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Corporate Ownership and Firm Performance in Emerging Market: A Study of Vietnamese Listed Firms

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Using data from Ho Chi Minh Stock Exchange and Hanoi Stock Exchange during the period of 2007 and 2012, this study examines the effect of corporate ownership (state ownership and foreign ownership) on firm performance. The empirical findings from fixed effect models show that while state ownership has an inverted U-shaped relationship with firm performance, foreign ownership has a U-shaped relationship with firm performance. These results imply that when ownership is concentrated, while state ownership lower firm performance, foreign ownership enhance firm performance.

Keywords: state ownership, foreign ownership, firm performance, Vietnam, emerging market

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1. Introduction

In recent literature, ownership structure appears as an important factor in corporate governance that affects the firm performance. When examining the relationship between ownership structure and firm performance, studies often consider the managerial ownership, large shareholders ownership, and the concentration (or dispersion) of ownership structure. Ang, Cole and Lin (2000) provide empirical evidence shows that there is a negative relationship between agency cost and managerial ownership. Benson and Davidson III (2009) also state that there is a relationship between managerial ownership and firm performance. This relation is confirmed again by a study by Coles, Lemmon and Felix Meschke (2012). The effect of insider ownership on firm performance can be explained by the fact that insiders may expropriate other shareholders by redirecting the firm cash flow for their benefit because they are the ones who have the power over the firm assets (Lemmon & Lins 2003). In a recent study of insider ownership McConnell, Servaes and Lins (2008) also confirm that insider ownership may impact firm value, and this relationship is non-linear.

It is revealed that there are few studies on the effect of state ownership on firm performance. Yu (2013) uses a panel data of Chinese listed firms during the period of 2003 and 2010 to investigate this relationship. The author finds that state ownership affects on firm performance in a form of a U-shaped. This means that while state ownership initially decreases firm performance, it would enhance firm performance

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when it is concentrated. This effect can be explained by the fact that high concentration of state ownership help firms get benefit from government's support and political connections. The research also indicates that government policy related to state ownership plays a role in positive link between state ownership and firm performance. Alfaraih, Alanezi and Almujamed (2012) study the impacts of institutional and state ownership on firm performance in Kuwait. The authors find that while there is a positive connection between institutional ownership and firm performance, state ownership negatively affect firm performance. This result implies that state ownership tend to have political motivation rather than market drive. A study of Pervan, Pervan and Todoric (2012) using 2003-2010 data of listed Croatian firms to investigate the link between corporate ownership and firm performance and point outs that state ownership make firm performance worse.

With respect of foreign ownership, previous studies show there is a positive relationship between foreign ownership and firm performance. Ongore (2011) investigates the effect of different types of ownership on firm performance in Kenya and contends that while state ownership has negative impact on firm performance, foreign ownership has significant positive impact on firm performance. The author argues that foreign investors help to improve management system and accessing massive resources. Another study of Pervan, Pervan and Todoric (2012) examining the association between corporate ownership and firm performance in Croatia. This research indicates that listed firm controlled by foreign investors perform better than domestic firms do. Douma, George and Kabir (2006) also point out that foreign ownership has positive effect on the corporate performance in India because foreign shareholders can play a monitoring role in the internal corporate governance system of the firms.

As an emerging market, ownership structure in Vietnam has become a major issue in firms. Vietnam was a central planned economy, however in 1986 there was an important reform (named as Doi Moi) of the economic mechanism – a market economy was adopted which is aimed to improve productivity and efficiency (Nguyen & van Dijk 2012). Following the economic reforms, the privatization (which is called "equitization" in Vietnam) process of state owned enterprises was proposed in 1991 and was launched in 1992. By this reform, there is a rise of foreign ownership in Vietnam's economy. In recent years, state ownership and foreign ownership play an important role in ownership structure in Vietnamese firms because of their large proportion of contribution in GDP. However, there are few studies on state ownership and foreign ownership in Vietnam. Besides, Vietnam is considered as one of fastest growing emerging in Asia (IMF 2010). Hence, a study of the impact of ownership structure on firm performance would provide more insights for this issue in emerging market context.

Studies on the relationship between state ownership, foreign ownership and firm performance are mainly conducted in China and some emerging markets. However, the relationship may be different in different countries (Konijn, Kräussl & Lucas 2011). This means that these relationships in emerging markets may not only different with those in developed markets, but also among emerging markets. Besides, corporate ownership in emerging market become an interesting issue in recent years (Borisova et al. 2012).

Therefore, a further research on the relationship between state ownership, foreign ownership and firm performance in an emerging market like Vietnam may provide an insight to this relationship. Hence, this study will investigate (1) the impact of state ownership on firm performance and (2) the impact of foreign ownership on firm performance.

This study conduct an empirical research on the relationship between ownership structure and firm performance. The paper finds that the relationships between state ownership, foreign ownership and firm performance are non-linear. While the research of Yu (2013) indicates a U-shaped relationship between state ownership and firm performance, this study reveals an inverted U-shaped link. This implies that while state ownership provides some advantages to the firm, it would destroy firm performance when it is concentrated. With respect of foreign ownership, the study point outs that foreign investors may help to enhance firm performance only if they have concentrated ownership.

The next section of this paper presents previous related literature, and then, the hypotheses are proposed. The methodology section is followed for empirical model specification. Finally, the empirical results and conclusion are introduced.

2. Literature Review and Hypotheses

Research on the relationship between corporate ownership and firm performance are mainly based on agency theory which is proposed by (Jensen & Meckling 1976). Agency theory argues that agency cost would arise when there is a separation between firm owners and firm managers. This is due to the conflict of goals between owners and managers. The conflict that forms agency problem is not only between shareholders and managers (principal – agent), but also between shareholders and shareholders (principal – principal), especially in developing countries (Dharwadkar, George & Brandes 2000). Therefore, it is necessary to research corporate ownership in firms that may affect firm performance in emerging markets.

State ownership and firm performance

Douma, George and Kabir (2006) state that ownership structure affects firm performance because there are different owners with different objectives. Supporting the mentioned argument, Konijn, Kräussl and Lucas (2011) conduct a study on the relationship between ownership structure and firm value and find that the results are different with data from the U.S, Europe, and Asia. This implies that this relationship may vary from region to region. These results imply that state ownership that is popular in Vietnam has influence differently on the corporate performance compared to other transition or emerging economies. Indeed, empirical studies show mixed results of the relationship between state ownership and firm performance.

Research on state ownership often show a negative relationship between state ownership and firm performance. Thomsen, Pedersen and Kvist (2006) find that there

are two types of systems, including market-based systems and control-based systems. While the market-based systems have a dispersion of share ownership among institutions, individual and other investors; the control-based systems are characterised by high family, corporate, and state ownership. The study of Thomsen, Pedersen and Kvist (2006) interestingly finds that while the blockholder ownership has no impact on firm value in the market-based systems, there is negative relationship between the blockholder ownership and firm value in the control-based systems. Andres (2008) argues that state ownership has negative effect on firm performance (proxy by accounting measures). This can be argued that the people who are representatives of state ownership in firms can act for their own benefits not for the state's benefits.

State ownership may has positive effect on firm performance due to its advantages. Borisova et al. (2012) argue that state ownership has plenty of advantages, such as resources and power, compared to other types of ownership. For example, government may raise fund easily, can establish regulations that impact firms, and has informational advantage. Thus, firms with state ownership may have better performance compared to other firms. In addition, Kang (2012) find that Chinese marketized state-owned firms improve firm performance. This result reveals that state ownership in listed firms may play an active role in emerging market.

Vietnam is characterized by high level of state ownership. Thus, state ownership is considered as large shareholders with high concentration. Andres (2008) contends that large shareholders tend to focus on their own benefit and this could lead to the fact that they could use their power to maximize their interest at the other shareholders' expense. From the viewpoint of corporate governance, blockholders can be the element that helps to monitor and reduce the agency problem arising from the separation between management and finance (Konijn, Kräussl & Lucas 2011). Thomsen and Pedersen (2000) examine the relation between ownership structure and firm performance by using data of 435 largest European corporations. The authors find that ownership concentration has impact on firm value through a nonlinear relationship.

Therefore, it is interesting to investigate the effect of state ownership on the firm performance in listed companies in Vietnam by the following hypothesis:

H1.1: state ownership has positive relationship with firm performance of listed firms in Vietnam.

Although state ownership may have an active role in listed firm in Vietnam, it still have political drive in controlling motivation. Borisova et al. (2012) argue that state ownership in common law system relating to maintaining market instead of acting as a channel for political intervention of government in civil law system. Hence, it is possible that when state ownership is highly concentrated, firm performance is eroded by the intervention of government's political objectives. Thus, the below hypothesis is proposed:

H1.2: state ownership has inverted U-shaped relationship with firm performance of listed firms in Vietnam.

Foreign ownership and firm performance

Foreign ownership is considered as an important part of the corporate ownership structure in emerging markets (Douma, George & Kabir 2006). Most studies argue that foreign ownership has positive impact on the corporate performance because foreign shareholders can play a monitoring role in the internal corporate governance system of the firms in emerging markets (Douma, George & Kabir 2006). Yudaeva et al. (2003) find that firms in Russia with foreign ownership have higher productivity than domestic firms. Oxelheim and Randøy (2003) also contend that the presence of foreign members in board of directors can improve corporate governance in Norway and Sweden. Mishra and Ratti (2011) advocate that foreign ownership is valuable when foreigner owners are part of controlling shareholder due to the availability of inside monitoring in Chinese firms. However, foreign ownership level in Vietnamese listed firms is low, compared to those of other types of ownership. Thus, foreign ownership cannot play a monitoring role in Vietnam firms. Indeed, a study of Phung and Le (2013) using 2008-2011 data of Vietnamese listed firms from Ho Chi Minh Stock Exchange find that foreign ownership negatively impact firm performance due to it is not concentrated. Therefore, this study proposes the following hypothesis:

H2.1: foreign ownership has negative relationship with firm performance of listed firms in Vietnam.

Kim (2011) argues that foreign owners help the firms reduce agency problems, which increase the firm value. The author contends that managers in firms with foreign ownership is encouraged to focus on long-term value rather than short-term interest. This means that foreign ownership may be an active participant in corporate governance mechanism. However, foreign investors only do this when they have sufficient control in firms – they are large shareholders. Thus, it can be argued that when foreign ownership become more concentrated, foreign shareholders would active their monitoring role in firms. Besides, when highly concentrated, foreign ownership would contribute to firm performance because foreign investors can transfer their financial, technological resources and experience to firms (Gurbuz & Aybars 2010; Huang & Shiu 2009; Romalis 2011). Therefore, foreign ownership may associate positively with firm performance when its level increase.

H2.2: foreign ownership has U-shaped relationship with firm performance of listed firms in Vietnam.

3. Methodology

The study use database of all listed firms in Ho Chi Minh Stock Exchange and Hanoi Stock Exchange that is provided by Vietstock – a financial information service provider in Vietnam. The data includes data from 2007 to 2012. Thus, a panel data is constructed. Financial data is collected from audited annual reports of listed firms and stock price is collected from the two exchanges.

The below empirical models will be used to test the hypotheses.

$$\text{Firm performance}_{it} = \alpha + \beta_1 \text{Ownership}_{it} + \beta_2 X_{it} + \varepsilon_{it} \quad (1)$$

$$\text{Firm performance}_{it} = \alpha + \beta_1 \text{Ownership}_{it} + \beta_2 \text{Ownership}^2_{it} + \beta_3 X_{it} + \varepsilon_{it} \quad (2)$$

Where ownership is state ownership and foreign ownership, respectively; X_{it}s are control variables, and ε_{it} is error terms.

There are many papers measure firm performance by the market measure – proxy by the Tobin's q (Alfaraih, Alanezi & Almujamed 2012; Yu 2013). Besides, accounting based measures is used also because the market stock price in emerging markets with weak shareholder protection can be biased (Claessens & Djankov 1999). Therefore, ROA – a common accounting based measure – is used for robustness check.

Tobin's Q = (Share's market price × Number of outstanding share + Book value of debt)/(Book value of total assets)

ROA = (Operating earnings before interest and taxes)/(Book value of total assets)

State ownership, and foreign ownership is measured by the fraction of shareholder in total firm's shares.

Apart from ownership, there are variables that impact firm performance. Thus, firm size, profitability, firm age, leverage, investment, capital intensity, and liquidity are used as control variable of the empirical models. Firm size is calculated by log of total assets (Berger & Ofek 1995; Chen & Ho 2000). Profitability is equal to operating earnings over total sales (Claessens et al. 1999). Firm age is determined by log of number of year listed (Villalonga 2004). Leverage is considered as total debt over total assets (Cho 1998; Konijn, Kräussl & Lucas 2011; Mansi & Reeb 2002; Thomsen & Pedersen 2000). Investment is proxy by capital expenditure divided by total sales (Berger & Ofek 1995; Konijn, Kräussl & Lucas 2011). Capital intensity is proxy by tangible assets over total assets (Konijn, Kräussl & Lucas 2011). Liquidity is calculated by cash and cash equivalent over total assets (Thomsen & Pedersen 2000).

4. Analysis Results and Discussion

Descriptive statistics

Table 1 show a statistical overview of dependent and independent variables of empirical models. The table shows that the mean of Tobin's Q during 2008 -2012 is 1.138. This value indicates that within this period the market appreciate listed firms in average. Nevertheless, the range of Tobin's Q is large, from 0.261 to 20.933. When looking at the accounting based measure (ROA), the mean value is quite low – 0.062. This can be explained by the influence of global financial crisis within this period. The table shows that while state ownership account for a large proportion in corporate ownership

structure of listed firms with a mean of .0211, the mean value of foreign ownership only 0.070. This reveals that in average state ownership is concentrated, but not foreign ownership.

Table 1: Statistical summary of variables

Variables	Observations	Mean	Max	Min	Standard deviation
Tobin's Q	2745	1.138	20.933	0.261	0.772
ROA	2850	0.062	0.456	-0.397	0.063
State ownership	2936	0.211	0.830	0.000	0.237
Foreign ownership	2936	0.070	0.501	0.000	0.117
Firm size	2850	26.707	31.653	21.370	1.416
Profitability	2844	0.071	2.298	-22.385	0.557
Firm age	2744	0.709	2.485	0.000	0.672
Leverage	2850	0.522	1.006	0.000	0.221
Investment	2841	0.075	9.221	-13.923	0.437
Capital intensity	2850	0.203	0.976	0.000	0.196
Liquidity	2850	0.095	1.000	0.000	0.110

Tobin's Q is equal total market value of firm divided by book value of total assets. ROA is equal operating earnings before interest and taxes divided by book value of total assets. State ownership, and foreign ownership is measured by the fraction of shareholder in total firm's shares. Firm size is calculated by log of total assets. Profitability is equal to operating earnings over total sales. Firm age is determined by log of number of year listed. Leverage is considered as total debt over total assets. Investment is proxy by capital expenditure divided by total sales. Capital intensity is proxy by tangible assets over total assets. Liquidity is calculated by cash and cash equivalent over total assets.

The correlation of the variables is also presented in table 2.

Table 2: Correlation of variables

	Tobin's Q	ROA	State ownership	Foreign ownership	Firm size	Profitability	Firm age	Leverage	Investment	Capital intensity	Liquidity
Tobin's Q	1.000										
ROA	0.318	1.000									
State ownership	0.097	0.093	1.000								
Foreign ownership	0.153	0.167	-0.135	1.000							
Firm size	0.027	-0.029	-0.026	0.349	1.000						
Profitability	0.086	0.228	0.053	0.037	0.047	1.000					
Firm age	-0.212	-0.076	-0.017	0.239	0.134	-0.024	1.000				
Leverage	-0.123	-0.249	0.104	-0.228	0.315	-0.019	-0.066	1.000			
Investment	0.041	0.040	0.040	0.003	0.097	0.523	-0.051	0.046	1.000		
Capital intensity	-0.028	0.059	0.157	-0.016	-0.008	0.076	0.042	0.025	0.247	1.000	
Liquidity	0.167	0.274	0.087	0.081	-0.121	0.055	0.015	-0.325	-0.029	-0.152	1.000

Tobin's Q is equal total market value of firm divided by book value of total assets. ROA is equal operating earnings before interest and taxes divided by book value of total assets. State ownership, and foreign ownership is measured by the fraction of shareholder in total firm's shares. Firm size is calculated by log of total assets. Profitability is equal to operating earnings over total sales. Firm age is determined by log of number of year listed. Leverage is considered as total debt over total assets. Investment is proxy by capital expenditure divided by total sales. Capital intensity is proxy by tangible assets over total assets. Liquidity is calculated by cash and cash equivalent over total assets.

Regression analysis

Table 3: Regression results of model (1) with fixed effect and random effect method

	Regression result of firm performance on state ownership				Regression result of firm performance on foreign ownership			
	RE Tobin's Q		FE Tobin's Q		RE Tobin's Q		FE Tobin's Q	
Ownership	0.361	***	0.324	**	1.016	***	-0.247	
	(5.20)		(2.48)		(6.49)		(-0.91)	
Firm size	0.052	***	-0.434	***	0.012		-0.422	***
	(4.00)		(-7.36)		(0.85)		(-7.05)	
Profitability	0.077	***	0.041		0.081	***	0.042	
	(2.67)		(1.31)		(2.82)		(1.34)	
Firm age	-0.359	***	-0.430	***	-0.385	***	-0.453	***
	(-16.20)		(-12.97)		(-17.27)		(-14.15)	
Leverage	-0.474	***	0.701	***	-0.246	***	0.675	***
	(-5.79)		(3.94)		(-2.89)		(3.73)	
Investment	-0.019		-0.016		-0.023		-0.017	
	(-0.52)		(-0.40)		(-0.61)		(-0.45)	
Capital intensity	-0.006		0.078		0.075		0.093	
	(-0.07)		(0.43)		(0.88)		(0.51)	
Liquidity	0.783	***	0.577	***	0.863	***	0.557	***
	(5.13)		(2.93)		(5.72)		(2.82)	
Constant term	0.081		12.539	***	1.028	***	12.340	***
	(0.24)		(8.18)		(2.89)		(7.94)	
R^2	0.1920		0.2403		0.1810		0.2384	
Wald chi^2	384.40				399.53			
Prob > chi^2	0.000				0.000			
F			84.24				83.37	
Prob > F			0.000				0.000	
Number of observation	2775		2775		2775		2775	
Hausman test								
Chi^2			537.19				502.81	
Prob > chi^2			0.000				0.000	

Tobin's Q is equal total market value of firm divided by book value of total assets. ROA is equal operating earnings before interest and taxes divided by book value of total assets. State ownership, and foreign ownership is measured by the fraction of shareholder in total firm's shares. Firm size is calculated by log of total assets. Profitability is equal to operating earnings over total sales. Firm age is determined by log of number of year listed. Leverage is considered as total debt over total assets. Investment is proxy by capital expenditure divided by total sales. Capital intensity is proxy by tangible assets over total assets. Liquidity is calculated by cash and cash equivalent over total assets. The value in parentheses is t-statistic for fixed effect model and is z-statistic for random model. *, ** and *** represent significance at 10%, 5% and 1% levels respectively.

The data used in this study forms a panel data that is appropriate for treating unobserved heterogeneity problem that often appears in cross sectional data analysis. Thus, this study uses panel data method (fixed effect and random effect) to analyze the data. This research firstly run fixed effect and random effect method for model (1), and then a Hausman test is conducted in order to select an appropriate model between fixed effect and random effect. The results of fixed effect (FE) and random effect (RE) method, and Hausman test are illustrated in table 3.

The output of Hausman indicates that the fixed effect model should be chosen for illustrating the relationship between ownership structure (state ownership and foreign ownership) and firm performance. The result of fixed effect model shows that state ownership is positively affect Tobin's Q of listed firms. This result is consistent with the proposed hypothesis 1.1 and statistically significant. State ownership in listed firms may use its abilities of accessing further resources and political connections to help firms improve their performance especially in an emerging market with many financial constraints.

The result also point out that firm size, firm age negatively link with firm performance. This can be explained that while firms become larger and older, they tend to invest in different business that may harm their core business. This is revealed in the coefficient of investment; however, this value is not statistically significant. The profitability and liquidity have positive impact on firm performance with statistical significance. The model of the influence of foreign ownership on firm performance has the result of coefficient consistent with the hypothesis 2.1. Nonetheless, the figure is not statistically significant. This means that a further analysis on foreign should be conducted.

Next, hypotheses 1.2 and 2.2 are tested using non-linear fixed effect models in order to check whether ownership structure may have reverse impact when it is highly concentrated. The table 4 presents the regression results of model (2).

The results support the proposed hypothesis 2.2. The coefficient of foreign ownership is negative and square of foreign ownership is positive with significance. This shows that although foreign ownership associates with low performance at initial, it would enhance firm performance at high level. Foreign shareholders can do their monitoring role in listed firms when they have enough proportion ownership in ownership structure of firms. In addition, at a high level of ownership they have ability to transfer their advanced technology or skills to firms. The result of state ownership model, however, does not have significant coefficients.

Table 4: Regression results of model (2)

	Regression result of firm performance on state ownership		Regression result of firm performance on foreign ownership	
	FE Tobin's Q		FE Tobin's Q	
Ownership	0.244		-1.306	**
	(0.62)		(-2.09)	
Ownership^2	0.145		2.554	*
	(0.22)		(1.88)	
Firm size	-0.434	***	-0.416	***
	(-7.35)		(-6.93)	
Profitability	0.041		0.042	
	(1.31)		(1.33)	
Firm age	-0.430	***	-0.452	***
	(-12.96)		(-14.13)	
Leverage	0.699	***	0.669	***
	(3.91)		(3.70)	
Investment	-0.016		-0.016	
	(-0.41)		(-0.41)	
Capital intensity	0.076		0.083	
	(0.42)		(0.46)	
Liquidity	0.577	***	0.572	***
	(2.92)		(2.89)	
Constant term	12.530	***	12.200	***
	(8.17)		(7.85)	
R^2	0.2403		0.2396	
F	74.85		74.59	
Prob > F	0.000		0.000	
Number of observation	2775		2775	

Tobin's Q is equal total market value of firm divided by book value of total assets. ROA is equal operating earnings before interest and taxes divided by book value of total assets. State ownership, and foreign ownership is measured by the fraction of shareholder in total firm's shares. Firm size is calculated by log of total assets. Profitability is equal to operating earnings over total sales. Firm age is determined by log of number of year listed. Leverage is considered as total debt over total assets. Investment is proxy by capital expenditure divided by total sales. Capital intensity is proxy by tangible assets over total assets. Liquidity is calculated by cash and cash equivalent over total assets. The value in parentheses is t-statistic. *, ** and *** represent significance at 10%, 5% and 1% levels respectively.

In order to provide a robustness of the results, this study use ROA as an alternative measure of firm performance. The outcome of model (1) and model (2) using ROA as dependent variable is illustrated in table 5.

Table 5: Regression results of model (1) and (2) using ROA as firm performance

	Regression result of firm performance on state ownership				Regression result of firm performance on foreign ownership			
Ownership	0.011		0.099	***	-0.011		-0.068	**
	(1.41)		(4.72)		(-0.77)		(-2.51)	
Ownership^2			-0.154	***			0.139	**
			(-4.52)				(2.48)	
Firm size	0.002		0.002		0.002		0.003	*
	(1.13)		(0.83)		(1.24)		(1.62)	
Profitability	0.004	***	0.004	***	0.004	***	0.004	***
	(5.17)		(5.18)		(5.16)		(5.15)	
Firm age	-0.014	***	-0.014	***	-0.015	***	-0.015	***
	(-8.14)		(-7.80)		(-8.85)		(-8.85)	
Leverage	-0.082	***	-0.080	***	-0.083	***	-0.084	***
	(-10.33)		(-10.01)		(-10.32)		(-10.46)	
Investment	-0.002	**	-0.002	**	-0.002	**	-0.002	**
	(-2.30)		(-2.23)		(-2.31)		(-2.37)	
Capital intensity	0.005		0.006		0.005		0.005	
	(0.57)		(0.68)		(0.60)		(0.55)	
Liquidity	0.056	***	0.057	***	0.055	***	0.056	***
	(5.56)		(5.66)		(5.50)		(5.57)	
Constant term	0.048		0.059		0.045		0.025	
	(0.96)		(1.17)		(0.87)		(0.49)	
R^2	0.0938		0.100		0.0934		0.0953	
F	38.27		36.51		38.08		34.59	
Prob > F	0.000		0.000		0.000		0.000	
Number of observation	3601		3601		3601		3601	

Tobin's Q is equal total market value of firm divided by book value of total assets. ROA is equal operating earnings before interest and taxes divided by book value of total assets. State ownership, and foreign ownership is measured by the fraction of shareholder in total firm's shares. Firm size is calculated by log of total assets. Profitability is equal to operating earnings over total sales. Firm age is determined by log of number of year listed. Leverage is considered as total debt over total assets. Investment is proxy by capital expenditure divided by total sales. Capital intensity is proxy by tangible assets over total assets. Liquidity is calculated by cash and cash equivalent over total assets. The value in parentheses is t-statistic. *, ** and *** represent significance at 10%, 5% and 1% levels respectively.

As illustrated in table 5, the model using ROA as firm performance variable has consistent expected sign with hypothesis 2.2. This means that foreign ownership has a U-shaped relationship with firm performance in both market measurement and accounting based measurement. The result of non-linear of state ownership model also provide the coefficient value as expected in hypothesis 1.2. Thus, state ownership has an inverted U-shaped

relationship with firm performance (measured by ROA). This implies that when state ownership become highly concentrated, it would ruin firm performance because of political motivations.

5. Conclusion

This paper investigate the relationship between two main corporate ownership in emerging market (state ownership and foreign ownership) and firm performance. Fixed effect model is conducted in this study for controlling unobserved heterogeneity in the relationship between state ownership, foreign ownership and firm performance. The study provide an insight to the effect of state ownership and foreign ownership that are important in ownership structure of firms in emerging on firm performance. The research reveals that when ownership concentrated, while state ownership lower firm performance, foreign ownership enhance firm performance.

The empirical findings shows that while the relationship between state ownership and firm performance is an inverted U-shaped, the relationship between foreign ownership and firm performance forms a U-shaped. This result means that state ownership may help firms to increase performance by its advantages (Borisova et al. 2012). However, state ownership would destroy firm performance when it is highly concentrated. When state ownership is high, political motivations is able to rise instead of commercial motivations. With respect of foreign ownership, the outcome indicates that foreign ownership can improve firm performance when it is concentrated. This result extend the study of Phung and Le (2013) by showing that when foreign ownership become concentrated, foreign investors would activate their monitoring role in firms. This implies that firms in emerging only may increase their corporate governance quality by increasing foreign ownership to an appropriate level.

Although the study points out that the relationship between state ownership, foreign ownership and firm performance are non-linear, it does not provide details on the level of which state ownership and foreign ownership change their effect on the firm performance. Besides, there could be the interaction between state ownership and foreign ownership when impacting firm performance. Therefore, further studies should be conducted in order to examine the interaction between these two types of ownership on firm performance in emerging markets.

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