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Equitisation and stock-market development

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Chapter 4

The Impact of Equitisation and Stock-Market Listing on Firm Performance in Vietnam: Case Studies

4.1. Introduction

Chapter 3 has described the equitisation process in Vietnam. Before quantitatively examining the impact of equitisation on firm performance in Vietnam, this chapter tries to explore some primary evidence on effects of equitisation and stock market listing (SML) on firm performance through closely determining two equitised companies, namely Cantho Foodstuff, Fruit & Vegetable Company (CFFVC) and Refrigeration Electrical Engineering Corporation (REE Corp.). These companies are selected for the following reasons. Firstly, to be able to measure the impact of equitisation on firm performance, a selected company has to be equitised at least three years ago. Both of these companies satisfy this requirement. Secondly, these firms were equitised in different time periods. Specifically, REE Corp. was equitised in 1993, during the pilot phase of equitisation (1992-1996) while Cantho Foodstuff, Fruit & Vegetable Company was equitised in 1999, during the expansion phase of the equitisation programme. Moreover, REE Corp. has been listed on the stock exchange since 2000. Finally, these companies are chosen because they are different in size, sector and ownership structure⁴. Data and information for the two case studies were mainly obtained from direct interviews which were conducted by the author in 2004. Moreover, financial data and other information on REE Corp. were obtained from its prospectus and website.

The case studies will provide evidence on the effect of equitisation on firm performance that can be employed as the foundation for building hypotheses to test

⁴ For detailed information on the differences between the two case studies, see Section 4.2 of this chapter.

in Chapter 6. In addition, the chapter will give useful and detailed information on the ownership structure, corporate governance and possible explanations for performance changes of the selected firms following equitisation that cannot be found in Chapter 6. Moreover, by dealing with the impact of stock-market listing on firm performance, the chapter will provide preliminary results that serve as background information for the quantitative analysis in Chapter 6.

The rest of this chapter is structured as follows. Section 4.2 reports preliminary evidence of the impact of equitisation on firm performance by investigating two cases. The effect of stock-market listing on REE Corp.'s performance is briefly presented in Section 4.3. Section 4.4 concludes the chapter.

4.2. Effect of equitisation on firm performance

As presented in both the theoretical and empirical literature, privatisation is likely to have positive effects on firm performance. Is that also true in the case of Vietnam? This section aims to find preliminary evidence on the impact of equitisation on firm performance in the Vietnamese context by closely examining two cases, namely Cantho Foodstuff, Fruit & Vegetable Company and REE Corp.

It is important to note here that a new Vietnamese accounting system, which is in line with international accounting standards and has been applied to all types of firms, was introduced in 1995. Next, Vietnamese Accounting Standards have been developed, and the first Accounting Standards were officially issued at the end of 2001. However, it is to be observed that these developments have not created any significant effects on measuring sales revenue, income before tax, total assets and equity of firms, the variables that play a central role in the analysis of this chapter and of Chapter 6. It can be concluded that these data are comparable over the observed time period.

4.2.1. Cantho Foodstuff, Fruit & Vegetable Company (CFFVC)

Overview of Cantho Foodstuff, Fruit & Vegetable Company

Cantho Foodstuff, Fruit & Vegetable Company, which belongs to the category of small and medium-sized enterprises according to Vietnamese standards, was founded in November 1992. It is a locally-controlled state-owned enterprise functioning in trading. Specifically, its main activities are retail and wholesale trade in vegetables, fruits, foodstuff, consumer goods and processing food. The company has been a major distributor for products of Vinamilk Company, Thien Huong Foodstuff Company, Net Company, P&G, Vedan.

At the time the company had to be equitised (September 30, 1999), the value of the company's total assets was 12,211 VND million, in which fixed assets account for VND 1,342 million (11.0 percent) and current assets for 10,869 VND million (89.0 percent). Because of being a trade company, the company's current assets account for a large share of total assets. Regarding the sources of capital, liabilities account for 10,354 VND million (84.8 percent) while government capital (equity) is 1,857 VND million (15.2 percent). Moreover, before equitisation, due to being given preferential treatment in borrowing from the government and the specific characteristics of trading firms, short-term liabilities are quite high relative to total assets. Indeed, this ratio is 86 percent in 1997, 87 percent in 1998 and 85 percent in 1999. Performance of Cantho Foodstuff, Fruit & Vegetable Company for the period from 1996 to 2003 is presented in Table 4.1.

Table 4.1: Performance of CFFVC (in VND million)

	1996	1997	1998	1999*	2000	2001	2002	2003
Sales revenues	138,583	134,419	163,561	100,546	171,985	169,524	229,567	255,433
Total costs	138,275	134,108	163,217	100,282	170,966	165,959	224,266	254,909
Income before tax	308	311	344	264	1,019	981	958	524
Net income	169	171	189	133	693	667	651	440
Total current assets	11,757	10,331	11,104	10,869	18,268	21,529	25,055	28,861
Total fixed assets	1,029	835	2,241	1,342	3,303	4,681	7,703	7,554
Total assets	12,786	11,166	13,345	12,211	21,571	26,210	32,758	36,145
Short term debts	11,296	9,610	11,614	10,328	9,429	13,386	18,582	26,051
Long term debts	0	0	0	0	0	0	0	0
Other liabilities	29	56	3	26	5,138	5,451	6,773	2,842
Total liabilities	11,325	9,666	11,617	10,354	14,567	18,837	25,355	28,893
Equity	1,461	1,500	1,728	1,857	7,004	7,373	7,403	7,522
Total liabilities and equity	12,786	11,166	13,345	12,211	21,571	26,210	32,758	36,145

Source: Financial statements of Cantho Foodstuff, Fruit & Vegetable Company

*: Data refer to the period from January 1, 1999 to September 30, 1999

The company was selected for equitisation in September 1998. Following the needed steps, the company was officially transformed into an equitised company on September 30, 1999 with total equity of 6,534 VND million.

Ownership structure and corporate governance of the company

Shareholders of Cantho Foodstuff, Fruit & Vegetable Company can be classified into four groups: the state (provincial government), insiders (employees and management), domestic institutions and domestic individuals. The ownership structure of the company is shown in Table 4.2.

Table 4.2: Ownership structure of Cantho Foodstuff, Fruit & Vegetable Company

Shareholder	1999 (%)	2002 (%)
State	20.0	20.0
Employees and management	20.7	8.7
Domestic institutions	43.0	42.2
Domestic individuals	16.3	29.1
Total	100.0	100.0

Source: Reports of Cantho Foodstuff, Fruit & Vegetable Company

As can be readily seen in Table 4.2, the state owns 20.0 percent of the company's total shares, and this portion is unchanged for the period between 1999 and 2002. It is important to note here that the former manager of the company is appointed as representative for the state as shareholder in the company following equitisation. In addition, the insiders hold 20.7 percent of the total shares at the first issue in 1999. However, the insiders' share significantly decreases in the following years after equitisation, dropping from 20.7 percent in 1999 to 8.7 percent in 2002. The main reason explaining this result is that many of employees in the company have low incomes, so they desire to transfer their shares to outsiders in exchange for cash. Especially, domestic institutions are the biggest group of shareholders in the company, holding 42.2 percent of the total issued shares in 2002. Among domestic institutions, Thien Huong Company, an instant noodle processing company, controls 30.6 percent, and Net Company, a detergent producing company, possesses 10.1 percent of the company's total shares. Finally, domestic individuals, consisting of the insiders' relatives, friends, officers of public departments, the company's suppliers and others, own 29.1 percent of the company.

In the case of Cantho Foodstuff, Fruit & Vegetable Company, it can be concluded that ownership is highly concentrated. In fact, the three biggest shareholders (the State, Thien Huong Company and Net Company) hold about 60.7 percent of the total shares. Therefore, these groups of shareholders have a representative in the

company's board of directors and have a strong influence on the company's decisions.

Like other equitised companies in Vietnam, the organisation structure of Cantho Foodstuff, Fruit & Vegetable Company also includes a board of directors, a board of supervisors and a management team⁵.

Currently, the board of directors has seven members who represent for the government (one person), insiders (two persons) and outside investors (four persons). The chairman of the board (Mr. Tri), who was the former general manager of this company before equitisation, is the representative for the government. Moreover, he also holds the position of general manager of the company.

In this company, the board of supervisors have three members who are elected by the shareholders. Surprisingly, all of them are currently employees of the company. Indeed, their supervision role is only a part-time job, and most of their income comes from their job as employee of the company.

Effect of equitisation on the company's performance

Profitability

Generally, it is expected that as firms move from public to private ownership, their profitability should increase. This is also true for the case of Cantho Foodstuff, Fruit & Vegetable Company. Specifically, mean income before tax on assets (IBTA) and income before tax on sales (IBTS) increase from 2.6 percent and 0.2 percent in the pre-equitisation period to 3.2 percent and 0.4 percent respectively during the post-equitisation period. Contrary to IBTA and IBTS, income before tax on equity (IBTE) has experienced a significant decline after equitisation. In fact, the average IBTE decreases from 20.6 percent in the pre-equitisation stage to 11.9 percent over the post-equitisation one. The decline in IBTE following equitisation can be explained by the fact that the company's post-equitisation equity significantly increases due to issuing new shares for mobilising capital. Income before tax also increases, but its growth rate is lower.

Efficiency

Indicators that measure the company's operating efficiency are sales efficiency and income efficiency. It is to be noted here that these indicators are adjusted for

⁵ For more information about corporate governance in the Vietnamese equitised companies, see Appendix 4.1 at the end of this chapter.

inflation. The effect of equitisation on the company's operating efficiency is mixed. Indeed, equitisation has a positive impact on income efficiency while it has a negative effect on sales efficiency. Specifically, mean income efficiency, measured by income before tax per employee, shows an increase of VND 1.2 million between the pre- and post-equitisation period. However, the mean change of sale efficiency between the pre and post-equitisation period is negative with an absolute value of VND 528.9 million.

Real sales

Real sales are defined as sale revenues obtained from the company's income statement corrected for inflation. Following equitisation, the company has continuously expanded its business by establishing some new branches in other regions. In addition, the company has applied a new policy to motivate its sales force. As a result, real sales significantly improve following equitisation. In fact, mean real sales increase by VND 30,838 million in the post-equitisation period compared to the pre-equitisation one.

Leverage

The debt ratio, measured by the ratio of total debt to total assets, is used to represent the company's leverage. In Vietnam most SOEs have a large share of debt in their capital structure because they are given preferential treatment and guarantees from the government in borrowing from the state commercial banks. Cantho Foodstuff, Fruit & Vegetable Company is not an exception. Indeed, when the company operated as a SOE, its debt ratio was fairly stable at a high level. For instance, the mean debt ratio is 87.4 percent over the pre-equitisation period. After being equitised, since the government's debt guarantees and preferential treatment have been removed, the company has to reduce its debts and use other sources, e.g. new shares issues, to finance its businesses. Consequently, ownership transformation leads to a decrease of 13.4 percent in the company's debt ratio during the post-equitisation period.

Employment and employee income

In the literature, the effect of privatisation on employment has been ambiguous. Indeed, some studies report an increase in employment following privatisation while other studies document a decline in employment level during the post-privatisation period. In the case of Cantho Foodstuff, Fruit & Vegetable Company, the number of employees has significantly increased after equitisation. For

instance, the mean employment level rose from 119 employees in the pre-equitisation period to 271 employees in the post-equitisation one. No lay-offs of employees have been reported concerning the company after equitisation. Similarly, average income of employees has considerably increased during the post-equitisation period. In fact, the mean annual employee income rose from VND 7.1 million in pre-equitisation period to VND 9.1 million for the years after equitisation.

In short, the company's performance has improved since equitisation. Specifically, IBTA, IBTS, income efficiency, real sales, employment level and employee income have increased during the post-equitisation period. Moreover, the company's debt ratio has been reduced after equitisation. However, it is found that equitisation has a negative effect on the company's IBTE and sale efficiency. The company's pre and post-equitisation performance is summarised in Table 4.3.

Possible explanations for the performance improvements

In an effort to discover sources of the aforementioned performance improvements of the company after equitisation, the author had an in-depth interview on this issue with the Deputy General Director of the company. According to her, incentives and corporate governance are the main reasons to explain the performance improvements.

Income incentives

Income incentives have played an important role in improving performance of the company following equitisation. Indeed, by holding a given number of the company shares, employees have a strong motivation to work hard for the company's success because their benefits are dependent on company performance. In addition, changes in salary and reward policies had a significant impact on company performance. Specifically, before equitisation, the company had to follow salary and reward rules of the government that did not stimulate employees to work efficiently. According to these rules, the salary to be paid to the company's employees was not higher than a certain level (ceiling), even if they had special skills and knowledge or greatly contributed to the company. After being equitised, the company is free from these constraints. Instead, the company has applied performance-based salary and reward scales to stimulate greater efforts by its employees. It is observed that this policy had a strongly positive impact on the company's performance.

Table 4.3: The pre and post equitisation performance of Cantho Foodstuff, Fruit & Vegetable Company

Measures	Pre-equitisation				Post-equitisation					Mean change
	1996	1997	1998	Mean	2000	2001	2002	2003	Mean	
1. Profitability										
Income before tax on assets (IBTA)	0.024	0.028	0.026	0.026	0.047	0.037	0.029	0.014	0.032	0.006
Income before tax on sales (IBTS)	0.002	0.002	0.002	0.002	0.006	0.006	0.004	0.002	0.004	0.002
Income before tax on equity (IBTE)	0.211	0.207	0.199	0.206	0.145	0.133	0.129	0.070	0.119	-0.086
2. Operating efficiency										
Salesefficiency (mil. VND) (Real sales/employees)	1,154.9	1,085.4	1,251.8	1,164.0	712.2	629.2	596.8	602.4	635.1	-528.9
Income efficiency (mil. VND) (Net income/employees)	2.6	2.6	2.9	2.7	4.9	4.8	4.2	1.7	3.9	1.2
3. Real sales (mil. VND)	138,583	130,251	147,707	138,847	146,703	143,456	186,795	201,788	169,685	30,838
4. Leverage										
Total debts/total assets	0.886	0.866	0.871	0.874	0.675	0.719	0.774	0.793	0.74	-0.134
5. Number of employees	120	120	118	119	206	228	313	335	271	152
6. Annual income per employee (mil. VND)	6.3	7.8	7.3	7.1	7.9	8.9	8.7	10,8	9,1	2.0

Note:

- *The figures in this table were calculated from financial statements of the company.*
- *Sales efficiency, net income efficiency, real sales and annual income per employee are adjusted for inflation.*

Corporate governance

The second area, which has been significantly changed and has positively affected the company's performance following equitisation, is corporate governance. Before equitisation the company was controlled by bureaucrats. Specifically, all business plans and important decisions regarding the company's business, *e.g.*, cooperation agreements with other partners, new investments, had to be approved by the controlling agency. The approval procedure normally was time-consuming and/or costly due to corruption. As a result, the company would miss good opportunities to make a profit if these opportunities are only short-lived, or the company has to incur some "unnamed expenses" that reduce its profits. After equitisation, these constraints have been unshackled. Specifically, the board of directors and general manager have full authorities to make all decisions regarding the company's business.

Furthermore, with a share in the company's profits (all members of the board of directors and senior management have owned a significant amount of shares) and the pressure of shareholders, the board of directors and senior management are inclined to pursue profit maximisation. Additionally, the company has benefited from involvement of outside institutional investors. Indeed, Thien Huong Company, the biggest shareholder of the company, provides exclusive preferential treatment of the company. For instance, normally customers of Thien Huong Company have to pay for products purchased in 10 days from the delivery date while Cantho Foodstuff, Fruit & Vegetable Company is allowed to make payments in 20, even 30 days without any fines. Moreover, the company usually receives special promotion from Thien Huong Company which is not applied to all its customers.

4.2.2. Refrigeration Electrical Engineering Corporation (REE Corp.)

Corporation profile

REE Corp. originally was the Mechanical and Electrical state-owned enterprise, established in 1977. Being part of the pilot equitisation programme launched in 1992 by the government, the company was equitised on November 13, 1993 as the first in the country. At that time, the company's total re-evaluated capital was VND 16,000 million and the number of employees was 334. Moreover, when the Stock Trading Centre was opened on July 20, 2000, REE Corp. was one of the first two companies volunteering to be listed at the Centre.

The company primarily started with mechanical and electrical (M&E) business. Over time, its business has expanded. Indeed, the company's current business

consists of M&E contracting, manufacturing, trading and financial investments. REE Corp. is currently the first M&E contracting corporation in Vietnam that has received the ISO 9002 certificate.

The development of REE shows consecutive increases in both capital and employment. Specifically, the company's registered capital is raised from VND 16,000 million in 1993 to VND 150,000 million in 1998 and VND 225,000 million in 2001. Similarly, the number of employees increased from 334 in 1993 to 798 in 1998 and 851 in 2001. Revenues and net profits have significantly increased since 1993. The company performance during the period from 1991 to 2003 is exhibited in Table 4.4.

Ownership structure and corporate governance

Shareholders of REE Corp. can be grouped into the state, the insiders (employees and management), domestic investors and foreign investors. At the first shares were issued, in 1993, the ownership structure of REE Corp. is as follows: 30 percent of the shares are owned by the state, 50 percent by insiders and the rest (20 percent) by outside investors. However, this structure has significantly changed in the direction of reducing the share of the state and insiders and increasing the share of outsiders. Specifically, the state accounted for 25.1 percent in 1999 and for only 10.0 percent in 2002. In addition, the insiders' share decreased from 50.0 percent in 1993 to 23.9 percent in 1999, but then increased to 39.0 percent in 2002. Conversely, the outsiders' share has considerably increased following equitisation, from 20.0 percent in 1993 to 51.0 percent in 2002. Within that group foreign investors are increasingly involved in the company. They held 16.3 percent of the total REE's shares in 1999 and 25 percent in 2002. The ownership structure of REE is presented in Table 4.5 and shown graphically Figures 4.1, 4.2 and 4.3.

Furthermore, in 2002 only four shareholders who held more than 5 percent of total shares were reported. Specifically, they are the State (10%), Veil Holding Ltd. (10%), Mr. Nguyen Ngoc Hai (7.76%) and Vener Group Ltd. (7.56%). In addition, the Board of directors (five members) own 6.08 percent of the total shares.

Corporate governance of REE Corp., like other joint-stock companies in Vietnam, also includes a board of directors, a board of supervisors and management team.

In the case of REE Corp. the board of directors has five members who are directly elected by shareholders. Specifically, two of them represent the state, two represent the insiders, and one outside investors (foreign investors). The names of the members of the board of directors and other information are presented in Table 4.6

Table 4.4: REE performance for the period of 1991-2003 (in VND million)

Indicators	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Sales revenues	24,698	42,252	46,597	78,441	213,990	307,095	426,042	366,983	171,465	225,182	311,848	411,808	372,227
Total costs	23,596	39,362	39,205	67,055	192,611	249,606	334,700	327,491	152,709	187,944	261,433	375,586	323,837
Income before tax	1,102	2,890	7,392	11,386	21,379	57,489	91,342	39,492	18,756	37,238	50,415	36,222	48,390
Net income	771	2,023	5,434	8,838	14,470	47,405	75,869	21,659	7,961	30,802	44,934	34,302	39,021
Total current assets	11,088	18,384	29,850	41,645	92,709	174,350	188,816	190,705	150,869	173,982	206,228	198,307	126,676
Total fixed assets	1,738	1,467	7,856	8,727	10,994	18,767	26,316	49,161	68,802	76,243	136,949	265,615	336,262
Total assets	12,826	19,851	37,706	50,372	103,703	193,117	215,132	239,866	219,671	250,225	343,177	463,922	462,938
Liabilities	10,462	17,184	21,411	30,405	74,926	139,115	114,032	51,935	41,778	87,829	86,539	192,174	180,825
Equity	2,364	2,667	16,295	19,967	28,777	54,002	101,100	187,931	177,893	162,396	256,638	271,748	282,113
Total liabilities and equity	12,826	19,851	37,706	50,372	103,703	193,117	215,132	239,866	219,671	250,225	343,177	463,922	462,938

Source: Financial statements of REE Corp. and Dang (2000)

Table 4.5: Ownership structure of REE

Shareholder	1993 (%)	1999 (%)	2002 (%)
State	30.0	25,1	10,0
Employees and management	50.0	23,9	39.0
Domestic investors	20.0	44.7	26.0
Foreign investors	0.0	16.3	25.0
Total	100.0	100.0	100.0

Source: REE's prospectuses and Dang (2000)

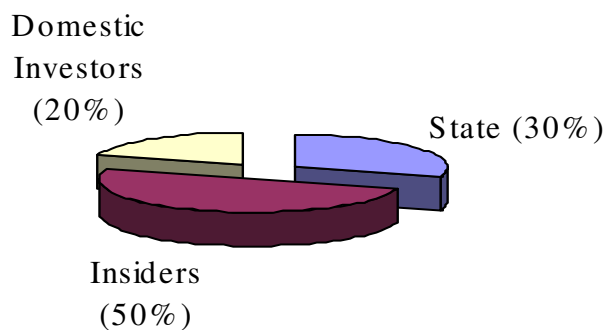


Figure 4.1: REE's ownership structure in 1993

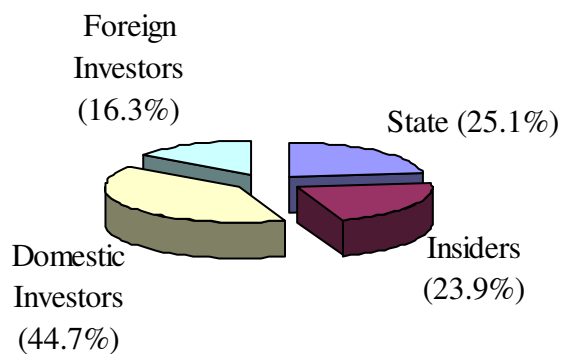


Figure 4.2: REE's ownership structure in 1999

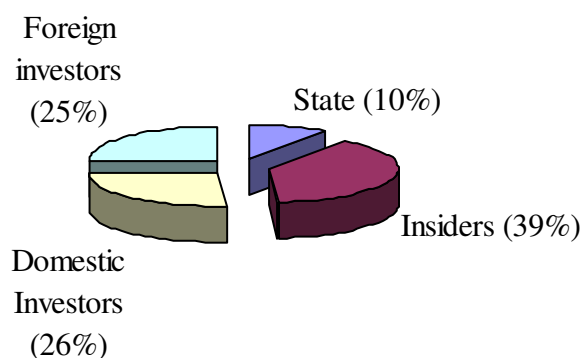


Figure 4.3: REE's ownership structure in 2002

Table 4.6: List of members of the board of directors

Name	Education	Position
Mrs. Nguyen T. Mai Thanh	Technical Engineer	- Chairperson of the Board - General Director of REE
Mr. Luu Minh Luan	Bachelor	- Member of the Board - Deputy General Director of REE
Mrs. Do Thi Trang	BA. in Economics	- Member of the Board - Financial Manager of REE
Mr. Tran Van Thanh	BA. in Law	- Member - Head of Investment Dept. of REE
Mr. Dominic T. C. Scriven	BA. in Law	- Member of the Board - Director of Dragon Capital Ltd. Co.

Source: Prospectus of REE

The chairwoman of the board of directors, Mrs. Thanh, was the former general director of REE, and she is a representative of the state. Moreover, all members of the board, except Mr. Dominic T. C. Scriven, were employees of REE for a long time.

The board of supervisors have three members who are all outsiders. They have ample expertise in finance, accounting and experiences that are required in accordance with the Enterprise Law. The members list of the board of supervisors and their qualifications and positions are presented in Table 4.7.

Table 4.7: Members of the board of supervisors

Name	Qualification	Position
Mr. Chau Ngoc Duc	BA. in Economics	- Chairman of the Board - Chief Accountant of Vinh Thinh Ltd. Co.
Mr. Hoang Kien	MBA	- Member of the Board - Financial analyzing expert of Dragon Capital Ltd. Co.
Mr. Cao Si Thang	BA. in Finance	- Member of the Board - Head of Industrial Department, Financial Service of Ho Chi Minh City (HCMC)

Source: REE's prospectus

The first two supervisors in the list are representatives of outside investors, especially the second, Mr. Kien, the representative for foreign investors. The last member, who is the Head of the Industrial Department of Ho Chi Minh City, is the representative of the state.

As mentioned in Table 4.6, the chairwoman of the board of directors is also the general director of REE. According to the Company's regulations, the general director is appointed by the board of directors and is responsible for the management of the company. The organisational structure of REE is shown in Figure 4.4.

Effect of equitisation on REE performance

As mentioned above, REE has been listed on the stock exchange since 2000. Therefore, in order to measure the impact of equitisation on the company's performance while isolating the effect of initial public offering (IPO) on firm performance, the three-year averages (1991-1993) of pre-equitisation performance measures are compared with the six-year averages (1994-1999) of post-equitisation performance measures. The pre and post-equitisation performance of REE Corp. are shown in Table 4.8.

Profitability

Like Cantho Foodstuff, Fruit & Vegetable Company, profitability ratios of REE measured by IBTS and IBTA have considerably improved following equitisation. Indeed, the mean IBTA and IBTS increase from 14.3 percent and 9.1 percent in the

pre-equitisation period to 23.4 percent and 14.4 percent in the post-equitisation period, respectively. However, profitability measured by IBTE has remarkably decreased since equitisation. Specifically, the mean IBTE has a decrease of 6.8 percentage-points between the pre- and post-equitisation periods, although it still is at a high level.

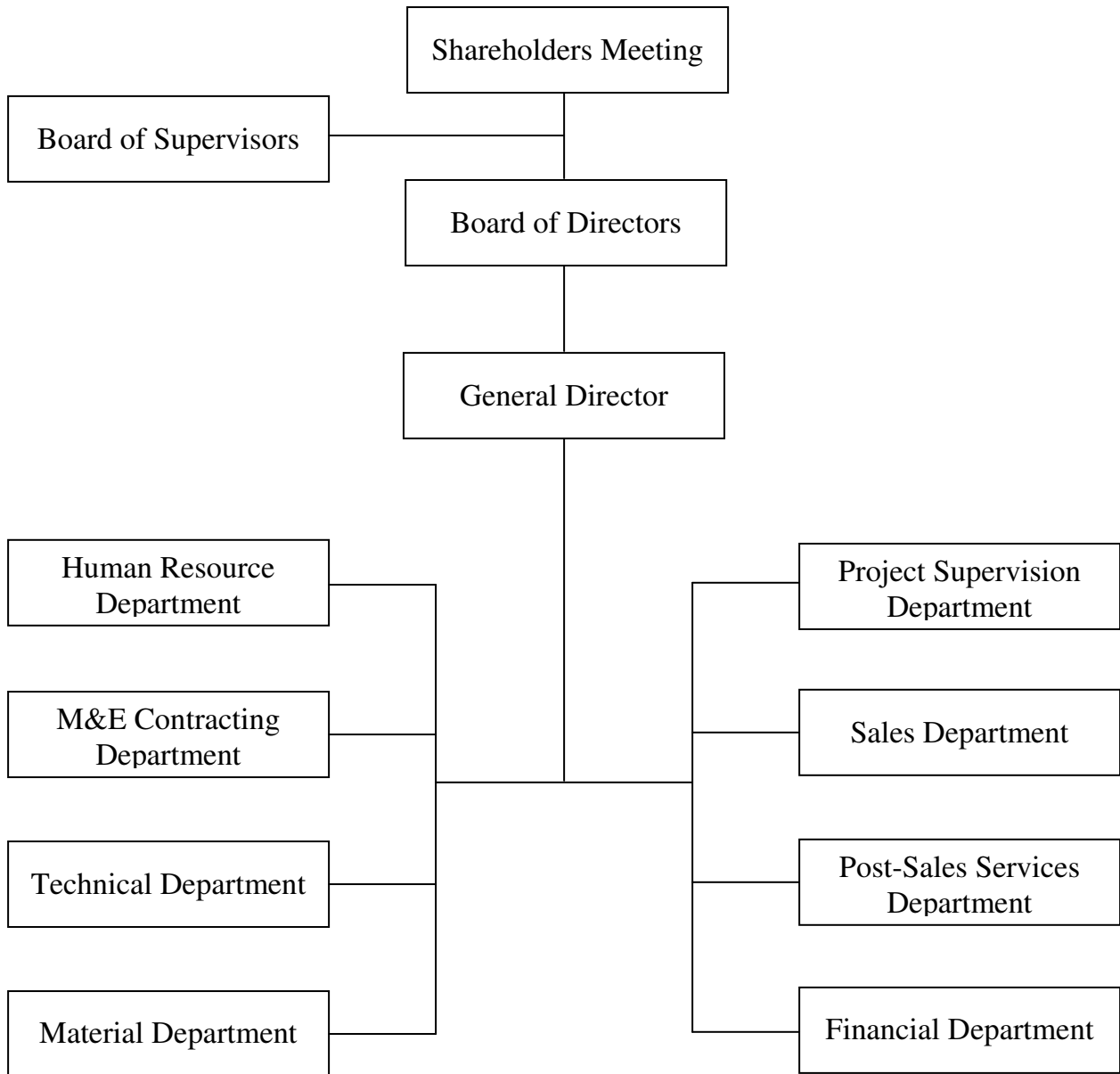


Figure 4.4: Organisational structure of REE

Efficiency

Unlike in the case of the Cantho Foodstuff, Fruit & Vegetable Company, both sales and net income efficiency have considerably increased after equitisation, indicating that the company has allocated its human capital and current technological resources to be more efficient. Specifically, the mean sale efficiency, measured by real sales on the number of employees, increase from VND 146.8 million in the pre-equitisation to VND 296.4 during the post-equitisation period. Similarly, the average income efficiency shows an increase of VND 35.8 million.

Real sales

After equitisation, the company has invested a large amount of capital to expand its business and implemented some measures to accelerate its sales, such as applying incentive policies to motivate employees, developing new products that meet current market demands and improving product quality. Consequently, REE Corp.'s real sales show a significant increase following equitisation. Specifically, the mean real sale for the post-equitisation period increases over four times in comparison with the pre-equitisation period.

Leverage

As expected, REE's debt ratio, measured by total debts on total assets, significantly reduces in the context that its business has been continuously expanded since equitisation. This situation can be explained by the fact that after equitisation the company has used retained income and new share issues as the main sources of finance. As a result, the mean debt ratio decreases from 75.0 percent during the pre-equitisation period to 49.7 percent in the years following equitisation.

Employment and employee income

In line with the government's expectations concerning results of the equitisation programme, REE's employment remarkably increases since equitisation. In fact, mean employment increases from 278 employees over the post-equitisation to 591 employees after equitisation. The increase in employment could be due to the expansion of the company's business. In addition to the increase of employment the average annual income of the employees rose after equitisation. Indeed, this indicator increases from VND 14.9 million to VND 17.6 million between the pre and post-equitisation periods.

Table 4.8: Pre and post-equitisation performance of REE

Indicators	Pre-equitisation				Post-equitisation							Mean change
	1991	1992	1993	Mean	1994	1995	1996	1997	1998	1999	Mean	
1. Profitability												
Income before tax on assets (IBTA)	0.086	0.146	0.196	0.143	0.226	0.206	0.298	0.425	0.165	0.085	0.234	0.092
Income before tax on sales (IBTS)	0.045	0.068	0.159	0.091	0.145	0.100	0.187	0.214	0.108	0.109	0.144	0.053
Income before tax on equity (IBTE)	0.466	1.084	0.454	0.668	0.570	0.743	1.065	0.903	0.210	0.105	0.599	-0.068
2. Operating efficiency												
Sales efficiency (mil. VND) (Real sales/employees)	119.1	181.8	139.5	146.8	165.2	323.4	335.2	361.7	-	-	296.4	149.6
Income efficiency (mil. VND) (Net income/employees)	5.3	12.4	22.1	13.3	24.0	32.3	62.8	77.6	-	-	49.1	35.8
3. Real sales (mil. VND)												
	30,601	44,365	46,597	40,521	68,567	159,739	216,878	291,551	234,050	105,048	179,305	138,784
4. Leverage												
Total debts/total assets	0.816	0.866	0.568	0.750	0.604	0.723	0.720	0.530	0.217	0.190	0.497	-0.253
5. Number of employees												
	257	244	334	278	415	494	647	806	-	-	591	313
6. Annual income per employee (mil. VND)												
	19.6	14.6	10.5	14.9	15.1	17.6	16.5	18.4	20.2	-	17.6	2.7

Note:

- The figures in this table are calculated from financial statements of REE CORP. and Dang (2000).
- Sales efficiency, net income efficiency, real sales, annual income per employee is adjusted for inflation.

In summary, on the basis of results presented above, it can be concluded that equitisation has a positive impact on virtually all of the company's performance measures. Specifically, IBTS, IBTA, sale efficiency, income efficiency, employment and employees' average income have significantly increased following equitisation. However, it is found that IBTE considerably decreased after equitisation.

Possible explanations for the performance improvements

As reported in Table 4.8, almost all performance measures of REE Corp. (except IBTE) significantly improved after equitisation. Similar to the first case study, the performance improvements of REE Corp. can be explained by the following reasons.

Income incentives

To be aware of the important role of employees in the company's success, after equitisation REE Corp. has launched several policies to encourage its employees to work more efficiently. Specifically, like Cantho Foodstuff, Fruit & Vegetable Company, REE Corp. started to apply performance-based salary and reward policies for its employees. Moreover, the company has applied the so-called "Employee Stock Ownership Plan (ESOP)". ESOP can be defined as a plan that allows employees, who made a special contribution to the company, to own some preferred stocks that will be convertible into common stock after a given period. Consequently, these policies have created great efforts from the company's current employees and attracted excellent-quality employees to work for the company.

Entrepreneurship

After being equitised, the company has applied quality management systems in order to ensure quality of its products and improve its production efficiency. Indeed, the company received the ISO certificate in 2000. In addition, REE Corp. has introduced new electrical refrigeration products with the brand name "Reetech". Importantly, these products can compete against other well-known brands in the market. Besides new product offerings, the company's market has expanded from the domestic to international market. Indeed, the company has exported its products to Cambodia, Laos and African countries. Finally, with a new capital source by issuing new shares following equitisation, the company has heavily invested in new businesses, such as real estate and infrastructure for

information technology (Saigon E-town). The investments have contributed to the growth rate of sales revenue and income of the company.

Corporate governance

Similar to other equitised firms in Vietnam, corporate governance of REE Corp. has significantly changed since equitisation. Specifically, the board of directors and general manager of the company have been independent from bureaucrats and now focus on the objective of profit maximisation. Moreover, involvement of foreign investors in the board of directors can be a reason to explain improvements in the company's performance. Indeed, the foreign investors have great management skills and experiences that can help the company to perform better.

4.2.3. A comparison of performance changes following equitisation between the two cases

A comparison of performance changes following equitisation between Cantho Foodstuff, Fruit & Vegetable Company and REE Corp. is summarised in Table 4.9. Generally, it is observed that the performance of these companies has improved following equitisation. However, the improvement differs between the two cases.

Regarding the profitability indicators, Table 4.9 shows considerable improvements in IBTA and IBTS for both companies following equitisation. However, the growth rate of the improvements is different between two companies. Specifically, Cantho Foodstuff, Fruit & Vegetable Company achieves a higher growth rate of improvement in IBTS compared to what REE Corp. gains, but its growth rate of improvement in IBTA is lower than REE Corp.'s. Contrary to IBTA and IBTS, equitisation has a negative effect on IBTE of the two companies. Specifically, the mean IBTE in the first and second case decrease by 42.2 percent and 10.2 percent respectively during the post-equitisation period.

The impact of equitisation on sales efficiency of the studied companies is mixed. Indeed, sale efficiency has significantly increased in the second case following equitisation while it has considerably decreased in the first case. However, income efficiency remarkably improved in both of the two cases, especially for the second case, after equitisation. Specifically, the growth rate of mean income efficiency is reported to be 44.4 percent and 269.2 for the first and second case, respectively.

Furthermore, it is observed that real sale of both cases significantly improved after equitisation. In fact, mean real sales increase by 22.2 percent and 342.58 percent for Cantho Foodstuff, Fruit & Vegetable Company and REE Corp., respectively. In addition, the debt ratio, measured by the ratio of total debts to total assets, fell for both companies since equitisation. The declines in mean debt ratios during the post-

equitisation period in the first and second case are 15.3 percent and 33.7 percent respectively. The difference in the decline in the debt ratios of the two cases can be explained by the fact that REE Corp. has been listed on the stock market, so the company can easily issue new shares for increasing its equity.

Finally, the effect of equitisation on employment and annual income of employees is almost the same for both of the two cases. Indeed, the significant increases in employment level are reported for both companies. For instance, the growth rate of employment is observed to be 127.7 percent and 112.6 percent for the first and second case, respectively. Likewise, an improvement in employees' annual income following equitisation is found for both Cantho Foodstuff, Fruit & Vegetable Company and REE Corp., with growth rates of 28.2 percent and 18.1 percent, respectively.

4.3. The effect of stock-market listing on firm performance: the case of REE Corp.

This section investigates the impact of stock-market listing (SML) on firm performance in Vietnam by comparing pre to post-SML performance of REE Corp. It is to be noted that this section focuses on the impact of SML on profitability, leverage and real sales due to lack of some data for the post-SML period (2001-2003). The pre and post-SML performance of REE Corp. are summarised in Table 4.10.

Profitability

It is surprising to find that SML has a negative effect on REE Corp.'s profitability. Indeed, the results presented in Table 4.10 indicate that all profitability indicators have significantly decreased since the company's shares are listed on the stock market. For instance, mean IBTE and IBTA decline from 59.9 percent and 23.4 percent in the pre-SML period to only 16.7 percent and 12.7 percent respectively during the post-SML stage. A possible explanation for the considerable decreases in IBTE and IBTA is that after listing on the stock market, the company has heavily invested (see Table 4.4), financed by issuing new shares, so that its IBTE and IBTA are negatively affected in the short run.

Real sales

Contrary to profitability, it is observed that the company's real sales have significantly increased after SML. In fact, mean real sales increase from VND

179,305 million over the pre-SML period to VND 210,226 million in the post-SML period. As mentioned above, the company has invested heavily in expanding its business. Moreover, SML is likely to be the best way to advertise the company's products. A combination of these reasons could be the explanation for the increase in real sale of REE Corp. after SML.

Leverage

As can be readily seen in Table 4.10, the company's leverage, measured by the ratio of total debt to total assets, has continued to decrease since SML. Specifically, REE Corp.'s debt ratio declines from 49.7 percent in the pre-SML period to 35.2 percent in the years after SML. The reduction in debt ratio could be caused by substituting share issues for bank borrowing as source of finance. In fact, the company issued 7.5 million new shares (VND 75 billion) in 2002.

4.4. Conclusion

This chapter examines the impact of equitisation and stock-market listing on firm performance by investigating two cases, namely Cantho Foodstuff, Fruit & Vegetable Company and REE Corp. From the two cases it can be observed that equitisation had a positive effect on the selected companies' performance. Specifically, equitisation has led to significant improvements in IBTS, IBTA, sales efficiency, income efficiency, leverage and employees' average income for both of the cases. Similarly, the employment level of the two cases has considerably increased during the post-equitisation period. Contrary to equitisation, stock market listing negatively affects REE Corp.'s performance. Indeed, profitability and operating efficiency of the company have significantly declined since the company's shares are listed on the stock market. However, real sales, leverage, employment and employees' average income of REE Corp. have been improved after SML. It should be noted here that this chapter only provides preliminary evidence of the effect of equitisation on firm performance by examining two case studies. More insight can only be obtained by considering a larger sample of firms, which will be done in the coming chapters.

Table 4.9: Comparison of performance changes following equitisation between two cases

Indicators	Cantho Foodstuff, Fruit & Vegetable Company				REE Corp.			
	Mean before (1996-1998)	Mean after (2000-2002)	Mean change	Percentage* change (%)	Mean before (1991-1993)	Mean after (1994-1999)	Mean change	Percentage* change (%)
1. Profitability								
Income before tax on assets (IBTA)	0.026	0.032	0.006	23.1	0.143	0.234	0.092	64.3
Income before tax on sales (IBTS)	0.002	0.004	0.002	100.0	0.091	0.144	0.053	58.2
Income before tax on equity (IBTE)	0.206	0.119	-0.087	-42.2	0.668	0.599	-0.068	-10.2
2. Operating efficiency								
Sales efficiency (mil VND) (Real sales/employees)	1,164.0	635.1	-528.9	-45.4	146.8	296.4	149.6	101.9
Income efficiency (mil VND) (Net income/employees)	2.7	3.9	1.2	44.4	13.3	49.1	35.8	269.2
3. Real sales (mil. VND)	138,847	169,685	30,838	22.2	40,521	179,305	138,784	342.5
4. Leverage								
Total debts/total assets	0.874	0.740	-0.134	-15.3	0.750	0.497	-0.253	-33.7
5. Number of employees	119	271	152	127.7	278	591	313	112.6
6. Annual income per employee (mil. VND)	7.1	9.1	2.0	28.2	14.9	17.6	2.7	18.1

* *Percentage change (%) = [(mean after – mean before)/mean before] x 100*

Table 4.10: The pre and post-IPO performance of REE

Indicators	Pre- IPO							Post-IPO				Mean change
	1994	1995	1996	1997	1998	1999	Mean	2001	2002	2003	Mean	
1. Profitability												
Income before tax on assets (IBTA)	0.226	0.206	0.298	0.425	0.165	0.085	0.234	0.162	0.088	0.130	0.127	-0.107
Income before tax on sales (IBTS)	0.145	0.100	0.187	0.214	0.108	0.109	0.144	0.147	0.078	0.105	0.110	-0.034
Income before tax on equity (IBTE)	0.570	0.743	1.065	0.903	0.210	0.105	0.599	0.196	0.133	0.172	0.167	-0.432
2. Operating efficiency												
Sales efficiency (mil VND) (Real sales/employees)	165.2	323.4	335.2	361.7	-	-	296.4	219.0	-	-	219.0	-77.4
Income efficiency (mil VND) (Net income/employees)	24.0	32.3	62.8	77.6	-	-	49.1	35.4	-	-	35.4	-13.7
3. Real sales (mil. VND)	68,567	159,739	216,878	291,551	234,050	105,048	179,305	186,369	236,642	207,667	210,226	30,921
4. Leverage												
Total debts/total assets	0.604	0.723	0.720	0.530	0.217	0.190	0.497	0.252	0.414	0.391	0.352	-0.145
5. Number of employees	415	494	647	806	-	-	591	851	-	-	851	260
6. Annual income per employee (mil. VND)	15.1	17.6	16.5	18.4	20.2	-	17.6	19.3	-	-	19.3	1.7

Note: The figures in this table are calculated from financial statements of REE Corp. and Dang (2000). Sales efficiency, net income efficiency, real sales and annual income per employee are adjusted for inflation.

Appendix 4.1: Corporate governance in the Vietnamese equitised companies

In accordance with the Law on Enterprises issued on June 12, 1999 by the National Assembly, the corporate governance of joint-stock companies, in general, and of equitised firms in particular, includes the board of directors, the board of supervisors and the director (general director).

The board of directors

The board of directors is the body managing the company that has full authorities to make decisions on all issues related to objectives and benefits of the company. The board of directors are composed of a maximum of 11 members who are directly elected by shareholders at the first meeting of each term. Specifically, the term, qualifications and specific number of member of the board are stipulated in the company's Charter. By regulation, the board has the following rights and duties:

- to decide on the development strategies of the company;
- to recommend the types of shares and total number of shares to be offered for sale;
- to make decisions on investment plans;
- to decide on solutions regarding market expansion, marketing and technology;
- to approve contracts for purchases, sales, borrowing, lending and other contracts which have the value equal to or larger than 50 percent of the company's total asset value;
- to appoint and dismiss the director (general director) and other senior managers of the company, to decide the salaries and other benefits of such managers;
- to decide on the organisational structure as well as internal management rules of the company, the establishment of subsidiary companies, branches and representative offices, and the capital contribution to or purchase of shares of other companies;
- to submit annual financial reports to the general shareholders assembly;
- to recommend the dividend rates to be paid, to decide the period of time and procedures for payment of dividend or dealing with losses incurred in the business operation;
- to decide on the price at which the company's shares are offered for sale, to evaluate assets that are contributed to other companies to form a joint-venture company;
- to approve the agenda and documents for the shareholders meeting, convene the meeting;

- to decide on the redemption of not more than 10 percent of the total shares of each type which have been sold;
- To recommend restructuring or dissolution of the company.

After being formed, the board of directors will elect a chairperson from its members. It is important to note here that by regulation the chairperson of the board of directors can concurrently act as the director (general director) of the company. Specifically, the chairperson of the board of directors has the following rights and duties:

- to prepare working plans and programmes of the board;
- to prepare documents for the board's meeting, convene and preside over meetings of the board;
- to supervise the implementation of the board's decisions;
- to preside over meetings of the general assembly of shareholders.

The board of supervisors

According to Law on Enterprises, a joint-stock company having more than 11 shareholders must have a board of supervisors which is composed of three to five members, of whom at least one member has to be specialised in accountancy. All supervisors are elected by shareholders at the first meeting of each term. Then, the board of supervisors elect one of its members, who has to be a shareholder, to serve as the chairperson of the board. The board of supervisors has the following rights and duties:

- to inspect the reasonability and legality in the management and administration of business activities, and financial reports;
- to inform the board of directors regularly results of the company's operations, consult the board prior to submitting reports, conclusions and recommendations to the shareholders meeting;
- to report to the general assembly of shareholders on the accuracy, truthfulness and legality of books of account, financial reports, and other reports of the company;
- To recommend changes and/or improvements in the organisational structure, management, and administration of the company.

According to Law on enterprises, the following people are not allowed to be a member of the board of supervisors:

- members of the board of directors, the director (general director) and their marital or relative relationship;
- people who are being examined for penal liability, or serving imprisonment sentences.

Furthermore, the term, working regulations and salary of members of the board of supervisors are stipulated in the company's Charter or decided by the general assembly of shareholders.

Director (general director)

The manager, who is appointed by the board of directors, can be a member of the board of directors or whoever (shareholder or non-shareholder). The director (general director) has the following power and duties:

- to decide on all issues regarding the company's daily businesses;
- to implement decisions of the board of directors;
- to organise the implementation of business plans and investment plans of the company;
- to propose plans on the organisational structure and internal management rules of the company;
- to appoint and dismiss senior management personnel in the company, except those who are appointed by the board of directors;
- to establish the salary and allowance policy for employees of the company.