POST-PRIVATISATION CORPORATE GOVERNANCE, CORPORATE ENTREPRENEURSHIP AND FIRM PERFORMANCE IN PRIVATISED FIRMS IN A TRANSITIONING ECONOMY

1. Basic information:
   - Name: Huong Thi My Nguyen
   - Institution: University of Manchester
   - Start date: September 2011
   - Expected date of finish: April 2015
   - Country of origin: Vietnam

2. Research Issue
   Privatisation happening throughout Eastern Europe and Far East Asia in recent decades has led to radical changes in firms' ownership and corporate governance (Zahra et al., 2000a, Uhlenbruck and Castro, 1998). These changes have, in turn, influenced innovation and the creation of new ventures, both of which have helped promote economic growth.

   According to Sharma and Chrisman (1999, p. 18), CE can be broadly defined as "the process whereby an individual or a group of individuals, in association with an existing organization, creates a new organization or instigates renewal or innovation within that organization."

   A growing number of studies have examined the relationship between corporate governance and corporate entrepreneurship, with most finding that corporate governance has a significant influence (Zahra, 1996, Zahra et al., 2000b). However, the question of which ownership structure and governance mechanism most significantly drives corporate entrepreneurship in transitioning economies is still underexplored (Phan et al., 2009) and the literature still lacks an in-depth account of how boards of directors and their top management teams develop and guide entrepreneurial activities for their firms.

3. Research Questions and Research model
   This study will investigate the links between ownership structure, board independence, top management team characteristics and corporate entrepreneurship (CE) (c.f., Jones and Butler, 1992, Zahra, 1996, Zahra et al., 2000b) as well as the associations between corporate entrepreneurship and firm performance (c.f., Gupta, 2005, Boubakri and Cosset, 1998). It aims to answer the question: "To what extent and how ownership and corporate governance systems effect on the corporate entrepreneurship and firm performance of privatised firms in a transition economy?"

   Specifically, the study will answer the following questions:

   1. To what extent and how ownership and corporate governance systems effect on corporate entrepreneurship privatised firms in Vietnam?
   2. To what extent and how ownership and corporate governance systems effect firm performance of privatised firms in Vietnam?
3. To what extent corporate entrepreneurship influences firm performance of privatised firms in Vietnam?

To answer the research question, several hypotheses that examine both direct and indirect effects of ownership structures, board independence, characteristics of management team on corporate entrepreneurship and the effects of corporate entrepreneurship on firm performance will be tested. The research model presented in Figure 1 summarizes the hypotheses.

4. **Specific Objectives**

Given the above benefits of CE to the firm performance, both researchers and practitioners have strong interest in exploring the factors that may facilitate CE. Because the level of the CE depends on the managers’ willingness to take risks (Jones and Butler, 1992), promoting CE requires an appropriate mechanism that encourage the executives to pursue the entrepreneurial activities. Prior research has identified two main sources of influence on managers’ support for CE, including the firm’s ownership structure and governance system (Jones and Butler, 1992, Jacobs, 1991). The effects of ownership and corporate governance on CE have been widely examined in the developed economies. However, in transitioning economies, even though Filatotchev et al. (2003) suggest that the difference in ownership involvement and corporate participation result in the difference in CE, only a handful of empirical studies have been conducted on this issue. As such, the first specific objective of this study is to investigate the relationship between ownership, board independence and CEO-board relations and corporate entrepreneurship. In addition, among many different owners, this study only focuses on the role of the foreign investors, managers and institutional organizations. It will also consider the independence of board, CEO-board relations and its effects on corporate entrepreneurship.
Similarly, several studies have been done on the relationship between ownership, governance and firm performance. Many lend support for agency theory but there are also many contradictory findings. As a result, the meta-analysis studies recently by Dalton et al. (2003) and Sundaramurthy et al. (2005) claim no significant evidence supporting agency theory. Dalton et al. (2003) suggest the need to consider alternative theoretical perspective for examining the ownership-performance relationship. In this regard, Ramamurti (2000) argue that most research is based on data from developed countries and does not control for industry differences. Beside, Dharwadkar et al. (2000) note that in emerging economies, traditional agency theory alone cannot fully explain properly the relationship between privatisation and performance. In transition economies, contextual factors such as the development of market institutions, industry structures, ownership patterns and enforcement of laws (North, 1994), should be considered. As such, the second objective of this study is to examine the relationships between the governance and ownership variables and firm performance based on the context of a transitioning economy.

Prior research have offered evidence that corporate entrepreneurship has a positive association with company performance (Miller and Camp, 1985, Zahra, 1991). The firms with higher level of CE can better acquire capacities (Stopford and Baden-Fuller, 1994) and improve its performance (Lumpkin and Dess, 1996). In emerging or transition economies, corporate entrepreneurship is even more important for firms to revitalize and reconfigure the resource (Zahra et al., 2000a) and therefore, boost the firm performance. However, very few have examined this relationship in transition economies (Zahra et al., 2000a). Some empirical studies also offered the evidence on the effect of corporate entrepreneurship on firm performance. Most notably, in a study of Antonicic and Hirsch (2001) examining the relationship between CE and firm performance in US and Slovenia, the data supported for Slovenia while only partially supported for the United States. More recently, Yiu and Lau (2008) tested the relationship between corporate entrepreneurship and firm performance using data in China and found the positive relation between three factors including product innovation, organizational innovation, and international venturing. However, understanding about the effects of corporate entrepreneurship on firm performance is still limited both theoretically and practically. Taking on this challenge, the third objective of this study is to look for replication and rigorous results on the relationship between CE and firm performance by looking deeply into a specific institutional context of Vietnam.

5. Research Setting and Methodology

5.1. Research Setting

The research setting for this study is Vietnam, which is suitable for many reasons. First, Vietnam is a transitioning economy that has just experienced a decade of policy-driven privatisation with a large number of state owned enterprises (SOEs) privatised. The process of equitisation in Vietnam has created several forms and structures inside privatised firms which are associated with corporate governance (Cuervo and Villalonga, 2000, Hoskisson et al., 2000). Second, the unique regulatory framework, as well as the evolution of cultural beliefs during the institutional transition that has accompanied privatisation, makes Vietnam a dynamic setting for understanding more about ownership structure, structural board independence—and corporate entrepreneurship relationships.

As such, the sample of privatised firms in Vietnam will help to uncover the structures and mechanisms that work to facilitate corporate entrepreneurship. Moreover, through this research, the role of traditional
agency theory in explaining the principle-agent relationships in transitioning economies where institutional infrastructure is underdeveloped will be further explored (Dharwadkar et al., 2000, Zahra et al., 2000a).

5.2. Methodology

This research will use a two stage sequential mixed method design where a quantitative approach is adopted through analysis of survey data and a qualitative approach is used through multiple case studies (Creswell and Clark, 2010). The philosophical stance shaping this methodology is critical realism.

The quantitative design will be driven by a survey of 150 chief executive officers (CEOs) of privatised firms conducted using convenience and snowball sampling. The location of the firms could be any cities/provinces in Vietnam. Once the researcher gets the verbal approval of the CEOs in providing the financial data and annual reports and attending the interview, the questionnaire will be sent to them. CEOs offer a unique and comprehensive view of entrepreneurial activities (Zahra, 1991, Kuratko et al., 1997). Due to the sensitive and complex nature of the inquiry, a direct face-to-face interview approach is required. Another reason for direct interview is to make sure the respondents understand the questions which include much Western terminology (Filatotchev et al., 1999). To test the representation of the sample, the sets of responding and non-responding companies will be compared based on average firm age, size, sales volume, and sales growth.

Due to limited research on corporate entrepreneurship in the context of privatised firms in transitioning economies, the survey methodology supported by qualitative methods is to provide more details and insights about the relationships between the board composition, ownership and CEO-board ties and corporate entrepreneurship. Indeed, Creswell (Creswell, 2009) claimed that a qualitative method is an appropriate research method as few empirical studies have been conducted on the subject, little is known about it, and it needs to be explored in more detail. Given that there is a need to know more about the variety of corporate governance mechanisms that foster corporate entrepreneurship within firms (Phan et al., 2009, Narayanan et al., 2009), qualitative analysis techniques are adopted for this objective. Moreover, survey research can address attributes of corporate governance but not how the stakeholders such as the top management team, board of directors, or outside or institutional investors play their roles in promoting corporate entrepreneurship. Qualitative research therefore is therefore very useful in this case.

This part of study will use the multiple case study method (Yin, 2009). A case study is an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context (Yin, 2009). Yin (2009) noted that case study research was appropriate whenever the research questions had a structure of how and why questions. Case study method is appropriate to this study because it aims to examine how corporate governance structure, ownership and CEO-board ties facilitate corporate entrepreneurship. Multi-case study is preferred over a single case study because the results from multi case study are superior and more compelling than the results from a single case study. In the new contexts where corporate governance and relationships within each context are so diverse and complex, a single case study would not be sufficient to capture the picture of how corporate governance, ownership structure influence corporate entrepreneurship. Specifically, this phase of study will try to explain the phenomenon that have not yet answered or understood from the quantitative study. It will examine the interplay among board members, top management team in order to explore the dynamics of corporate governance that enriches risk-taking level for corporate entrepreneurship.
Case selection should be performed with criteria derived from research framework (Yin, 2003). The sampling frame includes the privatised firms, including both the firms that participated in the survey research and the firms that did not. Also, the sample selection will consider the following elements: (1) Accessibility of the researcher to the chairman is high; (2) All stakeholders have to agree to researcher access, (3) The firms have been privatised at least 5 years; (4) CEO and chairman have been in their position for at least 3 years.

Given the diversity and complexity of corporate governance in the context of these firms in the transition economies, the case study design using multiple and diverse industries and organizations is the most appropriate design to explore more context specific mechanisms of corporate governance that influence corporate entrepreneurship. Different types of ownership, governance within the different contexts will particularly give the great opportunities to explore and understand the dynamics of the governance mechanisms and its relationship with corporate entrepreneurship. As such, firms from different industries group as well as polar cases (Pettigrew, 1990) with respect to the degree of innovation and renewal will be selected.

Therefore, six cases studies in three groups of industries will be chosen by following the comparative case studies procedures. Three industry groups include: labor-intensive industries (garment and text tile, food industry), capital-intensive industries (electronics, auto industry), and knowledge-intensive industries (professional services). Each group consists of two firms: one with high level of entrepreneurship and one with low level of entrepreneurship.

The data collected will consist of (1) extensive archival data, including annual reports, financial statements, and meeting minutes of the board of directors and top management teams, and (2) semi-structured interviews with members of boards of directors, top management teams, one of heads of divisions.

6. Expected Results and Contribution

This study will make important contributions to both theory and practice. It expands the current theoretical understanding of the complicated relationships between issues related to corporate governance and corporate entrepreneurship through the integration of multiple perspectives. The empirical evidence hopefully will show that in the case of an upheaval in institutions, the agent-principal relationship is more complicated and agency theory only works in certain conditions.

More importantly, the author believes that the theoretical framework emerging from six case studies could explain the inside mechanisms through which firms choose their entrepreneurial investments. The results will make significant contributions in the areas of corporate governance and corporate entrepreneurship. As a consequence, findings from the study also will suggest several practical ways that the ownership and the board of directors can be structured to leverage entrepreneurship.

7. Research Limitations

One of the limitations of this research is that the data will be potentially collected at a period of time when the economy is unstable, which surely directly affects the investment choices of firms. The difficulties facing the banking sector in recent years in particular prevent the firms from investing in innovation or creation of new firms. Some firms operating in key industries such as telecommunications, petroleum, and
electricity are harder to approach. This could make the data biased to some extent. On the other hand, the fact the data is cross-sectional while ownership, governance system and entrepreneurship change over time could limit the ability of generalisation of the findings.
8. Reference


