factors can also be variables that affect performance. Also, the degree of influence of the divestment may be different depending on those factors. This study examines 58 selected companies collectively considering the small size of selected target companies. However, if it is possible to collect sufficient information from private companies, it would be necessary to analyze and consider these other factors.

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