

GOVERNMENT IN BUSINESS – EMPIRICAL EVIDENCE FROM AN EMERGING MARKET

Giang Hoang^{a1}, Hsin-I Chou^b, Darren Henry^c, Kok Boon Oh^d

^a Monash University, Malvern East, VIC 3145, Australia

^b RMIT University, Melbourne, VIC 3000, Australia

^c La Trobe University, Bundoora, VIC 3086, Australia

^d eGalaxy Research, Melbourne, VIC 3000, Australia

Abstract

Klaus Schwab (2019) postulates that the answer to what kind of capitalism we want may define the future of our era. The current models, shareholder capitalism, embraced by most Western corporations and state capitalism, rising to prominence in many emerging markets, not least China, in his view, are losing their ground to stakeholder capitalism, a model he proposed in 1971. His model aims to position states and private shareholders as trustees of society, which is in line with the United Nations' Agenda 2030 for sustainable development. The true test of how successful and durable these dynamics will be, however, is supposedly highly unpredictable.

While we all wait for time to tell, our paper presents a study from an emerging country where despite the historical complexity of state involvement in business, the government, as a stakeholder, through its sovereign wealth fund was proven to potentially collaborate well with other shareholders to maximise the firm wealth. This special entity, the State Capital Investment Corporation (hereafter known as SCIC), in its ambitious pursuit of achieving economic goals with zero tolerance for politically driven agendas was incorporated to have an unprecedented direct reporting line to the Prime Minister of Vietnam. Through empirical evidence using the event study method, we found that the market in general reacts positively to announcements made by the SCIC regardless of its sell, buy or board director appointment decisions in its linked firms. However, our study found a negative reaction by the market to the appointment of SCIC personnel onto board of directors and a negative relation between SCIC ownership and stock returns in case of the SCIC holding more than 50% ownership in firms. These relationships imply that the market views the influence and impact of direct board representation and state ownership beyond a threshold as detrimental for firm value.

¹ Corresponding author: Giang Hoang. Email: giang.hoang@monash.edu

While the question Schwab (2019) raised in relations to the effective role of states along with private corporations as trustees of society in response to today's social and environmental challenges takes time to be answered, our study somewhat gives rise to a belief in a potentially successful collaboration of these two players.

Keywords: Role of sovereign wealth fund, Firm value, Corporate governance, Emerging markets, Vietnam.

1. Introduction

The government ownership and its governance imposed on corporations are not new in history. Prior to the 17th century, the earliest corporations were created in Europe as not-for-profit organisations to build institutions for the public good. These corporations which were established by charter - an act granted by a monarch or passed by a parliament had written bodies of fundamental principles detailing their duties and were overseen by the government (Stern, 2017). However, corporations were then prevailed by private shareholders in the mid-19th century who in turn have seized the control ever since (Korten, 1995).

With the Agenda 2030 for sustainable development, the United Nations aimed to achieve 17 sustainable goals worldwide such as ending poverty and protecting ecosystem (UN, 2015). These goals would not be attainable without collaboration between private and public sectors (WEF, 2020). The joint partnership is essential because firms in the shareholder capitalism are inclined to embrace single-minded focus on profits, therefore, not voluntarily driven towards the new environmental, social, and governance metrics (Schwab, 2019). Unsurprisingly, the West started to witness greater government engagement with private sectors and the people. As an example, the United States may see the nationalisation of private rental housing by 2030 (Valdez, 2022) or the Australian Government proposed a shared equity housing scheme with citizens (Lowrey, 2022). The role of governments in the Anglo-Saxon system and their extent of involvement in firms, therefore, deserve a new reexamination.

In the same vein, state capitalism which entrusts governments with setting the direction of the economy has been proven not fully efficient (Vishy, 1997) or potentially succumb to corruption (Schwab, 2019). Hence, since 1979, over 100 developing and developed countries around the world have implemented privatisations (Boubakri, Cosset and Guedhami, 2009). When a government privatises, it seldom sells all of its stakes or controlling shares to private hands. This may be for political reasons (Biais and Perotti,

2002), or due to the legal structure of the country (Bortolotti et al., 2002), or even for economic reasons (Feng et al., 2004). The study of residual state ownership and its impact on firm performance has had inconclusive findings, therefore, remains a hot topic in the finance literature. Besides, the extant literature falls short of evidence of the impact of activities of governments in their capacity as shareholders on their linked firms. This paper aims to examine the influence of specific trading activities and the appointment of state directors in its linked firms on firm values. Besides, since neither complete private ownership nor complete state ownership works best, it then explores to determine to which extent government ownership should be plausible. The paper also presents Vietnam and the SCIC as a unique setting and entity for research for the following reasons.

First, unlike Singapore and Malaysia, the main contexts of the study of sovereign wealth funds, where the governments established their investment companies such as Temasek and Khazanah Nasional and Permodalan Nasional Berhad to take an entrepreneurship role by investing in a wide range of companies in various sectors of the economy (Ang and Ding, 2006) because of the lack of the private sector funds and expertise (Ramirez and Tan, 2004), the Government of Vietnam constituted the SCIC to commercially manage the residual state ownership in the existing equitised companies. Besides, while the state investment companies in Singapore and Malaysia are usually the sole shareholders representing the state ownership (Israel, 2008), the SCIC only manages a portfolio of various companies among Vietnam's equitised companies along with other authorities such as central and local government agencies and other economic groups. That the SCIC is one of multiple representatives for state ownership makes it a unique entity to be analysed.

Second, whilst it might be claimed that the Government of Vietnam adopts some features of the Chinese privatisation and mimics China to permit different stakeholders to manage the residual state ownership, such as state asset management bureaus (SAMBs), state-owned enterprises (SOEs) affiliated to the central government (SOECGs) and SOEs affiliated to the local government (SOELGs) (Chen, Firth and Xu, 2009); whilst the SCIC of Vietnam appears similar to SAMBs in terms of the existence purpose, a closer examination of the process reveals a big difference. In a study into SAMBs, Cheng (2008) describes SAMBs as a dispersed network of companies geographically located throughout the country in a complicated three-layer system. Specifically, SAMBs must report to the State Assessment Supervision and Administration Commission at the central level. The traditionally bureaucratic reporting line of SAMBs, according to Cheng (2008), hinders them from pursuing commercial purpose and making timely and effective business decisions. Meanwhile, the SCIC is one consolidated organisation directly reporting the

Prime Minister of Vietnam. The SCIC staff is given authority to make decisions in capacity of a shareholder for the firms in their portfolio. The great extent of authority and simplistic reporting line are intended for SCIC to exercise power and pursue commercial objectives. In this sense, the Government of Vietnam might expect the involvement of SCIC should translate into a better state asset management.

Third, the Vietnam institutional setting is undoubtedly different from the Anglo-Saxon context. However, the study of the SCIC aiming to pursue pure economic agenda in firms as the way shareholders do in the Anglo-Saxon system might present a meaningful story about a joint cooperation between governments and private shareholders to serve shared value maximisation.

Our findings provide sufficient evidence in support of a positive effect of government initiatives on stock returns. However, the market showed negative reaction to the appointment of the SCIC personnel onto the boards of its linked firms where the SCIC holds more than 50% of the total equity. Similarly, the SCIC ownership is found to be negatively and significantly associated with the abnormal returns of the linked companies in case the SCIC ownership exceeds 50%.

The remainder of the paper is organised as follows. Section 2 describes the Vietnam institutional setting. Section 3 reviews the prior literature. Section 4 specifies research questions, research methods and data description. Section 5 describes the statistics of our sample and reports the main empirical results. Section 6 includes endogeneity and further robustness check. The final section concludes the paper.

2. The Vietnamese Institutional Setting

2.1. The economic background

Political and economic reforms (“Doi Moi”) launched in 1986 have transformed Vietnam from one of the poorest countries in the world, with per capita income below US\$100, to a lower middle-income country within a quarter of a century with per capita income of US\$1,130 by the end of 2010 (WB, 2011). Kimura (2013) described Vietnam as a global development success story with the lucrative equitisation of SOEs.

The SOEs reform, nevertheless, had not started until early 1990s and has been mainly attributed by three measures: (1) equitisation of SOEs with private interest being permitted, (2) the establishment of “State Corporation 90”, “State Corporation 91” and economic groups which operate as parent-subsidiary companies, and (3) the establishment of the State Capital Investment Corporation (SCIC) to manage the state’s ownership in the equitised SOEs.

The equitisation process resulted in reducing the number of SOEs with 100% state ownership from more than 12,000 in 1996 to about 1309 in 2011 and creating approximately 4,000 equitised enterprises (OECD, 2013). One of the biggest pitfalls as OECD (2013) pointed out is the complexity of multiple authorities with multiple objectives involving in the management of the residual state ownership. Before the SCIC establishment, the state ownership had been represented by central government authority, local authority or economic groups/corporations. With the SCIC presence, adhering to the laws and regulations, the state ownership must be transferred from the above authorities to SCIC and then from SCIC to private investors. Nonetheless, the central, local authorities and economic groups/corporations still keep control over majority of the equitised firms and are reluctant to undertake the ownership transfer, the enforcement of which remains weak.

2.2. The background of the State Capital Investment Corporation

Established in 2005, the SCIC is a state investment company of the Government of Vietnam. As an active shareholder and investor, the SCIC manages a portfolio covering a broad spectrum of sectors including financial services, energy, manufacturing, telecommunications, transportation, consumer products, healthcare, construction and information technology. Until 31 December 2013, it manages a portfolio of 361 firms with a book value of VND14,423 billion or US\$687 million. The SCIC is allowed to make business decisions relating to its portfolio with full commercial discretion under the guidance of its Board, such as investment, divestment and business decisions to achieve maximum risk-adjusted returns over the long term. SCIC also exercises its roles and duties adhering the Enterprise Law of Vietnam and other related regulations, which includes, but not limited to, exercising voting rights at the General Meeting of Shareholders, nominating members of the Board of Directors or Supervisory Board in the companies under its supervision.

While pursuing commercial goals, SCIC also aims to facilitate the government equitisation process. Therefore, its investment philosophy is not only to attain the required return on investment, but also to divest its asset in underperforming and small-scale firms, opening doors to private and foreign investors. As of December 2013, the remaining SCIC-linked companies are categorised into three groups, namely group A, B and C of which SCIC's invested fund of group A, B and C accounts for 70%, 19% and 11% of the SCIC entire portfolio, respectively. The number of firms in group A, B, and C is 17, 80 and 264 firms, respectively. Companies in group A are large-scale firms effectively operating in key industries and are line with SCIC's long-term investment strategy. SCIC aims to retain its shareholding in the group A firms and tend to expand them through

seeking suitable strategic partners. Companies in group B are mid-sized firms with its charter capital of VND10 billion² or more. These companies are inclined to generate an ROE of at least 10% annually. The SCIC adopts a flexible investment approach to this group of firms, which can include restructuring or enforcing to equitise through IPOs. Group C contains small and poor performing firms. Those companies do not meet the criteria set for group A and B, thus, the SCIC plans to divest its holding through private sales to one or several investors.

In summary, the establishment of the SCIC is considered as a step toward improving better governance of the equitised SOEs in Vietnam and should translate into better performance for its linked firms.

3. Prior Literature Review

3.1. Different types of residual state ownership and its impact on performance

There are three main research streams on the nexus between residual state ownership and firm performance. The first stream of research outlines that state shareholders are generally argued to be less efficient than private shareholders. This can be explained by the fact that the structure of public ownership can channel political interference in decision-making at the management level. Thus governments tend to have multiple objectives, and often these objectives might contradict the company's firm value maximisation goal (Shleifer and Vishny 1997). The literature also suggests that governments are more likely to pay attention to non-trade objectives such as maximising welfare, pursuing political support or reducing producer prices (Caves, 1990; Hart et al., 1990; Laffont and Tirole, 1993). In their research, Xu and Wang (1999) found that government enterprises perform worse in profitability than non-government enterprises. Wei and Varela (2003) examined the relationship between state equity ownership and firm market performance for China's newly privatised firms and showed a negative effect of state ownership on firm value. Due to political interference, Tian and Estrin (2005) found that government ownership reduces corporate value. In addition, Wei et al. (2005) compared the performance of domestic Chinese companies in various ownership categories versus foreign-invested enterprises (FIEs) based on two nationwide surveys conducted by the National Bureau of Statistics in 1998 and 2002. He concluded that domestic non-state-owned and foreign-invested enterprises performed better than state-owned enterprises. Kumar (2003) conducted a study on the financial performance of the state-owned, the private-owned, and the mixed state-private ownership companies in India from 1973 to 1989 and found that the most profitable companies were the private-owned,

² VND is the official currency of Vietnam, for which the exchange rate was approximately VND21,000/USD in 2013.

followed by the mixed ownership and the state-owned enterprises. Most other studies in India and abroad draw similar conclusions (Shleifer and Vishny, 1997; Shleifer, 1998).

On the contrary, the second stream of research argued that state ownership is not necessarily less efficient than other ownership types. In an analysis of ownership structure in the Chinese listed firms, Chen, Firth and Xu (2009) have reported that certain types of state ownership can be superior to private ownership when the institutional environment is relatively underdeveloped and law enforcement is capricious and weak. Similarly, Tian and Estrin (2007) found a U-shaped relationship between government ownership and corporate value in which, up to a certain threshold, corporate value decreases as government shareholding increases, but beyond this threshold, it increases. Ng et al. (2009) identified in a sample of 4315 Chinese privatised firms over the period 1996-2003 that the strong structure of state ownership is associated with a strong performance after privatisation. Their results confirm the existence of a convex relationship between state ownership and performance. However, they found a lower performance for mixed ownership firms compared to those controlled by the state and those controlled by the private. Mrad and Hallara (2002) also reveal that very high levels of government ownership are associated with an increase in performance and value creation within the privatised company, while low levels of this ownership are associated with a decrease in performance and value creation. Finally, a few pieces of literature detect no significant difference between the performance of public and private companies, such as in the case of Russia by Earle and Estrin (1997).

In summary, the literature has found no systematic pattern of relationship between residual government ownership and company performance. It could be because government-controlled companies may have a different set of objective ranging from enhancement of national welfare or other non-profit considerations to shareholder value maximization. The firm performance, therefore, appears to be reliant on which goal is exercised. This leads us to review how firm performance is influenced if governments involve in their linked firms as private shareholders.

3.2. Government in business: state shareholders with market orientation

State-owned shareholders as claimed by Jiwei Wang (2002) are various and complicated. They may be government agencies, government representatives, SOEs, and even private legal persons who have a small property relationship with the government. The author pointed out that despite different identity, they can be divided into two groups: one is comprised of bureaucratic state shareholders; the other group is comprised of

corporate state shareholders who are non-government agencies such as SOEs or other types of market-oriented economic entities. The latter can be found in government-linked companies (GLCs) in Singapore, Malaysia, SAMB in China or Treuhand in Germany and so forth.

In a comprehensive study of 30 Singapore government-linked companies covering the period 1964 to 1998, Feng, Sun and Tong (2004) showed no evidence that the GLCs were less profitable than a selected group of non-GLCs that matched by size and industry. Taking a buy-and-hold strategy, they found that GLC stocks provide statistically equivalent returns relative to market or other control sample returns over various investment horizons of up to four years. Given that GLCs also perform as well as averages for the market and industry up to five years before their listing, they argue that Singapore's government-owned enterprises are comparable to privately run enterprises in efficiency. Similarly, Ang and Ding (2006) conducted an investigation of the GLCs in Singapore under the ownership/control structure of Temasek Holdings, the government holding entity by comparing the financial and market performance of GLCs with non-GLCs. They showed that Singaporean GLCs have higher valuations and better corporate governance than a control group of non-GLCs.

Although overall public perception of GLCs in Malaysia has been tainted by the poor performance of key players, in a study into the impact of government intervention on firm value in the context of the Malaysian economy, Lau and Tong (2008) selected a sample of 15 GLCs over six years from 2000 to 2005 and found a significant positive relationship between the degree of government ownership and firm value. In other words, this study has found that contrary to the adverse public perception of GLCs in Malaysia, government intervention improves firm value. The results of this study provide preliminary evidence on the effectiveness of the ownership and control structure of Malaysian GLCs in creating firm value. This finding has not, however, been similar to that of the research conducted by Razak et al. (2011) who examined governance mechanism and firm performance of Malaysian GLCs and non-GLCs over a 11 year period from 1995 to 2005. After controlling firm specific characteristics such as corporate governance, agency cost, growth, risk and profitability, they, in contrast, revealed that non-GLCs performance is better than GLCs.

The study on SAMBs is limited (Cheng, 2008). Still, the empirical result in a research by Chen, Firth & Xu (2007) indicated that SOECGs controlled firms perform best and SAMB and Private controlled firms perform worst. SOELGs controlled firms are in the middle. Cheng (2008) revealed that since the establishment, SAMBs and

corporatized enterprises are forced to be accountable so that waste and dripping of state assets may be more effectively controlled. However, owing to the lack of a powerful supervision system over SAMBs, weak enforcement, excessive interference into choosing and appointing management personnel in corporatized enterprises, the efficiency of SAMBs is not empirically evident.

For European countries, especially in Germany, companies which under Treuhand, a government's privatization agency and Management KGs, a government ownership organization performed better than before privatization (Dyck and Wruck 1998).

On the nutshell, it does not come as a surprise that the statistical results deviated significantly in various countries and there is no prevalent stream in terms of the impact of the government ownership on their linked firms regardless of what type of shareholder they serve in firms. Therefore, our study with a focus on investigating the state initiatives and state ownership of Vietnamese corporations would contribute to the literature.

4. Research questions, hypothesis development and methodology

4.1. Research questions and hypothesis development

This research focuses on three questions. How does a certain announcement by the SCIC, such as a share buy or, sell transaction or the appointment of members onto the management board or supervisory board to its linked company, affect the stock price of the linked firm? Is there any difference of this impact between high state ownership firms and low state ownership firms? How does the SCIC's ownership influence the stock returns of its linked companies?

The extant literature on the government-linked firms' performance yielded mixed results. Furthermore, it appears that little research has been undertaken to measure the impact of the state-owned mutual fund actions towards its linked firms. As such, we formulate the hypotheses for this study mainly based on the rationale of the SCIC operations.

As one of the SCIC's investment philosophies is to divest its ownership in underperforming small enterprises and provide investment opportunities to active private owners, we argue that the market is prone to act positively to SCIC divestiture actions. In the similar vein, if the SCIC buys more shares of the firms characterised by larger size and high rates of return, it can be assumed that a stronger commitment from the SCIC might serve as a thrust to the development of the companies in terms of having better political connections, greater access to funding and more favourable protection in terms

of competition. On the appointment of SCIC's personnel onto the boards, we embrace the view that even though they are unlikely to have sufficiently insightful knowledge to enhance the companies to the status equivalent to that of firms managed by professionals, their presence facilitates external monitoring and improved financial management of the firms. As such, the presence of SCIC's staff on the boards should represent a positive sign for its linked firms. Based on this rationale, the following hypotheses are developed.

Hypothesis 1: There is a positive stock price reaction to board member appointment announcements by the SCIC to linked firms.

Hypothesis 2: There is a positive stock price reaction to sell announcements by the SCIC.

Hypothesis 3: There is a positive stock price reaction to buy announcements by the SCIC.

Ownership structure is considered to be a key determinant of corporate governance (Shleifer and Vishny, 1997; La Porta, Lopezde-Silanes, and Shleifer, 1998, 2000). In principle, concentrated ownership could have two opposing effects on firm performance, depending on whether the managerial entrenchment effect or the incentive alignment effect is dominant. Under the managerial entrenchment perspective, concentrated ownership provides controlling shareholders with an incentive and/or opportunity to divert firm resources at the expense of outside shareholders (e.g., Morck, Yeung, and Yu, 2000; Claessens, et al., 2002; Fan and Wong, 2002). Entrenched controlling shareholders can utilise their effective control over the firm to engage in self-dealing transactions which allow them to extract private control benefits (e.g., Shleifer and Vishny, 1989; Morck, 1996). Similarly, the empirical findings regarding the relationship between ownership concentration and stock performance is mixed. For instance, Fidrmuc et al. (2006) find a positive impact of ownership concentration on abnormal returns, while stock market performance is observed to be negatively related to ownership concentration and the number of financial shareholders in the study by Desender et al. (2008). Additionally, a number of prior studies, such as those by Fama and Jensen (1983) and Tian and Estrin (2008), report that controlling shareholders will become entrenched when their ownership exceeds a certain level and expropriate the wealth of minority shareholders.

In the context of Vietnam, the Enterprise Law (2005, amended in 2014) holds that a shareholder or a group of shareholders cumulatively owning more than 50% of the total shares of a firm are entitled to make major decisions of the firm. Accordingly, our study categorises the firms included in the sample into low SCIC ownership and high SCIC ownership groups using 50% as a cut-off to examine the market reaction to the SCIC's announcements for these two groups of firms. As ownership concentration is empirically observed to affect stock returns, we argue that the market will react differently to SCIC announcements for the two groups of firms and present the following hypothesis:

Hypothesis 4: There is a significant difference in price reactions around SCIC announcements between the group of firms with high SCIC ownership and the group of firms with low SCIC ownership.

In view of the unique characteristics of the SCIC, particularly its underlying aim of managing state assets effectively, and in support of Chen et al. (2009)'s findings that certain types of ownership structure can be superior to private ownership when the institutional environment is relatively underdeveloped and law enforcement is weak, we argue that state ownership managed by the SCIC is expected to be positively perceived by the market, and subsequently, present the following hypothesis:

Hypothesis 5: There is a positive relationship between the level of SCIC ownership and the abnormal returns and cumulative abnormal returns of its linked companies around SCIC announcements.

4.2. Research methodology

The study follows the standard event study method which is widely used to evaluate impacts of corporate specific events or market events on the relevant firms. The method examines the reactions of share prices to SCIC announcements around the announcement time by calculating abnormal returns to shareholders. The abnormal return can be measured as the excess return over the expected return anticipated if the announcements were not made. This study adopts the method of calculating abnormal return based on the market model, which was introduced by Fama et al. (1969) and improved by Brown and Warner (1980).

The event window is, normally but not necessarily, placed symmetrically around the event date, so we choose (1,+1), (-2,+2), (-3,+3), (-4,4), (0,1), (0,2), (0,3), (0,4) event windows expressed in days in this study.

Following Barkenko et al. (2012), the market model was used to estimate abnormal returns with an estimation period spanning 252 days prior to the announcement day to 44 days before announcement day (day -252 today -44) employed. Returns are calculated on a daily basis. Both t-statistics for mean abnormal returns, and Wilcoxon signed-ranked test statistics for median abnormal returns as non-parametric tests, are employed for testing significance for event studies on small stock exchanges (Bartholdy et al., 2007; Corrado and Truong, 2008).

The firms in the sample are SCIC-linked firms that are either listed on the Ho Chi Minh Stock Exchange or Hanoi Stock Exchange. The VN-Index, a value-weighted index composed of all the companies listed on the Ho Chi Minh City Stock Exchange and the

HNX-Index, a value-weighted index composed of all the companies listed on the Hanoi Stock Exchange served as the respective market proxies.

4.3. Sample selection, data source and descriptive statistics

4.3.1. Sample selection and data source

The sample for this analysis comprised all 82 SCIC-linked firms out of 361 firms in the SCIC portfolio that are listed on either Ho Chi Minh Stock Exchange or Hanoi Stock³. We only selected the listed firms because this enables us to collect data on daily share prices and are forced to exclude the other 279 SCIC-linked firms because of the absence of daily stock price information. The ownership and firm-specific characteristics data are hand collected from the annual reports of the company. Financial and stock price data were collected from Datastream, whereas the announcement information was collected from the exchange websites. The sample consists of all 160 announcements of events relating to the 82 listed firms announced by the SCIC over the period from the start of 2006 to June 30, 2015. Of the 160 event announcements we obtained, there were 101 sell announcements, 29 appointment announcements and 30 buy announcements. Table 1 below provides the distribution of sample announcements across the years and industries.

Table 1: Distribution of events by year and industry

Year	Events by Year				Events by Industry	
	Appoint	Buy	Sell	Total		Total
2006	2	0	1	3	Consumer Products and Services	35
2007	0	0	0	0	Consumer Staples	32
2008	0	0	0	0	Energy and Power	6
2009	2	3	3	8	Financials	10
2010	0	2	0	2	Healthcare	17
2011	4	2	3	9	High Technology	9
2012	4	3	4	11	Industrials	9

³Out of 361 SCIC-linked firms, only 82 firms are listed either on Hanoi Stock Exchange or Ho Chi Minh Stock Exchange. Our sample includes all the events that SCIC made to these 82 firms during the period from 2006 to the middle of 2015.

2013	4	6	13	23	Materials	27
2014	8	6	37	51	Media and Entertainment	8
2015	5	8	40	53	Real Estate	7
					Telecommunications	0
Total	29	30	101	160		160

Table 1 reveals that the SCIC was not active in terms of making trading and personnel appointment decisions in relation to its linked companies until 2013. This can be explained by a number of reasons. First, the SCIC entered operation in 2006 and needed to spend many years to put the system into place because the state mutual fund was a new form of business in Vietnam. Second, before 2006, state ownership had been represented by the central government authorities, local authorities, or economic groups/corporations. With the SCIC opting to join the group of the state ownership representatives, the state ownership of many equitised companies were to be fully or partially transferred from the central or local authorities or economic groups to the SCIC. The process of transferring state ownership from other authorities to the SCIC was time-consuming and complicated (SCIC-JICA, 2015), and must be completely carried out before the SCIC could follow up with any decisions such as divestiture or investment or appointments associated with those firms.

4.3.2 Univariate Analysis: Descriptive Statistics

Table 2 presents the descriptive statistics of ownership characteristics and financial information of the firms in the sample.

Table 2: Descriptive statistics

Variables	Mean	STDEV	Min	Median	Max
<i>Panel A. Ownership characteristics</i>					
SCIC ownership (%)	30.75	16.1631	2.00	31.94	0.60
Foreign ownership (%)	18.21	18.4930	0.00	11.00	49.00

Trade volume/SCIC ownership (%)	4.48	0.067	1.00	4.43	21.00
Firm age (year)	27.40	12.93	3	29.50	56
Firm size (Ln(Total assets))	26.18	1.94	21.70	26.68	32.09
Panel B. Financial statistics					
Market capitalisation (million, VND)	187,011	26,000	68,312	518,011	877,013
Total Assets (million, VND)	213,001	62,601	46,812	880,011	552,083
Investment in Fixed Assets	0.0518	0.07602	0.007	0.038	0.489
Investment opportunity	0.911	0.9738	0.190	0.567	4.636
ROE (%)	11.4	12.3	-17.00	13.00	61.00
ROA (%)	3.8	6.1	-8.00	7.00	51.00
Debt as % of Equity	1.29	1.37	0.30	0.87	7.79

As it can be seen in Panel A of Table 2, firms in this sample have average state and foreign ownership percentages of 30.75% and 18.21% respectively. The average firm age of 27.40 years indicates that most of the firms are relatively mature. The mean trade volume associated with each trading announcement made by the SCIC to its entire equity in the relevant firm is 4.48%. In terms of firm-related attributes, it shows that SCIC-linked firms have a higher average investment opportunity ratio (0.911) but lower ROA (3.8%) compared to the same figures of the entire sample in Hoang (2017) respectively.

Table 3 displays descriptive characteristics for the two groups of firms, which are the low SCIC ownership and high SCIC ownership groups classified based on an ownership cut-off of 50% of the total shares.

Table 3: Descriptive characteristics of two groups of firms

	Low ownership group (0)		High ownership group (1)		Difference (0) – (1)
	<i>Mean</i>	<i>STDEV</i>	<i>Mean</i>	<i>STDEV</i>	<i>Mean Dif.</i>
SCIC ownership (%)	25.047	13.30	52.107	1.72	-27.061*** (-11.808)
Foreign ownership (%)	19.88	19.23	11.93	13.9335	7.9543** (2.224)
Trade volume/SCIC ownership (%)	3.80	0.0084	4.66	0.007	-0.86*** (3.21)
Firm age (year)	26.38	12.66	30.44	13.30	-4.060*** (-3.2163)
Firm size (Ln(Total assets))	26.22	2.097	26.036	1.3955	0.1924** (1.0054)
Market capitalisation (million,VND)	163,001	639,011	769,001	197,011	-605,999** (2.3524)
Total asset (million,VND)	219,001	63,901	175,201	52,501	44,201 (0.7336)
Capital expenditure/Total Assets	0.0489	0.0167	0.0612	0.0976	-.0122872 (-0.8355)
Investment Opportunity	0.9035	0.9053	0.4493	0.3239	0.0018*** (3.2094)
EPS (%)	0.27	0.26	0.29	0.23	0.02271 (0.601)

	Low ownership group (0)		High ownership group (1)		Difference (0) – (1)
	<i>Mean</i>	<i>STDEV</i>	<i>Mean</i>	<i>STDEV</i>	<i>Mean Dif.</i>
ROE (%)	1.85	0.29	1.72	0.18	-0.12482*** (-3.643)
ROA (%)	0.27	0.26	0.29	0.23	0.02271 (0.601)
Leverage (Debt as % of Equity)	130.49	1.409	115.79	1.144	0.1469 (1.106)

***, ** and * indicate statistical significance levels at the 1%, 5% and 10% respectively.

Table 2 and 3 show that, on average, SCIC ownership in the whole sample is 30.75%, where the averages for the low SCIC ownership and high SCIC ownership groups are 25.047% and 52.107% respectively. It is interesting to note that foreign ownership in the low SCIC ownership group of firms is much higher than that for the high SCIC ownership group of firms, standing at 19.88% and 11.93% respectively. This might imply that foreign shareholders are inclined to invest in firms where the SCIC holds a smaller portion of shares. The ratio of trading volume in each trading transaction announced by SCIC to its entire ownership in low SCIC ownership firms is lower than that for high SCIC ownership firms, indicating that the SCIC is inclined to divest more of its stake in firms where its overall ownership level is higher. This is not contrary to its policy as mentioned above.

In relation to market value terms, the high SCIC ownership firms are of significantly bigger size than the low SCIC ownership firms. Despite being smaller in market value, the low SCIC ownership firms outperform their counterparts in terms of profitability / efficiency based on higher ROE ratio outcomes. The ROA ratio, however, is slightly lower, which could possibly be affected by higher total assets attributed by higher leverage. Other than that, the differences between two groups of firms appear not to be substantial.

5. Empirical results

5.1. Empirical result for abnormal returns to shareholders – univariate analysis

Announcement returns reveal how investors in the market assess the value created from decisions made by the SCIC. Table 4 below presents the cumulative abnormal returns for shareholders around the announcements. Cumulative abnormal returns over three event windows are positively significant on the day of the event announcements at the 1% level. A close examination for each event pertains that, in most of the event windows except for the announcement day, the appointment announcements produce negative abnormal returns. However, the results are not statistically significant, suggesting that there is an overall positive reaction to SCIC appointment announcements, which supports Hypothesis 1 of this study. In an attempt to explore the nomination process of SCIC personnel onto boards of directors of its linked firms, we note that the SCIC tends to maintain the existing management teams unless there are frauds or misdeeds arising in such firms. Besides, the SCIC is not inclined to appoint its staff to serve as the CEO or participate in the management teams of its linked firms regardless of the percentage of ownership. The selected directors from the SCIC are well trained and usually possess postgraduate education in the finance and investment field. Most importantly, the SCIC offers a hands-off approach to its linked firms and hardly interferes into the operation of firms if unnecessary (SCIC-JICA, 2015). This finding is consistent with studies of Truman (2008) and Gieve (2009) who argue that positive reaction to involvement of the sovereign wealth funds in their linked firms is a general indication of market confidence for reasons such as integrity, transparency professionalism, connectedness/networking, public policy support and contribution to the megatrends in influencing domestic economies, demographic and social changes.

Table 4: Cumulative abnormal returns to SCIC-linked firms' shareholders – univariate analysis

<p>This table reports mean and median cumulative abnormal return (in percentage), calculated employing the market model, for SCIC announcements, namely appointment announcement, buy announcement and sell announcement for the period starting from n days before to n days after the announcements. Significance levels of mean and median abnormal returns are reported in parentheses using the t-test statistic and Wilcoxon signed rank test statistic, respectively.</p>						
	Appointment Announcement		Buy Announcement		Sell Announcement	
	<i>Mean</i>	<i>Median</i>	<i>Mean</i>	<i>Median</i>	<i>Mean</i>	<i>Median</i>

AR(0)	0.0131*** (5.4351)	0.0081*** (3.9200)	0.01403*** (7.1708)	0.01006*** (3.6937)	0.0255*** (8.7177)	0.0158*** (4.2978)
CAR(-1,+1)	-0.00101 (-0.2422)	-0.3194 (0.3661)	0.0116* (1.6901)	0.0034* (1.706)	0.0113 (1.1672)	0.0004 (0.9590)
CAR(-2,+2)	-0.00596 (-0.875)	-0.0064 (0.913)	0.1263 (1.2078)	0.0082 (0.6080)	0.0134 (1.4700)	1.094 (1.309)
CAR(-3,+3)	-0.0026 (-0.2700)	-0.0021 (-0.4850)	-0.0038 (-0.5800)	0.0066 (-0.421)	0.0252** (2.3200)	0.0127** (2.495)
CAR(-4,+4)	-0.0183 (-1.3300)	-0.0319 (-1.1950)	-0.0057 (-0.300)	-0.1040 (-0.280)	0.0252** (2.1900)	0.0025* (1.9050)
CAR(0,+1)	-0.0015 (-1.1618)	-0.0023 (-0.5600)	0.0194** (2.5300)	0.0082** (2.296)	0.0189** (2.8900)	0.0002** (2.391)
CAR(0,+2)	-0.0083 (-0.329)	-0.0406 (0.968)	0.0023 (0.500)	0.0026 (0.561)	0.0186*** (2.8000)	0.0082*** (3.3500)
CAR(0,+3)	-0.852 (-0.154)	-0.0231 (-0.1824)	0.0225* (1.924)	0.0087 (1.460)	0.0149** (1.8800)	0.0052** (2.5570)
CAR(0,+4)	-0.0015 (-0.1600)	-0.0023 (-0.560)	0.0082 (0.6900)	-0.0067 (-0.280)	0.0244*** (2.620)	0.0172*** (2.797)

***, ** and * indicate statistical significance levels at the 1%, 5% and 10% respectively.

The sell announcements by the SCIC to the companies in our sample generally generate positive abnormal returns. Specifically, we note a significance difference in mean and median abnormal returns from zero for AR(0), CAR(0,2), and CAR(0,4) at the 1% level, for CAR(-3,+3), CAR(0,+1), and CAR(0,+3) at the 5% level and for CAR(-4,+4) at the 10% level. It is evident that the market has reacted more positively on the day of the announcements onwards, suggesting shareholders are inclined to positively react to the sell announcements once the information is officially released. The findings provide

support for Hypothesis 2. This implies that the divestiture of the state ownership by SCIC to the public investors is perceived to create value for firms and their shareholders. There are some possible reasons for this positive reaction. First, as discussed, as the SCIC's investment philosophy is to divert its state ownership in poor-performing firms to attract non-state investors, it might be argued that this potentially creates opportunities for perspective investors to restructure the firms and operate them more efficiently. Second, as reported by SCIC-JICA (2015), the SCIC strongly assists firms in the divestiture process by preparing information disclosures, hiring underwriters, introducing potential strategic investors, and organising road-shows, which is likely to create a better public image for the involved firms resulting in a more positive reaction from the market.

The buy announcements, in general, also show positive share price reaction results, specifically for the $AR(0)$, $CAR(0,1)$, $CAR(-1,+1)$ windows at the 1%, 5% and 10% levels respectively, suggesting that the market reacts positively to the buy decisions made by the SCIC. It might be argued that, since SCIC's investment policy is to retain its stake in big and outperforming firms, investors might think that with the buy decisions by the SCIC, companies can expect a stronger commitment from the SCIC, through which they will be able to take advantage of the related political connection and financial resources. Since the findings for buy announcements show statistically significant evidence of increased value for shareholders, Hypothesis 3 is supported. The report by the SCIC and JICA (2015) also confirms that the SCIC has supported many firms in the restructuring process or offered financial resources for firms during difficult times. This also shows its investment power to fill the capital vacuum in limiting leverage influence and possibly in partaking in more environmentally and socially responsible investments as highlighted in Fotak et al. (2008)

When we split the sample into the two groups based on low state ownership and high state ownership and undertake the same analysis for all the three events as shown in Tables 5.5 for appointment, buy and sell announcements, respectively, there is no significant difference found in terms of abnormal returns. The only exceptions are for the $CAR(-2,2)$ window in the appointment announcements and the $AR(0)$ window in the sell announcements at the 5% level. Specifically, this shows that while the market appears to react more negatively to the appointment of SCIC staff for the group of firms with high SCIC ownership, it reacts more positively to the sell announcements for the group of firms with high SCIC ownership as reported in the $CAR(-2,2)$ and $AR(0)$ windows, respectively. A negative market reaction is found for the appointment announcement for the group with high SCIC ownership as reported for the $CAR(-2,2)$ window, implying that the appointment of SCIC personnel onto the board of directors of firms with SCIC ownership of more than 50% is perceived by the market to reduce firm value. Meanwhile, the positive

reaction by the market for sell announcements in cases of the SCIC holding more than 50% of the firm total equity suggests that when the SCIC decreases its equity position in firms, it is perceived to increase value for firms and their shareholders. This is consistent with one of the SCIC policies, which is to transfer state ownership to non-state investors. Thus, although the market seems not to strongly react to the underlying variations in the ownership percentage held by the SCIC, there is some statistically significant evidence that different levels of ownership by the SCIC have varying effects on the reactions of the market. Therefore, there is sufficient evidence to support Hypothesis 4. The generally negative reactions with 50% ownership threshold can be explained by doubts about the benefit of state ownership and control as to whether that sovereign wealth funds are driven by political rather than economic motives (Mattoo and Subramanian, 2009, Gilson and Mailhaupt, 2007).

Table 5: Cumulative abnormal returns for SCIC-linked firms' shareholders for two groups of firms – univariate analysis

This table reports mean and standard deviation of cumulative abnormal returns (in percentage),calculated employing the market model, for SCIC appointment, sell and buy announcements for the two groups of firms for the period starting from n days before to n days after the announcement. This table also provides t-test statistics for the difference in mean abnormal returns across the different groups. ***, ** and * indicate statistical significance levels at the 1%, 5% and 10% respectively.

	Appointment Announcements					Sell Announcements					Buy Announcements				
	Low ownership group(0)		High ownership group(1)		Difference (0) – (1)	Low ownership group(0)		High ownership group(1)		Difference (0) – (1)	Low ownership group(0)		High ownership group(1)		Difference (0) – (1)
	Mean	STDEV	Mean	STDEV	Mean Dif.	Mean	STDEV	Mean	STDEV	Mean Dif.	Mean	STDEV	Mean	STDEV	Mean Dif.
AR(0)	0.014	0.0164	0.0058	0.0033	0.0073 (0.969)	0.019	0.026	0.035	0.0339	-0.0147 (-1.99)**	0.0095	0.0106	0.0188	0.0019	-0.0094 (-1.223)
CAR(-1,+1)	-0.002	0.0050	0.0035	0.0102	-0.0055 (-0.525)	0.008	0.007	0.022	0.0245	-0.1333 (-0.693)	0.0146	0.0701	-0.013	0.0270	0.0368 (1.527)
CAR(-2,+2)	0.0030	0.0072	-0.0329	0.0152	0.0397** (2.386)	0.007	0.009	0.034	0.0230	-0.0263 (-1.119)	0.0255	0.0792	-0.047	0.0790	0.0727 (1.260)
CAR(-3,+3)	0.0060	0.0465	-0.0242	0.0486	0.0302 (1.246)	0.022	0.096	0.036	0.1125	-0.0142 (-0.536)	0.0212	0.0925	0.0028	0.0062	0.0183 (0.275)

CAR(-4,+4)	-0.016	0.07	-0.0219	0.064	0.0059 (0.167)	0.023	0.103	0.035	0.115	-0.0123 (-0.438)	0.420	0.051	0.002	0.004	-0.250 (-0.899)
CAR(0,+1)	0.0058	0.013	0.0074	0.017	-0.0015 (-0.186)	0.007	0.078	0.034	0.098	-0.026 (-1.195)	0.014	0.038 3	-0.008	0.034	0.0224 0.7939)
CAR(0,+2)	0.008	0.027	-0.0108	0.013	0.0188 (1.488)	0.013	0.065	0.009	0.062	0.0027 (0.159)	0.017	0.057	-0.012	0.017	0.0274 (0.667)
CAR(0,+3)	0.0114	0.0394	-0.0048	0.0178	0.0162 (0.880)	0.017 0	0.075 3	-0.002	0.0744	0.0185 (0.936)	0.0185	0.0546	0.0002	0.0435	0.0182 (0.455)
CAR(0,+4)	0.0013	0.0491	-0.0082	0.0428	0.0095 (0.421)	0.018	0.084 6	-0.005	0.0837	0.023 (1.038)	0.0214	0.0606	0.0086	0.0217	0.0128 (0.293)

The interesting observation that arises from these results is that all the announcements made by the SCIC are associated with positive returns on the announcement day and the post-announcement market reactions consistently appear to be positively associated with the SCIC's involvement in the firms or the SCIC's divestiture from firms. This is supported by Kotter and Lel (2011) and Raymond (2008), who indicate that the market generally welcomes sovereign wealth funds. Since we also observe the market reactions to the difference of SCIC ownership in firms, it is essential to further explore if SCIC ownership influences the abnormal returns for shareholders as it does on the announcement days or in the post-announcement period. To address this question, we regress SCIC ownership levels in a multivariate regression model analysis with a set of control variables to confirm the association of SCIC ownership with shareholders' abnormal returns.

5.2. SCIC ownership and shareholder returns – multiple regression analysis

In this section, we use multiple regression analysis to test if the association between SCIC ownership and shareholder returns remains statistically significant after controlling for factors which have been shown to affect shareholder returns in the literature. In the regression model, SCIC ownership is the key independent variable, which is measured as the percentage of state equity ownership held by the SCIC. The dependent variable is the various cumulative abnormal returns for the relevant firm, specifically AR (0), CAR(-1,+1), CAR(-2,+2), and CAR(-3,+3) . The full set of control variables includes other types of ownership, firm performance, operational and structural characteristics, and time and industry fixed effects.

The follow OLS regression allows us to test Hypothesis 5:

$$\text{CAR}(-n,+n) = \beta_0 + \beta_1 \text{SCICOwnership}_{it} + \sum \beta_i \text{Control variables}_{it} + \text{Year and Industry dummies} + \varepsilon_{it}(1)$$

In terms of firm ownership structure, it has been argued that ownership is related to firm performance. Given the evidence that foreign owners are active players in the privatisation process (Boubakri et al. 2009) and especially in emerging markets, and that foreign investors have good monitoring impacts on invested companies (Garner and Kim 2013), we also control for the equity held by foreign investors along with the equity held by non-SCIC domestic investors. The trade volume is also taken into consideration because it has been shown to have a relationship with securities prices in a few different ways. For instance, Karpoff (1987) determined empirically that there is a positive correlation between price change and volume. In the same vein, the study by Tapa and Hussin (2016) reveals that stock returns are positively related to the contemporary change in trading volume.

Additionally, we control for firm size and financial performance. Following Moh'd et al. (1995), Fenn and Liang (2001), we measure size by the natural logarithm of firm total assets. Financial control variables include return on assets, ROA, measured as net profit divided by total assets, and the leverage ratio, calculated as total debt divided by total equity (Cai and

Sevilir, 2012). The model further controls for investment opportunities and investment in fixed assets. Consistent with prior studies, the market to book assets ratio at the end of the financial year before the year of the event announcement is used as a measure of investment opportunities (Fama and French, 2001; Fennand Liang, 2001; Mancinelli and Ozkan, 2006; Renneboog and Szilagyi, 2006; Truong and Heaney, 2007). Finally, to address concerns about potential selection bias affecting the validity of inferences about privatisation effects (Megginson and Netter, 2001), we include industry and time dummy variables in the model.

The summary of variable definitions and relevant data sources is provided in Table 6.

Table 6: Summary of variable definition

Variables	Definitions of variables	Data source
<i>CAR(-n, +n)</i>	Cumulative abnormal returns for the shareholders using the market model estimated based on the return data of 252 trading days ending 44 days before the announcement date.	Datastream
<i>SCIC ownership</i>	Percentage of equity ownership held by the Government and represented by the SCIC.	SCIC reports
<i>Foreign ownership</i>	Percentage of equity ownership held by all institutional and individual foreign investors that are registered with the State Securities Commission as a foreign legal entity.	Company annual reports
<i>Trade volume/SCIC ownership</i>	The ratio of the number of shares in a trading transaction as announced by the SCIC to the total number of shares held by the SCIC in a firm.	Ho Chi Minh Stock and Hanoi Stock Exchanges, Company annual reports
<i>Firm age</i>	The number of years since the firm's establishment	Company annual reports
<i>Firm size</i>	The natural logarithm of total assets.	Datastream
<i>ROA</i>	The net income scaled by book value of total assets.	Datastream
<i>Investment in fixed assets</i>	Capital expenditure scaled by total assets.	Company annual reports

Variables	Definitions of variables	Data source
<i>Investment opportunity</i>	The ratio of market capitalisation to total assets.	Company annual Reports
<i>Leverage</i>	Total debt as percentage of shareholders' equity	Company annual reports
<i>Sell _event</i>	Event dummies that, respectively, take a value of 1 for a sell announcement made by the SCIC, and 0 if otherwise.	Company annual reports
<i>Buy _event</i>	Event dummies that, respectively, take a value of 1 for a buy announcement made by the SCIC, and 0 if otherwise.	Company annual reports
<i>Appointment _event</i>	Event dummies that, respectively, take a value of 1 for an appointment announcement made by the SCIC, and 0 if otherwise.	Company annual reports
<i>Time</i>	Year dummies that, respectively, take a value of 1 for 2006, 2009, 2010, 2011, 2012, 2013, 2014, 2015, and 0 if otherwise	Company annual reports/prospectus
<i>Industry</i>	Industry dummies that, respectively, take a value of 1 for Consumer Products and Services, Consumer Staples, Energy and Power, Financials, Healthcare, High Technology, Industrials, Materials, Media and Entertainment, Real Estates and 0 if otherwise.	Company annual reports/prospectus

To detect any potential multicollinearity, the bivariate correlations between independent variables are calculated, as in Table 7.

Table 7: Pairwise correlation coefficients for the independent variables

	SCICOwn	FOWN	Tvolume /SCICOwn	FirmSize	ROA	INV Opportunity	IVN in FA	Leverage
SCICOwn	1.0000							
FOWN	-0.0290	1.0000						

Tvolume/SCICown	-0.1427	-0.3724	1.0000					
FirmSize	0.0113	0.6770	-0.3663	1.0000				
ROA	0.1879	0.4493	-0.1930	0.4934	1.0000			
INVOpportunity	0.057	0.5146	-0.1693	0.5903	0.4172	1.0000		
INV in FA	0.1293	0.0167	-0.0215	0.0169	0.0169	0.1264	1.0000	
Leverage	0.0416	-0.1549	-0.0563	-0.0699	-0.0699	-0.4377	-0.1018	1.0000

Explanation of the variable names are as follows: SCICOwn is SCIC ownership, FOWN is foreign ownership, Tvolume/SCICown is the trade volume/SCIC ownership ratio, FirmSize is firm size, FirmAge is firm age, ROA is the return on assets ratio, IVNOpportunity is investment opportunity, INV in FA is investment in fixed assets, Leverage is the percentage of debt over equity. These variables are defined in Table 6.

Table 7 presents pairwise correlation coefficients for the independent variables for the entire sample. It reveals that variables that have high inter-correlation (above 0.5) are foreign ownership and firm size, foreign ownership and the investment opportunity ratio, and the investment opportunity ratio and firm size. These are generally expected, as foreign investors are inclined to invest in large-size firms, which is consistent with the findings in studies by Vo (2010) and Phan (2013), and large-scale firms are likely to be associated with higher market capitalisation, resulting in a higher investment opportunity ratio. Overall, the correlation matrix between independent variables shows indicates that there is no evidence of any serious multicollinearity problems and, therefore, the regression estimation results should not be biased due to correlation issues.

Table 8 below presents the results from estimating equation (1) for the sample of 160 event announcements, in which four specifications (1, 2, 3 and 4) are for AR(0), CAR (-1,1), CAR(-2,+2), CAR(-3,+3) values as dependent variables respectively. The SCIC ownership variable has a significantly positive impact on the magnitude of the cumulative abnormal return CAR (-1,+1), which is statistically different from zero at the 10% level. However, no statistical significant evidence has been found for the relation between AR(0), CAR(-2,+2), CAR(-3,+3) and SCIC ownership. It can be seen from Table 8 that in the baseline regression specification 2, the SCIC ownership coefficient is positive and strongly significant at the 10% level after controlling for ownership and trading volume factors, suggesting that, on average, a 1% higher level of SCIC ownership increases cumulative abnormal returns by approximately 6.37% for the event window (-1,+1). This result, therefore, provides evidence to support Hypothesis 5 and is consistent with the finding in the univariate analysis reported in Table 5. This appears to also be consistent with the findings from prior studies of Malaysian GLCs by Lau and Tong (2008) and of Singaporean GLCs by Ang and Ding (2006).

The majority of the control variables in Specification 2 are statistically significantly related to the shareholder abnormal return except for the investment in fixed assets ratio and foreign ownership which have no significant impact on stock returns. Particularly, the trading volume/SCIC ownership, firm size, and ROA variables, are negatively and significantly related to the return at the 5% level, whilst leverage and investment opportunity are positively significant at the 5% and 10% levels, respectively.

Table 8: Findings for the relationship between SCIC ownership and stock returns – multiple regressions

	(1)	(2)	(3)	(4)
This table presents heteroskedasticity consistent regression results for the sample of 160 events announced by the SCIC between 2006 and mid-2015 in Vietnam. The dependent variable is AR(0), CAR(-1,+1), CAR(-2,+2), CAR(-3,+3) which is the stock returns on the day of event announcements and for the event windows (-1,+1), (-2,+2), (-3,+3) respectively. T-values are reported in parentheses. Coefficients for the year and industry dummy variables are suppressed for brevity. ***, ** and * indicate statistical significance levels at the 1%, 5% and 10% respectively. The dependent and explanatory variables are defined in Table 6.				
SCIC ownership	-0.0037 (-0.21)	0.0637* (1.79)	-0.011 (-0.31)	0.067 (1.10)
Foreign ownership	0.0076 (0.02)	0.032 (0.72)	-0.058 (1.18)	-0.102 (1.30)
Trading volume/SCIC ownership	-0.195** (2.77)	-0.332** (2.39)	-0.018 (-0.12)	-0.127 (0.53)
Firm size	-0.004* (1.78)	-0.012** (2.72)	0.006 (1.24)	0.008 (1.08)
ROA	-0.108** (2.10)	-0.178** (2.03)	-0.087 (0.79)	-0.203 (1.16)
Investments in fixed assets	-0.019 (0.57)	-0.035 (0.51)	-0.024 (0.32)	-0.106 (0.88)
Investment opportunity	0.0097* (1.68)	0.025** (2.07)	0.002 (0.15)	0.012 (0.56)
Leverage	0.002 (0.08)	0.006* (1.94)	0.002 (0.99)	0.009 (0.09)

Intercept	0.149*** (2.59)	0.288*** (2.66)	-0.98 (0.33)	-0.176 (-0.94)
aYear fixed effects	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes
N	157	157	157	157
adj. R2	0.161	0.167	0.161	0.182

This finding suggests that the state ownership represented by the SCIC, apart from any other possible effects, is positively related to abnormal returns for shareholders. This result is in line with the positive reactions of the market toward the SCIC announcements as discussed, and with the commitment by SCIC to effectively managing state ownership.

To further explore the nature of the association between SCIC ownership and stock returns for each type of announcements, we replace the SCIC ownership variable in Equation (1) with interaction terms between the buy, sell and appointment announcement dummies and SCIC ownership. The results of the regressions are presented in Table 9 below.

Table 9: Findings of the relationship between SCIC ownership and stock returns for buy, sell and appointment announcements – multiple regressions

This table presents heteroskedasticity consistent regression results for the sample of 160 events made by the SCIC between 2006 and mid-2015 in Vietnam. The dependent variable is AR(0), CAR(-1,+1), CAR(-2,+2), CAR(-3,+3) which is the stock returns on the day of event announcements and for the event windows (-1,+1), (-2,+2), (-3,+3) respectively. T-values are reported in parentheses. Coefficients for the year and industry dummy variables are suppressed for brevity. ***, ** and * indicate statistical significance levels at the 1%, 5% and 10% respectively. The dependent and explanatory variables are defined in Table 6.				
	(1)	(2)	(3)	(4)
SCIC ownership*Sell_event	-0.007 (0.38)	0.073* (1.86)	-0.003 (0.08)	0.075 (1.10)

SCIC ownership*Buy_event	0.0134 (0.52)	0.052 (1.59)	-0.016 (0.28)	0.078 (0.79)
SCIC ownership*Appoint_event	-0.007 (0.32)	0.045 (0.55)	-0.031 (0.58)	0.045 (0.55)
Foreign ownership	-0.008 (0.35)	-0.097 (1.21)	-0.053 (1.06)	-0.097 (1.21)
Trade volume/SCIC ownership	-0.195 (0.53)	-0.155 (0.61)	-0.044 (0.28)	-0.155 (0.61)
Firm size	-0.005* (1.87)	0.008 (1.09)	0.006 (1.28)	0.008 (1.10)
ROA	-0.102* (1.95)	-0.196 (1.10)	-0.083 (0.74)	-0.196 (1.10)
Investments in fixed assets	-0.018 (0.78)	-0.102 (0.84)	-0.021 (0.28)	-0.102 (0.84)
Investment opportunity	0.009 (1.49)	0.009 (0.48)	0.002 (0.13)	0.009 (0.47)
Leverage	0.002 (0.04)	0.008 0.08	-0.007 0.01	0.008 0.08
Intercept	0.151*** (2.70)	0.290*** (2.91)	-0.179 (0.93)	-0.172 (0.95)
Year fixed effects	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes
N	157	157	157	157
adj. R2	0.178	0.176	0.176	0.182

The positive coefficient for the interaction term between SCIC ownership and sell announcement at a statistical significance of 10% suggesting that, *ceteris paribus*, a higher SCIC ownership percentage in firms positively influences abnormal returns when sell announcements are involved. This finding is consistent with the finding on the positive relation between the SCIC ownership and CAR(-1,+1) variables as reported in Table 8 and, therefore, does support Hypothesis 5.

We further do additional analysis in the subsequent section to assess the robustness of the findings from this analysis.

6. Endogeneity and further robustness check

This section is divided into two subsections. Section 6.1 presents endogeneity and robustness checks for the relation between SCIC ownership and stock returns, and Section 6.2 reports robustness checks for the link between two classifications of SCIC ownership (low and high SCIC ownership) and stock returns for each type of announcements.

6.1. Endogeneity and robustness check for the relation between SCIC ownership and stock returns.

We acknowledge the potential endogeneity issue associated with research on the state ownership and firm performance relation. In our context, one potential concern is that SCIC ownership may not be exogenous, that is, unobserved determinants of firm stock performance may also affect SCIC ownership, leading the reported results in Table 8 to be biased and inconsistent. To address this issue, we use an instrumental variable (IV) and two-stage least square regression approach. Imbens and Wooldridge (2009) state that the instrumental variable employed is required to be related to the predictor variable but not directly related to the dependent variable of the overall model.

Following Chen et al. (2017), we use the annual regulatory quality score (RQ)⁴ as an instrument for state ownership managed by the SCIC (SCIC ownership). The regulatory quality score is derived from the World Governance Indicators (WGI) and captures perceptions of the government's ability to implement sound policies and regulations that promote private sector development. This selection of the instrument is inspired by Boubakri et al. (2013), which showed that a government's stability is associated with state ownership in privatised firms. Besides, we argue that this instrument is associated with SCIC ownership in a way that SCIC ownership in firms is subject to relevant regulations set by the Government of Vietnam in the privatisation process. The results of the endogeneity tests are reported in Table 10 below. In the first-stage regression, we regress SCIC ownership on the regulatory quality score along with other control variables, and year and industry dummy variables. The first-stage regression shows that RQ is positively and significantly associated with SCIC ownership at the 5% level,

⁴ Regulatory quality score (RQ) is calculated annually by World Governance Indicators of the World Bank for countries around the world. It is ranged from -2.5 (weak) to +2.5 (strong).

which suggests it is a good predictor of state ownership. Indeed, RQ enters positively and is statistically significant at the 5% level, suggesting that the SCIC retains higher stake in situations where the government has a better ability to implement sound policies and regulations. In the second stage we replace SCIC ownership by its fitted values from the first-stage and continue to find that the coefficient on SCIC ownership is positive related with the cumulative abnormal return, CAR(-1,+1). Therefore, controlling for the potential endogeneity of SCIS ownership, we find the relation as that identified for the OLS estimation reported earlier in Table 8.

Table 10: Endogeneity test with instrumental variable estimation for the relationship between SCIC ownership and announcement day event abnormal returns

	Endogeneity of SCIC ownership		Alternative variable for SCIC ownership
	Dependent variable: CAR(-1,+1)		Dependent variable: CAR(-1,+1)
	First stage	Second Stage	
SCIC ownership		0.005* (1.86)	
Foreign ownership	-0.110 (1.01)	-0.124 (0.99)	0.020 (0.44)
Trade volume/SCIC ownership	-0.458 (1.36)	-0.329 (1.21)	-0.365*** (2.61)
Firm size	-0.006 (0.54)	-0.004* (1.89)	-0.013*** (2.78)
ROA	0.833 (3.48)	-0.081 (1.42)	-0.111 (1.09)
Investments in fixed assets	0.250 (1.49)	-0.004 (1.21)	-0.014 (0.21)
Investment opportunity	-0.032 (1.13)	0.003 (1.19)	0.029* (1.68)

Leverage	0.003 (0.14)	0.029 (0.74)	0.054 (0.89)
Regulatory Quality Score	3.215* (1.88)		
SCIC ownership control			-0.009* (1.73)
Intercept	2.44** (2.25)	0.282** (2.23)	0.322*** (2.99)
<i>N</i>	157	157	157
adj. R^2	0.165	0.171	0.168

***, ** and * indicate statistical significance levels at the 1%, 5% and 10% respectively.

As a further check, we follow Boubakri et al. (2005) and Guedhami et al. (2009) and replace the SCIC ownership with the dummy variable, SCIC ownership control, which is equal to one if SCIC retains more than 50% of the firm's shares and zero, otherwise. The results show that the SCIC ownership control indicator variable, surprisingly, is negatively related to CAR(-1,+1) and is statistically significant at the 10% level. This outcome reveals that when SCIC is a dominant shareholder with more than 50% of a firm's total equity, its ownership is significantly negatively associated with stock returns. Conversely, when SCIC does not dominate the firms in terms of shareholding, the impact of its ownership on stock returns is positive. This suggests that there is a threshold effect in place, whereby state ownership represented by SCIC is discouraged only when the presence or influence of SCIC in a particular firm exceed a critical level, in this case, 50%. This is an interesting result and is consistent with the findings of a study of Malaysian GLCs by Menon and Ng (2013) who report that when GLCs account for a dominant share of revenues in an industry, investment by private firms in that industry is significantly negatively impacted. Adversely, when GLCs do not dominate an industry, the impact on private investment is not evident. Our finding is also similar to the work on retained state shareholding in Chinese listed firms conducted by Tian and Estrin (2008) who state that up to a certain threshold, corporate value decreases as government shareholding increases.

6.2. Robustness check for the relation between stock returns for buy, sell and appointment announcements in the two ownership classifications.

In this section we create the interaction terms including the event type dummies and a dummy variable for high and low SCIC ownership levels to explore if the market reaction differs based

on SCIC ownership classification as found in Section 5.1 and report the results of the regressions in four specifications (1, 2, 3 and 4) respectively in Table 11 below.

Table 11: Findings on the impacts of SCIC ownership control on various CARs for buy, sell and appointment announcements– multiple regressions

	(1)	(2)	(3)	(4)
This table presents heteroskedasticity consistent regression results for the sample of 160 events made by the SCIC between 2006 and mid-2015 in Vietnam. The dependent variable is AR(0), CAR(-1,+1), CAR(-2,+2), CAR(-3,+3) which is the stock returns on the day of event announcements and for the event windows (-1,+1), (-2,+2), (-3,+3) respectively. T-values are reported in parentheses. Coefficients for the year and industry dummy variables are suppressed for brevity. ***, ** and * indicate statistical significance levels at the 1%, 5% and 10% respectively. The dependent and explanatory variables are defined in Table 6.				
SCIC ownership control*Sell_event	-0.010 (-1.39)	-0.024 (1.48)	0.021 (1.43)	0.036 (1.48)
SCIC ownership control*Buy_event	-0.007 (0.42)	-0.007* (1.79)	-0.039 (1.00)	-0.053 (0.84)
SCIC ownership control*Appoint_event	0.002 (0.16)	-0.004** (2.18)	-0.028** (2.09)	-0.022 (0.53)
Foreign ownership	-0.0002 (0.01)	0.031 (0.81)	-0.053 (1.21)	-0.099 (1.49)
Trade volume/SCIC ownership	-0.167 (1.53)	-0.332 (1.54)	-0.091 (-0.78)	-0.286 (1.29)
Firm size	-0.003** (2.19)	-0.009** (2.18)	0.004 (1.23)	0.002 (0.46)
ROA	-0.065 (1.44)	-0.089 (1.00)	-0.061 (-0.89)	-0.120 (0.46)
Investments in fixed assets	0.001 (0.03)	-0.022 (0.34)	-0.061 (-0.68)	-0.104 (0.94)

Investment opportunity	0.005 (1.02)	0.013 (1.39)	0.001 (0.73)	0.011 (0.66)
Leverage	-0.001 (0.55)	0.004 (0.82)	-0.001 (0.35)	0.004 (0.47)
Intercept	0.111*** (2.61)	0.263*** (3.13)	-0.084 (0.96)	-0.019 (0.14)
Year fixed effects	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes
N	157	157	157	157
adj. R2	0.182	0.165	0.171	0.187

Out of the three announcements, the coefficients of the aforementioned interaction terms reveal that the appointment announcements are negatively associated with stock returns for the high SCIC ownership group at the 5% level for Specification 2 and 3, i.e. for the event windows (-1,+1) and (-2,+2). The buy event announcement is observed to have a negative impact on the CAR(-1,+1) outcomes which is significant at the 10% level, whereas sell events have no statistically significant impact across all the specifications. This suggests that if the SCIC has an ownership level exceeding 50% in firms, the market perceives the appointment and buy decisions made by the SCIC as a negative signal. This outcome, along with the finding in Section 5.5.1, reveals that when the SCIC holds more than 50% of the stake in firms and attempts to increase its control power either in forms of appointing its staffs onto board of directors or purchasing more shares in its linked firms, it is perceived by the market to reduce shareholders' returns. This finding is aligned with what is reported in Table 5 for the univariate analysis for the two groups of firms based on the different SCIC ownership magnitude.

7. Conclusion

This paper investigates the effect of a state investment fund (SCIC) of Vietnam by examining the market reacts to specific announcements by the fund, including buy, sell and appointments of the fund's members onto the board of directors or supervisory board of its linked companies. It first tests how these decisions affect shareholder abnormal returns by using the standard event study method. The main findings show that the market reacts positively to all the event types on the announcement days, but negatively to the appointment of SCIC directors in firms with a more than 50% SCIC ownership.

We then examine the impact of the level of SCIC ownership on the event abnormal returns. There is a positive association between the SCIC ownership stake and the stock returns for the entire sample. This finding is confirmed to be robust and reliable using an instrumental variable (IV) two-stage least square regression. However, when we replace an alternative variable (SCIC ownership control) for SCIC ownership, it shows a negative relation between SCIC ownership and stock returns. This implies that there is an existence of a threshold, whereby the impact of state ownership represented by SCIC is detrimental only if it exceeds a critical level.

The aforementioned results imply a number of things. First, even though the market is in favour of SCIC announcements associated with both trading and director appointment activities on announcement days, and on several subsequent days after announcement, and generally, SCIC ownership is perceived to increase shareholders' returns, it does not fully advocate SCIC's involvement in the form of personnel presence on the boards when SCIC ownership in firms is dominant. This can be explained that, despite the SCIC commitment to managing state assets professionally and effectively, the market might still be sceptical about the ability of the selected personnel since the selection might not be based entirely on commercial considerations and, therefore, could potentially create more agency problems. Second, the negative impact on stock returns of SCIC ownership and its appointment of directors in firms where it has a controlling ownership stake could also be attributed to the fact that the SCIC is perceived by the market to undertake other goals that are not related to profits, but associated with any goals in conflict with the commercial objectives of the enterprises as previously identified in Christiansen (2003). This is also consistent with the findings in Hoang (2017), which showed that when the SCIC is the largest shareholder or second largest shareholder in firms, agency costs are more prevalent in its linked firms. Lastly, from a policy perspective, the overall negative impact of controlling ownership by the SCIC might suggest that the SCIC's direct reporting line to the Prime Minister of Vietnam might not be totally relevant and might require a certain degree of additional monitoring of the SCIC operations towards firms. Nonetheless, as the sample size in this event study is relatively small, the results could be biased and, therefore, the interpretation should be made with caution.

In conclusion, despite using a small sample, the findings of this study add to the extant literature the knowledge of the role of sovereign wealth funds in corporate governance in the emerging markets that share similar institutional characteristics with Vietnam and present an anecdote about potential buoyant collaboration between governments and private shareholders in their endeavour towards shared goals.

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