IMPACT OF INSTITUTIONAL OWNERSHIP ON COST STICKINESS: EMPIRICAL EVIDENCE FROM LISTED COMPANIES ON STOCK MARKET OF VIET NAM

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Abstract: ***This study assesses the impact of institutional ownership on the stability of costs in listed companies on the Vietnamese stock exchange, based on data from 197 companies from 2020-2023. After comparing Pooled OLS, FEM, REM models and performing necessary defect tests (multicollinearity, homogeneity of variances, and serial correlation), the authors used the FGLS model to overcome the heteroscedasticity and autocorrelation problems to test the hypothesis. The findings provide empirical evidence that institutional ownership increases the stability of SG&A costs in listed companies in Vietnam.***

• Keywords: *institutional ownership, cost stickiness, selling, general & administrative (SGA) expenses, listed companies, Vietnam.*

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1. Introduction

Institutional ownership is defined as companies or organizations that invest money on behalf of other people or organizations (Velte, 2023). Institutional characteristics such as investment horizon, concentration of ownership, and independence from the board of management bring higher monitoring in some organizations than in others (Ramalingegowda & Yu, 2012). Furthermore, institutional investors' monitoring activities are not only related to corporate characteristics but are also clearly linked to CEOs' roles and behaviors with emphasizing their important function in the corporate governance system (Velte, 2023). As mentioned by Shleifer & Vishny (1986), large investors, especially institutional investors, hold more resources and incentives to monitor senior management. As they often represent the largest and most professional shareholders in listed companies, they place a great influence on the board of directors. These investors, therefore, can exercise their exit rights to threaten dissatisfied executives or hold investments to pressure strategic changes through voice rights (Velte, 2023). Most institutional investors focus on financial performance and investment risks from a traditional perspective, and numerous studies indicate that they positively impact the financial performance of companies. These include reducing information asymmetry in capital markets, limiting fraudulent financial reporting (Jain, 2022), and increasing financial flexibility (Salehi et al., 2016). However, studies also show that the impact of institutional investors is not always positive, especially when the cost of equity increases, which reduces the value of the company (Faysal et al., 2021). Consequently, institutional investors may act as active or passive monitors, leading to inconsistent or unpredictable impacts on the financial performance of companies. Moreover, costs are a critical factor influencing company performance. Therefore, we assert that institutional ownership affects cost adjustments during the execution of monitoring roles by institutional investors.

Cost behavior is often related to factors such as changing the size of business activities of the company, managers' adjusting resources for their personal interests, etc. According to previous studies, the costs fluctuate asymmetrically with the size of business activities. Noreen & Soderstrom (1997) argued that asymmetric cost behavior results from the managers' preferring to retain unused resources rather than incur adjustment costs during a declining sales period. Anderson et al. (2003) conducted the pioneering study that provided the first empirical evidence for the existence of asymmetric cost behavior when finding that SG&A expenses increase more than the sales (0.55% vs. 0.35%) when the sales increase, and they decrease when the sales decrease, called "cost stickiness".

Jensen & Meckling's (1976) agency theory focused on the problems of information asymmetry and conflicts of interest between management and shareholders due to the separation of ownership and control. A prominent factor in agency theory is that the managers tend to overexpand their company in order to make "empire-building", causing the waste of valuable economic resources to maintain or expand the company beyond the optimal value. This managers' tendency is to serve their personal interests such as power, prestige, and higher salaries, rather than the interests of shareholders or the company (Anderson et al., 2003). Hence, on the basis of the argument of agency theory, we argued that the conflicts between the agents

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(managers) and the owners will be resolved when both parties reach common interests. Accordingly, it is assumed that both managers and owners give appropriate responses to the asymmetric behavior of costs to achieve their goals. Therefore, the purpose of this study is to examine, review the impact of institutional ownership on the stickiness of costs in the companies.

To achieve the study objectives, we analyzed data from 197 listed companies on the Vietnam stock market between 2020-2023, excluding sectors like investment, insurance, banking, financial institutions, and leasing. The results show that institutional ownership influences the stickiness of SGA expenses, providing empirical evidence of its role in asymmetric cost behavior among Vietnamese listed firms. The following sections of this paper include: (2) theoretical basis and research hypotheses, (3) Methodology, (4) research results and discussion, and finally, (5) conclusion

2. Theoretical basis and research hypotheses

2.1. Theoretical basis

In this section, the importance of the concept of cost stickiness was emphasized, and the agency theory was used to explain the relationship between organizational ownership and cost fluctuations. This theory clarifies how conflicts of interest between owners and managers affect decisions, thereby affecting the cost stickiness in the companies.

Concept of cost stickiness: The concept of cost "stickiness" has been developing since 1927, reflecting research trends across various periods. Initially, Brasch (1927) demonstrated that different cost curves for the same activity level provided the first evidence of cost stickiness. In 1994, Noreen and Soderstrom found that general administrative expenses in Washington hospitals were not proportional to activity levels. In 1997, they argued that some expenses increased more rapidly with rising activity levels, contradicting the traditional model. Kaplan and Cooper (1998) also found that managers tended to increase costs more than they reduced them for equivalent changes. Finally, Anderson et al. (2003) confirmed that costs exhibit asymmetric behavior, meaning costs increase more when activity rises than they decrease when activity falls by the same amount, a phenomenon known as cost stickiness.

Agency Theory: Jensen and Meckling (1976) define an agency relationship as a contractual agreement in which one or more individuals (the principal) hire an agent to act on their behalf, delegating certain decision-making authority. By its nature, the agency relationship becomes problematic when the interests of the principal and the agent are misaligned. Agency costs contribute to cost stickiness (Anderson et al., 2003), as managers often prioritize growth activities, expand operations, or retain inefficient resources to enhance their power, status, or salaries, disregarding the negative impact on costs and stickiness. This behavior can lead to fluctuations in operating costs, reducing cost stickiness. When managers prioritize personal interests over the owners' long-term goals, they are more likely to make suboptimal decisions or retain unnecessary resources, resulting in undesirable cost fluctuations. In contrast, owners typically aim to maximize profits and maintain cost stickiness to ensure the company's long-term efficiency. These conflicts influence the company's development strategies, leading to decisions that affect cost stickiness.

2.2. Research hypotheses

In the agency theory, Jensen and Meckling (1976) argued that the relationship between managers and shareholders leads to the agency cost, affecting the business performance. From the agency cost perspective, the institutional investors can monitor and control corporate policy, which can impact the board of directors' decisions, and may bear monitoring costs more effectively and engage in active ownership.

According to Kane and Velury (2004), institutional investors are assumed to act as a group that holds a relatively large number of shares and larger amounts of investment capital than individual investors, thereby exerting greater influence on the company. Institutional investors can play three potential roles: (1) actively monitor and improve firm performance; (2) cooperate with firm managers to extract private benefits at the expense of minority shareholders; or (3) maintain a passive attitude, thereby reducing the incentive to improve firm performance (Ruiz-Mallorquí and Santana-Martín, 2011). Given their large shareholdings, institutional investors have significant potential to mitigate agency problems between shareholders and management (Gillan and Starks, 2003). Due to the costs associated with monitoring, only large shareholders have the incentive to engage in it (Gillan and Starks, 2003). Institutional investors holding high ownership ratios play an effective monitoring role, whereas those with low ownership ratios tend to act as benefit-seekers. The larger the ownership ratio, the greater the opportunity to benefit from economies of scale in information collection, thereby reducing agency costs (Koh, 2003). Institutional investors often possess substantial financial resources and decision-making capabilities and are willing to withdraw capital if the company performs poorly, thereby prompting changes in its financial and shareholder structure.

Bai et al. (2025) argue that, under the influential monitor hypothesis, institutional investors, through active external monitoring, constrain management's opportunistic behavior. This may impact cost stickiness: institutional investors, who prioritize efficiency and profitability, may pressure the board of management to adjust costs more flexibly as revenues change, thereby reducing cost stickiness. Conversely, without close monitoring, the board of management may delay cost-cutting, leading to greater cost stickiness. As evidence, using a sample of 39,083 non-financial firms over multiple years, Chung et al. (2019) studied the impact of institutional ownership on cost stickiness. Their findings indicate that long-term institutional investors reduce cost stickiness, consistent with Ibrahim's (2018) findings in Egypt. Similarly, based on agency theory, Sun et al. (2024) provide evidence that firms with common institutional

ownership exhibit lower cost stickiness.

On the other hand, Tsouknidis (2019) found that higher institutional ownership in US-listed shipping companies is associated with lower firm performance. This may be because institutional investors impose additional monitoring costs on the board of management, slow decision-making, and hinder the ability to respond flexibly to market fluctuations. Furthermore, Tsouknidis (2019) argued that when these investors prioritize short-term profits, they may encourage risky projects or fail to oppose cost-inefficient decisions, making it difficult to reduce costs when sales decline. In this context, the board of management may become more cautious in adjusting costs, particularly in cutting costs, to avoid conflicts with institutional investors and maintain short-term stability, thereby increasing cost stickiness. Additionally, Woidtke (2002) argued that government organizations often pursue agendas that are not always aligned with corporate goals, creating potential conflicts of interest that reduce corporate efficiency. In other words, institutional investors may intervene to increase cost stickiness to achieve their own objectives. Based on the above arguments, we propose the following research hypotheses:

H1. Institutional ownership negatively impacts the cost stickiness.

H2. Institutional ownership positively impacts the cost stickiness.

3. Methodology

3.1. Research Data and Sample

The research data and sample include the companies listed on the HOSE and HNX during the period from 2020 to 2023. Investment companies, insurance companies, banks, financial institutions, and holding and leasing companies are subject to exclusions due to the specific nature of their activities. The inclusion criteria include (1) data availability, (2) continuous trading during the study period, and (3) fiscal year-end consistent with the calendar year. The final research sample consists of 197 companies.

3.2. Research model and measurement of variables

The authors employ a multiple regression model to estimate the impact of institutional ownership on cost stickiness. The model includes the dependent variable (cost stickiness in selling, general, and administrative expenses), the independent variable (institutional ownership), and a set of control variables, including firm size, financial leverage, asset intensity, and employee intensity. The proposed research model is specified as follows:

$$LNSGA_{it} = \beta_0 + \beta_1 LNSALE_{it} + \beta_2 LNSALE_{it}*DEC_{it} + \beta_3 LNSALE_{it}*DEC_{it}*INS_{it} + \beta_4 INS_{it} + \beta_5 EI_{it} + \beta_6 AI_{it} + \beta_7 LEV_{it} + \beta_8 SIZE_{it} + \varepsilon_{it} \quad (1)$$

The authors used the scale of Anderson et al. (2003) to measure cost stickiness as follows:

$$LN\frac{SGAi,t}{SGAi,t-1} = \beta_0 + \beta_1 LN\frac{SALEi,t}{SALEi,t-1} + \beta_2 * LN\frac{SALEi,t}{SALEi,t-1} *DEC + \varepsilon_{i,t} \quad (2)$$

Where: $SGA_{i,t}$ and $SGA_{i,t-1}$ are the total SGA expenses of company i in the current year t and the previous year t-1, respectively; $SALE_{i,t}$ and $SALE_{i,t-1}$ are the sales/revenue from the sale of goods, rendering of service of company i in the current year t and the previous year t-1, respectively. DEC is a dummy variable and equals 1 when the sales decrease and is 0 if the sales increase.

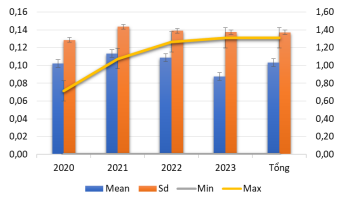
LNSGA and LNSALE, respectively, are the variations in the logarithm of total SGA expenses and sales/revenue from the sale of goods, rendering of service of company i in year t. INS is institutional ownership, calculated as the percentage of institutional ownership in company i in year t. The control variables in the model include AI (asset intensity), EI (employee intensity), SIZE (firm size), and LEV (financial leverage). Where AI is calculated as the logarithm of the ratio of total assets divided by sales and service revenue, EI is calculated as the logarithm of the total number of employees divided by sales and service revenue, SIZE is calculated as the logarithm of total assets, and LEV is calculated as the ratio. In order to satisfy the condition that firms' costs are sticky, $\beta 1 > 0$ and $\beta 2 < 0$ (Anderson et al., 2003). We focus on the coefficient $\beta 3$ of the interaction between LNSALE*DEC and INS.

When β_3 is positive, firms with INS reduce cost stickiness (supporting H1), and when negative, they increase it (supporting H2).

4. Research Results and Discussion

4.1. Descriptive Statistics

Fig. 1. Logarithmic statistics of SGA expense fluctuations by year



Source: Data collected and processed by the authors using Excel and STATA 15

During the 2020-2023 period, the SGA expenses of listed companies on the Vietnamese stock market showed significant fluctuations. The average LNSGA increased from 0.1022 in 2020 to 0.1200 in 2023, reflecting efforts to expand market share and invest in technology to support remote work after the pandemic. The standard deviation decreased from 0.1262 to 0.1130, indicating improved forecasting and cost control, driven by cost-cutting policies and tighter budget management amid economic uncertainty. The minimum and maximum values varied widely, from 0.0146 to 1.2630, highlighting differences in management strategies and resource allocation caused by market conditions and policy impacts. Overall, this period experienced an upward trend in average costs and a more even distribution among companies, showing that businesses have adapted to new challenges and maintained better cost control amid market volatility.

4.2. Research results and Discussion

To determine the most suitable model for panel data analysis, we conducted three tests: the F-test to compare

FEM with OLS, the Breusch-Pagan Lagrange multiplier test to compare REM with the OLS, and the Hausman test to compare FEM and REM. The results of the F-test (F(194, 570) = 0.78, Prob > F = 0.9773) and the Breusch-Pagan test (Chi-square(1) = 0.000, Prob > chi2 = 1.0000) both indicated that the pooled OLS model was more appropriate than FEM and REM, as both p-values exceeded the 0.05 significance level. Therefore, the pooled OLS model was deemed the most suitable for regression analysis. Subsequently, we tested for model violations, which showed that the model violated two assumptions: heteroskedasticity (Prob > chi2 = 0.0001) and autocorrelation (F(1, 189) = 4.979, Prob > F = 0.0268). To address these issues, we applied the FGLS model for more reliable hypothesis testing. The regression results of the FGLS model are presented in Table 1.

Table 1. Regression results of the OLS, FEM, REM and FGLS models

LNSGA	POOL	FEM	REM	FGLS
LNSALE	0.698***	0.700***	0.698***	0.675***
	[13.18]	[10.39]	[13.18]	[24.50]
LNSALE*DEC	-0.167	-0.0264	-0.167	-0.220***
	[-1.42]	[-0.18]	[-1.42]	[-2.69]
LNSALE*DEC*INS	-0.00373**	-0.00805***	-0.00373**	-0.00200*
	[-2.01]	[-3.53]	[-2.01]	[-1.76]
INS	-0.0000258	0.000177	-0.0000258	-0.0000479***
	[-0.50]	[1.11]	[-0.50]	[-2.93]
EI	0.0575	2.12	0.0575	-0.0936
	[0.08]	[1.12]	[0.08]	[-0.43]
AI	0.00371***	0.00518***	0.00371***	0.00187**
	[3.73]	[3.96]	[3.73]	[2.45]
LEV	-0.0000117	-0.000869	-0.0000117	-0.000184**
	[-0.04]	[-0.86]	[-0.04]	[-2.07]
SIZE	-0.00256	0.119*	-0.00256	0.00396*
	[-0.31]	[1.76]	[-0.31]	[1.65]
_cons	0.0297	-1.461*	0.0297	-0.0308
	[0.31]	[-1.79]	[0.31]	[-1.07]
t-statistics in brackets				
** p<0.1, ** p<0.05, *** p<0.01*				

Source: Analysis results from STATA 15

Table 1 shows the estimation results of the basic model of Equation (1). The results show that the estimated value of the coefficient β1 of LNSALE is 0.675 with a statistical significance of 1%; it indicates that SGA expenses increase by 0.675% for every 1% increase in the sales determined in the one-year period. The estimated value of β2 of LNSALE*DEC is -0.220 with a statistical significance of 1%, indicating the stable behavior of SGA expenses. The combined value of β1 + β2 = 0.455 shows that SG&A expenses decrease by 0.455% for every 1% decrease in sales. The above empirical results show that the SGA expenses of listed companies on the stock exchange of Vietnam in the period of 2020 - 2023 are sticky. The results also show that the coefficient of LNSALE*DEC*INS is negative (β3 = -0.002) and statistically significant (0.078); it indicates that the institutional ownership has an impact on increasing cost sickness, supporting the hypothesis H2. These study findings are contrary to the research results of Ibrahim (2018), Sun et al. (2024). When the institutional investors own a large number of shares and have control over the company, they often establish strict monitoring mechanisms to control the management's activities and limit unnecessary expansion or overspending behaviors. The institutional investors often have long-term interests, so they are willing to apply cost control measures to ensure financial stability and maintain long-term performance. The control variables affecting the volatility of LNSGA include AI (β_6 = 0.00187), LEV (β_7 = -0.000184) and SIZE (β_8 = 0.00396).

Conclusion: The research results indicate that INS influences the stickiness of SGA expenses in companies listed on the Vietnam stock market, with a coefficient of β3 = -0.002 and a significance level of 0.078. Although this coefficient is small, the trend suggests that as INS increases, the ability to maintain costs within a reasonable range with reduced volatility also improves. This reflects that institutional investors, through effective monitoring, often establish strict control mechanisms to regulate the board of management's operations, limiting abrupt expansion or cost-cutting behaviors to maintain company stability. In the context of rising sales, they tend to maintain appropriate cost levels, avoiding excessive increases that could cause inflexibility, while during sales declines, they limit abrupt cost reductions to protect the company's operations and reputation. Thus, INS encourages companies to keep costs within a reasonable range, enhancing corporate governance efficiency in alignment with agency theory principles. According to this theory, concentrated ownership by institutional investors promotes monitoring and control of the board of management's activities, thereby maintaining cost stickiness and reducing conflicts of interest among stakeholders.

This research helps listed companies on the Vietnamese stock market focus on building transparent monitoring mechanisms and encouraging institutional investors to actively participate in managing business activities. This contributes to promoting the cost stickiness, thereby enhancing the operational efficiency of these companies. However, the study only focuses on one type of organizational ownership, so future research could broaden to include various types of ownership structures.

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