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Ownership Structure: A Literature Review Study

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Abstract
Vietnam's stock market has gone through more than 20 years of establishment and development but is still a new and young market. The ownership structure with centralized ownership structure, state ownership, etc. is a factor with some differences, different from the ownership structure in many countries around the world. Choosing the ownership structure and diversity in ownership structure components for research in the context of the ongoing 4.0 industrial revolution and the whole society implementing digital transformation is necessary. According to Vo *et al*. (2020) [17], the characteristics of the ownership model in Vietnam are that the holding rate of the board of directors is quite high and the rate of internal shareholders is large, which leads to the possibility that information is not proven. The aim of the study is to present a literature review on the ownership structure of firms using qualitative research methods. Accordingly, the structure of the article includes: part 1 is an introduction to the research; part 2 presents a literature review; part 3 presents agency theory; part 4 discusses management implications; and part 5 is the conclusion. Based on the research results, we propose some recommendations to help businesses create a more appropriate ownership structure.

Keywords: Ownership Structure, Finance, Accounting, Economics

JEL codes: M41, F65, J01, O15

1. Introduction

The diverse existence of shareholder groups in a firm's ownership structure will create certain impacts on a company's operations because these groups have different rights and interests and, at the same time, have different interests. Relationships with governments, banks, and partners at different levels.

Firm managers can hold shares of the company they are managing. Vietnamese law requires joint-stock companies to publicly disclose major shareholders holding more than 5%.

Vietnam's stock market also has many unique features related to attracting foreign investment. When the Vietnamese stock market was first formed, Vietnamese law limited the ownership ratio by foreign investors; specifically, investors were not allowed to own more than 20% of charter capital. This is because the state wants to protect the control of domestic shareholders. However, up to now, the ceiling rate on foreign ownership has been loosened, and the lack of restrictions on foreign ownership has caused the flow of foreign investment capital into the Vietnamese stock market to increase sharply.

According to Vo *et al*. (2020) [17], the characteristics of the ownership model in Vietnam are that the holding rate of the board of directors is quite high and the rate of internal shareholders is large, which leads to the possibility that information is not proven. Therefore, the issue of "representation" has long become a difficult problem for Vietnamese firms. The question is how to solve the "representation" problem based on ownership structure, especially the level of ownership concentration, which is a concern for academics and firms.

Vietnam's stock market has gone through more than 20 years of establishment and development but is still a new and young market. The ownership structure with centralized ownership structure, state ownership, etc. is a factor with some differences, different from the ownership structure in many countries around the world. Choosing the ownership structure and diversity in ownership structure components for research in the context of the ongoing 4.0 industrial revolution and the whole society implementing digital transformation is necessary.

For the above reasons, this study is necessary for research and has both theoretical and practical significance.

2. Literature review

Degree of ownership concentration

The ownership is concentrated in the group of major shareholders when the interests of the shareholders differ. According to Cuervo (2002) [6], large shareholders have the power to subjugate the interests of small shareholders and impose their own interests over those of the corporation when they own a sizable enough percentage of the shares.

State ownership

Megginson & Netter (2001) [14] have emphasized that competition is so strong that state-owned enterprises, in an emerging global environment, may have to respond to pressures for increased business performance without necessarily carrying out ownership conversion.

Fan *et al*. (2007) [9] conducted research in China and provided factual proof that state-owned businesses frequently have subpar management and lack professionalism. Often, managers in state-owned enterprises are appointed by the state; they can take advantage of political relationships or the ability to access the stock market to act for personal benefits to achieve the expectations set by the state and superiors (Aharony *et al*., 2000) [2].

According to Gurunlu & Gursoy (2010) [10], state ownership is equal to the ratio of the number of shares held by the state to the total number of shares.

Managers have no incentive or little effort to create more value for shareholders (maximize the owner's asset value) for state-owned enterprises (Le & Chizema, 2011) [13].

Cheng *et al*. (2014) [5], when studying Chinese enterprises, found that state-owned enterprises tend to inflate profits during IPOs.

Foreign ownership

Research by Aggarwal *et al*. (2003) [1] shows that foreign investors often invest more capital in companies with high-quality accounting information; in other words, the foreign ownership ratio will often be large at companies with good quality accounting information.

Foreign ownership, as defined by Gurunlu & Gursoy (2010) [10], is the proportion of shares held by foreign investors relative to the total number of shares.

Beuselinck *et al*. (2013) [4] used the Jones (1991) [12] model and found a positive relationship between foreign ownership ratio and accounting information quality.

According to Vo *et al*. (2020) [17], foreign shareholders focus on long-term benefits, not short-term benefits. However, foreign investors only do this when they have enough control over the business—when they are major shareholders. In addition, foreign shareholders contribute to improving the way of operating and corporate governance due to the dynamism gained from investment experience and applying more progressive corporate governance standards to firms. Besides, foreign ownership can improve market efficiency through higher financial capacity and dividend distribution.

Management ownership ratio

Berle & Means (1932) [3] is a fundamental study on the relationship between ownership and management rights, in which, between managers, if the stock holding ratio of managers is different, it will have different influences on their decisions in corporate governance. If they do not hold or hold a few shares, it means that the possibility of them not acting in the interests of shareholders is high.

Jensen & Meckling (1976) [11] believe that as the number of shares held by manager increases, their responsibility in using capital will increase because there will be cohesion and common interests between the managers and their shareholders. However, when the management ownership ratio increases to a certain level, managers will face their subjectivity (entrenchment phenomenon) (Morck *et al*., 1988) [15]. Fama & Jensen (1983) [8] also demonstrated that when managers hold a large enough proportion of shares, they have more influence and voting rights, and they can act for more personal benefit.

Percentage of ownership by majority shareholders

According to Nguyen and Tran (2011) [16], a centralized ownership structure characterizes businesses listed on the Vietnamese stock market.

Fakhfakh and Nasfi (2012) [7] study ownership structure in the context of corporate mergers and acquisitions in France. The results show that the majority shareholder ratio is positively related to earnings management.

3. Agency theory

The agency theory of Jensen and Meckling (1976) [11] states that the ownership structure of a business can affect the performance of the firm through conflicts between managers and shareholders. The agency problem gives rise to and increases agency costs. Given the nature of agency relationships, firm managers always tend to seek their own personal benefits rather than acting for the common benefit of the firm and its shareholders. In addition, the level of management ownership in a firm contributes to the homogeneity and convergence of interests of shareholders and managers and thus reduces the agency problem. At the same time, this also encourages an increase in management ownership to maximize corporate value. However, this method causes two effects between ownership structure and the performance of joint-stock enterprises: The convergence effect and the blocking effect. The convergence effect suggests that there is a positive correlation between corporate capitalization and the ownership proportion of managers. Meanwhile, the blocking effect suggests that the correlation is negative because the large ownership proportion of the administrator prevents control of the firm from entering the market. Therefore, this exacerbates the agency problem in firms.

Based on agency theory, it can be affirmed that managers in an enterprise can hold shares of the company they are managing. In addition, there is a relationship between state ownership and business performance.

4. Discussion and implications

One of the topics that has been of current concern in Vietnam during the process of corporate restructuring is the divestment of state ownership and the greater participation of other shareholders.

One of the characteristics of the Vietnamese stock market is that state ownership predominates, ownership is concentrated in the hands of the state, and the ability to access the stock market or special incentives for state-owned enterprises may arise.

The characteristics of the Vietnamese stock market have their starting point in a centrally planned economy.

Privatization can help alleviate the severity of the agency problem by allowing monitoring and control from other investors, and the market can be more efficient. Besides, privatization can help reinvest and distribute company resources in more efficient ways. Therefore, privatization is an effective way to improve the business performance of state-owned enterprises.

Vietnam's stock market also has many unique features related to attracting foreign investment. When the Vietnamese stock market was first formed, Vietnamese law limited the ownership ratio by foreign investors; specifically, investors were not allowed to own more than 20% of charter capital. This is because the state wants to protect the control of domestic shareholders. However, up to now, the ceiling rate on foreign ownership has been loosened, and the lack of restrictions on foreign ownership has caused the flow of foreign investment capital into the Vietnamese stock market to increase sharply.

Mobilizing capital from foreign investors is an attractive channel for listed firms in particular and for the stock market in general.

The ownership structure of firms changes over the years, and firms listed on the Vietnam stock exchange do not all appear at the same time, so quantitative assessment needs to consider unbalanced data.

Changing the ownership structure through equitization can also be a bridge to bring competition into the public sector and thereby change the performance of units.

Legislators in developing nations with inadequate corporate governance frameworks, such as Vietnam, can think about restricting foreign ownership. Legislators ought to expand restrictions on foreign ownership or provide more "room" for foreign investors. Furthermore, the task of refining the legislative framework to raise the percentage of foreign investors' ownership must be expedited and maintained.

The context of globalization, the economic crisis in previous years, the COVID-19 pandemic, and the ongoing 4.0 industrial revolution have affected the production and business activities of Vietnamese enterprises. Currently, the business environment in Vietnam still has potential risks that will cause firms to reveal weaknesses in many aspects. Therefore, one of the important plans of Vietnam's current economic restructuring strategy is to restructure the firm system. In particular, the issue of ownership structure needs to be improved more appropriately.

The Vietnamese stock market is in the process of ownership restructuring because it confirms the direction of increasing the foreign investment rate of the current Vietnamese stock market, which has great prospects for making the dong market transparent. Meanwhile, the results on management ownership ratio also show that the use of agency theory is appropriate.

5. Conclusions

Ownership structure has received a lot of attention in previous and current studies. Research around the world has been focusing on research on ownership structures such as state ownership, foreign ownership, private ownership, administrator ownership, etc. In developed countries, research the first research started in the US, then spread to many countries such as England, Germany, Japan, etc. Due to the development of joint stock companies in these countries, state ownership does not play a decisive role. Component ownership is dispersed or concentrated by a number of organizations and individuals.

The subject of ownership structure has also been studied in Vietnam, where there has been a steady improvement in the legislative environment that allows foreign investors to hold a larger share of the company.

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