Capital Structure, Investment, and Growth of Listed Companies in Vietnam: An Estimation of the Influence of State Ownership by 3SLS

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Abstract

This study investigates the capital structure, investment activities, and growth opportunities of listed companies on the Hanoi Securities Exchange and the Ho Chi Minh Securities Exchange in Vietnam. Estimation analysis using panel data covering the five-year period 2006-2010 by 3SLS revealed the following results. (1) The fund-raising activities of the listed companies can be well explained by the agency cost theory. (2) Long-term fund-raising of listed companies in Vietnam is strongly depended on collateral. (3) State-controlled companies listed on the Ho Chi Minh Securities Exchange have access to debt more easily. (4) Foreign ownership companies as listed on the Hochiminh Securities Exchange, could raise funds by equity more easily. (5) On the Ho Chi Minh Securities Exchange, debt financing in general facilitates the under-investment problem (debt-overhang problem), while it encourages the investment of state-controlled companies. (6) On the Hanoi Securities Exchange, debt financing encourages investment of the companies listed in general, while it restrains the overinvestment problem of state-controlled companies. (7) The state-controlled companies listed on the Ho Chi Minh Securities Exchange are less active investors, while those listed on the Hanoi Securities Exchange are more active investors. These results imply that the economic reforms (Doi Moi) implemented by the Vietnamese government have achieved some of their goals in terms of fund mobilization and corporate financing. However, our study illustrates several limitations of the economic reforms, such as the opaque relationship between state-controlled companies and state-owned banks, financial restrictions on investment activities, and inactive investment of companies that are state-controlled. These suggest that the privatization process of state-owned banks or companies in Vietnam should be accelerated.

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