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OWNERSHIP AND IDENTITIES OF THE LARGEST SHAREHOLDERS AND DIVIDEND POLICY: EVIDENCE FROM VIETNAM

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Abstract: *This study investigates the relationship between the level of shareholdings and identities of the largest shareholders, and cash dividend policy. The study is conducted with a sample of 180 firms listed on Vietnam stock exchange markets from 2009 to 2013. The fixed effect model is employed to analyze the balanced panel data. The results show that the higher the level of holdings by the largest shareholders, the lower the dividend payout. Moreover, companies with the State and Foreign investors as the largest shareholders have higher dividend payout ratio than companies with local investors and managers as the largest shareholders. The study also finds that companies tend to pay higher dividends when profits decrease or growth opportunities increase.*

Key words*: the largest shareholder, shareholder identity, dividend policy, privatization, Vietnam.*

1. Introduction

Privatization has been proven to be a successful approach for remarkable developments in emerging countries with deep State involvement (World Bank, 1995). Privatization may generally lead to economic improvement because of enhanced resources allocation. However, the change in ownership structure resulting from privatization may also create agency problems reflecting different shareholders' perspectives. There can be a conflict of interests between managers and shareholders and/or between large and minority shareholders regarding corporate decision (Shleifer & Vishny, 1997; Maury & Pajuste, 2003; Easterbrook, 1984; Dharwadkar, George & Brandes, 2000; Maury & Pajuste, 2002; Gugler & Yutoglu, 2003; Ramli, 2010; Thanatawee, 2013).

This paper focuses on the impact of the largest shareholder in the company on dividend policy. A high dividend payout can be a burden for companies' bottom lines. However, a low dividend payout may not be desirable to shareholders since it is an

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essential tool to protect shareholders from management misconducts. If dividends are not paid to shareholders, managers may channel excess fund to inefficient investments (Easterbrook, 1984). Meanwhile, dividend payout may also aggravate agency conflicts (Easterbrook, 1984). Faccio et al. (2001) indicate that the agency conflicts between large and small shareholders, which result from their different incentives and power, may lead to high dividend payouts (Ramli, 2010). In some countries, shareholding of the first largest shareholder can be far exceeding that of the second largest shareholder of firms in emerging markets (Faccio et al., 2001; Maury & Pajuste, 2002; Gugler & Yugtolu, 2003; Harada & Nguyen, 2011; Thanatawee, 2013, 2014). The largest shareholder, with their dominant percentage of shareholding within the firm, has more power and incentives compared to other shareholders to represent all shareholders and monitor the self-dealing managers (Jensen et al., 1999; Maury & Pajuste, 2003; Amidu & Abor, 2006; Al-Malkawi, 2010). Nevetheless, it has been found that the large shareholding held by the largest shareholders facilitates their opportunity to extract private benefits or collude with other large shareholders to expropriate corporate resources (Faccio et al., 2001; Maury & Pajuste, 2002; Gugler & Yutoglu, 2003).

In Vietnam, the "Doi Moi" (Economic reform) has been carried out since 1992 to improve economic efficiency through privatizing state-owned enterprises (SOEs). The inevitable outcome of privatization is the shift from sole state ownership to various ownership categories in privatized SOEs. However, Vietnam is assumed to be in the transition towards a market-based economy and the government continues to retain the decisive roles in post-privatized companies (Truong & Heaney, 2007; Le & Chizema, 2011; Le & Buck, 2009). In the process, Vietnam market is characterized by weak corporate governance. The shareholder protection index or the disclosure index are lower than the mean value, showing no remarkable improvement (Global Competitiveness Index report, 2009; The World Bank, 2012). The privatized firms' management, retained from State owned enterprises (SOEs) is in short of competency and experience to drive companies in competitive markets (Truong & Heaney, 2007).

In this institutional context, Vietnam is a great example to raise awareness of agency problem after privatization. This paper therefore attempts to investigate the influence of post- privatization ownership structure on dividend payout policy in Vietnam context. A sample of 180 companies privatized and listed on the two stock exchanges of Vietnam (i.e. Ho Chi Minh City Stock Exchange and Ha Noi Stock Exchange) in the period of 2009–2013 is employed for the study.

In addition to its examination of the relationship between the shareholdings of the largest shareholder and dividend policy in Vietnam, the paper distinguishes itself from previous studies in at least one aspect. Specifically, it examines the differential impact of the identity of the largest shareholders on the dividend policy of the Vietnamese listed companies. Results from the study can be used as reference for the privatization progress in Vietnam. Underlying problems from the impact of the largest shareholder on

dividend policy will be also discussed. Results will be analyzed and discussions relevant to emerging countries with relatively similar context will then be related.

The next section of the paper presents the theoretical background of the study and hypotheses development. It is followed by section three, which introduces the methodology of the study, and section four, which analyzes the data results. Section five discusses data results and concludes the paper.

2. Theories and hypotheses

The impact of the largest shareholders on dividend policy will be investigated in two aspects: their shareholdings within the firms and their identities.

2.1 Shareholdings and dividend policy

The shareholdings of the largest shareholder are assumed to have a significant impact on corporate policies, particularly the dividend decision. However, the influence varies across countries, especially the emerging ones with weak corporate governance context.

Classical agency perspective emphasizes the conflict of interests between managers and shareholders. Easterbrook (1984) proposes that dividend payout can play a monitoring function, reducing cash flows available to managers who can manipulate available resources and pursue negative return investments (Al-Najjar & Hussainey, 2011). Because of dispersed ownership, there is high probability for free-rider problem to occur. Monitoring of managers is more challenging in the presence of a free-rider problem (Shleifer & Vishny, 1986). Small shareholders may choose not to supervise the management since they expect the others will do. In contrast, large shareholders have a better chance than minor shareholders to establish financial discipline on managers. Minimum resources of firms will then be invested in low return projects (Easterbrook, 1984; Claessens & Djankov, 1999; Maury & Pajuste, 2002; Ramli, 2010; Harada & Nguyen, 2011). Moreover, because of bearing higher cost for monitoring the management than small shareholders, large shareholders have more incentives to require higher dividend payment to compensate for such cost (Easterbrook, 1984; Maury & Pajuste, 2003; Ramli, 2010; Harada & Nguyen, 2011). The positive relationship between shareholdings of large shareholders and dividend payout is found in both Ramli (2010) for Malaysia and Thanatawee (2013) for Thailand.

However, in a weak corporate governance context, Shleifer and Vishny (1997), La Porta et al. (1999), Faccio et al. (2001), and Ramli (2010) argue that not the agency problem between managers and shareholders but the conflict of interests between large and small shareholders may be dominant in these markets. According to Shleifer and Vishny (1997) and Claessens and Djankov (1999), for large shareholders, the benefits from influencing management to make favorable decisions for their own sakes may outweigh the benefits of representing other shareholders in the monitoring of managers. Thus, large shareholders may have the tendency to act for their own benefits at the

expense of other investors. Empirically, the negative relationship between high level of shareholdings and dividend payout is documented (e.g., Maury & Pajuste, 2002; Gugler & Yutoglu, 2003; Harada & Nguyen, 2006; Bena & Hanousek, 2008). Practically, they may force managers to use free cash flows to make investment decisions with the companies they own even though returns on these investments are not desirable.

In brief, the effect of shareholdings of the largest shareholder on dividend payouts is mainly considered from both monitoring and tunneling dimensions (Dyck & Zingales, 2004): (1) the largest shareholder may act on the interest of other shareholders and prevent managers from self- dealing conducts as suggested by the monitoring hypothesis (Harada & Nguyen, 2011; Amidu & Abor, 2006; Al-Malkawi et al., 2010; Ramli, 2010; Al-Najjar & Hussainey, 2011; Thanatawee, 2013, 2014), or (2) they may force managers to make decisions to expropriate resources of firms for private benefits that are not shared by minority shareholders (Maury & Pajuste, 2002; Gugler & Yutoglu, 2003; Bena & Hanousek, 2008).

According to Nguyen (2008), in the case of Vietnam, the external monitoring system is considered underdeveloped, and the corporate governance is generally weak in terms of several categories such as minority shareholder protection and disclosure requirement. The largest shareholder has superior shareholdings compared to other shareholders, and minority shareholders are not sufficiently protected (IFC reports on governance of 2012, 2013). These characteristics of the market tend to create the agency problem where large shareholders expropriate minority shareholders. Based on widely documented tunneling behavior of the largest shareholder in the institutional context of weak corporate governance, the ownership held by the largest shareholder is speculated to have a negative influence on dividend payout policy as the result of the low minority shareholder protection (La porta et al., 2000). The first hypothesis is accordingly established:

H_1: There is negative relationship between percentage of shareholdings of the largest shareholder and the dividend payout ratio.

2.2 Does identity of the largest shareholders matter?

Owners may differ in operating targets, motivation, risk preference, capability and control of financial resources as well as managerial expertise (Maury & Pajuste, 2003; Gugler & Yugtolu, 2003; Ramli, 2010). Therefore, it is speculated that different identities of the largest shareholders will not have the same impact on dividend policy (Lace et al., 2013).

2.2.1 The State and dividend policy

According to Bradford (2013), privately owned companies have been limited in accessing external capital resources. Thus, they have to rely on internal sources for investment and hence apply a low dividend payout policy. Meanwhile, the state shareholder

can easily access external sources. Companies with the State as a large shareholder can have support from government to obtain external sources such as favorable loan terms (Le & Chizema, 2012; Le & O'Brien, 2010). Therefore, companies with high levels of state ownership tend to pay higher levels of cash dividend. In addition, according to the signaling hypothesis, the state, which has a tendency to play a pivotal role in strategic sectors which are important in economy, desires to strengthen its position, signaling a good image. Therefore, companies with large state ownership may pay higher cash dividend to signal their positive performance (Bradford, 2013; Sulong & Nor, 2008; Wang et al., 2011). Chen et al. (2009) also find that dividend payouts increase when government ownership increases in China market. However, as transfer of State shares can only be realized by the government's approval, the tactic of paying high dividend may facilitate the state in transferring a portion of non-tradable shares to other shareholders. This suggests that dividend may be manipulated to serve the purpose of the large shareholders, i.e. the State, instead of protecting shareholders. According to Sun et al. (2005), firms with high levels of state ownership have tendency to take disproportional profit to compensate for the support they offer to companies (Xu & Wang, 1999; Nguyen, 2008; Wang et al., 2011; and Bai et al., 2013). In general, the State shareholder is assumed to prefer high level of dividend payments.

2.2.2 Managerial shareholdings and dividend policy

Managers tend to pay low level of dividend and retain high level of earnings in order to grasp investment opportunities at their convenience (Rozeff, 1982; Alli et al., 1993; Chay & Suh, 2009; Chen & Dhiensiri, 2009). From a conventional agency perspective, holding a position in management, large shareholders can have more opportunities to better supervise and alleviate the management discretion (Jensen & Meckling, 1976; Short et al., 2002; Chen & Dhiensiri, 2009). Hence, the accountability of investment decisions is improved (Jensen & Meckling, 1976; Ang, Cole & Lin, 2000; Short et al., 2002; Chen & Dhiensiri, 2009). In this context, paying high dividend as a device to monitor managers and increase accountability of their actions is not considered as an effective practice (Chen & Steiner, 1999; Fenn & Liang, 2001; Al-Malkawi, 2005). However, aligning the interests between principals and agents in the condition of weak corporate governance may be a challenge because of the entrenchment problem. Specifically, Jensen (1983) suggests that managerial entrenchment is considered as one of the costliest manifestations of agency problem (White 1996; Fenn & Liang, 2001; Maury & Pajuste, 2002). As the amount of managerial stockholding increases to a certain level, managers start seeking for their personal utility through non-value-maximizing behaviors such as high salary, empire building and so forth (Maury & Pajuste, 2002; Lins, 2003; Miguel, Pindado & Torre, 2004; Bunkanwanicha et al., 2008). In general, companies with the managers as the largest shareholders may pursue lower levels of cash dividend than companies with other type of the largest shareholders.

2.2.3 Foreign investor and dividend policy

Sulong and Nor (2008) found that foreign investors in Malaysia prefer paying low cash dividends. They argue that foreign investors, employing better monitoring disciplines in their companies in emerging markets, do not require high cash dividend payment to reduce agency conflict. Moreover, due to the costs of transferring dividends overseas which may be taxed in their home countries, foreign investors may prefer low dividend payments (Sulong & Nor, 2008; Chai, 2010; Ullah et al., 2012; Abdullah et al., 2012). However, in a weak corporate governance context, foreign owners, who are highly disadvantageous in terms of information on firm performance and market and legal changes, may desire more for dividend payments. In other words, foreign investors as large shareholders may require a higher cash dividend payment compared with local investors. Cook and Jeon (2006), Baba (2009), Warrad et al. (2012) and Thanatawee (2013) also suggest that foreign shareholdings are associated with a higher dividend payout than domestic shareholdings. Overall, in the weak governance context of Vietnam, it is expected that foreign largest shareholders may prefer higher payouts than local largest shareholders. The second hypothesis is accordingly established:

H_2: There is differential impact of identities of the largest shareholders on dividend payout ratio.

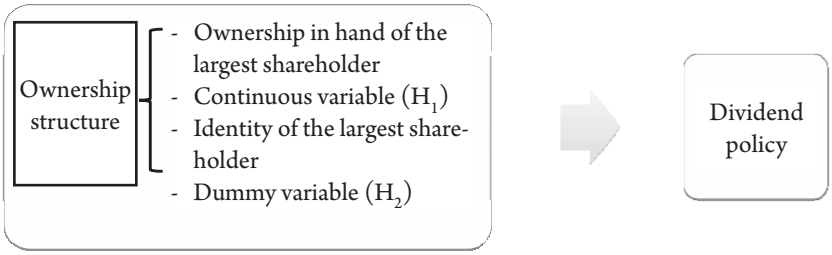

FIGURE 1. **Conceptual framework of the study**

3. Methodology

3.1 Research design and sample size

Data were collected from 2009 to 2013 and organized into a balanced panel. The non-probability sampling method is applied. The sample is comprised of companies listed on two well-recognized stock exchanges in Vietnam, which are Ho Chi Minh City Stock Exchange (HOSE) and Hanoi Stock Exchange (HNX). The firms were all SOEs before listing, i.e. listed firms which were not SOEs before being listed are excluded. In addition, the financial sector including banks, real estate, securities and insurance companies is excluded from the data due to its distinguished characteristics of corporate structures and revenue models. Companies with insufficient data in the study period are also excluded as the unbalanced panel may introduce the noise of unit heterogen-

ity. Converting unbalanced panel data into a balanced panel data may result in a biased sample if the missing data is not random (Cameron & Trivedi, 2005). Finally, a sample of 180 firms is chosen for the research.

3.2 Model specification

Two multiple regression models are constructed to test the two hypotheses of the study as follows:

$$DPR_{it} = \boldsymbol{\beta_0} + \boldsymbol{\beta_1} SHARE + \boldsymbol{\beta_2} GROW + \boldsymbol{\beta_3} PROF + \boldsymbol{\beta_4} LEV + \boldsymbol{\beta_5} SIZE + e_{it} \quad (1)$$

Model (1) is constructed to examine the relationship between shareholdings of the largest shareholder and dividend policy.

$$DPR_{it} = \boldsymbol{\beta_0} + \boldsymbol{\beta_1} STATE + \boldsymbol{\beta_2} MAN + \boldsymbol{\beta_3} FOR + \boldsymbol{\beta_4} GROW + \boldsymbol{\beta_5} PROF + \\ + \boldsymbol{\beta_6} LEV + \boldsymbol{\beta_7} SIZE + e_{it} \quad (2)$$

Model (2) is constructed to account for the impact of different types of the largest shareholder (the identity of the largest shareholders) including the State, managers, foreign investors and local investors on dividend payout policy.

3.3 Measures

3.3.1 Dependent variable

Dependent variable is Dividend payout ratio (DPR) measured as the ratio of cash dividends per share divided by earning per share. DPR is considered as a more appropriate indicator of dividend policy than dividend yield or dividend per share since payout ratios and ploughed back ratios are taken into consideration (Roezeff, 1982). Moreover, cash dividend is used because it directly affects the equity and cash holding of a company.

3.3.2 Independent variables/ Ownership structure variables

Ownership structure refers to two dimensions:

Shareholding of the largest shareholder (SHARE) is calculated as the percentage of ownership of the shareholders who directly own the highest volume of shares within the company.

Ownership identity dummies: Binary variables are used to capture the identity of the largest owner (Ramli, 2010; Thanatawee, 2013; Thanatawee, 2014). In the particular context of Vietnam, this study classifies the identities of the largest shareholders into 4 categories: (1) the State (STATE)[1]; (2) manager (MAN); (3) foreign investor (FOR);

[1] According to Decree 09/2009/ ND-CP, State shareholders are comprised of investment from the State budget, State General Corporations, its representatives, and the State Capital Investment Corporation (SCIC).

(4) local investor (LOC)[2]. Companies in which the largest shareholders are local investors are classified as a base category.

3.3.3 Control variables

Profitability (PROF) is measured as net income divided by total asset. According to the Pecking order theory, companies with low profitability may pay low dividends retaining high levels of earning for investment since issuing debt or equity for investment is expensive (Litner, 1986; Jensen et al., 1986; Fama & French, 2000).

Firm size (SIZE) is proxied by (logarithm of) total assets as in Chay and Suh (2009) and Chen and Dhiensiri (2009) since large firms may depend less on internal funds for future investment because they have easier access to external debt with their reputations (Holder et al., 1998).

Leverage (LEV) is defined as total debt to total assets. LEV is controlled to account for the impact of debt on dividend payouts because companies with more financial obligations imposed by debt financing practices may not have sufficient fund to pay high cash dividends (Jensen, 1986). High leveraged companies are more likely to pay low dividends to avoid using external debts with unfavorable loan terms (Rozeff, 1982; Gugler & Yugtolu, 2003).

Firm growth (GROW) is the percentage of change in a firm's sales. GROW should be controlled since firms with growth opportunities require more capital for investing purposes (Rozeff, 1982; Al- Malkawi, 2010; Chen & Dhiensiri, 2009). To avoid transaction costs due to external financing, firms may keep high retention levels, i.e. pay less dividend to reduce reliance on debt (Myers & Majluf, 1984). Thus, the negative relationship between growth opportunities and payout is expected.

3.4 Methodology

Firstly, in order to test the two hypotheses of the study, regression analysis is conducted in Pooled OLS, REM and FEM.

Secondly, the specification tests, including F-statistic test and Breusch and Pagan Lagrange multiplier test and Hausman test are used to determine appropriate models.

Then, the Breusch-Pagan test and Wooldridge test for autocorrelation in panel data are conducted to check for heteroskedasticity and autocorrelation problems. If panel data has heteroskedasticity and/or autocorrelation problem, one common practice to cure the problems is to use cluster- robust standard errors. Clustering at the cross-sectional panel level will produce not only consistent but also more efficient estimates

[2] According to Article 2, Chapter 1, Decision 121/2008/QD- BTC, foreign investors are "individuals with foreign nationality who reside overseas or in Vietnam, including people of Vietnamese origin with foreign nationality; organizations established and operating pursuant to foreign law and their branches including branches operating in Vietnam; organizations established and operating pursuant to the law of Vietnam with 100% foreign capital contribution, and their branches; investment funds established and operating pursuant to foreign law and investment funds established and operating pursuant to the law of Vietnam with 100% foreign capital contribution."

of standard error (Arellano, 1987; Baltagi, 2001; Wooldridge, 2010). However, even robust standard errors will be biased downward if residuals are correlated across sections. In this case, Driscoll and Kraay (1998) standard errors can be a solution to both cross-sectional and time dependence form of residuals. In order to choose which approach to employ for mitigating the impact of heteroskedasticity and autocorrelation problem, Pesaran cross- sectional dependence is performed. The null hypothesis is that errors are not correlated across entities. If the null hypothesis is rejected, Driscoll and Kray standard errors will be applied. Otherwise, cross-sectional cluster robust standard errors will be applied to chosen models.

4. Data analysis and results

4.1 Descriptive statistics

The descriptive analysis presented in Table 1 provides an overview of variables employed in the two models.

The high gap between the maximum and the minimum DPRs reflects the wild fluctuations in the dividend payment practices of the samples. The mean value of DPR indicates that, on average, these companies use 50% of their earnings to distribute cash dividends to shareholders. The mean value is approximate to that of companies in Thailand (47%) (Thanatawee, 2013), while significantly higher than the values of the companies in China (16.81%) (Thanatawee, 2014), Japan (33%) (Harada & Nguyen, 2011), Malaysia (22%) (Ramli, 2010) and Canada (32.8%) (Adjaoud & Ben-Amar, 2010). It is also notable that the maximum of the dividend payout ratio is 1.23, which means that there is at least a firm that pays dividend exceeding its earning.

Table 2a shows that the mean value of shareholdings of all largest shareholders is 39%. The declining number of companies with the State as the largest shareholder over years reflects the reforming effort of the government to reduce their shares in privatized companies. However, across the panel sample, the State remains the largest shareholder, confirming the dominance of state ownership in the Vietnamese privatization.

Table 2b shows dividend payout ratios by companies with specific category of the largest shareholder. From the summary, it is worth noting that the company paying dividend

TABLE 1. **Statistical summary of variables**

	DPR	SHARE	GROW	PROF	LEV	SIZE
Mean	0.509250	0.389679	0.133027	0.073543	0.789044	26.66475
Maximum	1.235330	0.874600	1.018341	0.304643	4.122691	29.88731
Minimum	0.000000	0.000800	-0.776193	-0.159015	0.000000	23.52062
Skewness	-0.236796	-0.399536	0.256241	0.952276	1.267256	-0.188859
Kurtosis	2.481664	2.177471	4.259685	4.488913	4.430595	2.530771
Jarque-Bera	18.48604	49.31507	69.35413	219.1569	317.6383	13.60673
Probability	0.000097	0.000000	0.000000	0.000000	0.000000	0.001110

TABLE 2A. **Average dividend payout ratio, average shareholdings and identities of the largest shareholder of 180 companies over 5 years of the sample.**

	2009	2010	2011	2012	2013
DPR	44%	50%	54%	53%	55%
Share	38%	38%	39%	40%	40%
Manager	10	7	7	7	5
(%)	6%	4%	4%	4%	3%
State	140	135	131	130	128
(%)	78%	75%	73%	72%	71%
Local investors	25	32	34	36	40
(%)	14%	18%	19%	20%	22%
Foreign investors	5	6	8	7	7
(%)	3%	3%	4%	4%	4%
Grow	13%	23%	22%	3%	5%
Prof	9%	8%	7%	6%	5%

TABLE 2B. **Dividend payout ratio by specific largest shareholder**

DPR	State	Manager	Local institution	Foreign institution
Min	0%	0%	0%	0%
Max	124%	96%	104%	100%
Average	53%	40%	46%	41%

in excess of its earning has the State as the largest shareholder. Moreover, companies with the State as the largest shareholder also have the highest average dividend payout ratio. We project that the companies with the State as the largest shareholder will pay higher dividend than other companies. The result will be confirmed in the regression model.

4.2 Multicollinearity test

In Table 3, there are only two comparatively high correlations. First, there is a positive relationship between leverage and size as discussed in the descriptive statistics. Secondly, the relationship between leverage and profitability suggests that if companies largely depend on debt, there may be an improvement in the bottom line. However, overall, the

TABLE 3. **Correlation analysis**

Covariance Analysis: Ordinary						
Probability	DPR	SHARE	GROW	PROF	LEV	SIZE
DPR	1.000000					

SHARE	-0.052124	1.000000				
	0.1181	-----				
GROW	-0.003808	-0.055510	1.000000			

TABLE 3 continued

	0.9092	0.0961	-----			
PROF	-0.111715	-0.087891	0.137644	1.000000		
	0.0008	0.0083	0.0000	-----		
LEV	-0.135890	0.147791	0.079392	-0.502067	1.000000	
	0.0000	0.0000	0.0172	0.0000	-----	
SIZE	-0.189457	0.064355	0.092266	-0.174631	0.429567	1.000000
	0.0000	0.0536	0.0056	0.0000	0.0000	-----

table reveals low correlations among independent variables. Therefore, multicollinearity is not a problem in this study.

4.3 Regression analysis

4.3.1 Testing Model (1) - the relationship between shareholdings of the largest shareholder and dividend payout ratio

$$DPR_{it} = \boldsymbol{\beta_0} + \boldsymbol{\beta_1} Share + \boldsymbol{\beta_2} Grow + \boldsymbol{\beta_3} Prof + \boldsymbol{\beta_4} Size + \boldsymbol{\beta_5} Lev + e_{it}$$

As in Table 4, diagnostic tests indicate that FEM is an appropriate model. Time fixed effects are also not required in the model. The data has both a heteroskedasticity and autocorrelation problem. However, there is no cross-sectional dependence of residuals, cluster robust standard error will produce standard errors that are robust to heteroskedasticity and within panel serial correlation (Arellano, 1987). Therefore, the effect of

TABLE 4. **Regression results of Model (1)**

	Pooled OLS	**REM**	**FEM (entity fixed effect)**	**FEM (entity and time fixed effect)**	**FEM with robust SE**
Share	-0.04	-0.08	-0.33 *	-0.35 *	-0.33 ***
Grow	0.06 ***	0.07 **	0.084 *	0.08 **	0.084 **
Prof	-1.17 *	-1.46 *	-1.63 *	-1.48 *	-1.63 *
Lev	-0.064 *	-0.073 *	-0.99 *	-0.83 *	-0.099 **
Size	-0.033 *	-0.026 *	0.11 *	0.047	0.11 **
Year 2010				0.024	
Year 2011				0.056 **	
Yeah 2012				0.046	
Year 2013				0.05	
Const	1.54 *	1.39 *	-2.11 **	-0.48	-2.11 ***
R- squared	0.0771	0.079	0.0816	0.087	0.0817
F	16.01		12.71	7.55	10.02
Prob.	0.000		0.000	0.000	0.000
Wald (X2)		66.05			
Prob. X2		0			

TABLE 4 continued

Breusch-Pagan/ Cook-Weisberg test for heteroskedasticity	H_o: Constant variance
	chi2(5) = 113.51, Prob > chi2 = 0.000
Woolridge test for autocorrelation in panel data	H_o: no first-order autocorrelation
	F(1, 179)= 16.18 Prof > F= 0.0001
F test for fixed effect	H_o: There is no heterogeneousness across companies
	F(179, 711)= 2.89 Prof>f= 0.000
Breusch and Pagan Lagrange multiplier test for random effects	Test: var(u) = 0
	chi2(1) = 122.37, Prob > chi2 = 0.000
Hausman test	H_o: Difference in coefficients not systematic
	chi2(5) = 23.29, Prob > chi2 = 0.003
Test for time fixed effect	H_o: All year coefficients are jointly equal to zero
	F (4, 711) = 1.1 Prof >F= 0.3577
Pesaran CD test	H_o: Errors are not correlated across entities
	Pr= 1.2046

Notes: † *p< 0.01, **p< 0.05, ***p< 0.1

the identity of the largest shareholder on dividend payout ratio is analyzed by entity fixed effect with cluster robust standard errors.

Shareholdings of the largest shareholder have been found to have a significant negative relationship with dividend payout ratio at a significance level of 1%. Hypothesis (H_1) is therefore supported.

4.3.2 Testing Model (2) – the effect of identity of the largest shareholder on dividend payout ratio

$$DPR_{it} = \boldsymbol{\beta_0} + \boldsymbol{\beta_1} State + \boldsymbol{\beta_2} Manager + \boldsymbol{\beta_3} Foreign + \boldsymbol{\beta_4} GROW + \boldsymbol{\beta_5} PROF + \\ + \boldsymbol{\beta_6} LEV + \boldsymbol{\beta_7} SIZE + e_{it}$$

Similar to model (1), the effect of the identity of the largest shareholder on dividend payout ratio is also analyzed by panel fixed effect with cluster robust standard errors (Table 5). It is important to note that the coefficients of dummy variables refer to difference in average levels of dividend payment pursued by different types of the largest owners, holding other variables constant. Since the State and Foreign variables are significantly different from reference group with a 5% level of significance, it can be concluded that on average, companies with the State or foreign investors as the largest shareholders pay higher level of payout than base companies. Meanwhile, companies with the manager as the largest shareholder, as speculated, pay lower average level dividend than the reference group. However, the coefficient is not significant (only at 13.7% level of significance).

TABLE 5. **Regression results of Model (2)**

	Pooled OLS	REM	FEM (entity fixed effect)	FEM (entity and time fixed effect)	FEM with robust SE
State	0.075 *	0.072 *	0.118 **	0.12 **	0.118 *
Manager	-0.037	-0.065	-0.086	-0.077	-0.086
Foreign	-0.04	-0.036	0.058	0.04	0.058 *
Grow	0.06 **	0.071 **	0.082 **	0.078 **	0.082 **
Prof	-1.16 *	-1.42 *	-1.569 *	-1.44 *	-1.569 *
Lev	-0.073 *	-0.08 *	-0.099 *	-0.084 *	-0.09 **
Size	-0.02 *	-0.022 **	0.121 *	0.066	0.121 *
Year 2010				0.024	
Year 2011				0.0549 **	
Yeah 2012				0.0417	
Year 2013				0.046	
Const	1.349 *	1.21 *	-2.62 *	-1.21	-2.62 **
R- squared	0.0771	0.0975	0.0816	9.11	0.0861
F	16.01		9.6	6.46	8.93
Prob.	0.000		0.000	0.000	0.000
Wald (X2)		78.11			
Prob. X2		0			
Breusch- Pagan/ Cook-Weisberg test for heteroskedasticity	H_o: Constant variance				
	chi2(5) = 113.51, Prob > chi2 = 0.000				
Woolridge test for autocorrelation in panel data	H_o: no first-order autocorrelation				
	F(1, 179)= 16.18 Prof > F= 0.0001				
F test for fixed effect	H_o: There is no heterogeneousness across companies				
	F(179, 713)= 2.87 Prof>f= 0.000				
Breusch and Pagan Lagrange multiplier test for random effects	Test: var(u) = 0				
	chi2(1) = 111.83, Prob > chi2 = 0.000				
Hausman test	H_o: Difference in coefficients not systematic				
	chi2(5) = 23.91, Prob > chi2 = 0.0012				
Test for time fixed effect	H_o: All year coefficients are jointly equal to zero				
	F (4, 711) = 1.1 Prof >F= 0.4234				
Pesaran CD test	H_o: Errors are not correlated across entities				
	Pr= 0.9336				

Notes: † *p< 0.01, **p< 0.05, ***p< 0.1

5. Discussions and Conclusions

Privatization is the important part of economic restructuring programs in most transition economies (Dharwadkar et al., 2000; Megginson & Netter, 2001). Generally, privatization is associated with the alteration in ownership structure. While changes in ownership structure are believed to improve companies' profitability and efficiency (Megginson & Netter, 2001; Truong & Heaney, 2007; Le & Buck, 2009), in Vietnam and other transition markets, it may induce corporate governance issues (Truong &

Heaney, 2007; La Porta et al., 1999; Le & Buck, 2009). This study examines the influence of the largest shareholder on dividend policy, an important financing decision that can affect shareholders' wealth and protect them against misconducts by management.

Results support the first hypothesis that the more shareholdings held by the largest shareholder, regardless of their identity, the lower the dividend payout ratio. In general, this can be explained by the fact that in the particular corporate governance context of Vietnam, where information asymmetry is one of the most striking problems, minority shareholders may not be promptly and sufficiently provided with information on firm performance. As a consequence, they may be appropriated by the large shareholders since minority shareholders may have failed to ask for a higher dividend payment. This would reveal a common practice in emerging markets (Dharwadkar et al., 2000) that the higher the shareholding of the largest shareholders, the more opportunities and incentives for this type of shareholders to expropriate others, the lower is the company payout. Specifically, the largest shareholders are more likely to grasp the benefits supposed to be shared by other shareholders. Other shareholders are not protected if earnings are used in manners that are not beneficial to all shareholders.

The second hypothesis incorporates the identities of the largest shareholders to determine whether they have any effect on dividend payouts. The significant coefficients of variables indicate that companies with different identities of their largest shareholders do not pay similar levels of cash dividends, suggesting that some types of the largest shareholder with different characteristics in terms of motivations, risk attitudes and capabilities may have more or less incentive to force managers to pay dividends.

In particular, the positive and significant coefficient of the State variable reveals that privatized companies with the State as the largest shareholder will pay higher dividend than a base company (company with the largest shareholders as local investors). In the specific context of Vietnam, one possible explanation is that the government has eliminated many tax barriers after becoming a member of the World Trade Organization in 2005. As a result, that might lead to the decline of the tax revenues for the government. Thus, the State may have incentive to demand for high payouts to make up for the decrease of tax revenues. Companies having the State as the largest shareholder may not have to rely much on internal resources for investment purposes because as the largest shareholder and the regulator, the State can either implicitly or explicitly back up companies to borrow at favorable loan terms (Ngoc & Mohnen, 2005; Truong & Heaney, 2007). As a consequence, they may not be constrained to pay out. In addition, the companies may also choose to pay high dividend to attract other shareholders in order to accelerate equitization in Vietnam. In contrast, unlike the State shareholder, local investors cannot be assured of accessing other sources of financing when their companies need. They therefore wish to retain funds within the companies for investment purposes, especially in the other companies they own or invest. In other words, they may not be willing to pay out as high as companies with the State as the largest shareholders.

However, if the State as the largest shareholder abuses their power to influence management, other shareholders, especially strategic investors who can improve operational efficiency may be reluctant to participate in the management of companies. Future research can further investigate this implication.

With regard to firms with the largest shareholders as foreign investors, it was found that, on average, the firms pay higher cash dividend payout than a base company. This can be explained by the fact that because of disadvantages in terms of geographic distance, and higher information uncertainty compared to the managers, foreign investors as firms' largest shareholders may require higher cash payouts to monitor the management (Cook & Jeon, 2006; Baba, 2009; Warrad et al., 2012; Thanatawee, 2013). This practice implies that foreign investors may embrace a risk-averse attitude towards the weak corporate governance in Vietnam.

Holding other variables constant, companies with the manager as the largest shareholder pay lower ratio than a base company, while the coefficient is not strongly significant. However, compared to those with the State or foreign investors as the largest shareholders, companies with the largest shareholders in management pursue lower level of cash dividend. As the manager, the largest shareholder may have more information about investment opportunities and business issues than the State and foreign investors. Therefore, they may prefer to retain higher portion of earnings to exploit the resources at their convenience. Meanwhile, companies with the largest shareholder in management board do not pay lower level of payout than companies with local investor as the largest shareholder. One possible explanation is that the largest shareholders who hold management position may share some advantages with local investors in understanding the legal instability and investment opportunities of the local market. Therefore, the largest shareholders are not significantly different from local largest shareholders. Most importantly, they are more constrained than local largest shareholders in accessing external debts. Thus, they may desire to pay lower dividend so that they can tunnel the resources into the other companies.

The relationship between growth opportunities or profitability and dividend payout ratio is significantly positive. This result is opposed to the Pecking order theory (Rozeff, 1982; Lloyd et al., 1985; Jensen et al., 1992) and signaling theory. Given weak corporate governance context with severe asymmetric information, shareholders may desire to be protected by high dividend payouts and consider dividend as an important indicator to evaluate companies for investment decisions. With a strong incentive to maintain reputation and attract potential investors, companies remain paying high dividend and rely on external sources for growth opportunities (Harada & Nguyen, 2011). It is true that shareholders may gain benefit from high dividend. However, this may turn out to be a problem for the future prospect of companies. Specifically, companies may have to depend on debt to finance investment opportunities. Therefore, internal sources for future prospects may be employed to pay current dividend. These practices are considered unfavorable to shareholder's wealth in the long run (Harada & Nguyen, 2011).

In general, the results do provide quantitative evidence on the impact of the largest shareholder on dividend policy. The negative relationship between shareholdings of the largest shareholders and dividend payout ratio may reveal the probability of expropriating behaviors of large shareholders. From the economic viewpoint, it will be detrimental to company if available dollar for investing activities is allocated to low return investment facilitated by the expropriating behaviors of the largest shareholder. The findings of the study also reveal differences in average levels of dividend payout observed from different types of the largest shareholders. Among them, companies with the State or foreign investor being the largest shareholder may pursue a higher level of payout than companies with local investors or managers as the largest shareholders. This implies that certain types of the largest shareholders may have more preference towards high earnings retention when employed in manners that do not benefit others. Moreover, while some largest shareholders may prefer higher dividend than others, it does not mean that shareholders may be benefited. It may indicate that the largest shareholders serve their own purposes, as in the case of the State as the largest shareholder. Or, the largest shareholders may concern the uncertainty of the company and hence require higher dividend as in the case of the foreign investor as the largest shareholder. In addition, dividends may be employed to attract investors at the risk of indebtedness as suggested by the relationship between the profitability/ growth opportunities and dividend payout ratio.

This study has its own limitations. Firstly, the study has drawn conclusions based on the reliability of data resource and data suppliers. However, using secondary data has limitations under severe transparency problem in Vietnam. Secondly, some variables such as free cash flow, company's risk and age may be controlled for to provide with more profound understanding of dividend behavior of companies. The generalization of the results will be more compelling if the institutional elements of the researched countries are taken into consideration. Thirdly, the complex cross-shareholdings may confine the ability of the study to understand precise influences of each type of the largest shareholders. In addition, the study may not precisely reveal the exact expropriating behaviors of the largest shareholders. This question is open to future investigation. The paper may be considered as an initial attempt to open an interesting discussion on how different types of ownership influence dividend paying behavior of companies.

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