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Privatization and Corporate Performance in Transition Economies: The case of Vietnam

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Abstract

This study examines the post equitization performance of SOEs, equitized from 1998-2005 in Vietnam. The study aims to add to the body of literature by studying the relationship between ownership structure and corporate performance in privatized firms, based on Vietnam's experience in privatization. The study's results showed that private ownership has a positive impact on firm performance. Contrary to private ownership, state ownership has a negative impact on firm performance. Thess findings are consistent with the findings of most previous privatization studies.

1. Introduction

Privatization is a worldwide phenomenon. The spread of the privatization movement is grounded in the fundamental belief that market competition in the private sector is a more efficient way to provide the changes companies need to adapt to the increasing competitive market. Before 1986, Vietnam had a centralized-planning economy in which the government controlled almost all economic sectors. The Government controlled and allocated social property through the planning system. However, the planners had inadequate information to provide efficient resource allocation. This weak market mechanism distorted the prices of products and services of the economy. The lack of private property, profit motive, and an active labor market reduced the incentives of state owned enterprises to perform well. Equitization is a major phase in the transition process of Vietnamese economy from the centralized to market based economy. The expectation was the performance of state owned enterprises (SOEs) would be improved after being equitized. This process actually started from 1992. After more than eighteen years, the reform process of SOEs reduced the number of the state owned enterprises from 12,000 to around 1000 enterprises. The reform process has resulted in around 4,000 total and partly equitized SOEs by December, 2010 according to a Report of Standing Committee of the National Assembly. Currently the market-based economy in the form of decentralization and liberalization will improve competitiveness. In the new situation the equitization has lead to increased efficiency in resource allocation in industry and services, and improved performance of state-owned enterprises. The focus of this research is the performance of equitized firms in Vietnam and key factors to improve it.

2. Privatization in Vietnam

Privatization has been an unavoidable trend for many decades and for many economies in the world and Vietnamese economy is not an exception. Vietnam has made the transition from the centralized planning economy to market based economy starting from the Sixth Party Congress (1986). In the transition process the term privatization has been a taboo in Vietnam. Vietnamese policy makers don't use the term privatization because they believe that privatization will lead to the limitation of the Socialism. Privatization is the synonym of establishing Capitalism. Equitization is a more neutral term.

During the last two decades privatization in Vietnam has taken place through four methods:

1) sales of small and poor performing SOEs;
2) facilitating foreign joint ventures;
3) equitization of SOEs; and
4) establishing private entities.

In 1992 the government issued the Company Law, which was amended as the Enterprise Law in 1999 and 2005. The new Enterprise Law 2005 was approved by the Congress and came into effect on January, 1st 2007. According to the Ministry of Plan and Investment, for the first five months 2007, there were 20,300 new ventures registered with a total registered capital of 135,000 billion VND or 9 million USD. (MPI Report, 2007). Currently, the number of non-state enterprises is 238,932 according to GSO (2010). However, equitization of state owned enterprises has been the main form of privatization in the reform process in Vietnam.

Definition of Equitization in Vietnam

In Vietnam, the changing corporate ownership of former SOEs is called equitization with the purpose for mobilizing capital of private investors to strengthen the financial resources, to invest in new technology, and to allow employees to be shareholders. Employee ownership was expected to increase their commitment to the enterprise and the changing corporate ownership was likely to improve corporate performance. Officially, equitization in Vietnam is defined as the process in which SOEs issue equity shares to raise funds to invest in new technology or enlarge their business operation. Another aspect of the process is that, SOEs are turned into corporations totally or partially owned by individuals, and organizations in the economy.

Equitization objectives

Enlarging the private sector, determining their proper role in the economy, and increasing the competition in the market place have been main concerns of almost all privatizing governments (Megginson and Netter, 2001). In Vietnam, equitization focuses on changing corporate ownership structure of former SOEs with specific objectives such as:

- Changing corporate governance;
- Increasing the participation of employees in corporate operations;
- Increasing employees' commitment to their company;
- Increasing the management's accountability to corporate performance; and
- Improving corporate performance.

Equitization process and results

In the early 1990s, facing the poor performance of SOEs, which dominated many essential industries leading to the ineffectiveness of the economy, the Vietnamese government initiated the equitization policy to increase the role of the private sector. However, the government has implemented the equitization process carefully with complicated procedures.

After a careful pilot scheme from 1992 to 1995, the Government decided to launch an equitization program at the national level, by issuing Decree 28/CP dated May 7, 1996 and

Decree 44/CP dated June 29, 1998 on the transformation of state-owned companies to corporations. The introduction of Decree 44/CP has accelerated the equitization program. The number of state-owned enterprises equitized in 1999 was 287, an increase of 270 more enterprises than which equitized in previous years. As of January 13, 2000, 370 state-owned enterprises had been equitized. This was really an encouraging number but a slowdown of the process took place. There were many arguments assuming the obstacles coming from the mechanism of equitization leading to the introduction of the Decree 64/2002/ND-CP. The reasons for the slowdown of the process are related to company evaluations, bad debt, and the equitization procedure. As a result, it takes from 437 to 554 days to complete the equitization of a state owned company according to the SOE Renewal Committee.

To speed up the equitization the Vietnamese Government has changed the way of equitization of SOEs from direct sales to public offerings. After the Decree 187/2004/ND-CP came into effect, state ownership in equitized SOEs has been sold mainly through the initial public offerings (IPOs). The Vietnamese Government has favored firm-by-firm equitization. Privatization IPOs have been the dominant equitization method in the process from 2005 to 2010 and Vietnamese Law on Investment gives foreigners the right to own up to 49% of non financial enterprises.

To shift the equitization method from private sale to initial public offerings, Decree 187/2004/ND-CP was introduced to replace Decree 64/2002/ND-CP. Since this event, the equitization has been accelerated. After two years from 2005, there were 201 SOEs equitized through Decree 187/2004/ND-CP. The government gained more than 18 billion USD from selling to IPOs of the 201 equitized SOEs. On average the privatization revenue is more than five times larger than the total par value of shares offered to public initially. After more than thirteen years of the equitization policy, 2,996 SOEs were equitized as of December 31, 2005. On average, there were 200 SOEs equitized per year during this period. In particular, there were 724 SOEs equitized in year 2005. By December of 2006, more than 3,600 SOEs had been equitized. The number of SOEs remaining under state ownership has been reduced to around 2,200 with total capital of 15 billion USD (GSO, 2006).

According to the report of the SOEs Renewal and Development Committee, in 2007 there were a further 150 SOEs equitized, this increased the number of SOEs equitized to 3,756 enterprises. Most of SOEs equitized before 2007 were small. In 2007 there were 17 large SOEs with capital of more than 5 million USD equitized. In particular, some SOEs with significant capital of 50 million USD or more were equitized such as Vietcombank, SABECO, HABECO, and PVFCCO. The Ministry of Finance reported that, Hochiminh Securities Exchange (HOSE) and Hanoi Securities Trading Center (HaSTC) have successfully organized IPOs for 96 SOEs with the total charter capital of 3.14 billion USD and brought 2.29 billion USD to the state budget with paid-in capital of 1.9 billion USD.

In year 2007, Decree 109/2007/ND-CP was introduced to replace the Decree 187/2004/ND-CP with the revision of the company evaluation methods for equitizing and setting the share price offer for strategic investors. Until recently only small and medium SOEs in less important economic sectors such as light industries, trading and hotel services were equitized. By 30 June 2008, there were 3,786 SOEs equitized. Their charter capital as equitized was 6.5 billion USD, of which 50 percent held by the state, 11 percent by employees and the rest by outside investors. The equitization process brought 5 billion USD to the state and the firms, of which 3.4 billion USD is the difference of revenue and par value of shares issued to the public. At that time, there still were 1,720 SOEs worth 26 billion USD. Currently, the government still dominates in the industries of telecommunication, airlines, natural gas, and railroads, and is the dominant player in large firms which are natural monopolies such as utilities, security and national defence. Today there still is around 1000 SOEs and private sector is the main contributor to GDP (around 40% of GDP), according to GSO, (2010).

Ownership transfer from the state to employee, local entities and foreign investors

In order to mobilize capital from the non-state sector, the government allows business organizations, social organizations, Vietnamese citizens, overseas Vietnamese; foreigners who live in Vietnam and foreign entities to buy equity stock in SOEs that have been equitized. In the early stage (before 2002), the government limited the ownership percentage of non-state owners in equitized firms. Specifically, in businesses that the government wants to hold more than 30% of total ownership, an individual is not allowed to buy more than 5% of total equity, and an entity of not more than 10%. For a business that the government wants to hold ownership less than 30% individuals can own 10% and entities 20%. In SOEs which are equitized and the government does not want to hold any ownership, the amount of non-state partner ownership is not limited. However the equitized SOE must ensure the number of shareholders complies with the Company Law. Now, there is no limitation and foreigners can own to 49% stake of listed public companies. Prior to October, 2005 this stake was lower, only 30%. Outside investors can buy stock in SOEs equitized through their IPOs or on the stock market.

Employees who work for the firms each year are allowed to buy 100 shares with a lower price equals to 70% of the initial price or par value in case the firm equitized before July 2005 and equals to 60% of average price through stock bid if it equitized after July 2005 according to Decree 187/2004/ND-CP. The amount of stocks the employee can buy depends on the continuous length of their working time in the company. The low income employees can buy the stock in credit without payment of interest, and their loans could be amortized from 5 to 10 years. The allocation of stock to management and employees as the joint stock entity is created. This is as much as 30% of the total shares in the issue.

3. Outcomes of Privatization

Many governments privatized their state-owned enterprises, with the hope that the SOEs' performance would be improved through the effect of private ownership. Over the last three decades, privatization has widely promoted as a means of improving economic performance in many countries. Privatization reduces the public sector deficit and constraints on corporate financing (Bishop, 1994), and improves former SOEs' efficiency and productivity deriving from the giving market incentives to managers and workers (Bishop et al., 1995; Parker and Hartley, 1991; Parker, 1992). By transfering management control to private sector, privatization develops coherent corporate strategies and shifts toward the goal of value maximization (Megginson, 1992), especially in transition economies. This section reviews some empirical studies on performance outcomes of privatization in transition economies by region and country.

In Eastern and Central European countries

Pohl, Anderson, Claessens, and Djankov (1997) compared the extent of restructuring of over 6,300 private and state-owned firms in seven East European countries during 1992-1995. They reported that privatization dramatically increased profitability, proportion of the firms with a positive operating cashflow, average operating cashflow as a percent of revenue, growth of labor productivity, growth of total factor productivity, and growth of export. Firms privatized for 4 years increased productivity 3-5 times more than similar SOEs.

Smith, Cin and Vodopivec (1997) used a sample with 22,735 firm-years of data drawn from the period of "spontaneous privatization" in Slovenia (1989-1992). They examined the impact of foreign and employee ownership on firms. Their study showed that a percentage point increase in foreign ownership is associated with a 3.9 percent increase in value added, and for employee ownership with a 1.4 percent increase. Firms with higher revenues, profits, and exports are more likely to have foreign and employee ownership.

Dyck and Alexander (1997) developed and tested a model to explain Treuhand's role in restructuring and privatizing East Germany's SOEs. In less than 5 years, Treuhand privatized more than 13,800 firms and parts of firms. Uniquely, it had resources to pay for restructuring itself but almost never chose to do so. Instead, it emphasized speed and sales to capital funds. Privatized East German firms were more likely to put Western (usually German) managers in key positions than were companies that remained state-owned. Treuhand emphasized sales open to all buyers rather than favoring East Germans. The principal lesson was the privatization program must carefully consider when and how to affect managerial replacement in firms. Projects were opened to Western buyers and which allowed management changes were most likely to improve firm performance.

Frydman, Gray, Hessel and Rapaczynski (1999) compared the performance of privatized and state-owned firms in central European transition economies, and determined how likely privatization could work. They examined the influence of ownership structure on performance by using a sample of 90 state-owned and 128 privatized companies in Czech Republic, Hungary, and Poland. They found that privatization works but only when the firm was controlled by outside-owners other than managers or employees. Privatization added over 18 percentage points to annual growth rate of firm sold to a domestic financial firm, and 12 percentage points when sold to a foreign buyer. Privatization to an outside owner also added about 9 percentage points to productivity growth. These gains did not come at the expense of higher unemployment. Insider-controlled firms were less likely to restructure, but outsider-controlled firms grew faster. The study showed the importance of entrepreneurship in improving sales growth.

Weiss and Nikitin (1998) analyzed the effects of ownership by investment funds on performance of 125 privatized Czech firms during 1993-1995. They assessed these effects by measuring relationship between changes in performance and in ownership at the start of privatization. They identified that ownership concentration and composition jointly affect performance of privatized firms. Concentration in the hands of large shareholders, other than in investment funds or company, was associated with significant improvements of performance. Concentrated ownership by funds did not improve performance. Preliminary post-1996 data suggested changes in investment fund legislation might improve their performance.

Claessens and Djankov (1999b) examined the relationship between ownership concentration and corporate performance for 706 privatized Czech firms during the period 1992-1997. Their findings were that concentrated ownership was associated with higher profitability and labor productivity, and foreign strategic owners and non-bank investment funds improved performance more than bank funds.

Fryman, Gray, Hessel and Rapaczynski (2000) examined whether the imposition of hard budget constraints was alone sufficient to improve corporate performance in the Czech Republic, Hungary, and Poland. They employed a sample of 216 firms, and found privatization alone added nearly 10 percentage points to revenue growth of a firm sold to outside owners. Most importantly, the threat of hard Budget constraints for poorly performing SOEs didn't work since governments were unwilling to allow these firms to fail. The brunt of SOEs' lower creditworthiness fell on state creditors.

Fryman, Hessel and Rapaczynski (2000) examined whether privatized central European firms controlled by outsider investors were more entrepreneurial in terms of ability to increase revenue, than firms controlled by insiders or the state. This study employed data from a sample of 506 manufacturing firms in the Czech Republic, Hungary, and Poland. The research documented that all state and privatized firms engaged in similar types of restructuring, but that product restructuring by firms owned by outside investors was significantly more effective in terms of revenue generation than by firms with other types of ownership. They concluded the more an entrepreneurial behavior of outsider-owned firms is due to incentive effects rather than the human capital effects of privatization. Specifically they identified greater readiness to take risks.

Harper (2000) examined the effects of privatization on the financial and operating performance of 174 firms privatized in the first-wave and 380 firms divested in the second-wave of the Czech Republic's voucher privatization of 1992 and 1994. They compared results for privatized firms to Nash and Van Randenborgh (1994) methodology to measure changes. He found that the first wave of privatization yields had disappointing results. Real sales, profitability, efficiency and employment all declined dramatically and significantly. However, second wave firms experienced significant increase in efficiency and profitability and declined in employment.

Lizal, Singer, and Svejnar (2000) examined the performance effects of the wave of break-ups of Czechoslovak SOEs on the subsequent performance of the master firm and the spin-offs. A regression analysis on data for 373 firms in 1991 and 262 firms in 1992 was conducted. There was an immediate positive effect on the efficiency and profitability of small and medium size firms and negative effect for the larger firms. The results for 1992 are similar but not statistically significant.

Antoncic and Hisrich (2003) conducted research on privatization driven corporate entrepreneurship and performance by developing and testing a normative model with a sample of Slovenian firms. The findings of this study demonstrate that the privatization method (private control versus extended state control) increases organizational growth and profitability. Particularly there are strong direct effects. Corporate entrepreneurship activities that included new venture formation, product/service innovation, and process innovation also increase. In addition, privatization speed (time necessary of the finalization of formal privatization) tends to be a strong predictor of subsequent organizational profitability.

Brown, Earle, and Telegdy (2006) estimated the effect of privatization on multifactor productivity using comprehensive panel data of privatized state-owned manufacturing firms in four economies. They controlled for time from privatization selection and estimated the long run impacts. Their growth estimates indicated positive multifactor productivity effects of 15 percent in Romania, 8 percent in Hungary, and 2 percent in Ukraine, and a 3 percent effect in Russia. Foreign investment in privatization had a larger impact on productivity (18–35 percent) in all countries. Positive domestic effects appeared immediately in Hungary, Romania, and Ukraine and continued to grow over time, in Russia this effect emerged only five years after privatization.

Mathur and Banchuenvijit (2007) examined changes in the financial and operating performance of 103 firms worldwide that were privatized through public share offerings during 1993–2003 in both emerging markets and developed countries. The empirical results showed increases in profitability, operating efficiency, capital spending, output, and dividend payments as well as decreased in leverage and total employment. The results indicated that privatization improved firm performance in a wide variety of countries, industries, and competitive environments.

Narjess Boubakri, Jean-Claude Cosset, and Omrane Guedhami (2009) investigated the effects of privatization for a panel of 189 firms from strategic industries headquartered in 39 countries, and privatized between 1984 and 2002. They examined the change in ownership and postprivatization means of control by the government, and assessed whether positive changes in performance. Particular industries included firms from the financial, mining, steel, telecommunications, transportation, utilities, and oil sectors. They documented that governments continue to exert influence on former state-owned firms after three years by retaining golden shares and/or appointing politicians to key positions in the firm. Their results revealed a negative effect of state ownership on profitability and operating efficiency which the presence of a sound institutional and political environment moderated.

Assaf, and Cvelbar (2010) tested several hypothesis related to the impact of privatization, market competition, management tenure and international attractiveness on the cost efficiency of tourist hotels. They used the sample of Slovenian hotels which operate in a highly dynamic environment. The results was that hotel efficiency was positively related to privatization and international attractiveness, and negatively related to longer management tenure. No significant link, on the other hand, was found between market competition and hotel efficiency.

In Russia

Privatization has become the core of transition reform in Russia (Vuylsteke, 1995; Patokina & Baranov, 1999). The primary objective of the privatization program, especially in the former centrally planned economy, is improving economic efficiency of privatized state enterprises and the overall economic performance of economy (Patokina & Baranov, 1999). The studies of Russia privatization showed that Russia has applied different privatization methods to reach special goals in different stages of the privatization program from 1992 to present. The following research shows how the privatization program improved the performance of privatized SOEs in Russia.

Barberis, Boycko, Shleifer, and Tsukanova (1996) surveyed 452 Russia retailers sold in early 1990s to measure the importance of alternative channels through which privatization promotes restructuring. They found that new owners and managers raised the likelihood of value-increasing restructuring. Equity incentives did not improve performance.

Earle and Estrin (1998) used a sample similar to that used by Earle (1998) to examine whether privatization, competition and hard budget constraints enhanced efficiency in Russia. They found that a 10% increase in private share ownership raised real sales per employee by 3% - 5%.

Djankov (1999a) investigated the relationship between ownership structure and enterprise restructuring for 960 firms privatized in 6 newly independent states between 1995 and 1997. The study showed that foreign ownership was positively associated with enterprise restructuring at high foreign ownership levels, while managerial ownership was positively related to restructuring at low foreign ownership levels.

Djankov (1999b) used the same survey data as Djankov (1999a) to study the effects of different privatization modalities on the restructuring process. Privatization through management buyouts was positive, related to enterprise restructuring. Voucher privatized firms did not restructure more rapidly than SOEs. This implied that managers who gained ownership for free may have less incentive to restructure.

Black, Kraakman, and Tarassova (2000) surveyed privatization in Russia. Several case studies were analyzed. They concluded that in Russia privatization had failed because of minimizing incentives for self-interest in design of privatization programs.

Perevalov, Gimadii and Dobrodei (2000) studied 189 privatized Russian industrial enterprises in 1992-1996. They showed that privatization improved little performance of Russian enterprises. They revealed that the State seemed to be a passive shareholder, and found that methods of privatization influenced performance but the impact was not always positive.

Carsten Sprenger (2010) used a large data set of Russian manufacturing firms to describe the ownership structure in the Russian industry at the end of the mass privatization program in 1994 and its subsequent evolution. The data showed a high, but gradually decreasing ownership stakes of firm insiders. Firms in a financial distress showed a higher incidence of insiders selecting the option of privatization leading to high insider ownership. No evidence was found of a sequencing in privatization according to firm performance.

In China

Wei, Varela, D'Souza, and Hassan (2003) examined the pre- and post- privatization financial and operating performance of 208 Chinese companies privatized in 1990-1997. They investigated the effects of the retained state ownership on firm performance and compared the long-term and short-term performance changes following privatization. Real sales and sales efficiency were improved while leverage declined significantly following privatization. Profitability changed significantly pre- vs. post privatization. Employment declined significantly in the long-run.

Li, Lam, and Moy (2005) identified the effects of ownership structure on the strategy and performance of former state-owned enterprises (SOEs) in China. Based on a sample of the former state-owned manufacturing firms listed on the Chinese Stock Exchanges before 1995, they analyzed the ownership effects on firm diversification strategies and their performance. Diversifiers actually had a lower level of state ownership. However, firms' financial performance and other performance dimensions such as new product development and overseas investment were actually better for single-product producers. Hence, firms with lower state-ownership tended to be more likely to pursue unrelated diversification.

Chen, Firth, Xin, and Xu (2008) investigated the performance effects of China's listed firms when there was a change in the controlling shareholder. These changes included ownership transfers from one state entity to another state entity and from a state entity to a private entity. There was little change in performance if the transfer was made to another branch of the state. The stock market responded positively to a change in control, with the largest effect observed for private transfer.

Bai, Lu, and Tao (2009) used a comprehensive panel data set of China's state-owned enterprises to investigate the impacts of privatization on social welfare and firm performance indicators. They found that the privatization of China's state-owned enterprises had little impact on the change of firm employment, but it did lead to increasing sales and higher labor productivity. The impact of privatization was sustainable in the long run, and was more pronounced when state ownership was reduced to minority position as opposed to majority position.

Huang, and Wang (2010) explored the effect of ultimate privatization on the performance of Chinese listed companies. Ultimate privatization in China is defined as the incidence of transferring the ultimate control of a state-owned company from the government to private owners. They used a sample of 127 Chinese listed companies that have had controlling blocks transferred from the government to private owners. They showed that firm performance improved significantly following this transfer. In addition, gains in profitability and efficiency were more prominent when the new controlling shareholder was an "outsider", one who did not own shares in the company prior to the transfer of control. Their results suggested that the Chinese government should continue to reduce its controlling ownership in listed companies, as the transfer of control to private owners enhanced operating efficiency and profitability.

4. Privatization and corporate performance

Many researches on privatization have found evidence which demonstrated that SOEs have less efficiency than private enterprises. The inefficiency is caused by the SOEs' employment of excessive labor, concentration on the pursuit of social and political objectives, such as maximizing employment and output rather than maximizing profitability and shareholder wealth, unconditional access to capital, the absence of ownership incentives of managers and the low level of employee participation. In socialist economies, SOEs are pressured to hire politically connected people rather than those best qualified to perform desired tasks. Making losses is a general phenomenon. SOEs usually are heavily leveraged firms thanks to soft budget constraints. The government provides implicit or explicit loan guarantees enabling them to borrow at favorable rates resulting from state owned enterprises cannot issue securities to raise funds and internal equity is not much generated because of low net income or losses usually characteristic the SOE income statement. Managers in SOEs are not put under pressure to meet debt obligations as managers in private firms. SOEs' financial distress could threaten their job position but never hurt their wealth or put them in jail. As a result, SOEs are more leveraged and lower performance than others.

Several previous studies examined the change in the ownership structure and its influence on corporate performance. Megginson, Nash and Randenborgh (1994) compared pre- and post-privatization financial and operating performance of 61 companies in 18 countries over the period 1961-1990. The study reported that post-privatization performance increased included output (real sales), high operating efficiency, profitability, capital investment spending and dividend payments, as well as decreased in leverage. Privatized firm performance increases because privatization typically transfers both control rights and cash flow rights to managers who then show a greater interest in profits and efficiency than did the politicians.

Examining privatization in the context of developing countries, Boubakri and Cosset (1998) assessed the significant performance improvement of 79 newly privatized enterprises from 21 countries. Superior performance was associated with the new ownership structure. The study measured corporate performance by profitability, efficiency, output and investment. Profitability is measured by return on sales (ROS), return on assets (ROA), and return on equity (ROE). The measures for efficiency are sales efficiency and net income efficiency, for investment is capital expenditure to sales, for output is nominal sales to customer price index. Performance improvements were generally larger than those documented by Megginson, Nash, and Randenborgh (1994).

Earle (1998) investigated the impact of ownership structure on productivity of Russian industrial firms, examined differential impact of insider, outsider, or state ownership on the performance of 430 firms. The study identified the positive impact of private share ownership on productivity. This was primarily due to ownership. It found that only outsider ownership was significantly associated with productivity improvements.

D'Souza and Megginson (1999) studied the privatization of 78 companies from 10 developing countries and 15 developed countries from 1990-1994. They considered significant increases in output (real sales), operating efficiency, and profitability, and significant decreases in leverage and employment.

Boardman, Laurin, and Vining (2000), studied 9 Canadian firms privatized during 1988-1995. The results that showed profitability (ROS, ROA) more than doubled after privatization. Efficiency, capital spending and sales increased significantly, and employment and leverage declined significantly.

Sun and Tong (2002) compared the financial and operating performance of a sample of 24 firms before and after privatization. The 24 firms were privatized by public listing on the Malaysian stock exchange. Measures that improve following privatization include profitability, output level, and dividend payout; leverage declines. They also observed a stronger relationship between private ownership and corporate governance with such performance changes. These results are similar to the results of directly comparable multi-countries studies of Megginson, Nash and van Randenborgh (1994), Boubakri and Cosset (1998), and D'Souza and Megginson (1999).

Boubakri, Cosset, and Guedhami (2004) studied 50 firms from 10 Asia countries privatized over the period 1980-1997. The study showed that privatization increased profitability, efficiency, and output in the privatized firms from Asia. They also found that higher improvements in performance associated with corporate governance and economic environment.

Parker and Kirkpatrick (2005) reviewed the main empirical evidence on the impact of privatization on the economic performance in developing economies. According to their study, in assessing the impact of privatization in developing economies, broadly two sets of studies exist. One set used statistical data to undertake an assessment of the effects of ownership on performance, using a range of performance variables, for example, profitability, productivity, costs of production and financial ratios. These studies attempted to model the relationship between dependent and independent variables with a view to measuring the separate effects of each independent variable, where the dependent variable is some measure of economic performance. Ownership is one of the explanatory variables relating to outputs, inputs and controls. The evidence suggested that if privatization is to improve performance over the longer term, it needs to be complemented by policies that promote competition and effective state regulation. Privatization works best in developing countries when it is integrated into a broader process of structural reform.

Wu (2007) studied the likelihood of performance improvements after privatization with a set of explanatory variables. The research found that supportive policy measures, including market openness, post-privatization involvement of government and corporate reforms prior to privatization strongly related to the performance effects of privatization.

Mathur and Banchuenvijit (2007) examine the changes in financial and operating performance of 103 firms worldwide that were privatized through public share offerings during 1993-2003 in both emerging markets and developed countries. They used the same method as Meggison, Nash and Van Randenborgh, (1994), allowing a direct comparison of the result with the previous papers such as Megginson et al (1994), Boubakri and Cosset (1998), and D'Souza and Megginson (1999). The study showed increases in profitability, operating efficiency, capital spending, output, and dividend payments as well as decreases in leverage and total employment. The results proved that privatization helps improve firm performance in a wide variety of countries, industries, and competitive environments.

Kofi Fred Asiedu, and Henk Folmer (2007) analyzed the impacts of privatization in Ghana on the basis of a survey of 300 workers in privatized and state-owned enterprises. Their findings indicated a significant positive relationship between privatization and job satisfaction. Whereas monthly wage was an important determinant of job satisfaction in state-owned enterprises, education and the availability of training opportunities were strong determinants of job satisfaction in privatized enterprises.

Farinós, García, and Ibáñez (2007) investigated the operating and stock market performance of Spanish state-owned enterprises (SOEs) privatized through public share issue offerings (SIPs) from 1990 to 2001. They compared the performance of SOEs and privately-owned firms, and found significant operating improvements in Spanish SOEs after the privatization, specifically, showed significant increases in income efficiency, real sales and employment.

Tsamenyi, Onumahb, Tetteh-Kumahc (2010) analyzed the performance of two large privatized companies in Ghana. Both companies have been praised by the Ghanaian authorities and the international financial community as success stories of privatization. Their objective was to examine how and why these firms have been claimed to be successful. Drawing on the dimensions of the balanced scorecard, they examined the performance of the firms from five main perspectives-financial, customers, internal business process, learning and growth, and the community. The analysis was based on data gathered from diverse sources, namely, semi-structured interviews and discussions with managers of the selected companies and with personnel from key government departments, and analysis of internal and external documents. They concluded that, overall the performance of both organizations improved after privatization under all the performance dimensions examined. These improvements were also accompanied by changes in the accounting and control systems.

Briefly, in many different economies including developed vs. developing countries, market vs. non-market economies, these studies showed that privatized firm performance increased significantly through privatization. In the market economies post privatization performance was been improved significantly higher than non-market economies. After privatization, sales, profitability, operating efficiency, output, job satisfaction of privatized firms increase significantly. Private and outsider ownership have a positive impact on productivity improvement. The findings imply that Vietnamese government should speed the privatization process to improve the performance of privatized firms and increase the efficiency of the economy.

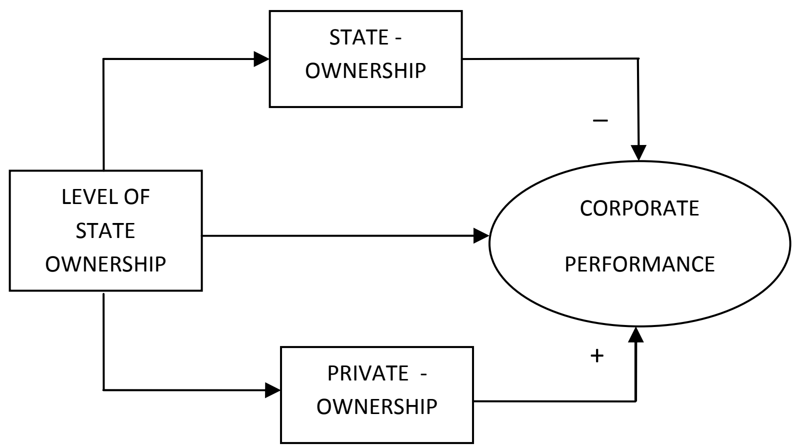
5. Developing conceptual research model and hypotheses

The conceptual model is based on the expectations explicitly stated by Vietnamese policies: to change the ownership of the Stated-owned enterprises (SOEs), attract investment from the private sector, enhance worker participation by including them in company's shareholders and improve SOEs performance. The equitization policy has divided Vietnamese SOEs into two groups, state owned enterprises with 100% state capital and privatized firms with a mixed ownership structure. Typically these firms are a combination of state, employee and other private ownership including foreign ownership. The study is designed to test the two hypotheses as the following:

H_1: Privatized firms perform significantly better than SOEs.

H_2: For privatized firms, the higher the percentage of private share holding, the better the performance of the privatized firms.

Figure 1: Research Model



This study uses a quantitative methodology, which emphasizes measurement and on collecting and analyzing numerical data. This section presents the measurement of main variables which are ownership, and corporate performance.

The first variable is ownership, which is used to measure ownership structure of the company. This study divides the research population into two groups; state owned enterprises and privatized firms. In the second group, privatized firms are divided into three subgroups based on the proportion of state share holding. In subgroup one, the State holds less than 30 percent of the number of issued shares, subgroup two from 30 to 50 percent, and subgroup three more than 50 percent, respectively.

Corporate performance variable is perceived performance, and measured by three value constructs, financial performance, employee income, and customer satisfaction. Respondents were asked about how they rank their company performance compared with other companies in the same industry. The scale is a five-point scale ranging from 1 to 5, with one meaning very low, and five meaning very high. Financial performance includes productivity, sales revenue, profit, return on assets and return on equity. Employee satisfaction items are salary, bonus, satisfaction with job and with income, and promotional opportunities. Customer satisfaction is measured by 2 items, satisfaction with product/service quality and delivery. The measurement of corporate performance was developed based on the face to face discussion with five MBA students, who are working for SOEs and privatized firms. The items of corporate performance are presented in Table 1.

Table 1 Corporate performance scales

Constructs	Items
Financial performance	1. Productivity 2. Sales revenue 3. Profit 4. Return on assets 5. Return on equity
Employee Satisfaction	1. Average monthly salary 2. Yearly bonus 3. Employees' satisfaction with Income 4. Employees' satisfaction with Job 5. Employees' satisfaction with Promotional opportunities
Customers' satisfaction	1. Product/service quality 2. Product/service delivery

6. Data collection and analysis

Sample size

Of 790 valid questionnaires, 438 are collected from 22 SOEs and 352 from 21 privatized firms. Regarding industries; there are 59 percent collected from manufacturer, 34.6 percent from service companies and the rest from trade companies. Of 352 responses collected from privatized firms more than 95 percent collected from privatized firms which were equitized before year 2005. Regarding share holding in privatized firms, there are 32.7 percent collected from privatized firms those state share holding is less than 30%; 43.2 percent with a state share holding from 30% to 50%, and the rest collected from those state share holding more than 50%.

Factor analysis of corporate performance scales

The corporate performance scale has a multi-dimensional nature. Factor analysis of the 12 items using varimax rotation produced 3 factors accounted for 71 percent of total variance. No item is deleted. Table 2 presents the result of the analysis. All factors loadings are higher than 0.6 which satisfies the requirement.

Table 2 Factor analysis of corporate performance scales

	Factor loading		
Constructs and items	1	2	3
Construct 1: Financial performance			
FP3- Profit	0.816		
FP5- Return on equity	0.813		
FP4- Return on assets	0.813		
FP2- Sales	0.778		
FP1- Productivity	0.635		
Construct 2: Employee satisfaction			
ES3- Employees' satisfaction with income		0.810	
ES4- Employees' satisfaction with job		0.755	
ES2- Yearly bonus		0.748	
ES5- Employees' satisfaction with promotional opportunities		0.711	
ES1- Average monthly salary		0.647	
Construct 3: Customer satisfaction			
CS2- Customers' satisfaction with products/services delivery			0.860
CS1- Customers' satisfaction with products/services quality			0.837

Descriptive statistics of Corporate performance

Financial performance variable is measured by 5 observed variables (items) and employee satisfaction scale consists of 5 items, while customer satisfaction scale includes 2 items. Their values distribute from the minimum value of 1 to the maximum value of 5. The mean values range the lowest of 2.84 (Employees' satisfaction with promotional opportunities) to the highest of 3.55 (Sales revenue). Almost variables have mean values higher than 3.0. The standard deviation of mean values ranges from the lowest of 0.91 to the highest of 1.081 (see Table 3). Items with higher standard deviation are more variable than those with lower standard deviation.

Table 3 Descriptive Statistics of corporate performance items, N = 790

Code	Variables	Mean	Std. Deviation
FP1	Productivity	3.51	.986
FP2	Sales revenue	3.55	1.010
FP3	Profit	3.44	1.047
FP4	Return on assets	3.31	1.081
FP5	Return on equity	3.34	.998
ES1	Average monthly salary	3.10	.980
ES2	Yearly bonus	3.05	1.022
ES3	Employees' satisfaction with Income	2.98	.963
ES4	Employees' satisfaction with job	2.96	.999
ES5	Employees' satisfaction with promotional opportunities	2.84	1.067
CS1	Product/service quality	3.42	.924
CS2	Product/service delivery	3.43	.910

Reliability of corporate performance constructs

Corporate performance variable consists of three factors or constructs, financial performance, employee satisfaction, and customer satisfaction. Cronbach's alpha of financial performance, employee satisfaction, customer satisfaction constructs equal to 0.88, 0.87, and 0.82, respectively. The Cronbach's alpha of the three constructs is higher than 0.7. Thus, its scale is reliable.

Table 4 Cronbach's alpha of corporate performance scales

Constructs	Number of items	Cronbach alpha
Financial performance	5	.88
Employee satisfaction	5	.87
Customer satisfaction	2	.82

7. Testing Hypotheses

Independent T-test for corporate performance for hypothesis H_1

Table 5 reports Independent T- test results between privatized firms and SOEs in terms of corporate performance. The independent T-test was used to study whether there is a significant difference of corporate performance between privatized firms and SOEs or not. The statistical description in the table shows that both privatized firms and SOEs have a moderate performance with mean = 3.38 and 3.20, respectively, however privatized firms perform significantly better than SOEs (mean difference = 0.173, $p < 0.01$). To compare their performance in detail, both privatized firms and SOEs have moderate financial performance (mean = 3.39 and 3.48, respectively), however there is no statistically significant difference (mean difference = -.095, $p < .115$); While privatized firms have significantly higher employee satisfaction and customer satisfaction than SOEs (mean difference = 0.267, $p < 0.01$ and 0. 158, $p < 0.01$, respectively). Thus, H_1 which predicts that privatized firms perform better than SOEs is accepted.

Table 5 Comparing privatized firms with SOEs for corporate performance

Variables	Mean		Mean difference	Significant (α)
	State-Owned Enterprise (N = 438)	Privatized Enterprise (N = 352)		
Financial Performance	3.39	3.48	-0.095	0.115

Employee Satisfaction	2.87	3.13	-0.267	0.000
Customer Satisfaction	3.36	3.51	-0.158	0.009
Corporate Performance	3.20	3.38	-0.173	0.001

ANOVA test results for corporate performance among privatized firms with different state shareholding proportion

In order to test whether there is the difference of privatized firms' corporate performance with different state shareholding proportion or not, observed privatized firms were divided into three subgroups. The first subgroup consists of privatized firms having a state shareholding proportion less than 30%. The second includes privatized firms with their state shareholding proportion ranges between 30% and 50%. The rest one is the subgroup of privatized firms having a state shareholding proportion more than 50%.

In general, the test results in Table 6 indicate that privatized firms having a state shareholding proportion less than 30% and higher than 50% perform better than privatized firms having a state shareholding proportion from 30% to 50% (mean difference = .421 and .465, respectively and $p < .001$). There is no significant difference in corporate performance between the two high performance groups (mean difference = 044, $p < .612$).

Comparing financial performance among the three subgroups yields that privatized firms having less than 30% and more than 50% state shareholding proportion perform better than privatized firms having a state shareholding proportion from 30% to 50% significantly with mean difference equal to .511 and .504, respectively and ($p < .01$); There is no significant difference in financial performance between the two high performance groups (mean difference = -.007, $p = .945$).

Regarding employee satisfaction, less than 30% state shareholding privatized firms perform better than the ones having state shareholding from 30% to 50% (mean difference = .358, $p <.000$). Compare to privatized firms having state shareholding more 50% the difference, however insignificantly (mean difference = -.178, $p = .098$). Comparing less than 30% state shareholding privatized firms and more than 50% state shareholding privatized firms in customer satisfaction, the first subgroup has a customer satisfaction level higher than the second one significantly (mean difference = .392, $p < .000$), but not higher than that of privatized firms with more than 50% state shareholding (mean difference = .038, $p = .719$).

Table 6 ANOVA test results for corporate performance among privatized firms with different state shareholding proportion

Dependent Variable	(I) state owned	(J) state owned	Mean Difference (I-J)	Sig.
Financial performance	Less than 30%	30% - 50%	.511*	.000
		More than 50%	.007	.945
	30% - 50%	Less than 30%	-.511*	.000
		More than 50%	-.504*	.000
	More than 50%	Less than 30%	-.007	.945
		30% - 50%	.504*	.000
Employee satisfaction	Less than 30%	30% - 50%	.358*	.000
		More than 50%	-.178	.098
	30% - 50%	Less than 30%	-.358*	.000
		More than 50%	-.537*	.000
	More than 50%	Less than 30%	.178	.098
		30% - 50%	.537*	.000
Customer satisfaction	Less than 30%	30% - 50%	.392*	.000
		More than 50%	.038	.719
	30% - 50%	Less than 30%	-.392*	.000
		More than 50%	-.354*	.001

	More than 50%	Less than 30%	-.038	.719
		30% - 50%	.354*	.001
Corporate performance	Less than 30%	30% - 50%	.421*	.000
		More than 50%	-.044	.612
	30% - 50%	Less than 30%	-.421*	.000
		More than 50%	-.465*	.000
	More than 50%	Less than 30%	.044	.612
		30% - 50%	.465*	.000

*. The mean difference is significant at the 0.05 level.

Regression with dummy variables

Regression with dummy variables test and the enter method was used to study whether the higher private shareholding proportion, the better the performance of the privatized firms, in other words, the lower state shareholding proportion, the higher the performance of the privatized firms or not. In this study, state shareholding proportion is a nominal variable. It has three values, 1, 2, and 3. It is denoted by 1 if state shareholding is less than 30%, by 2 if state shareholding from 30% to 50%, and by 3 if state shareholding more than 50%. To do the dummy regression, the nominal variable was converted into a dummy variable. The shareholding proportion of the state more than 50% is equal to 1, otherwise is 0. H_2 predicts that the greater the degree of state involvement, as measured by the state shareholding in privatized firms, the less likely it is that the performance of a privatized company will be improved.

The test result (Table 7) indicated that the majority of state owned proportion (more than 50%) has a negative impact on corporate performance, financial performance, employee satisfaction, and customer satisfaction of privatized firms with beta = - 0.188 ($p <.001$), - 0. 157 ($p < 0,001$), - 0.210 ($p < 0.001$), and - 0.103 ($p < 0.1$), respectively. H_2 is supported fully.

Table 7 Report of regression with dummy variables (state shareholding proportion) results

Panel 1: Dependent variable = Corporate performance

	Beta (standardized)	Sig.
State shareholding more than 50%	-.188	.000
R^2 = 3.5%		
R = .188		

Panel 2: Dependent variable = Financial performance

Variables	Beta (standardized)	Sig.
State shareholding more than 50%	-.157	.003
R^2 = 2.5%		
R = .157		

Panel 3: Dependent variable = Employee satisfaction

Variables	Beta (standardized)	Sig.
State shareholding more than 50%	-.210	.000
R^2 = 4.4%		
R = .210		

Panel 4: Dependent variable = Customer satisfaction

Variables	Beta (standardized)	Sig.
State shareholding more than 50%	-.103	.053
R^2 = 1.1%		
R = .103		

8 Finding Discussion

Corporate performance of privatized firms and state owned enterprises

This study found that generally privatized firms perform better than SOEs (Mean = 3.38 and 3.20, respectively, MD = -.173, $p < .001$). Both privatized firms and SOEs have the mean values of financial performance, and customer satisfaction level higher than employee satisfaction level. For privatized firms, the mean values of financial performance, customer satisfaction and employee satisfaction are 3.48, 3.51, and 3.13 respectively. For SOEs, these values are 3.39, 3.36 and 2.87 respectively. There is no the significant difference of their financial performance ($p = 0.115$). Privatized firms' employee and customer satisfaction levels are higher than SOEs (mean difference = .276 & .158; and $p < .001$ & .01 level, respectively). There is no a significant difference of financial performance between the two types of company. This finding is consistent with the finding of Perevalov, Gimadii and Dobrodei (2000) studying financial performance of 189 privatized Russia industrial enterprises in 1992-1996 and showing that privatization improved little performance of Russia enterprises. This study found both privatized firms and SOEs have financial performance and customer satisfaction level higher than employee satisfaction, however privatized firms perform better than SOEs in terms of customer and employee satisfaction levels.

The equitization process in Vietnam has been considered one of the vital measures to create privatized firms' effectiveness and efficiency. Besides, the SOE Renewal Program has put heavy pressure with responsibility for firm performance on the SOEs' managers. Under the reform process, SOEs with poor performance have been dissolved while profitable firms have been privatized or continue to be successful SOEs. The pressure of the competition in the market place make SOEs' managers focus on the improvement of their firms' performance. In many cases, managers have to leave step down from their job position if the firms under their management has poor performance for many years consecutively, and lost their bonus and promotion opportunities because the companies have no profit increase on a continuous basic. The CEO of Vinashin Business Group (Vietnam Shipbuilding Industry Group) had to leave his position last year because of the company's poor performance for many years continuously and the company's financial distress. The company was established in 1972 to consolidate the country's shipbuilding industry, and now is one of the largest state-owned enterprises in Vietnam and offers shipbuilding, ship repair, shipping, heavy industries and other services to enterprises within Vietnam as well as internationally. Although, the government has put more restrictions of budget constraints on current SOEs - they are no longer financed directly from the Ministry of Finance, and have to finance their operation by loans provided by state-owned banks or private commercial ones, they can borrow without collateral and with a favorable interest rate if their loans are guaranteed by state parent company or government agencies such as the People's

Committee. The government therefore requires the Ministry of Finance to be more responsible for controlling SOEs' operations and investment.

For privatized firms, the restructuring of labor force, management, business strategy and capital structure happen because of the involvement of private investors. Privatized firms' management has the pressure of positive profit from their board of directors to pay cash dividend to their shareholders. Besides, privatized firms' managers have incentives and motivation to increase their company's profitability due to the profit sharing between management and shareholders and their capital gains. Actually, privatized firms' board of directors can grant 5 percent of the profit after taxes to the management if they run the business operations well and reach the target operating profit required by the Shareholder Annual Meeting, according to Clause 117 of the Company Law 2005. In privatized firms, the management also obtains capital gains when the company's stock price increases due to good performance through the Executive Share Ownership Plan (ESOP), which has become popular in Vietnamese companies from 2007. If they were the managers of former SOEs, they bought their companies' shares with favor price as their SOEs were equitized. Theoretically, stock price reflects the investors' expectation of company's performance, thus its stock price could increase because of the company's high performance. For example, Vinamilk, a former SOE equitized and listed in HOSE in year 2006 with market capitalization of 530 million USD. After 5 years its market capitalization has increased to 2 billion USD in year 2011, and the company's ESOP brought in the CEO of Vinamilk 33 billion VND, around 2 million USD in the year (www.stockbiz.vn). The result of the independent survey of 74 listed public corporations in Hochiminh Securities Exchange (Vo, 2009) showed that the average proportion of management ownership is 9.7 percent implying that the companies' ownership has been concentrated somewhat on their management. This could raise the motivation for increasing corporate performance of the management.

Having an excess of unskilled workers but lacking qualified employees is a major problem of former SOEs. After equitized, they have to change the personnel management policies related to recruiting, training and compensation if they want to attract new qualified labors and retain qualified current employees. Privatized firms can pay their employees higher than before, and reward them based on company performance due to without the government restriction of employee payroll. This leads to the increase of employee satisfaction. Since Vietnam has become the 150th member of WTO, the pressure of competition in the domestic market place increased significantly. In the new situation all firms both privatized firms and SOEs have to find an appropriate way to survive and develop. They respond more appropriately and rapidly to the changes happening in the market place, especially the change of customers' taste and competitors' behavior. However, privatized firms adapt to the new situation better than SOEs, which was indicated in this research. In fact, most privatized firms set up the customer service centers and do customer satisfaction surveys regularly, but rarely SOEs do that. The customer service centre helps firms to receive the feedback about the company's product and service quality and delivery. As a result, the improvement of product, service quality and delivery happens, which in turn leads to the increase of customer satisfaction.

Corporate performance of privatized firms with different state shareholding proportion

The results also show that the state shareholding proportion has a negatively effect on privatized firm performance. This is consistent with the finding of Boubakri et al (2009), state-ownership impacted negatively on profitability and operating efficiency. However, privatized firms with the state shareholding proportion less than 30 percent and more than 50 percent perform better than privatized firms with the proportion ranging from 30 to 50 percent. There is no significant difference of corporate performance between the two subgroups of privatized firms. This may be because of different reasons. The performance of privatized firms with the state shareholding proportions are more than 50% have advantages from government. According to the Enterprise Law Year 2005, any company with the state ownership percentage of 50 percent and above is treated as a state-owned enterprise. Being considered SOE, it does not face the heavy collateral requirements for loans from state owned banks, and takes advantages from the government. While, the market discipline and competitive pressure bring about positive outcomes for the privatized firms. The case of Bach Tuyet Cotton Corporation is the explanation for that. Cobovina Snow White Plant, a private enterprise was nationalized, and named Bach Tuyet Cotton Company in 1975. As a SOE, it was the main supplier of medical cotton for all state hospitals. In November, 1997 it was equitized and the state holds 30% equity. Since, it has lost nearly all the government orders and this affected negatively on the company operating income. Year 2006 and 2007, the company lost cumulatively 14 billion VND or 10 million USD and its stock was removed from the list of Hochiminh Securities Exchange. However, now its operating income has been improved remarkably. The company received the Vietnamese High Quality Award in year 2010 and 2011. The situation showed that the managers of the privatized firms increase their company's performance through increasing customer satisfactions. These are the competitive advantages of privatized firms.

9 Conclusion, Implications and Limitations

The study aims to add to the body of literature by identifying sources of performance changes in privatized firms, based on Vietnam's experience in privatization. Vietnam represents an interesting example of a country in the process of transition in terms of economic development; therefore the study brings about an empirical evidence of privatization and its outcomes. These findings imply that private ownership has a positive impact on firm performance. Contrary to private ownership, state ownership has a negative impact on firm performance. The change of the internal environment under the pressure of competition from the external environment will result in a positive impact on corporate performance. Thess findings are consistent with the findings of most previous privatization studies.

This study is supportive of many conceptual studies in the literature of privatization, and its outcomes. it provides the empirical evidence for the research community in the world concerning the format of privatization called equitization in Vietnam. The study brings the research community the insight of the Vietnamese equitization process since from the early 90's to the present. It supports the existing literature of privatization with valuable findings such as performance of privatized firms being better than SOEs, the unclear performance of mixed ownership companies in Vietnam, the linkage between ownership structure and corporate performance.

Like any other research, this study is subject to some limitations.

Firstly, the research findings are based on a study conducted in one country with small samples size and hence, they are not be generalizable to other countries.

The second limitations of the study are that the research uses the convenient sampling technique; the surveyed firms were not randomly selected but based on personal connections. The qualitative information was gathered from the interviewing of few people based on personal relations. As convenience becomes the selection criteria, all surveyed privatized firms' performance is not capable of representing the typical performance of privatized firms in Vietnam. The shortcomings in the qualitative study still constitute a potential selection bias threat and weaken the generalization ability.

The third limitation is that the study used the perceived performance measurement, the research findings may not relate to the actual performance.

The future researchers can develop better instruments to measure corporate performance such as the combination between accounting data and perceived measurement that would make the findings more precise and valuable. They also can examine the impact of business environment on performance./.

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