

“Founder - CEO, CEO characteristics and firm value: The case of Vietnam”¹

Phan Huu Viet*

Graduate School of Commerce, Waseda University, Japan

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Abstract

The study examines how firms controlled by Founder-CEO perform and effects of Founder-CEO's characteristics on firm performance and value by using data of Vietnamese nonfinancial listed firms from 2006-2010. First, we find that Founder-CEO firms underperform Non-Founder-CEO firms. Second, CEO characteristics such as diversification (a proxy of CEO's empire building), financial segment (another proxy of CEO's empire building), dual leadership (Chairman and CEO are the same person), and gender of CEO are found to significantly affect firm performance and value. Lastly, we find that firms which listed in years of rapid and aggressive expansion of securities market demonstrate lower performance and value.

Summary

Many prior studies find that family firm controlled by its founder performs better than nonfamily firm (Anderson and Reeb, 2003; Burkart et al., 2003; Maury, 2006; Villalonga and Amit, 2006; Miller et al., 2007; Saito, 2008 and among others). It looks trivial because only good firms can be listed newly in stock exchange. Therefore, research attentions now mostly focus on

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analyzing performance and governance of the family firm controlled by next generations of the founder (founder descendants) because family business may face difficulties in maintaining long-term sustainable growth when transfer of management power from the founders is implemented. The objective of this study is to show evidences that the finding of better family business is not the case in certain economic and political regime. In addition, this study also investigate impacts of several family-business-CEO characteristics on the firm In order to achieve the objective, the study uses data of nonfinancial listed firms in 2006 – 2010 from Vietnam market where state business dominates the economy; securities market is nascent and has been aggressively expanded; and corporate governance is underdeveloped.

The study uses term of “*Founder-CEO firm*” (*FCEO firm*) rather than “*Family firm*” based on the country distinct conditions. FCEO firm is defined as a firm whose individual founder or founding family members are firm’s CEO², and the founder and family members still own the largest percentage of firm’s total shares. The FCEO firm definition, thus, reflects both control and management sides of a family business. In Vietnam market, inherited descendants haven’t been observed in FCEO firms due to firms’ young age since their incorporation. Complicated pyramid structure and cross-shareholding are rare among FCEO firms in the country. During the period of analysis (2006-2010), there are no changes in or transfers of identities of FCEO firms in Vietnam.

We begin the study by using univariate tests to compare differences in mean and median of several financial-accounting performance indicators of between FCEO firms and Non-FCEO firms, as well as between FCEO firms and State firms. The study finds that FCEO firms significantly demonstrate lower performances (ROA, ROE) and value (Tobin’s Q) than those of Non-FCEO firms and State firms³ by using both industry-adjusted and raw data. The results are also supported by multivariate tests which show significantly negative relationship between FCEO dummy and firm performance (value), even when other variables are held. The finding which demonstrates poorer performance and value of FCEO firms in Vietnam is not consistent with previous findings, especially those of Villalonga and Amit (2006) and Maury (2006). We argue that expropriation of private controlling shareholders, negative effects of corruptions and years of listing are among reasons that cause the lower performance and value. In addition,

² CEO stands for Chief Executive Officer.

³ See Appendix 1 for calculation and definitions of ROA, ROE, Tobin’s Q, and State firms.

through negative relationship between firm value (Tobin's Q) and FCEO-foreign ownership interaction term, we suggest that monitoring effects of foreign ownership on family firms are weak to prevent potential expropriation if occurred. Overall, the findings support argument that different legal regimes lead to different ownership and control of family firm across countries (Burkart et al., 2003).

We continue the study by using multivariate tests to examine relationship between CEO characteristics of FCEO firms and firm performance as well as value. CEO's characteristic variables consist of Diversification dummy (a proxy of CEO's empire building), Financial-segment dummy (another proxy of CEO's empire building), Dual Chairman-CEO dummy and Gender of top manager dummy. The study finds that, founder-CEOs who only focus on their core business (or, in other word, are not diversified into other segments), who don't simultaneously pursue financial segment, who serve as both Chairman and CEO, and who are the woman positively affect firm performance and value. The findings support arguments of performance-decreasing effects of empire building CEO, positive effects of dual Chairman-CEO position and beneficial leadership roles of woman founder CEOs. In robustness tests, we use cluster bootstrap standard method and alternative use of other dependent variables to confirm the research findings.

The study provides more evidences for current literature on the topics of Founder-CEO firm, effects of several CEO characteristics on firm performance and value in the country with specific economic and political regime. The findings of power performance and value of FCEO firms (or family firms), to some extent, reflect what are happening in Vietnam where Founder CEOs are acting toward their private benefits at the expenses of other minority shareholders, Founder CEOs diversify their businesses into risky "bubble" sectors such as banking, securities and real estate, and corruptions causing expenses of private firms are existing (Nguyen, 2012).

The study proceeds as follows. Section 2 reviews previous literature on the topic of family business and management characteristics. Section 3 summarizes corporate governance and institutional aspects in Vietnam. Section 4 presents data collection and basic statistics. Section 5 provides empirical results. Lastly, conclusion and limitation are discussed in Section 6.