Effects of the Vietnamese Government's Institutional Reforms on Companies' Capital Structure and Profitability: Before and After the Lehman Shock

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Abstract

This paper investigates the extent to which companies listed on the Ho Chi Minh and Hanoi stock exchanges have achieved corporate behaviors that conform to the market economy under the Doi Moi policy by estimating their debt ratios and return rates using the three-stage least squares method applied to samples taken from the panel data from 2006 to 2011 of 435 listed companies.

The estimation results show that, compared to Vietnamese small- and medium-sized enterprises, the capital structures of listed companies are matched better to the features explained by standardized corporate financing theory. While they were influenced by excessive borrowing under weak corporate governance during the boom period of 2006-2008, they were normalized and more fitted to rationally expected financing behaviors during the 2009-2011 period after the boom. However, the ability to provide collateral still plays a decisive role in the procurement of long-term funds, which suggests that asymmetric information and creditor protection issues must be addressed. In addition, even in the Ho Chi Minh Stock Exchange, which is credited for having pioneered many institutional reforms in Vietnam, government-controlled companies are likely to have an advantage over non-government companies because of their close relationship with government-controlled banks.

These findings suggest that reforming the Vietnamese market will require the development of a system that ensures transparency of information and independent corporate governance, and will require the increased privatization of government-controlled companies, including those in the banking sector.

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