



The Critical Factors Affect Firm Performance in Vietnam

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ABSTRACT

The objective of our study is to examine how company performance in Vietnam is influenced by corporate governance practices. The researchers collected data from 82 manufacturing firms listed on the Ha Noi stock exchange (HNX) and discovered that the age of the CEO and gender diversity in the board of directors (BOD) have a positive effect on firm performance. However, the size of the firm and board size have a negative effect on performance. The study recommends that companies should avoid increasing board size, and promoting women executives in the boardroom can improve cultural diversity and reduce information asymmetry. However, the study has some limitations, such as not considering the knowledge capability of top management teams equally and excluding the effect of external governance mechanisms due to a lack of data. Based on the findings, the study proposes several recommendations for companies and managers to enhance performance and minimize the negative consequences of inadequate governance mechanisms.

Key words: corporate governance; firm characteristic; firm performance; Vietnam.

1. Introduction

Corporate governance (CG) encompasses the procedures regulations, and methods that dictate how a firm is managed and governed. It aims to create a structure that balances the concerns of various parties involved, such as shareholders, managers, workers, customers, vendors, and the community, in order to guarantee that the company operates in a moral, responsible, and sustainable manner. The primary goal of CG is to promote transparency, responsibility, and equity in decision-making and management processes. It defines clear lines of authority, outlines the functions and duties of the BODs, senior executives, and other critical staff, and ensures that they act in the best interests of the business and its shareholder and stakeholders. CG helps to mitigate risks and prevent fraud, corruption, and other unethical practices that can harm the company's reputation, financial performance, and long-term sustainability (Adams et al., 2010; Aggarwal et al., 2009; Agrawal & Chadha, 2005). It also supports strategic planning, innovation, and value creation by aligning the interests of management and shareholders and promoting long-term thinking and investment. In summary, the role of CG in firms is to provide a framework for effective and responsible management, risk mitigation, ethical behavior, and value creation, which ultimately contributes to the company's success and the well-being of its stakeholders. Therefore, a good corporate governance can help firm increase the effectiveness of firm activities.

Listed firms in Vietnam are companies that have issued shares to the public and are traded on the Vietnamese stock exchange. In Vietnam, there are two main stock markets including HNX and HOSE. These markets provide investors with opportunities to invest in various sectors of the Vietnamese economy, including manufacturing, finance, real estate, and consumer goods. Since Vietnam's economy has experienced significant growth in recent years, many firms have listed on the stock exchange to access capital, expand their businesses, and enhance their visibility and credibility (Andreou et al., 2016; Basiruddin & Ahmed, 2019; Ho et al., 2023). The Vietnamese government has also implemented policies to increase the stock market development and encourage more companies to list their shares, such as simplifying listing procedures, improving disclosure and transparency requirements, and providing tax incentives. Listed firms in Vietnam face challenges such as limited liquidity, high volatility, and limited institutional investors, which can affect their performance and valuation. However, with proper governance mechanisms and sound management practices, listed firms in Vietnam have the potential to generate attractive returns for investors and contribute to the country's economic growth and development (Dang et al., 2020; Dang & Nguyen, 2021a, 2021b; Nguyen, 2020).

This study aimed to measure the impact of CG mechanisms on the performance of 82 listed companies on the HNX in Vietnam between 2011 and 2020. The researchers utilized various econometric techniques, including panel-regression estimation, to examine the information and measure the impact of measures taken by a company to regulate itself on the success of the organization, recognizing their importance for Vietnamese listed firms.

This paper is structured into five sections. The next section introduces a comprehensive review of the previous literature. The section 3 outlines the methods used in the study. The next section, section 4, presents the empirical findings. Finally, the conclusion provides the summary of this study.

2. Literature review

For a long time, the literature on business has centered on using firm performance as a legitimate measure of a company's effectiveness. This approach offers immediate insights into a firm's overall assets or investor equity, enabling investors to assess a firm's current state of affairs. Firm performance studies have been carried out in numerous countries, industries, and areas, and are considered a valuable source of information for investors. These studies have been performed in developed nations such as Korea, Taiwan, Malaysia, and the United States, as well as emerging nations like India, Turkey, China, and Bangladesh, and have covered a variety of sectors, including manufacturing, finance, small businesses, food, engineering, and others. All in all, these studies of firm performance are critical and contribute greatly to the worldwide literature, providing a comprehensive understanding of how firms allocate their resources to their total assets and investor equities.

According to Nguyen and Dang (2020), conflicts between decision makers and investors can lead to a negative correlation. This conflict is known as the principal-agent problem, which occurs if one entity (the "agent") makes decisions or takes actions on behalf of another entity (the "principal"). A difficulty arises when individuals prioritize their own personal benefit over the interests of the person or group they represent, resulting in moral hazard (Dang & Nguyen, 2022; Dang et al., 2022; Nguyen, 2020, 2021, 2022c). Agents may be incentivized to take financial risks without bearing the all adverse consequences cost, leading to issues. Companies may also become deferential to management with ownership stakes, reducing shareholder checks on management. There may also be issues between different types of management. In situations where the hired individual has decision-making power, they often have more knowledge than the hirer. However, if the hired individual does not act in the hirer's best interests, they could exploit the information asymmetry between themselves and the shareholders to tamper with the internal accounting system.

To prevent agents from exploiting a company's values, those in charge must take both financial and non-financial measures. This includes closely monitoring the work processes, which can be costly. Additionally, executives must offer compensation to prevent agents from engaging in unethical behavior. The more money spent on this compensation, the less incentive agents have to act unethically. Monitoring and compensation costs are both used to monitor and prevent unauthorized activities by agents, but there is still a residual loss. This loss occurs when there is a difference between the interests of those in charge and those carrying out the work, which can lead to a decrease in the company's overall value. This residual loss is a hidden cost that is not put in financial statements.

According to Fama (1980), having a CEO who concurrently acts as the chairman of BOD is not beneficial for the company's performance. This is because it gives the impression that there is a lack of decision management and control. When the CEO chairs the BODs that are supposed to assess the CEO's performance, it defeats the purpose of having a BOD. The CEO can then easily push forward their ideas without opposition and can appoint executives who will not challenge their decisions. This kind of control reduces the effectiveness of diversity in decision-making (Almustafa et al., 2023; Balachandran et al., 2020; Nguyen, 2022b, 2022d). This lack of opposing ideas and objectives among directors is commonly seen in CEO duality.

The Upper-Echelons theory proposes that the personal and professional traits of the highest-ranking executives within a company can serve as a partial indicator of the results the organization will achieve. Waldman et al. (2004) extended this theory by integrating the charismatic leadership theory to better understand the leadership role of CEOs in Canadian and American firms. Their research found that characteristics of CEO such as their charisma and intellectual capacity were related to firm performance. However, Al-Hadi et al. (2016) found mixed results regarding the impact of top executive group characteristics on the company performance, with their study examining the mediating role of these characteristics. Their research revealed a positive correlation between functional diversity and the performance of companies, which supports the initial findings of Basel-Committee-on-Banking-Supervision (2015).

3. Data and methodology

The study uses a dataset covering the years 2011 to 2020. The dataset includes the 82 manufacturing firms that are publicly traded on the HNX, which is one of the main stock exchange markets in Vietnam. We have 823 observations in our data.

We examined the impact of CG and firm characteristics on the performance of companies by building the model as follow:

$$FPER = \alpha_0 + \alpha_1 BOG + \alpha_2 BOZ + \alpha_3 CEOA + \alpha_4 SIZE + \alpha_5 LEV + \alpha_6 FAGE + \varepsilon$$

Where:

- FPER (Firm performance) measured by return of asset and equity ratio (ROA/ ROE)
- BOG (Board gender diversification): the number of female director/total member of BOD
- BOZ (Board size): the member of BOD
- CEOA (CEO age): the age of Chief Executive Officer
- SIZE (Firm size): total assets (natural logarithm)
- LEV (Firm leverage) measured as total debt divided by total assets
- FAGE (Firm age): the age of firm

The choice of these factors is informed by past research (Al-ahdal et al., 2020; Ararat & Yurtoglu, 2020; Battaglia & Gallo, 2015; Green & Homroy, 2018; Hermalin & Weisbach, 1991; Iannotta et al., 2007; Zhou et al., 2018). The writer of this study used longitudinal data and employed the Feasible Generalized Least Squares (FGLS) and Random-Effect (RE) methods and to address heteroskedasticity and autocorrelation issues. To determine which model is more suitable for the dataset, we conduct the Hausman test. The writer then proceeded to test variables in a certain pattern, which included examining the effects of control variables on ROE and ROA and then adding each independent variable one at a time while keeping the control variables constant in each subsequent test. For instance, the second regression analysis considered one independent variable and control variables' impact, while the third regression analysis included two independent variables, and so on. These methods are used in many previous studies (Aebi et al., 2012; Dang et al., 2018; Dang et al., 2015; Nguyen & Dang, 2020; Nguyen et al., 2019; Nguyen, 2022a, 2022e; Nguyen & Dang, 2022).

4. Result and discussion

Table 1 shows the descriptive statistics for all variables. The table 1 shows the mean, number of observations, standard deviation, min, and max of the variables.

Table 1: Descriptive Statistics

Name	Observation	Mean	St.Dev	Min	Max
ROE	823	0.07	0.08	-0.64	0.78
ROA	823	0.12	0.12	-0.02	0.19
BOG	823	0.19	0.18	0	0.62
BOZ	823	7.72	2.64	1	20
CEOA	823	42.32	3.47	39	62
SIZE	823	12.22	12.32	3.28	18.69
LEV	823	0.38	1.22	0.12	0.98
FAGE	823	10.33	3.12	6	61

In Table 2, the writer of this study used two common methods, the VIF ratio and correlation models, to identify any issues related to autocorrelation and multicollinearity within the conceptual framework. The details of these methods are outlined in Table 2. Ballester et al. (2020) argued that even with a thorough variable-selection process, multicollinearity will likely exist in the conceptual framework. Multicollinearity is present when there is a correlation between the independent variables in a regression model, which can lead to problems when fitting the model and interpreting the results. To assess the severity of multicollinearity, the VIF score is used, with a score above 0.8 indicating severe multicollinearity, a score between 0.6 and 0.8 indicating substantial multicollinearity, and a score below 0.4 indicating acceptable levels of multicollinearity. Additionally, a VIF value is higher 4.0 or a tolerance value of less than 0.2 indicates the presence of multicollinearity, according to Chen et al. (2019).

Table 2: VIF and correlation matrix

Var name	VIF	ROE	BOG	BOZ	CEOA	SIZE	LEV	FAGE
ROE		1.00						
BOG	2.10	-0.04	1.00					
BOZ	2.04	0.24***	-0.01	1.00				
CEOA	2.07	0.06*	0.20***	-0.01	1.00			
SIZE	1.07	-0.05*	-0.21***	-0.02	0.07**	1.00		
LEV	2.21	0.06**	-0.07**	-0.12***	0.1***	0.11***	1.00	
FAGE	1.74	0.80***	-0.18***	-0.12***	0.06**	0.21***	0.32***	1.00

Note: ***, *, **, mean significance level at $p < 1\%$, $p < 10\%$, $p < 5\%$, respectively.

Table 3 shows the estimation results by using random effect model. This table show some important finding.

First, we find that gender diversification of BOD increase firm performance. Our results support some argument from literature. Diverse perspectives: A diverse BOD with gender representation brings together a range of experiences, skills, and perspectives. This diversity of thought can lead to more comprehensive and innovative decision-making. It can help identify and address challenges that might have been overlooked or underestimated by a less diverse group. Broader talent pool: A diverse BOD attracts a wider pool of talented individuals. When the board is more inclusive and welcoming of women, it opens up opportunities for qualified female candidates to contribute their skills, experience, and knowledge. This, in turn, can lead to better board performance and increased profitability. Enhanced stakeholder engagement: Gender diversity on the board can also increase stakeholder engagement. Firms with diverse BOD are more likely to reflect the needs and preferences of a wider range of stakeholders, comprising customers,

employees, and shareholders. This can result in more significant financial performance as it can enhance support and loyalty from such groups. Improved corporate governance: Gender diversity on the BOD can also lead to better CG. Diverse BODs are more likely to hold management accountable and provide effective oversight. They are also more likely to take a long-term view and make choices that align with the company's best interests. and its stakeholders.

Second, we find that board size reduce performance of firms. As the number of directors increases, it becomes more challenging to coordinate and communicate effectively, leading to delays in decision-making and potentially suboptimal decisions. A larger board size may lead to a free rider problem, where some members may contribute less to board discussions or decision-making. This can be due to a sense of being overwhelmed or a perception that their contributions are not necessary. This can lead to a lack of engagement and lower-quality decisions. Larger boards can result in higher costs for the company, such as increased compensation and expenses related to meetings, travel, and communication. These costs may not necessarily lead to a corresponding increase in performance. Larger boards can also lead to reduced accountability, as it becomes harder to identify individual responsibility for decisions or actions. This can lead to a lack of ownership and potentially lower-quality decision-making.

Third, we find that CEO age increase firm performance. An older CEO may bring valuable experience, knowledge, and leadership skills to the table, which can positively impact firm performance. For instance, an older CEO may have a wealth of industry knowledge and experience, and may have developed strong relationships with stakeholders over time. Such knowledge and relationships can lead to better decision-making and increased stakeholder engagement, which can, in turn, improve firm performance.

Finally, we find that firm size reduce firm performance. Larger firms may have more complex organizational structures and decision-making processes, leading to increased bureaucracy and slower decision-making. This can lead to inefficiencies and missed opportunities, reducing firm performance. Larger firms may be less agile and adaptable than smaller firms, making it harder to respond quickly to changing market conditions. This can result in missed opportunities and reduced competitiveness. As firms grow larger, they may experience diseconomies of scale, where the cost of producing additional units increases. This can reduce profitability and limit the firm's ability to expand or invest in new ventures.

Table 3: The outcomes of the regression utilizing the REM method.

Var name	Co-eff	t-stat	Co-eff	t-stat
	ROE		ROA	
BOG	0.024***	3.112	0.001**	1.983
BOZ	-0.012**	-2.214	-0.030***	-2.912
CEOA	0.009***	2.924	0.012*	1.831
SIZE	-0.001**	-2.031	-0.001*	-1.386
LEV	-0.021	-1.032	0.004	1.438
FAGE	-0.001	1.214	0.011	1.232
C	0.018*	1.823	-0.001**	-2.120

Note: ***, *, **, mean significance level at $p < 1\%$, $p < 10\%$, $p < 5\%$, respectively.

As robustness test, we apply Feasible Generalized Least Squares Model for the model. Our results were reported in Table 4. The outcomes reported in this table align with the findings reported in Table 3. Robustness tests are crucial for ensuring the validity and reliability of the findings related to the association between CG and performance of companies. By examining the sensitivity of the results to different model specifications or sample compositions, this results help to strengthen the evidence base for the importance of effective CG in driving performance of companies.

Table 4: The findings of the regression analysis that used the FGLS method.

Variables	Co-eff	t-stat	Co-eff	t-stat
	ROE		ROA	
BOG	0.023***	2.152	0.011**	1.924
BOZ	-0.012**	-3.212	-0.001***	-2.932
CEOA	0.039***	2.222	0.012*	1.815
SIZE	-0.015**	-2.225	-0.011*	-1.416
LEV	-0.021	-1.542	0.012	0.238
FAGE	0.015	1.213	0.001	1.222
C	0.018*	1.491	-0.030***	-3.120

Note: ***, *, **, mean significance level at $p < 1\%$, $p < 10\%$, $p < 5\%$, respectively.

5. Conclusion

The performance of companies in Vietnam is greatly influenced by CG. When companies practice effective corporate governance, it can lead to better transparency, accountability, and engagement with stakeholders, resulting in improved performance. However, many Vietnamese companies are still

struggling with weak CG practices, including insufficient board oversight, inadequate disclosure, and lack of transparency. These problems can have a negative affect on performance of companies, causing lower profits, lower market value, and harm to the company's reputation. To overcome these challenges, companies in Vietnam should prioritize improving their corporate governance practices. This can be achieved by strengthening board oversight, improving transparency and disclosure, and promoting stakeholder engagement. By doing so, companies can enhance their competitiveness, attract investors, and drive long-term sustainable growth.

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