

**THE RELATIONSHIP BETWEEN
CAPITAL STRUCTURE AND PERFORMANCE
OF VIETNAMESE FIRMS IN AGRICULTURAL SECTOR**



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OF VIETNAMESE FIRMS IN AGRICULTURAL SECTOR**



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ABSTRACT

This study examines the capital structure and firm's performance of Vietnamese agricultural firms for the period from 2010 to 2014. In addition, this study also examines the relationship between capital structure and the firm's performance. Capital structure is represented by four variables, which are (i) short term debt to total assets, (ii) long term debt to total assets, (iii) total debt to total assets and (iv) total debt to total equity. Firm's performance is represented by five variables, which are (i) return on asset, (ii) return on equity, (iii) gross profit margin, (iv) earnings per share and (v) price earnings ratio. This study uses secondary data obtained from 51 agricultural firms listed on the Hanoi Stock Exchange and the Ho Chi Minh Stock Exchange. The correlation coefficients between the variables of capital structure and firm's performance indicate there is a relationship between capital structure and firm's performance. Specifically, the findings of the study show that capital structure has positive relationships with return on equity and price earnings ratio but negative relationship with return on assets, gross profit margin and earnings per share.

Keywords: capital structure, firm's performance, agricultural sector.

ABSTRAK

Kajian ini mengkaji struktur modal dan prestasi firma bagi firma-firma pertanian di Vietnam untuk tempoh dari 2010 hingga 2014. Di samping itu, kajian ini juga mengkaji hubungan antara struktur modal dan prestasi firma. Struktur modal diwakili oleh empat pembolehubah, iaitu nisbah (i) hutang jangka pendek kepada jumlah aset, (ii) hutang jangka panjang kepada jumlah aset, (iii) jumlah hutang kepada jumlah aset dan (iv) jumlah hutang kepada jumlah ekuiti. Prestasi firma diwakili oleh lima pembolehubah, iaitu (i) pulangan ke atas aset, (ii) pulangan ke atas ekuiti, (iii) margin keuntungan kasar, (iv) pendapatan sesaham dan (v) nisbah pendapatan harga. Kajian ini menggunakan data sekunder yang diperolehi daripada 51 buah firma pertanian yang disenaraikan di Bursa Saham Hanoi dan Bursa Saham Ho Chi Minh. Pekali korelasi antara pemboleh ubah struktur modal dan prestasi firma menunjukkan terdapat hubungan antara struktur modal dan prestasi firma. Secara khususnya, hasil kajian itu menunjukkan bahawa struktur modal mempunyai hubungan positif dengan pulangan ke atas ekuiti dan pendapatan harga nisbah tetapi mempunyai hubungan negatif dengan pulangan atas aset, margin keuntungan kasar dan pendapatan sesaham.

Kata kunci: struktur modal, prestasi firma, sektor pertanian.

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Following the established Buddhist tradition: May the writing of this thesis benefit all sentient beings without exception.

TABLE OF CONTENTS

TITLE PAGE	i
CERTIFICATION OF THESIS WORK	ii
PERMISSION TO USE	iii
ABSTRACT	iv
ACKNOWLEDGEMENT	vi
LIST OF TABLES	xi
LIST OF FIGURES	xii
CHAPTER ONE INTRODUCTION	1
1.1 Introduction	1
1.2 Background of study	1
1.2.1 Status and Performance of Agricultural Sector around the Globe	2
1.2.2 Status and Performance of Vietnam's Agricultural Sector	3
1.2.2.1 History of economic development in Vietnam	3
1.2.2.2 Status and Performance of Vietnam's Agricultural Sector	5
1.3 Problem Statement.	7
1.4 Research Questions	9
1.5 Research Objectives	10
1.6 Scope of the Study	10
1.7 Significance of the Study	10
1.8 Organization of the Study	11
CHAPTER TWO LITERATURE REVIEW	12
2.1 Introduction	12

2.2 Theoretical Review	12
2.2.1 Modigliani and Miller Theory (without tax and tax)	12
2.2.2 Trade-off theory	14
2.2.3 Activity cost theory	15
2.2.4 Pecking order theory	16
2.3 Review of Empirical Studies	17
2.3.1 Empirical evidence of capital structure and firm performance in developing countries	17
2.3.2 Empirical evidence in Vietnam	20
2.4 Summary	22
CHAPTER THREE METHODOLOGY	25
3.1 Introduction	25
3.2 Theoretical Framework	25
3.3 Measurement of Variables	27
3.3.1 Variables of Capital Structure	27
3.3.1.1 Short-term debt to total asset ratio (SDTA)	27
3.3.1.2 Long-term debt to total asset ratio (LDTA)	28
3.3.1.3 Total debt to total asset ratio (TDTA)	29
3.3.1.4 Total debt to total equity ratio (TDTE)	29
3.3.2 Variables of Firm Performance	30
3.3.2.1 Return on assets (ROA)	30
3.3.2.2 Return on equity (ROE)	31
3.3.2.3 Gross Profit Margin (GPM)	32
3.3.2.4 Earnings per share (EPS)	33
3.3.2.5 Price earnings ratio (PE)	34

3.4 Data and Data Collection	35
3.4.1 Data	35
3.4.2 Data collection	35
3.5 Correlation coefficient	36
3.6 Summary	37
CHAPTER FOUR RESULTS AND DISCUSSION	39
4.1 Introduction	39
4.2 Descriptive statistics analysis of Vietnamese agricultural firm's capital structure	39
4.2.1 Descriptive statistics analysis of short term debt to total asset.	40
4.2.2 Descriptive statistics analysis of long term debt to total asset.	42
4.2.3 Descriptive statistics analysis of total debt to total asset.	44
4.2.4 Descriptive statistics analysis of total debt to total equity	46
4.3 Assessment on the performance of Vietnamese agricultural firms	47
4.3.1 Accounting measures (ROA, ROE and GPM)	48
4.3.2 Market measures (EPS, PE)	51
4.4 Relationship of Vietnamese agricultural firms capital structure and performance	
4.4.1 The relationship between debt ratios and return on assets.	54
4.4.2 The relationship between debt ratios and return on equity	55
4.4.3 The relationship between debt ratios and gross profit margin	56
4.4.4 The relationship between debt ratios and earning per share.	57
4.4.5 The relationship between debt ratio and price earnings ratio.	58
4.5 Summary	58
CHAPTER FIVE CONCLUSION AND RECOMMENDATION	60
5.1 Introduction	60
5.2 Summary of the study	60

5.3 Limitations of the Study	62
5.4 Recommendations	63
5.4.1 Recommendation for Vietnamese agricultural firms	63
5.4.2 Recommendations for Future Research	64
REFERENCES	65
APPENDIX	70

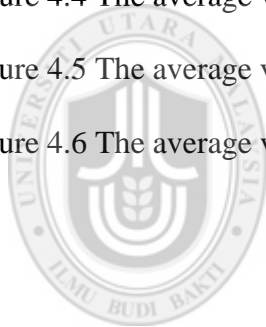


LIST OF TABLES

Table	Page
Table 1.1 Agriculture value ratio to GDP of Vietnam (2010 -2014)	5
Table 1.2 The agriculture's value exports (million USD) 2010 -2014.	7
Tables 2.1 Summary of empirical studies of capital structure and firm performance in developing countries	23
Tables 2.2 Summary of empirical studies of capital structure and firm performance in Vietnam	24
Table 3.1 Value of the Correlation Coefficient	37
Table 3.2 Summary of Measurement of Variables.	38
Table 4.1 Summary statistic of the capital structure	40
Table 4.2 Summary statistic of the performance	48
Table 4.3 Correlation coefficient analysis in average	54
Table 4.4 Summary of hypotheses tests results	59

LIST OF FIGURES

Figure	Page
Figure 1.1 Agriculture value ratio to GDP, source World Bank, 2015	3
Figure 1.2 The agriculture's export value in 2014, source Vietnam report, 2015	6
Figure 3.1 Research framework.	26
Figure 4.1 The average value of SDTA.	42
Figure 4.2 The average value of LDTA.	44
Figure 4.3 The average value of TDTA.	45
Figure 4.4 The average value of TDTE.	47
Figure 4.5 The average value of ROA, ROE and GPM.	51
Figure 4.6 The average value of EPS.	52



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CHAPTER ONE

INTRODUCTION

1.1 Introduction

This chapter presents background of the study, problem statements research questions and research objectives. In addition, scope of the study, significance of the study and organization of the study are presented.

1.2 Background of Study

The capital structure is a financial term that describes method of raising capital to run businesses. According to Titman and Grinblatt (1998), capital structure can include both the outside and inside funds of the firm. The capital structure refers to the way businesses seeking financing plans through a combination of debt and equity. In other words, the capital structure is the combination of different kinds of equities and liabilities (Culp, 2011). For example, a combination of short term debt and long term debt with preference shares and ordinary shares (Riahi-Belkaonui, 1999). Optimal capital structure is a plan, in which businesses may a minimal capital expenditure and the highest return (Bierman Jr & Smidt, 2012). Besides that, the firm will have higher profits if optimal ratio of debt to equity could be achieved (maximizing firm's value and minimizing the cost of capital). Thus, obtaining optimal capital structure is the important task of the firm.

There are a great number of studies on the relationship between the firm's capital structure and its performance (Roden & Lewllen, 1995; Staking & Babbel, 1995; Singlantan & Chen, 2009; Pratheepkanth, 2010; Hamid, 2011; Fang & Song, 2014).

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