CHAPTER 2
DEVELOPMENT OF FINANCE, ACCOUNTING AND AUDITING

RELATIONSHIP INVOLVED BY VIETNAMESE SMALL BUSINESSES BETWEEN CAPITAL STRUCTURE AND FIRM PERFORMANCE

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Abstract. *From data collected from 126 small and medium enterprises in HCM City, the paper was conducted to examine the connection between capital structure, ownership structure and operational efficiency of Ho Chi Minh City's small and medium businesses. The purpose of the article is to study the interdependence between the capital structure and the results of the small business firm of Vietnam. The author analyzes data based on different methods to contribute additional previous studies follow four dimensions: operational efficiency is measured by DEA model, instead of using the financial ratio in order to verify the theory's predictions agency costs; shows that the operating effectiveness is an important factor in choosing the capital structure for some industries; test whether some hypothesis can dominate each other in various segments of the distribution of leverage or not; and provide fresh empirical data on the connection between capital structure, ownership structure, and operational effectiveness. Future studies can look into the connections between company sizes, market measurements for business financial success, and capital structure. Future research may use the decide methodology with the moderator proxy being company size. The study's findings might be improved even more as a result.*

Keywords: capital structure, ownership structure, performance, small and medium enterprises
JEL Classification: G30, G31, G38
Formulas: 2; fig.: 0; tabl. 4; bibl.: 40

Introduction. The purpose of this study is to examine the relationship between business success and capital structure. The connection between capital structure and financial performance has been a topic of considerable debate in financial theory. Examining the factors that affect a financial structure for the business or financing decisions is crucial to comprehend how businesses finance their operations. Factors that are both internal and external, however, affect a capital structure of the company. The government's tax policy, the rate of inflation, and the state of the capital markets are examples of macroeconomic variables that are considered external.

One of the ASEAN nations with the quickest rates of economic growth is Vietnam, so more and more studies focus on exploring economic issues in ASEAN in particular and Vietnam in general (Dang et al., 2020; Dang & Nguyen, 2021a, 2021b, 2022; Nguyen, 2020, 2022a, 2022b). In particular, recent studies show that the study of financial and non-financial enterprises plays an increasingly important role in Vietnam's economic development (Nguyen & Dang, 2020; Nguyen, 2022c; Nguyen

& Dang, 2022). In Vietnam, for the period of 2016-2018, SME accounted for 93.5% of the total number of businesses in the nation; in which medium-sized and tiny businesses increased by 54.8%, 36.9% and 43.3% respectively compared to the average period of 2011-2015. These businesses play a vital role in the Vietnamese economy, although their capital and revenue are not strong points. Small and medium enterprises in Vietnam play a crucial part in stabilizing the economy and also make a great and important contribution to budget revenue, create jobs throughout the country, and contribute a significant part to GDP. In addition, SMEs draw a lot of attention of labor and social resources to make products. In order to compete more directly with big businesses and corporations, their products are generally biased in terms of exemplary and diverse, giving consumers a wide range of options. Additionally, they access several niche markets that big businesses bypass because there is not enough money coming in. Because of that importance, the study of small and medium enterprises is very important for the Vietnamese economy. Meanwhile, to our knowledge, previous research has not given much thought to the of small and medium enterprises. Especially in the context that these enterprises are more difficult to access the capital market than large companies. Therefore, this study is complementary to studies done in the past on the capital structure of firms. From the research results, this study provides some important policy implications to facilitate the development of small and medium enterprises in Vietnam.

Up until now, a great deal of study has been done on the connection between capital structure, ownership structure, and enterprise performance both internationally and in Vietnam. Different outcomes have been seen in experimental research. In particular, the trade-off theory contends that debt is necessary to boost performance whereas the agency cost theory contends that a high debt ratio will lower operating efficiency. The risk efficiency theory contends that an efficient corporation will borrow more because of its capacity to avoid financial difficulty when the inverse relationship between capital structure decisions and performance is taken into consideration. Businesses should avoid taking on too much debt if the franchising theory is correct and they want to maintain certain competitive advantages. In order to evaluate and improve these theories, as well as to present fresh empirical data from a sample of small and medium-sized businesses, this study was carried out because the findings of the earlier research are varied. The study responds to the following questions by using data from 365 small and medium-sized businesses in Ho Chi Minh City, Vietnam for analysis: How is operational efficiency is influenced by a number of factors, including capital structure and ownership structure? Does the firm's decision to use leverage have an opposite effect depending on the ownership structure and operating efficiency? And are there variations in these linkages between businesses in various industries? by using data to measure operational effectiveness using the DEA model.

The other portions of the essay are organized as follows: part 2 gives an overview of earlier investigations, part 3 gives data and research techniques, part 4 gives research findings, and part 5 gives conclusions.

Literature review. *Operational efficiency and capital structure.* Numerous empirical studies to date have found a positive correlation between business performance and capital structure. One such study is Schiantarelli and Sembenelli's (1999) investigation of the causes and effects of debt term structure using panel data of British and Italian firms. The authors discover that selecting a debt maturity structure typically balances liabilities and assets. The author makes the case that successful companies frequently take on more long-term debt. With a sample of 167 Jordanian businesses, Zeitun and Tian (2007) looked at the effect of capital structure on firm performance. The information is utilized in tabular form from 1989 to 2003. The study discovers an intriguing fact: the ratio of total debt to total assets has a positive and significant impact on the measure of company performance. Utilize the Tobin'Q index to gauge the market. The author also demonstrates how regional and national policies have an impact on businesses in Jordan. Narendar V. Rao et al. (2007) looked at the association between capital structure and company performance in the context of Omani companies in another study. The study looked at the trade-off between whether or not businesses using debt to finance their operations are protected from taxes. This implies that raising the debt ratio will improve business performance.

Moreover, some studies have revealed the opposite findings, such as the study by Gleason and Mathur (2000), which collected information from merchants in 14 European nations and utilized both financial measurement and operational measurement systems to assess business success. Since the dispute between the owner and the agent might result in the usage of financial leverage above what is necessary the findings show an antagonistic relationship between capital structure and business success. Capital structure, which has an impact on how well a company performs.

Ownership structure and performance. The connection between ownership structure and business performance has drawn a lot of attention in the literature on finance. The failure of this collection of literature to agree on the nature of the relationship is a notable aspect of it. Controlling for firm-specific traits is also required when modeling the relationship between company performance and ownership structure. By including these variables, it is possible that multiple variables may have an impact on ownership structure or corporate performance simultaneously, leading to erroneous correlations between them.

Lack of information regarding the relationship between ownership structure and corporate performance in businesses established in Vietnam served as the primary impetus for the current study. More precisely, when ownership is viewed as multifaceted and internally motivated, the relationship between these two variables has not been taken into account in prior studies. The findings, which show that managerial ownership is statistically related to performance, imply that Vietnam too suffers from the same homogeneity issues that were found in the American setting. But when homogeneity is taken into consideration, neither ownership metric has a statistically significant impact on performance.

Previous research on this link has frequently produced conflicting findings. Performance and ownership concentration do not significantly correlate with one another, as demonstrated by Chen, Cheung, Stouraitis, and Wong (2005). According to a 2007 study on the Spanish stock market by Minguez-Vera and Martin-Ugedo, there is a trustworthy correlation between ownership concentration and firm performance. Thomsen and Pedersen's (2000) research, however, also found a link the relationship between concentrated ownership and performance. This relationship is not linear, so once the firm reaches a particular degree of efficiency, it shifts to an inverse relationship. Similar to this, Garcia Meca and Sanchez-Ballesta (2011) studied the Spanish market to look at three aspects of ownership structure: internal (family) ownership, centralized ownership, and decentralized ownership and board members) as well as ownership of the business. According to research, ownership concentration is positive connected with firm performance up to a certain point but turns negative once it exceeds that point.

This study also demonstrates that internal ownership and ownership by outside organizations will improve business performance because managers will work for the company's common goals and, if the owner is an organization, will have stronger control over the enterprise. However, a research by Turki et al. (2012) utilizing panel data of 23 non-financial companies registered on the Tunisian Stock Exchange between 1998 and 2009 found the opposite. The author discovers a negative correlation between ownership concentration and business performance. As a result, it does not lessen conflicts of interest between stockholders and minority shareholders who own the bulk of the shares. In addition, family firms are a particular kind of major shareholder with a distinctive incentive structure, according to the research of Demsetz and Lehn (1985); Anderson et al. (2003). For instance, business owners often try to keep the agency costs of external debt and external equity to a minimum out of concern for their family's reputation.

Structure of ownership and capital. According to research by Brailsford et al. (2002), If major outside shareholders are able to successfully monitor management, managers might not be able to change debt to their own advantage. Freely, or to put it another way, debt and ownership concentration are positively correlated. However, they discovered that there is a nonlinear link between stock ownership and leverage. Agency conflict necessitates a greater use of debt at low levels of ownership, whereas managers who possess ownership try to lower their risk by using less debt. In that instance, companies with significant outside shareholders may have debt-to-equity ratios that are larger, at least until the possibility of bankruptcy makes debt reduction necessary. Friend and Lang (1988) concluded that there is a favorable correlation between debt and the level of foreign ownership.

Aims. The purpose of the article is to study the interdependence between the capital structure and the results of the small business firm of Vietnam.

Metodology. *Data collection and sample selection.* The combined financial accounts are the foundation for the analysis of 126 businesses in Vietnam's two traditional manufacturing sectors, agro processing and agriculture (including

companies in the food and processing industries). agricultural goods, fishing), building, and information services, which is a mature industry.

Table 1. Summary of the results of some previous studies

Relationship	Author	Result on sign
Corporate brand and capital structure	McConnell and Servaes (1995) followed Myers (1977), Jensen (1986) and Stulz (1990).	Maybe (-) or (+)
	Schiantarelli and Sembenelli (1999), Zeitun and Tian (2007), Narendar V. Rao et al (2007)	(+)
	Gleason and Mathur (2000),	(-)
Corporate efficiency and ownership structure	Chen, Cheung, Stouraitis, and Wong (2005); Minguez-Vera and Martin-Ugedo (2007)	Maybe (-) or (+)
	Turki et al (2012)	(-)
	Thomsen and Pedersen (2000); Garcia Meca and Sanchez-Ballesta (2011)	Maybe (-) or (+)
	Kole and Mulherin (1997)	(-)
Ownership concentration	Brailsford et al (2002)	(-)
	Friend and Lang (1988)	(+)
Family ownership	Demsetz and Lehn (1985); Anderson et al (2003).	(+)

The choice of industries is based on identifying significant differences across industries. For five years, from 2015 to 2020, financial statements and data tables provided by businesses were used to gather the information needed to assure the validity of cross-sectional data regression.

Table 2. Statistics on the number of observed samples

Department	Total number of companies	Number of medium-sized companies	Number of small-sized companies
Agriculture	45	30	15
Construction	47	12	35
IT services	34	16	18
Total	126	58	68

Business performance evaluation model. DEA - Data Envolopment Analysis is a boundary estimation approach. Färe et al. (1994) proposed input and output oriented DEA models to evaluate technical effectiveness (TE). This is a very good method to evaluate the performance of a business in a certain field. Input-oriented engineering efficiency studies the set of inputs that led to a specific output beam. Utilizing the bare minimum number of input types (Inputs) to generate a predetermined set of outputs is the answer for each decision-making unit (DMU) (Outputs). The potential output of a DMU from a given set of inputs is measured via output-oriented engineering, in contrast. According to the research of Lovell et al. (1993), it is more appropriate to assess the effectiveness of input-oriented strategies when the enterprise input factors can be easily manipulated. It is more appropriate to use the efficient determination of input-oriented strategies in the application of this study. Because the assumption of constant returns to scale is frequently inappropriate for commercial organizations, the DEA model employs the VRS (Variable Return to Scale) technique in this study. The ideal input to output ratio will be obtained by solving the aforementioned linear programming problem with specific data for each DMU decision-making unit. The ratio of the distances between the quadrant and the

effective boundary and the quadrant and the associated DMU will be the TE efficiency measure (Färe et al., 1994).

Business performance evaluation model. The regression equation for the firm efficiency model is given as follows:

$$HQ_i = a_0 + a_1 DB_i + a_3 Z_{1i} + u_i \quad (1)$$

with HQ is the performance efficiency equal to the TE value obtained from the data envelope analysis model DEA; DB is the ratio of debt to total assets; Z_l is the control variable vector, and u is the random error.

Firm characteristics are represented by variables, including the control variable Z_l. More precisely, the study contends that business performance may be influenced by profitability, ownership type and structure, scale, asset composition, and potential for growth. The following variables are included in variable Z_l: The return (EBIT) to total assets ratio is used to calculate profit (LN). The ratio of intangible assets to the company's equity is used to quantify intangible assets, whereas the ratio of tangible fixed assets to the total assets of the organization is used to calculate tangible assets. According to Titman and Wessels, this is a metric to assess the enterprise's capacity for future growth (1988). The natural logarithm of corporate sales is used to calculate revenue growth (DT) and company size (QM). Additionally, the impact of ownership type and level on business performance is investigated in this study. This uses the percentage of shares held by entities and people categorized as significant shareholders to calculate ownership level (MDSH). By segmenting each of the different levels of ownership concentration and including dummy variables, the paper enables the effect of ownership to vary in a linear piecewise form. The number of inputs can be divided into an infinite number of time intervals, and in each interval, the number of outputs is a linear function of the number of inputs (see Morck et al., 1988). As a result, the model's ownership structure variable (CCSH) is created by multiplying "MDSH" by "SH." The family ownership variable (GD), which is a dummy variable, will have a value of 1 if family members own the business and 0 otherwise. The measure of these variables was base on previous studies (Dang et al., 2022; Nguyen, 2021, 2022a, 2022d, 2022e; Nguyen & Dang, 2022).

Leverage Model. The debt-to-assets ratio and operating performance are associated with the capital structure equation, along with a number of other variables discovered via related research (see Harris and Raviv, 1991; Myers, 2001). . The following is the given leverage equation:

$$DB_i = \beta_0 + \beta_1 HQ_i + \beta_2 Z_{2i} + v_i \quad (2)$$

where v_i is the random error and Z_2 is a vector of factors that are connected with leverage (apart from the efficiency factor). The variables in the control variable Z_2 represent aspects of the firm that could have an impact on capital structure (see Harris and Raviv, 1991; Rajan and Zingales, 1995). They include variables like profit (profit), asset structure (VH), size (QM), revenue growth (DT), base structure ownership (CCSH1, CCSH2), and family ownership that are utilized in representative cost models (GD).

Results. The study discovered some significant affects of a variety of elements on the performance of the firm using two-stage regression 2SLS (Two-Stage Least Squares) for the efficiency model. Table 3 displays the outcomes of the effective model.

The central assertion of Jensen and Meckling's (1976) agency cost hypothesis that increased leverage is related to overall improved efficiency is found to be supported in terms of firm performance. The full spectrum of observable information. Leverage has an impact on performance, although to different degrees depending on the industry. Despite the fact that this is an old result, it helps to validate and evaluate earlier hypotheses on how leverage affects corporate performance.

There are variances between industries, but the study also found that a variety of other factors have an effect on how well businesses function. With regard to the factor of past profit, the information services sector shows a positive association, whereas the construction sector shows a negative correlation and the agriculture and agro-processing sector does not show any statistical significance. Additionally, there are differences in the degree of ownership concentration. For the information technology service sector, a low level of ownership concentration contributes to increased operational efficiency, whereas a high level of ownership concentration would result in decreased efficiency. For some industries, the outcomes are, however, the opposite. The study indicated that performance is negatively correlated with assets virtually everywhere, particularly with the retirement of family members. This result does not support the study of Demsetz and Lehn (1985); Anderson et al (2003).

The risk efficiency hypothesis and the franchise value hypothesis need to be balanced out, therefore, the study additionally looked into the relationship between efficiency and leverage inside the company. Particularly, the research findings provide more evidence in favor of the risk-effective argument.

Table 3: Regression results of panel data for performance model

Variables	IT services		Agriculture		Construction	
	Coff-2SLS	SE	Coff-2SLS	SE	Coff-2SLS	SE
GD	-0.16654*	0.06072	-0.06364	0.05077	-0.09319**	0.04258
DT	0.00304	0.005636	0.01866	0.05290	0.02570	0.03697
TSVH	-3.05237*	1.026421	-1.59071*	0.64491	-0.64740*	0.29921
DB	0.29663*	0.122182	0.37924*	0.07252	0.42905*	0.07320
QM	0.08595*	0.027227	0.17602*	0.03452	0.02489	0.02492
CCSH1	1.59759	0.464993	-0.02844	0.67037	-0.20084	0.34766
CCSH2	-0.11854**	0.19402	0.14109**	0.21799	0.11465	0.10691
LN	0.44092*	0.161524	0.10469	0.18873	-0.49318*	0.12014
TSHH	-0.13938*	0.142095	-0.05309	0.15328	-0.25540*	0.06175
Constant	-0.57421	0.301454	-1.80720	0.42198	-0.03251	0.28814
R^2	0.58		0.47		0.43	

*Significance level: *1%; **5%; ***10%*

The percentile regression and OLS regression results for the leverage model indicate that for businesses in the IT service sector, the impact of efficiency on leverage is favorable and substantial in the analysis. This result supports the risk efficiency hypothesis from low to high leverage: more efficient enterprises with relatively low debt levels typically chose larger debt ratios because increased efficiency makes predicted bankruptcy costs and financial distress costs less expensive. However, the regression results for the efficiency variable are only statistically significant for enterprises in the IT service industry and not for the rest of the industries. Regarding the degree of ownership concentration, the regression

results show that there is no clear and consistent relationship in each industry and each segment of the leverage distribution, in the information technology service industry, the degree of ownership concentration At low levels, leverage and high concentration of ownership are inversely correlated, with leverage being positively correlated and high concentration of ownership being negatively correlated. At low levels, leverage and high ownership concentration are negatively correlated, while leverage and leverage are positively correlated. For the remaining industries, the regression coefficients are also not statistically significant. The results from the remaining variables are also comparable, but because of the high p-value, the regression coefficients do not reach statistical significance.

Table 4. OLS regression results and 50% percentile for leverage model

Variables	IT services		Agriculture		Construction	
	Cof-OLS	Coft-Q50	Coft-OLS	Coft-Q50	Cof-OLS	Cof-Q50
HQ	0.34469**	0.33688***	-0.24752	-1.24514	0.377145	0.38854
GD	0.00729	0.04445	1.37273	0.40013	-0.290524	-0.28563***
DT	0.10007	0.20353	-0.045622	-0.26324	0.321864	0.007952
TSVH	0.71616***	0.11776	2.59123	0.29652	0.24831**	1.20213
QM	-0.01109***	-0.01706	0.22448	-0.13536	-0.45262	-0.92833*
CCSH1	0.14796	-0.41178	-0.11033	0.32652	0.38227	0.16335
CCSH2	-0.16572	0.24137	1. 82750	0.46621	-0.43562	-0.60475
LN	-0.09309***	0.07696	-0.23849	-0.15673	-1.34546	0.23262**
TSHH	-0.22743	-0.4152***	-0.19542	-0.72868	0.10475	0.05673
Constant	0.45779	0.57237	0.30927	-0.23672	0.03364	4.43936
R^2	0.41	0.38	0.28	0.19	0.33	0.26

Additionally, the sign of the association between the variables remains same when running percentile regression on each percentile of the leverage distribution. As a result, the analysis demonstrates that the connections between variables in each percentile of the leverage distribution are identical. This empirical finding aids in dispelling questions regarding the various justifications for the findings of numerous writers' study.

Conclusions and discussion. In the actual world, the capital structure definitely affects how well a company performs, since markets are inefficient. But it's still up for dispute whether this influence is beneficial or harmful. The relationship between capital structure and firm performance has been the subject of extensive investigation. Between these variables, some of these research have discovered a positive link, while others have discovered a negative relationship.

The study uses a sample to look into the causal relationship between leverage and performance as well as performance of SMEs in Ho Chi Minh City from industries with various high and low growth rates. the relationship between several elements, including performance and capital structure. The study offers the following conclusions after examining the data and model outputs: First, in terms of performance, We discover support for the agency cost hypothesis' main predictions made by Jensen and Meckling (1976), according to which greater leverage is linked to better performance across the board. The second factor that improves performance is past leverage. Numerous additional favorable aspects also have an impact on performance and capital structure, but the connections between these variables are

varied across industries and the same for each segment of the leverage distribution. This study helps to understand why the outcomes of earlier investigations were different.

Based on the research's conclusions, the author offers the following suggestions: First, small and medium-sized businesses should adopt a capital structure with a greater debt ratio to increase operational efficiency. Second, organizations must familiarize themselves with other niche characteristics relevant to each industry, such as ownership structure, tangible and intangible assets, etc. Create the most effective development plan. Thirdly, in order to manage risks and prevent the organization from getting into trouble, businesses must also create a good control and management system in addition to an ideal capital structure and ownership structure. Financial difficulties, which raises the possibility of the company going bankrupt. The study contains numerous data constraints as a result of the very small sample size and short time series. Additionally, the study did not examine a wide range of variables, necessitating additional research to broaden the data and observational scope. Including applying models to more businesses and industries... First, more input and output variables for the DEA model need to be added and taken into account in order to increase the number of variables. Secondly, in order to fully assess the correlations between variables that this study may have ignored, it is required to take other variables into account for the performance and leverage model.

Additional research can be done in the future to overcome some of the shortcomings of this study. The moderating effects of business size on the correlations between capital structure and accounting metrics of firm financial performance are the main focus of our research. Future studies can look into the connections between company size, market measurements for business financial success, and capital structure. Future research may use the decide methodology with the moderator proxy being company size. The study's findings might be improved even more as a result.

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