



Investment efficiency, state-owned enterprises and privatisation: Evidence from Viet Nam in Transition

Conor M. O'Toole ^{a,*}, Edgar L.W. Morgenroth ^{b,d}, Thuy T. Ha ^c

^a Financial Stability Division, Central Bank of Ireland, Ireland

^b Economic and Social Research Institute, Dublin, Ireland

^c National Center for Socio Economic Information and Forecasting, Ministry of Planning and Investment, Viet Nam

^d Department of Economics, Trinity College Dublin, Ireland

ARTICLE INFO

Article history:

Received 9 February 2015

Received in revised form 18 December 2015

Accepted 21 December 2015

Available online 29 December 2015

JEL classification:

G31

G32

G34

L33

P31

Keywords:

Investment efficiency

Privatisation

State-ownership

Corporate governance

ABSTRACT

Our research firstly tests the difference in investment efficiency between state-owned enterprises (SOEs) and private firms and secondly evaluates the effect of privatisation and equitisation policies on the investment efficiency of former state owned enterprises (SOEs). We use a novel dataset from Viet Nam which covers large and non-listed SMEs across construction, manufacturing, and service sectors. Our methodology uses a structural model to test the relationship between Tobin's Q and capital spending. While evident differences in investment efficiency are found across heterogeneous groups of private firms (size, industry, financially constrained and location), we find no evidence of investment spending being linked to marginal returns by SOEs across all sectors and size classes. However, former SOEs that have been privatised and equitized with a minority state shareholding display positive links between Q and investment. In fact, the link is stronger for these firms than for private firms. Differences are also evident across size and sector highlighting that the method of divestment chosen by government shareholders has a differential impact on efficiency across groups of firms and industries.

© 2016 Elsevier B.V. All rights reserved.

1. Introduction

The efficient allocation of capital is an important determinant of long-term growth prospects and the productive capacity of the economy. In a neoclassical Solow model, it is not only the volume of investment that affects growth but also the marginal value product of capital. It is therefore important to understand the corporate determinants of capital efficiency. One particular theme in the international literature on firm investment efficiency focuses on the effect of ownership, in particular state versus private ownership, on firm performance (La Porta and Lopez-de-Silanes, 1999; Ramamurti, 1997; Shleifer, 1998). Many of the studies focus on transition countries which moved from socialist to market-oriented economic systems (Claessens and Djankov, 1999; Claessens et al., 1997; Frydman et al., 1999). This research has also informed many of the structural reform programmes that are encouraged by the international financial institutions, and can become part of the conditionality attached to official assistance.

Focusing specifically on transition economies in East Asia such as China and Viet Nam, there have been a number of studies which highlight that despite successfully following investment intensive growth, the efficiency of investment has been poor. This is particularly the case where continued state-owned enterprise activity is a considerable share of economic activity and

* Corresponding author. Tel.: +353 1 224 6000; fax: +353 1 671 6561.

E-mail addresses: conor.otoole@centralbank.ie (C.M. O'Toole), edgar.morgenroth@esri.ie (E.L.W. Morgenroth), hathuy212@gmail.com (T.T. Ha).

where state owned enterprises (SOEs) suffer from weak corporate governance and conflicting policy and return objectives (Dollar and Wei, 2007; IMF, 2013; Viet Nam Development Report, 2012).

Within this wider context, our research considers the effect of ownership on the efficiency of investment in Viet Nam. Despite strong economic growth since the onset of original “Doi Moi” reforms, Viet Nam’s more recent growth has slowed. While many factors have contributed, one of the areas which continues to pose policy challenges is the performance and ongoing reform of the SOE sector (IMF, 2013; VEPR, 2012). SOE restructuring has been a core policy focus of the government and is a key element in the 2011–2015 strategic plan. However, despite ongoing restructuring including privatisation and equitisation programmes, the SOE sector continues to display poor returns to factor inputs (IMF, 2013; Viet Nam Development Report, 2012). Soft budget constraints, poor corporate governance and managerial oversight have led to excessive leverage and poor investment efficiency (IMF, 2013).

Given this backdrop, our research attempts to 1) test the difference in investment efficiency between SOEs and private firms and 2) evaluate the effect of privatisation and equitisation policies on the investment efficiency of former SOEs. The existing literature focuses on the impacts of ownership objectives and corporate governance on firm efficiency in transition economies (Chen et al., 2011; Megginson et al., 1994). The research suggests that these objectives can differ between SOEs and private firms due a number of factors including moral hazard (Netter and Megginson, 2001; Chen et al., 2011) or soft budget constraints (Berglof and Roland, 1998; Hersch et al., 1997; Netter and Megginson, 2001; Schaffer, 1998).

Our research builds on the work of Chen et al. (2011) and Dollar and Wei (2007) but is the first study in the literature to apply a structural model to an extensive dataset which includes both large firms and micro, small and medium-sized firms across manufacturing, services and construction sectors. Our research therefore contributes to the extant literature by applying a structural investment model and exploring the heterogeneity of ownership effects on investment efficiency across groups of firms and industries. This is facilitated by using the fundamental Q model of investment proposed by Gilchrist and Himmelberg (1995) and applied empirically by Bierlen and Featherstone (1998); Ryan et al. (2014) and O’Toole et al. (2014) to test the difference in investment efficiency between SOEs and non-SOEs. This methodology has a number of benefits. As it does not require stock market data, it can be estimated on non-listed, small and medium-sized enterprises. This facilitates a broader assessment than has been conducted to date as close studies (Chen et al., 2007, 2014) only conduct their evaluation on stock market-listed enterprises. The focus on SMEs is salient, given their importance in the development process and their greater susceptibility to capital market and product market frictions (Beck et al., 2008a, 2008b). We also consider whether differences in investment efficiency exist between firms classified as financially constrained or unconstrained.

We also specifically build on the work of Chen et al. (2014) who test the impact of government and foreign ownership on investment efficiency using a worldwide sample of privatised enterprises. While not relying on cross-country variation, our research provides greater heterogeneity across enterprises than has been possible to date by focusing on a transition economy from East Asian, and applying the Gilchrist and Himmelberg (1995) approach to include listed and non-listed SMEs. Our disaggregation across size classes and sectors is also novel. This approach, as it is estimated by generalised method of moment techniques, can control for endogeneity, unobserved heterogeneity and measurement error simultaneously. Exploring how the impacts of privatisation on investment efficiency differ across different development contexts is important especially given the findings of Boubakri et al. (2005) who note differential outcomes for developing rather than developed economies.

Our second contribution builds on the literature which evaluates efficiency changes following ownership changes through SOE privatisation and equitisation, mainly in Eastern European transition economies (Brown et al., 2006a,b; Claessens et al., 1997; Earle and Telegdy, 2002). There is a large body of evidence which indicates that the privatisation of state-owned firms leads to significant improvements in productivity and profitability (Shleifer, 1998). We build on the existing research (Claessens and Djankov, 1999; Djankov and Pohl, 1997; La Porta and Lopez-de-Silanes, 1999; Ramamurti, 1997) by focusing on an East Asian transition economy and by applying a structural investment model for both SMEs and large firms across difference sectors. We also simultaneously test the differential effects of full privatisation, equitisation with SOE retaining a controlling shareholding (greater than 50% ownership) and equitisation with the state maintaining a minority shareholding (less than 50% ownership). This provides additional insight and complements the extant literature. By including state-owned firms that have not been privatised as a control group we can also address one of the sample selection issues mentioned by Chen et al. (2014) in terms of the state selection of which enterprises to bring to market.

A number of findings emerge from our analysis. We find no significant relationship between Q and investment for SOEs and a positive and significant effect for private firms. These results suggest no link between fundamentals and investment at SOEs; capital input choices are not linked to firm-specific marginal returns. The results are broadly in line with Chen et al. (2011) who focused on large Chinese firms and Chen et al. (2014) for a broad cross-country sample. In terms of the economic magnitude of the effects, one standard deviation shock to Q leads to a 0.198 unit increase in investment. As the mean investment in the sample is 0.38, this implies an investment increase of 50%.

On the distributional impacts across groups of enterprises, our main findings of significance hold for both private firms and SMEs as well as across strategic and non-strategic sectors. The magnitude of the coefficient is smaller for small firms than large firms. Larger enterprises may have better access to internal capital and can react more quickly when opportunities arise. It may also be the case that due to their size, they are more likely to commit risky capital in particular in uncertain environments. SMEs may react with more restraint and be influenced by uncertain domestic market developments. The coefficient is also larger for larger in the strategic sector relative to the non-strategic sector. If competition is stronger in the non-strategic sector, this may drive down returns and make firms more uncertain about committing capital. We test whether there are differences in SOEs depending on whether they are controlled centrally or locally as in Chen et al. (2011) and find no evidence of investment efficiency

Download English Version:

<https://daneshyari.com/en/article/5093376>

Download Persian Version:

<https://daneshyari.com/article/5093376>

[Daneshyari.com](https://daneshyari.com)