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Discussion on the Ownership Structure of the Firm

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Abstract
For many years, ownership structure in firms has been one of the topics of great concern among firms in Vietnam. This topic has received even more attention since the process of privatizing state-owned enterprises in Vietnam began in 1992. One of the issues of concern in the process of restructuring enterprises is the divestment of state capital or the greater participation of other shareholders, especially foreign shareholders. Different groups of shareholders will have different interests and benefits and have different relationships with the government, banks, and strategic partners. Ownership structure is one of the most important issues for firms because it affects production and business activities and operational goals, especially the performance of firms in general and warehousing firms in particular. In the context of international integration, economic restructuring is taking place at an urgent pace, with the focus being on business restructuring (Tran, 2018) [13]. State ownership is measured by the percentage of state ownership in companies (Khaw *et al*., 2016) [11]. Foreign ownership is measured by the percentage of foreign investors' ownership in companies (Vo, 2016; Chun & Lee, 2017) [15, 2]. The goal of this article is to discuss the ownership structure of firms listed on the Vietnamese stock market through qualitative research methods. Some implications are proposed to help firm perfect appropriate ownership structures.

Keywords: Ownership Structure, Finance, Accounting, Economics

JEL codes: M41, F65, J01, O15

1. Introduction

For many years, ownership structure in firms has been one of the topics of great concern among firms in Vietnam. This topic has received even more attention since the process of privatizing state-owned enterprises in Vietnam began in 1992. One of the issues of concern in the process of restructuring enterprises is the divestment of state capital or the greater participation of other shareholders, especially foreign shareholders. Different groups of shareholders will have different interests and benefits and have different relationships with the government, banks, and strategic partners.

In a joint-stock company, the share capital is owned by many different shareholders, thereby forming the ownership structure of the company. Owners have different goals and orientations when holding shares.

The goal of shareholders is usually to maximize company value, but state owners may have other goals related to politics and society. From a political point of view, state-owned companies are often associated with poor performance because they serve the politicians' goals of increasing employment, local development, and ultimately ensuring the victory of politicians in elections (Boycko *et al*., 1996) [1].

The goal of this article is to discuss the ownership structure of firms listed on the Vietnamese stock market to contribute to providing empirical evidence on ownership structure, thereby serving as a foundation for the topic. Corporate finance and accounting in the context of the economic transition in Vietnam.

2. Literature review

In many countries around the world, as well as Vietnam, state and foreign ownership are two forms of ownership that have an important position in the company ownership structure and have received much attention from researchers.

Ownership structure is understood as the allocation of equity according to rights, which is proportional to the equity held by the owners. Ownership structure has a very important influence on running a company because it affects the decision making of managers (Le, 2018).

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State ownership is defined as the percentage of shares held by the state in any form out of the company's total outstanding shares (Hamdi & Cosset, 2014) [8]. State ownership is measured by the percentage of state ownership in companies (Khaw *et al*., 2016) [11].

Foreign investor ownership is the ratio of the number of shares held by foreign investors to the company's total outstanding shares (He & Shen, 2014) [9]. Foreign ownership is measured by the percentage of foreign investors' ownership in companies (Vo, 2016; Chun & Lee, 2017) [8, 2].

We summarize the ownership structure as follows: The ownership structure is simply understood as the capital contribution structure in the company, thereby determining the rights and responsibilities of the parties contributing capital.

3. Classification of ownership structure

According to control or concentration level, ownership structure is divided into two types: Centralized ownership structure and distributed ownership structure

A concentrated ownership structure is a structure in which one individual, organization, or group of related individuals owns the majority of a company's equity and has the power to govern the company's decisions. Centralized structures are often considered internal systems. Large shareholders often control and greatly influence how the company operates by participating in the board of directors and executive committee. Major shareholders may not own all the capital but have significant voting rights, so they can still control the company, minimizing violations or fraud in governance and operations.

A distributed ownership structure is a structure in which no individual or group of individuals or organizations owns the majority of the company's capital and has the right to govern the company. In this form of structure, the company raises capital by selling common shares in the capital market. Each shareholder owns a number of company shares, and control over company operations is held by the board of directors. Small shareholders have little incentive to closely examine operations and do not want to participate in running the company, so they are called outsiders, and the decentralized structure is often called an external system.

Follow the owner link

A company can also be owned and controlled by two different groups of people. It creates two types of ownership structures: The pyramid structure and the cross-ownership structure, often found in member companies of corporations or groups of companies.

Pyramid ownership is a form of ownership by one person who effectively controls many levels of ownership in other companies. For example, company A holds 20% of company B's capital, and company B holds 10% of company C's capital. Company A is called the ultimate owner of company C because company A controls company C through company B. Company A can influence a certain decision of Company C but only bears 2% = 20%x10% of the impact (or damage) of that decision. Company A can, out of self-interest, make decisions that are beneficial to itself but harmful to Company C while only suffering negligible losses on its capital contribution.

Cross-ownership structure occurs when company A controls company B (in the example above), but in this case, company B also holds control over company A, although the cross-ownership ratio. Is not high. This cross-ownership tie increases the level of association between company A and company B in controlling company C. It helps companies increase the level of association, commitment, and cooperation in implementing strategies, but if the ability to control law enforcement is not high, it can lead to a situation where affiliated companies violate the rights small shareholder interests.

Each ownership structure system has advantages and disadvantages, as well as potential corporate governance challenges. As for a concentrated ownership structure, a firm controlled by insiders has notable advantages. These people have the power and motivation to tightly control the firm. Thanks to that, errors or fraud in management and administration can be minimized. Furthermore, because of their large ownership and control, these people tend to keep their investment capital in the business for a long time. Therefore, they will favor decisions that enhance long-term performance over those that provide short-term benefits. However, this system also leads businesses to failures in management. For example, when executives are large shareholders or have large voting rights, they can use their power to influence the board of directors' decisions to their advantage but not to the benefit of the company. A common case is for managers to convince the board of directors to pay very high salaries and benefits to management or to approve the purchase of high-priced inputs from companies they own or have control over. More seriously, they can use confidential information for profit, such as insider trading (Nguyen & Tran, 2011) [12].

4. Forms of ownership structures

In order for the company to operate effectively, it is necessary to determine the company's ownership structure and then plan a management system suitable for each form of ownership.

According to expert opinions posted on http://luatsurieng.vn/luat-su-va-cong-dong/hoach-dinh-co-cau-so-huu-doanh-nghiep.html [16], the company's ownership structure is divided into the following basic forms:

Form of comprehensive ownership structure with 100% equity: Units formed under this form of ownership are completely dependent on the parent company, fully complying with the parent company's decisions without resistance. The functional departments of the affiliated units in this form of ownership are essentially extended arms of the parent company's departments. The management of equity capital is completely directly carried out by the management apparatus of the parent company.

A form of comprehensive ownership structure with delimitation: The level of management gradually decreases with the delineated comprehensive ownership form. In

principle, in this form of ownership, the subsidiary must still fully comply with the decisions of the parent company, but the way of management for the subsidiary is through the equity representative of the parent company. Each of these representatives will be authorized to manage capital at different rates, corresponding to different voting rates. Therefore, to implement the decisions of the parent company at the subsidiary, the decision of the president of the company or the board of members of the subsidiary must be approved.

The form of joint ownership inherently forms a legal entity. For the form of joint ownership that forms a legal entity, the level of management and influence of the parent company over the subsidiary also depends on the amount of controlling capital (shares) of the parent company in the company. The higher the parent company's equity ratio, the easier it is to impose the parent company's decisions, and vice versa. Just like the second form of ownership, the parent company can only exercise its decisions at the subsidiary through its capital representative. The level of management decentralization between the parent company and the subsidiary is clearer, and the subsidiary is no longer completely dependent on the parent company, like in the two ownership forms mentioned above.

This form of joint ownership does not form a legal entity. In this form, there does not exist a legal entity with a stable organizational structure dominated by the parent company holding capital or shares, but simply a project based on a business cooperation contract between the parties. Due to the low stability and limited duration of this form of ownership, the parent company's level of management over this form is only based on the parties' agreement on the appropriate ratio. Business cooperation and profit sharing as well as project management responsibilities.

Unaffiliated form of ownership: Investors (including the parent company mentioned above) carry out different items in the same project and divide profits according to parts. The parties are responsible for their capital contributions and enjoy benefits within the amount of capital contributed. In this case, the company must choose an appropriate equity management method to not only avoid losses but also create profits for the company.

5. Discussion and implications

In the context of joint stock companies, Fogel *et al*. (2008) [6] argue that dominant state ownership can influence the company's choice of investment decisions in a more conservative direction to maintain stability, employment, and social benefits.

The regulatory perspective also suggests that homeownership companies do not have adequate oversight of managers (or a correspondingly poor compensation mechanism) because there is not enough individual owner motivation to actively participate in monitoring activities (Vickers & Yarrow, 1991) [14]. In joint stock companies, dominant state ownership is also associated with a poor compensation mechanism because the state's equity is assigned to a representative individual without ownership rights. When the company wants to enhance value through undertaking risky activities (John *et al*., 2008) [10] but may not succeed because of the prospect that the agent does not use his or her authority to do so, deliver on promises at the expense of personal gain (Dyck, 2001) [4].

Foreign owners, with their financial resources and management skills (Frydman *et al*., 1999) [7], can act as major shareholders to increase the company's capital or help the company apply new innovations to projects, thereby causing the volatility of the company's income stream to increase. Djankov & Murrell (2002) [3] and Estrin *et al.* (2009) [5] argue that equitization with foreign investors participating in ownership promotes more corporate restructuring. Such a restructuring process increases the volatility of corporate income streams because foreign investors are risk-averse when investing abroad and have high management skills, giving them the ability to apply new innovations to the projects of the companies they invest in. Foreign owners also promote diversification of the company's investments through international investments.

To reduce stock price swings, state-capitalized enterprises must enhance the information environment and provide company information more transparently. Stock price swings in the market can be lessened by gradually lowering the state ownership ratio in businesses through the state divestment roadmap and enhancing corporate governance at state-owned businesses.

Foreign investor ownership, with its benefits, will increase the quality of corporate governance (i.e., enhance risk management, boost operational efficiency, and increase transparency in information disclosure) and help improve information and decrease stock price fluctuations for companies listed on the Vietnamese stock market. Therefore, in order to support the long-term growth of the stock market, policies that attract foreign investment are required, and the involvement of international investors must be ensured by state legal regulations pertaining to foreign ownership. Additionally, policies to open the capital market and attract foreign investment need to be continuously revised and promulgated in compliance with the law in order to support the beneficial effects of foreign ownership. National corporate governance laws must mandate that businesses decrease information asymmetry and increase transparency. From there, the business can raise further funds to develop new ideas, increase output and revenue, and enhance the corporate governance framework.

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