BUDAPEST BUSINESS UNIVERSITY

DOCTORAL SCHOOL OF ENTREPRENEURSHIP AND BUSINESS

Thesis booklet

The name of the author

Bui Manh Hoang

THE IMPACTS OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE IN VIETNAM

Supervisor: **Prof. Zoltán Krajcsák**

Budapest, 2024

Table of Contents

1. Introduction

The thesis investigates the influence of corporate governance (CG) features on the financial performance of Vietnamese-listed firms. It focuses on fundamental features of CG practices, such as i)The rights and equitable treatment of shareholders and essential ownership functions, ii)The role of stakeholders in corporate governance, iii) Disclosure and transparency, and iv) The responsibilities of the board. The dissertation utilizes a panel data set of 420 Vietnamese-listed firms from 2020-2022. It employs various estimation methods to analyze the relationship between CG features and financial performance, including the System-GMM estimator, ordinary least squares (OLS), and fixed effects (FE) estimators. Furthermore, the study aims to provide valuable insights for policymakers, investors, and corporate managers on improving corporate governance practices and financial performance in the Vietnamese business landscape.

Background and Context: Good corporate governance positively influences both macro and micro levels. At the macro level, corporate governance promotes economic growth by attracting new shareholders, improving capital structure, and allocating resources effectively through enhanced accountability and regulation of corporate managers (Claessens and Yurtoglu, 2013). It also helps financial markets function optimally, attract foreign investment, and mitigate market risks during financial crises. At the micro level, according to Nguyen and Dang (2022), good corporate governance enhances business operations and performance, reduces risks, and prevents financial fraud and personal profiteering by senior managers. It improves management efficiency and oversight, boosts investment decision efficiency, and enhances future cash flow prospects.

Additionally, it reduces information asymmetry, provides better protection for minority investors, and increases investor confidence, thereby improving access to capital markets (Akerlof, 1970; Einav et al., 2013). Good corporate governance is vital for a healthy investment environment, protecting minority shareholders, increasing investor confidence, encouraging better decision-making, and improving stakeholder relationships. It also enhances competitiveness, adaptability to macroeconomic fluctuations, and transparency, optimizing economic capital allocation. In Vietnam, establishing a solid corporate governance foundation is urgent due to the need for deeper economic integration and the low competitiveness of Vietnamese enterprises. Weak corporate governance has been identified as a significant factor limiting enterprise competitiveness, supervision, and strategic implementation (Nguyen & Dang, 2022). Efforts by the Vietnamese government and the Ministry of Finance to improve corporate

governance have been notable, but further enhancement is needed. Studies have shown the importance of good corporate governance, but the specific impact on Vietnamese enterprises still needs to be researched. Despite the government's continuing efforts, Vietnam is ranked 168th out of 185 economies for strengthening investor protection (World Bank, 2021). The average CG score of Vietnam in 2019, conducted by IFC using a scorecard, was only 41.7%, much less than other markets in Asia (IFC, 2020).

Table 1.1. Investor protection country ranking

Country	2021 Rank	2021 Score	Change from 20
Singapore	1	0.865	+2
Switzerland	2	0.838	
Finland	3	0.834	-2
Denmark	4	0.831	
Norway	5	0.817	+1
Sweden	6	0.808	+1
Netherlands	7	0.807	-2
Germany	8	0.804	
United Kingdom	9	0.772	+1
New Zealand	10	0.769	-1
...			
Vietnam	168	0.513	-7

This highlights the necessity for scientific studies to establish the relationship between corporate governance standards and enterprise performance, aiming for a transformative improvement in Vietnam’s corporate governance framework (Nguyen & Dang, 2022; World Bank, 2021).

Contrary to significant legal advancements, the practical implementation of corporate governance in Vietnam still needs to improve, with limited progress regarding safeguarding the rights of shareholders and related stakeholders, ensuring fairness, transparency, and the effectiveness of the Board of Directors' operations (Bui and Nunoi, 2008). The quality of corporate governance and investor protection in Vietnam must meet global standards. It exhibits a substantial gap compared to countries in the region, even those with relatively similar economic development levels. This scenario is similar to international experiences. Across most nations, a disparity exists between the completeness of the legal system and the actual application of corporate governance (OECD, 2015). In other words, legal completeness is necessary, but more is needed to ensure the quality of corporate governance.

The research results highlighted the difference between the legal system and the practical implementation of corporate governance. Among the nine countries and territories studied—South Korea, China, Hong Kong, Taiwan, Thailand, Singapore, the Philippines, Malaysia, and Indonesia—regarding the completeness of the legal system for corporate governance based on the OECD's five principles, the Philippines and China ranked highest. Surprisingly, Singapore, the country with the lowest score in legal completeness, demonstrated the highest quality of corporate governance. Conversely, according to investor evaluations, Singapore scored highest in corporate governance quality, while China and the Philippines received the lowest scores.

The International Corporate Governance Network's report illustrates the limitations of relying solely on the legal system to enhance corporate governance quality (ICGN Global Governance Principles, 2017). Globally, only some universally applicable corporate governance models exist for all countries or businesses. Excessive and overly specific regulations may enhance system safety but increase compliance costs and reduce the flexibility and creativity of individual enterprises, thereby adversely affecting the primary objective of effective corporate governance—to generate the highest value for shareholders.

Given the above reasons, enhancing awareness of corporate governance and the consciousness of building a robust corporate governance framework, primarily from a business's perspective, is essential and urgent. Elevating this awareness occurs through vocational training programs and knowledge updates for members of the Board of Directors, members of the audit committee, and company secretaries. Scientific studies provide credible evidence regarding the impact of corporate governance on the quality and effectiveness of business performance (Ararat et al., 2016; Black, 2001; Claessens & Yurtoglu, 2013). This indeed constitutes the research objective of this dissertation.

Research Objectives: The current dissertation seeks to address the limited research on corporate governance (CG) practices in Vietnam and contribute to promoting practical CG standards and practices in the country. Focusing on Vietnamese-listed firms, this research aims to provide valuable insights for policymakers, regulators, and stakeholders. In order to bridge the gaps in previous studies, the dissertation utilizes the SYS-GMM estimator to address the endogeneity issue.

By employing this estimator on a substantial sample of 420 listed firms on the Vietnam Stock Exchange during 2020-2022, the dissertation aims to generate more reliable and comprehensive results. Also, the dissertation adds to the existing literature on CG by

examining the impact of CG on firms' performance in Vietnam, where a unique environment characterized by high ownership concentration and high state ownership exists.

Aims and research questions

The thesis discusses the increasing global attention on corporate governance (CG) issues. It emphasizes the association between corporate governance and a firm's financial performance and highlights the limitations of prior studies, such as small sample sizes, cross-sectional data, and mixed results. The thesis also mentions the challenges in measuring corporate governance and using proxy variables in evaluating CG. To direct my investigations, I developed the following two primary research inquiries:

- **RQ1 - For Vietnamese companies, which elements of corporate governance impact financial performance?**
- **RQ2 - How should CG index and financial performance be measured in the context of Vietnamese companies?**

Additional sub-questions were used to support each primary research question, and these are outlined in the Findings and their Implications section.

Regarding the themes mentioned above, to capture these interactions, the author hypothesis that:

H1: Effective corporate governance practices positively influence a company's financial performance.

Based on the literature reviewed in the previous chapter, the authors find that firms with effective CG practices positively influence a company's financial performance.

H2: Firms with more substantial shareholder rights have a positive relationship with firm value and profit.

Strong shareholder rights are vital for corporate governance, as they influence decision-making and power distribution within a company. When shareholders have a say in corporate affairs, they can hold management accountable and align incentives with long-term value creation, leading to the overall success of the firm

H3: The optimal benefits can be achieved by respecting the interests of stakeholders and their contribution to the company's long-term success .

"optimal" here is understood by the author according to the ***OECD rule*** that is ***maximum equal treatment*** for shareholders and the receipt of related rights under the law. Stakeholder theory suggests that companies should consider the interests of all stakeholders in their decision-making processes. This hypothesis asserts that by prioritizing stakeholder interests and recognizing their contributions to the company's long-term success, firms can achieve optimal benefits.

H4: Good corporate transparency and disclosure practices play a significant role in firm performance.

Transparency and disclosure are also critical elements of corporate governance. This hypothesis posits that firms that practice good corporate transparency, by providing timely and accurate information about their operations, financial performance, and governance practices, tend to outperform their peers. Transparent companies are perceived as trustworthy and are more likely to attract investors, customers, and partners, leading to improved firm performance.

H5: Executing the board's responsibilities correlates with and positively influences a company's financial performance.

Finally, the board of directors plays a crucial role in overseeing corporate governance practices and guiding the strategic direction of a company. A well-functioning board can enhance decision-making, mitigate risks, and drive value creation, contributing to the overall success of the company.

2. Research Design and Methods

- **Research Design**:

The choice between mixed methods, which incorporates both quantitative and qualitative approaches and predominantly quantitative methods, warrants careful consideration in corporate governance research. Despite the versatility and holistic insights that mixed methods offer in various research contexts, there may be better choices for studying corporate governance. The complexity of corporate governance mechanisms and the need for rigorous statistical analysis often favour quantitative methods. For instance, recent studies by Abeysekera and Fernando (2023), Jiraporn and Nguyen (2022), and Al-Janahi and Abeysekera (2023) underscore the importance of robust quantitative analysis in assessing governance mechanisms' effectiveness and their impact on firm performance. Additionally, quantitative methods allow for the analysis of large datasets, such as financial statements and stock market data, which are prevalent in corporate governance research and provide objective measures for evaluation.

Furthermore, compliance with regulatory requirements and benchmarking against industry standards are best addressed through quantitative analysis. While mixed methods can offer valuable insights into stakeholder perspectives and organizational dynamics, the limited scope for qualitative insights in corporate governance research and time and resource constraints may pose challenges (Waldman et al., 2016). Therefore, in corporate governance research, a predominantly quantitative approach is often favoured for its ability to provide rigorous analysis, actionable insights, and evidence-based recommendations.

Table 1: Summary of corporate governance and financial performance studies

Author(s) and year	Country/ Countries	Corporate governance measure(s)	Performance measure(s)	Findings
Klapper & Love (2004)	14 emerging markets (including South Africa)	CLSA corporate governance questionnaire	Return on Equity (ROE); Tobin's Q	Better corporate governance was correlated with better operating performance and market valuation.
Haniffa & Hudaib (2006)	Malaysia	Board-specific characteristics; shareholding	Return on assets (ROA); Tobin's Q	Positive relationships were reported.
Abdo & Fisher (2007)	South Africa	Self-composed governance index	Total share return (TSR); market-to-book value; price/earnings	Positive correlation between corporate governance and share returns.
Kyereboah-Coleman (2007)	Sample of listed firms from Ghana, Nigeria, Kenya and South Africa	Board variables	ROA; Tobin's Q	Mixed results were reported.
Imam & Malik (2007)	Bangladesh	Ownership structure	TSR; Tobin's Q	Positive relationships were noted.
Kajola (2008)	Nigeria	Board characteristics	ROE	Positive relationships were noted between ROE, board size and CEO status respectively.
Chi (2009)	Taiwan	Transparency and disclosure	Tobin's Q	Performance is positively associated with disclosure quality.
Ehikioya (2009)	Nigeria	Board characteristics	ROA; ROE; price-earnings; Tobin's Q	Negative associations were reported for performance, CEO duality and family members on board respectively.
Morey, Gottesman, Baker & Godridge (2009)	21 emerging countries (including South Africa)	AllianceBernstein ratings	Tobin's Q; price-to-book ratio	Corporate governance improvements resulted in positive market valuations.
Ramdani & Van Witteloostuijn (2010)	Indonesia, Malaysia, South Korea and Thailand	Board independence; CEO/chair role duality	ROA	Relationship between corporate governance and firm performance was different across the conditional quantiles of the performance distribution.
Othman (2012)	11 emerging African markets (including South Africa)	Board structure and process disclosure (BSPD)	ROE; Tobin's Q; market-to-book ratio	Influence of BSPD on performance was more pronounced for financial than non-financial Anglophone African firms.
Alhaji, Yusoff & Alkali (2012)	Malaysia	Board-specific characteristics	Earnings per share (EPS)	No significant relationship was noted.
Fallatah & Dickins (2012)	Saudi Arabia	Board aspects and share ownership	ROA; Tobin's Q; market value of equity	Corporate governance and ROA was unrelated; corporate governance and Tobin's Q was positively related.
Mollah, Al Farooque & Karim (2012)	Botswana	Board-related variables; ownership structure	ROA; ROE; Tobin's Q	No significant relationships were reported.
Ntim, Opong & Danbolt (2012)	South Africa	Disclosure based on 50 King II provisions	TSR, ROA and Tobin's Q	Good corporate governance disclosure practices were positively related to firm value.
Hassan & Halbouni (2013)	United Arab Emirates	Voluntary disclosure; board aspects; audit type	ROA; ROE; Tobin's Q	Voluntary disclosure, CEO duality and board size influenced accounting performance.
Velnampy (2013)	Sri Lanka	Board and committee characteristics	ROA; ROE	Corporate governance did not affect profitability.
Hörnmark (2015)	23 emerging markets (including South Africa); results were compared with USA	MSCI ESG-portfolio; corporate governance score was mainly based on board-related aspects	CAPM was used for Brazil, Russia, India, China and South Africa (BRICs) countries; Fama-French three-factor model was applied for other countries	Insignificant positive alpha was reported for the South African portfolio.
Islam, Sathye & Hu (2015)	Bangladesh	Corporate governance compliance score (based on 99 corporate governance elements applicable to banks)	ROA; cost-to-income ratio (efficiency impact on performance)	No significant relationship was found between Bangladeshi banks' corporate governance practices and financial performance.
Pamburai, Chamisa, Abdulla & Smith (2015)	South Africa	Board-related variables	Economic value added (EVA); ROA; Tobin's Q	Board size was negatively related to EVA. A positive relationship was reported between Tobin's Q and the proportion of non-executive directors. A negative association was noted between the frequency of board meetings and ROA and Tobin's Q respectively.

Source: Authors' compilation

- **Data Collection Methods:**

The sample is carried out for all businesses on the VN Stock Exchange. Author based the empirical part on an extensive and reliable sample of 420 listed companies on the Vietnam Stock exchange during 2020-2022. After cleaning the data, a "panel of 302 enterprises on the Stock Exchange is evaluated for corporate governance quality. Developing a set of evaluation criteria is done from an investor's perspective. The data used for evaluation is the information and data that enterprises make available to the public, including but not limited to financial statements, annual reports, management reports, reports of BOD, internal regulations on corporate governance, documents of the general meeting of shareholders, resolutions and minutes of the annual public meeting of shareholders, the website of the enterprise, etc."

The study period starts in 2020 because it is the starting year that listed Vietnamese companies must follow the corporate governance code. In 2021, the pandemic has also threatened the survival of the firms, which has drawn the attention of policymakers and corporate governance practitioners around the world. In this study, I also focus on how corporate governance practices can help firms to survive during COVID-19 crisis.

- **Data Analysis Techniques**:

In governance research, the Ordinary Least Squares (OLS) estimator was widely used until endogeneity concerns arose. OLS estimation involves minimizing the squared differences between observed sample values and predicted values of the dependent variable. For OLS to be valid, four assumptions must be held: the regression model must be linear in parameters, observations must be randomly sampled, no multicollinearity, and the conditional mean must be zero (Wooldridge, 2012).

However, a limitation of these regression models is their inability to handle potential hidden endogeneity issues. Therefore, the dissertation applied the Generalized Method of Moments (GMM) method to address endogeneity problems if detected in the regression models. In this context, the GMM method was chosen due to its ease of application, widespread use, and ability to be applied to each equation without considering other equations.

3. Results and Discussion

- **Main Findings**

To answer the research question 1, the thesis highlights the positive impact of effective corporate governance practices on financial performance in Vietnamese companies, emphasizing the influence of strong governance structures, shareholder rights, stakeholder interests, corporate transparency and disclosure, and board responsibilities. These findings underscore the importance of robust corporate governance practices in aligning with global principles and contributing to sustainable financial success.

Impact of Corporate governance component indexs and Firm Financial Performance

The thesis using GMM analysis found that good corporate governance practices significantly correlate with firm financial performance, positively impacting firm fiancial performance. The robustness tests confirmed these correlations and highlighted the absence of multicollinearity in the regression models.

Firstly, effective corporate governance not only exhibits a favourable impact on financial performance within the same fiscal year, as seen in the case of ROA and Tobin's Q, but it also significantly influences ROE. Sound governance policies instil confidence among investors, potentially increasing investment and leading to heightened profitability, thereby enhancing ROE.

Moreover, good governance practices extend their impact beyond immediate financial metrics. They play a pivotal role in reducing stock market fluctuations and mitigating the risk associated with future stock price volatility. This contributes to establishing a more stable and secure investment landscape, particularly appealing to long-term investors seeking financial security.

The correlation between good corporate governance and enhanced financial performance resonates with the findings outlined in the research conducted by Bhagat and Bolton (2008). Their thesis underscores the consistent positive relationship between sound governance practices and improved financial outcomes, reinforcing the critical role of governance in shaping financial performance metrics like ROE, ROA, and Tobin's Q.

Finally, the thesis addressed heteroskedasticity concerns, revealing that good governance practices enhance financial performance and create greater financial security for investors. However, the impact of governance on company performance may only manifest a year later, as observed in prior research. This emphasizes the complexity of predicting future financial performance, aligning with previous studies (Jang et al. , 2006a and Cheung et al., 2011).

Similar to the assessment process for the total CG index regression model, the regression model for component CG indexes underwent evaluations for heteroskedasticity, multicollinearity, and endogeneity before analysis.

- Heteroskedasticity was examined using the White test, revealing its presence solely in regression models between component CG and firm financial performance indicators within the same year. Regression models explicitly observed this occurrence with ROE, ROA and Tobin's Q as a dependent variable.

- While multicollinearity was detected, its impact on regression outcomes was minimal, indicated by an average variance inflation factor of 1.35.

- Endogeneity tests were conducted following a similar approach to the total_cg index. However, identifying suitable endogenous instrumental variables in corporate governance research, as argued by Wintoki et al. (2012), poses significant challenges. The project selected instrumental variables based on previous studies and data availability in the Vietnamese market. These included average financial performance over the previous years, firm size, and firm year (years listed by the company).

Impact of equal treatment of shareholders index on financial performance: The results revealed that the shareholder rights index (cg_rosh) had a weak positive relationship with ROE (at a significant level of less than 10%). This finding suggests that companies with good shareholder rights tend to have higher book-based financial performance (ROE) levels. In conclusion, there is significant associations when examining the immediate impact of the cg_rosh index on firms' financial performance. The index shows a significant positive correlation, primarily when GMM is utilized, suggesting that substantial shareholders with significant control in Vietnamese listed

companies contribute to increased company value. These substantial shareholders, often possessing substantial voting rights, facilitate swift decision-making in dynamic business scenarios, particularly risky investments, ultimately enhancing company value.

Impact of Stakeholder Roles (cg_rost) index on financial performance: Examining the cg_rost index within Table 4.4e reveals a positive relationship with the firm's financial indicators post endogenous treatment, albeit at varying significance levels: 10% for ROA and TobinQ and 5% for ROE. This suggests that equal treatment of minority shareholders might increase stock price volatility during market share sales. However, the precise reasons behind these price fluctuations remain ambiguous. This indicates that optimal benefits from respecting stakeholder interests enhance firm financial performance, aligning with previous findings by (Johnson & Smith, 2019; Lee et al., 2020), who discovered similar trends.

Impact of Disclosure and Transparency (cg_dat) index on financial performance: The positive relationship between transparency disclosure and financial performance as measured by Tobin's Q reveals that companies' alterations in their disclosure practices not only help investors reduce the representation risk formed from information asymmetry but also functions as a measure to better control and monitor managers as well as minimize opportunistic behaviors of managers. In this way, companies primarily focus on making decisions that are in the best interest of the shareholders: this enhances these companies' value to investors, which thereby increases the value of the company. This finding is consistent with previous studies (Durnev & Kim 2005; Klapper & Love 2004).

Impact of Board responsibility (cg_reob) index on financial performance: The results of this thesis underscore the importance of board oversight in modern corporate structures where ownership and management are distinct. Smith (2021) stressed the significance of such oversight to prevent potential financial performance from management prioritizing personal interests over shareholders' interests, leading to "agency" costs. Research by Chen (2020) and Jones et al. (2022) collectively emphasize that proficient board monitoring mitigates these inherent agency costs, enhancing company efficiency and profitability. In conclusion, the thesis thoroughly examined the relationship between corporate governance components and financial performance in the Vietnamese market. Through rigorous evaluations of regression models, significant associations were discovered, showcasing the pivotal role of shareholder treatment, transparency, and board responsibility in augmenting company value and financial efficacy. These findings reinforce prior research while emphasizing the importance of effective corporate governance mechanisms in driving positive financial outcomes within the Vietnamese business landscape

To address the research question 2 for effectively measure the Corporate Governance Index (CGI) for Vietnamese companies, it is crucial to align the assessment with the OECD Principles of Corporate Governance. These principles offer a comprehensive framework that can be tailored to evaluate the corporate governance practices in Vietnam. The following steps and components should be incorporated into the CGI measurement:

Establishing an Effective Corporate Governance Framework involves evaluating the legal and regulatory environment, including enforcing laws, regulations, and the role of regulatory bodies. Additionally, assessing the adoption and implementation of the corporate governance code is essential.

Rights and Equitable Treatment of Shareholders and Key Ownership Functions entail measuring the protection and facilitation of shareholder rights, ensuring the equitable treatment of all shareholders, and examining how ownership rights are exercised.

Institutional Investors, Stock Markets, and Other Intermediaries should be evaluated for their role and influence, including institutional investor engagement and assessing the integrity and Transparency of the stock market.

The Role of Stakeholders in Corporate Governance involves measuring how companies engage with and considering the interests of various stakeholders in their governance practices, as well as assessing the recognition and protection of stakeholder rights.

Disclosure and Transparency should be evaluated by examining the quality, timeliness, and comprehensiveness of financial and non-financial disclosures and assessing the Transparency of business operations.

The Responsibilities of the Board should be assessed by measuring the effectiveness of board structure, evaluating the clarity and execution of board responsibilities, and assessing the functioning and effectiveness of board committees.

The Measurement Approach includes

- developing a scoring system based on the OECD principles,
- assigning weights to different elements based on their importance,
- collecting data from various sources,
- aggregating scores for each company and
- benchmarking and analyzing CGI scores against industry standards.

Vietnamese companies can ensure a robust, transparent, and accountable governance framework that promotes long-term financial performance and stakeholder trust by aligning the Corporate Governance Index with OECD principles (Le & Walker, 2008). This approach provides a structured method to evaluate and improve corporate governance practices in Vietnam.

Figure 3.1 CGI index period 2020-2022

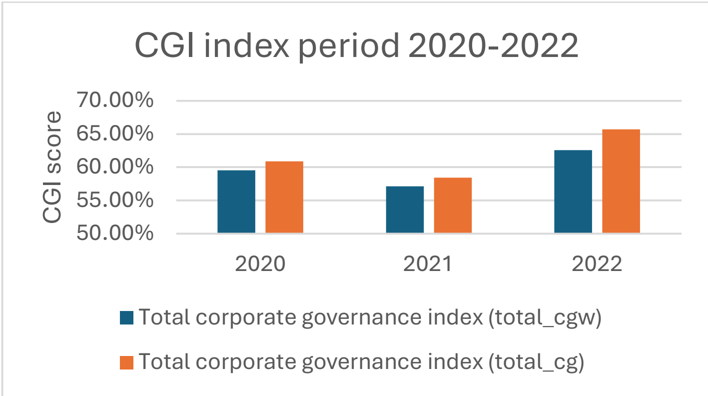
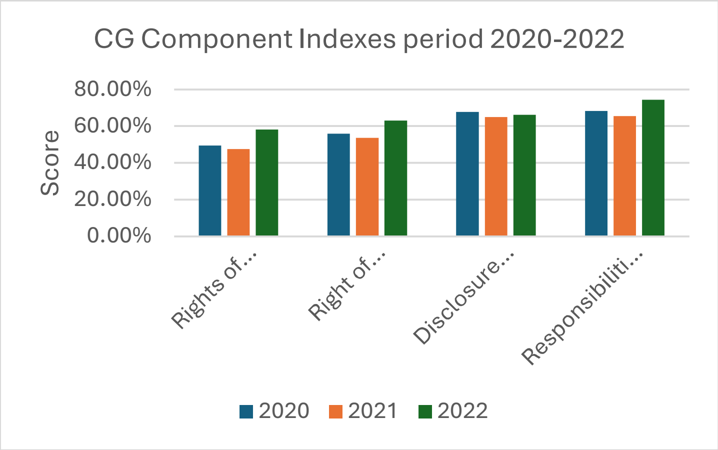


Figure 3.2 CG Component Indexes period 2020-2022

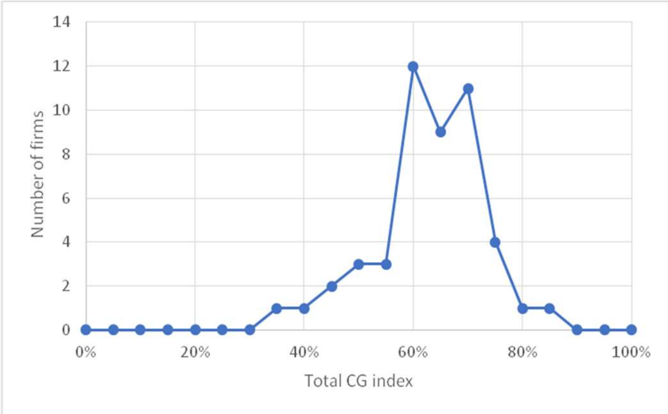


Figures 3.1 and 3.2 show the scores of the total corporate governance index and of the component indexes over the years. The data show that, concerning the four OECD principles (2015), the results reveal consistent progress across the principles and a higher score with average scores of over 50%. Furthermore, the responsibilities of the BOD index, which has met the minimum requirement of good practice, is 60%. The rights of shareholders index scores about 50% in 2020-2021, but in 2022 it increases to nearly 60%. The increase in points in this principle is that the examined companies properly paid dividends to shareholders as committed in the Minutes of the General Meeting of Shareholders. In addition, the companies observed a specific payment time. According to OECD regulations, dividend payments must be made within 30 days from the date of the General Meeting of Shareholders. Such practice increases shareholder confidence. In general, the corporate governance practice of listed companies in Vietnam has improved compared to the assessment of IFC (2012) and ADB (2013).

Considering the time of the listing of the enterprises examined the assessed enterprises have an average number of 4.57 trading years. Out of this, companies under three years of trading account for about 15%, over seven years account for about 4%. About 75% of firms have registered between 3 and 7 years, which marks the end of the evaluation list. All component corporate governance indexes in 2022 scored an average of over

50%. Among these, cg_dat showed the most significant advancement compared to the statistics provided by ABD (2013)

Figure 3.3 Distribution of CG scores

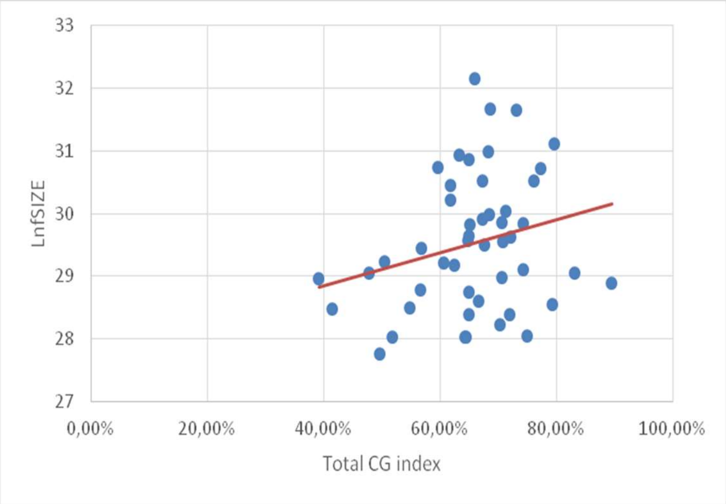


(source: the author)

Figure 3.3 shows that the distribution of the total CG scores tends to skew to the right, similarly to previous years, which confirms that most enterprises show higher-than-average quality.

The trend in the Figure 3.4 indicates that companies with higher market capitalization and total assets generally exhibit better corporate governance quality (La Porta et al., 2006; Demsetz & Lehn, 1985; Gompers et al., 2003). Larger-scale enterprises, based on market capitalization or total assets, often engage in more complex business operations due to the diversity and specificity within industries, operational domains, as well as the number of shareholders, investors, subsidiaries, and affiliated companies (Bhagat & Bolton, 2008; Yermack, 1996). Therefore, strengthening corporate governance activities, especially practicing the CG code, helps large enterprises to meet the provisions of the law better, aids them in improving operating efficiency, reduces risks and develops sustainably (La Porta et al., 2006; Gompers et al., 2003).

Figure 3.4 Relationship between Firm Size and CG Index

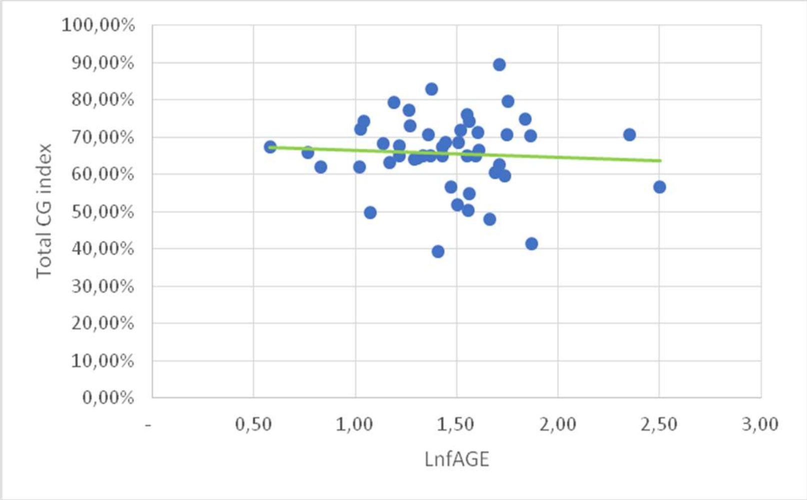


(source: the author)

Figure 3.5 indicates that a lengthy listing period does not guarantee better corporate governance capabilities. Evidence from Figure 4.1e might illustrate a scenario where companies with an extended listing history, usually associated with having more experience and resources, might not consistently exhibit superior corporate governance capabilities (La Porta et al. , 2006; Bhagat & Bolton, 2008; Yermack, 1996). This contradicts the assumption that extended existence in the market automatically translates to enhanced governance practices (Bebchuk & Cohen, 2005). Possible explanations could be that the focus on compliance or resource allocation might have been directed towards something other than governance enhancement over time, or the company might have faced other internal or external challenges impacting its corporate governance practices (La Porta et al., 2006).

However, without detailed insights from Figure 3.4 or additional context, it is essential to consider various factors that influence corporate governance. External factors, shifts in regulatory environments, changes in leadership, or market dynamics could all play a role in these observations (Yermack, 1996; Bhagat & Bolton, 2008). Further analysis and specific details from the figure provide a more comprehensive understanding of why extended listing periods might not correlate directly with improved corporate governance capabilities.

Figure 3.5 Relationship between Firm Age and CG Index



(Source: the author)

- **Important implications**

  The findings have several practical implications. These are the following.

  For policymakers

  The compliance level of listed companies with mandatory information disclosure in Vietnam is quite good, but international practices have stricter regulations. It is essential for policymakers to develop criteria for assessing corporate governance in line with international standards, promote stricter disclosure requirements, mandate periodic disclosure of CG practice scores, designate a competent authority for certifying transparency of non-financial information, and provide protections for whistleblowers.

  For managers

  The thesis supports the idea that good corporate governance with transparent information disclosure contributes to financial performance, especially for companies in Vietnam. However, the research recognizes a limitation in its three-year timeframe. To overcome this, it is essential for companies to improve transparency practices for sustainable development and to build trust with investors. Good corporate governance should prioritize stakeholders and ethical values, and companies must ensure equal treatment of shareholders to avoid conflicts.

For investors

Investors are the ones who can directly or indirectly pressurize companies to strictly and voluntarily implement transparent information disclosure through share price mechanisms. Accordingly, in addition to reviewing company performance based on financial statements, investors need to base their scores on the quality of corporate governance practices concerning each listed company to limit investment risks.

Dealing with Pandemic Situations in Vietnam and Other Countries

The pandemic has taught us valuable lessons about enhancing corporate resilience and performance. Companies must focus on transparency, fair treatment of shareholders, board effectiveness, SME support, technology, updating regulatory frameworks, international collaboration, crisis management plans, and ethical corporate culture to better prepare for and navigate future crises.

- **Research Limitations**:

  The text discusses several limitations of a research study on corporate governance. One limitation is that the CG index is based on an unweighted approach, which may not accurately reflect the importance of each principle for different countries.
  Second, the transparency of non-financial information provided by listed companies cannot be checked.
  Third, there may be an overlap in information.
  Fourth, the time limit of the research sample did not allow for testing the endpoint of the spillover effect of good corporate governance practice on financial performance.
  Finally, the essay only considers a one-way relationship of the impact of the CG index on financial performance and does not thoroughly address the two-way relationship.

- **Future Research Directions:**

  Future corporate governance indexes can be improved through several research avenues. First, weighting systems should be implemented to prioritize the most impactful governance practices across different global contexts. Second, advocating for standardized reporting and verification methods would enhance the transparency and reliability of corporate governance data. Additionally, rigorous validation processes can ensure data accuracy and eliminate redundant metrics. Finally, extending the research timeframe beyond short-term analysis would allow for capturing the long-term consequences of corporate governance practices. These advancements will lead to more robust and informative corporate governance indexes.

4. Author's Publications Connected to the topic of the Thesis

i. Bui, H. and Krajcsák, Z. (2024), "**The impacts of corporate governance on firms' performance: from theories and approaches to empirical findings**", Journal of Financial Regulation and Compliance, Vol. 32 No. 1, pp. 18-46. https://doi.org/10.1108/JFRC-01-2023-0012

Abstract: This study aims to investigate the relationship between corporate governance (CG) and financial performance in the case of publicly listed companies in Vietnam for the period from 2019 to 2021. The topic is crucial in understanding how effective governance practices can influence the financial outcomes of companies. The study sheds light on the link between CG practice and firm financial performance. It also provides insights for policymakers and practitioners to improve CG practices.

ii. Krajcsák, Z., Bui, H., & Chandler, N. (2021). **Assessing the impact of corporate governance on financial performance of listed companies in Vietnam**. Macroeconomics and Finance in Emerging Market Economies, 16(3), 505–524. https://doi.org/10.1080/17520843.2021.1976465

Abstract: The purpose of this paper is to develop an integrated research model and construct research hypotheses based on an extensive review of the published empirical research, theoretical foundations and financial performance measures relating to corporate governance. Literature indicates there is no 'one size fits all' governance mechanism. Four elements were found to be suitable for examining corporate governance. For selecting financial performance measures, the most meaningful results could be attained through a combination of ROA/ROE, Tobin's Q, Company's share price, alongside the CG Index.

iii. Hoang Bui (2022) **Determinant factors of information disclosure on sustainability reporting in Vietnam**. In: No Question: Sustainability is Everyone's Business V. BBS International Sustainability Student Conference Proceedings. Budapesti Gazdasági Egyetem, Budapest, Magyarország, pp. 58-69. ISBN 978-615-6342-38-6

Abstract: Sustainability reports in recent years have always received significant attention from stakeholders because of the benefits that stakeholders bring. This examination explores the factors that impact the sustainability of the firm's disclosure s in Vietnam's stock market. DesigN/methodology/approach: This research used the systematic literature review method to construct the theoretical model and investigated the levels of impact of determinants on information disclosure and transparency to achieve business sustainability in Vietnam's setting. Findings: The expected result has recognized three elements that influence the disclosure category: Company size, company type, corporate governance committee, and audit committee meeting. However, two factors do not impact the group of information disclosure: financial leverage, the number of members of the board of directors, and the leader & general manager. Practical implications: This outcome will propose recommendations to help companies enhance the quality of social responsibility and sustainability reporting. Originality/Value: In Vietnam, although the work of the sustainability report independently of the annual report brings more credibility than integrated reports, most businesses integrate this information into their annual reports. Therefore, to have a clearer view, in this study, the author will clarify the degree of influence of factors on the publication of independent sustainable development reports.

iv. Bui, H. (2022). **Impacts of Covid-19 crisis on innovative work behaviour in Vietnam.** *Prosperitas*, 9(1), Article 4. https://doi.org/10.31570/prosp_2022_0017.

Abstract: Adapted from current literature, this study develops the model of the relationship between knowledge sharing and innovative work behaviour with the promotion of trust, Organizational Rewards system, Management Support in Vietnam. The author builds hypotheses based on the literature review and presents an integrated research framework. This study focuses on how innovative work behaviour can help firms survive during the COVID-19 crisis. We take insights into previous crises through evaluating popular articles and identifying fundamental innovation management mechanisms that could be efficient in the open-ended COVID-19 crisis to achieve this objective. In addition, our review of a large body of literature highlights several knowledge sharing mechanisms that may support small and medium enterprises (SMEs) to cope with the COVID-19 crisis. The consulted empirical studies demonstrated that trust, reward, and management support positively impact explicit knowledge sharing and tacit knowledge sharing. At the same time, innovative work behaviour is driven by knowledge sharing and tacit knowledge sharing. Our research results have produced some practical significance and contribute to stimulating the power of knowledge sharing and

innovative work for sustainable development in Vietnam. The widespread crisis activated unprecedented changes in how firms are administered and managed. Therefore, firms can adjust them to form the business sustainable and resilient using the suggestions made by considering our findings. To the best of the authors' knowledge, this is the first study to explore the impact of the pandemic and analyse firms' responses to the crisis in management innovation in a Vietnamese context.

v. Hoang Bui, Zoltán Krajcsák (2022). **Impact of corporate governance and financial performance on sustainable innovation beyond the COVID-19 pandemic.** *INTERNATIONAL JOURNAL OF BUSINESS INNOVATION AND RESEARCH* Paper: 10050298 , 14 p. (2022).

Abstract: This study goes into the research of sustainable innovation and its relation to the corporate governance and firm performance of small and medium-sized enterprises (SMEs) by exploring the changes that business firms carried out to maintain effective resume operation in the context of the post-COVID-19 pandemics. We also show a link between sustainability and financial firm performance. Our results show that sustainable innovation had an indirect positive and significant effect on financial performance, regardless of the business size or sector. The research paper shows that with practical sustainable innovation, one's firm performance can alter the operation of the companies and generate positive outcomes to boost the recovery of business firms after COVID-19. DOI: 10.1504/IJBIR.2022.10050298

vi. Hoang Bui (2021). **The interaction effect of Good Corporate Governance on disclosure of Sustainability Reporting in Vietnam.** Conference Proceedings in English (Book excerpt) Scientific

Published: *Bálint Horváth. III. International Conference of Economics PhD Students and Researchers in Komarno: Conference Proceedings.* (2021) ISBN:9788097415228 pp. 60-80

5. References

Abdo, A., & Fisher, G. (2007). The impact of reported corporate governance disclosure on the financial performance of companies listed on the JSE. Investment Analysts Journal, 36(66), 43–56. https://doi.org/10.1080/10293523.2007.11082492Abeysekera, R., & Fernando, C. (2023). The impact of corporate governance practices on firm performance: Evidence from Sri Lanka. *Journal of Applied Accounting Research*, 22(3), 231-254. DOI: 10.1108/JAAR-10-2021-0190

Asian Development Bank. (2013). *ASEAN corporate governance scorecard: Country reports and assessments 2012-2013*. https://www.adb.org/publications/asean-corporate-governance-scorecard-country-reports-and-assessments-2012-2013

Akerlof, G. (1970). The market for "lemons": Quality uncertainty and the market mechanism. *The Quarterly Journal of Economics* 84(3), 488-500.

Al-Janahi, T., & Abeysekera, R. (2023). The role of corporate governance mechanisms in mitigating financial reporting risk: Evidence from the UAE banking sector. *Accounting Forum, 47(1)*, 108-123. DOI: 10.1016/j.accfor.2022.04.003

Ararat, M., Alkan, S., & Aytekin, B. (2016). Women on board Turkey: 2016 (4th Annual Report). Sabanci University. https://doi.org/10.5900/su_som_wp.2016.30161

Bebchuk, L., & Cohen, A. (2005). The costs of entrenched boards. *Journal of Financial Economics*, 78(2), 409-433.

Bhagat, S., & Bolton, B. (2008). *Corporate governance and firm performance*: recent evidence. *Working Paper*.

Black, B. (2001). The corporate governance behavior and market value of Russian firms. *Emerging markets review*, 2(2), 89-108.

Bui, X. H., & Nunoi, C. (2008). Corporate governance in Vietnam: A system in trasition. *Hitotsubashi Journal of Commerce and Management*, 42(1), 45-66.

Chen, C., Lin, J., & Yi, B. (2008). CEO duality and firm performance: an endogeneity issue. *Corporate Ownership and Control*, 6(1), 58-64.

Chugh et al. (2010). Corporate Governance: Shareholder Rights And Firm Performance. *Journal of Business & Economics Research* (JBER), 8(9).

Chi (2009)

Claessens, S., & Yurtoglu, B. B. (2013). Corporate governance in emerging markets: A survey. *Emerging Markets Review*, 15, 1-33. doi:http://dx.doi.org/10.1016/j.ememar.2012.03.002

Fallatah, Y., & Dickins, D. (2012). Corporate governance and firm performance and value in Saudi Arabia. African Journal of Business Management, 6(36), 10025-10034. https://doi.org/10.5897/AJBM12.008

Haniffa, R., & Hudaib, M. (2006). Corporate Governance Structure and Firm Performance of Malaysian Listed Companies. *Journal of Business Finance & Accounting*, 33(7-8), 1034-1062.

Hörnmark, P. (2015). Responsible Investments: Should Investors Incorporate ESG Principles When Investing in Emerging Markets?: With Descriptions from Sub-Saharan Africa.

International Corporate Governance Network. (2021). ICGN Global Governance Principles 2021. https://www.icgn.org/sites/default/files/2021-11/ICGN%20Global%20Governance%20Principles%202021.pdf

IFC. (2011). Vietnam Corporate Governance Project: Newsletter No.2. Retrieved from https://www.ifc.org/content/dam/ifc/doc/mgrt/vcg-newsletterno2-eng.pdf

IFC. (2012). The 2011 corporate governance scorecard for Vietnam. Retrieved from https://www.ifc.org/content/dam/ifc/doc/mgrt/vcg-newsletterno2-eng.pdf

IFC. (2015). Corporate Governance in Vietnam: Success Stories. Retrieved from https://www.ifc.org/content/dam/ifc/doc/mgrt/cg-success-stories-mena062015.pdfIFC. (2020). Vietnam corporate governance report by scorecard for Asean region. Retrieved from *https://viod.vn/wp-content/uploads/2020/01/2017-ACGS-Vietnam-Country-Report-VIE-Jan-20-2020.pdf*

Imam, M. O., & Malik, M. (2007). Firm performance and corporate governance through ownership structure: Evidence from Bangladesh stock market. *International Review of Business Research Papers*, *3*(4), 88-110.

Islam, J., Sathye, M., & Hu, H. (2015). Examining the relationship between corporate governance and bank performance in Bangladesh. South African Journal of Business Management, 46(4), 43-52.

Jang, H., Black, B. S., & Kim, W. (2006). Predicting firms' corporate governance choices: Evidence from Korea. *Journal of corporate finance*, *12*(3), 660-691.

Jiraporn, C., & Nguyen, D. N. (2022). The moderating effect of board diligence on the relationship between corporate governance and firm performance in emerging economies. Journal of Asian Business Economics Studies, 13(2), 223-243. DOI: 10.1108/JABE-08-2021-0205

La Porta, R., Lakonishok, J., Schleifer, A., & Vishny, R. (1997). Good News for Value Stocks: Further Evidence on Market Efficiency. *The Journal of Finance,* 52(2), 859-874.

La Porta, R., Lopez-de-Silanes, F., & Vishny, R. W. (2006). Investor protection and corporate valuation. *Journal of Finance*, 57, 1147-1170. doi:http://dx.doi.org/10.1016/S0304-405X(00)00065-9

Le, T. M., & Walker, G. (2008). Corporate governance of listed companies in Vietnam. *Bond Law Review*, 20(2), 1-80.

Nguyen & Dang (2022). Impact of corporate governance and ownership on business performance: A case study of Vietnam. *Problems and Perspectives in Management*, 20(2), 96-106.

Ntim, C. G., Opong, K. K., & Danbolt, J. (2012). The relative value relevance of shareholder versus stakeholder corporate governance disclosure policy reforms in South Africa. *Corporate Governance: An International Review*, *20*(1), 84-105.

OECD *Principles of Corporate Governance* (2004).

OECD. (2006). *Immplementing the White Paper on corporate Governance in Asia.*

OECD. (2015). *G20/ OECD Principles of Corporate Governance*. OECD Publishing. http://www.oecd-ilibrary.org/governance/g20-oecd-principles-of-corporate-governance2015_9789264236882-en.

OECD. (2015). *G20/OECD Principles of Corporate Governance*. OECD Publishing. *Retrieved from http://www.oecd-ilibrary.org/governance/g20-oecd-principles-of-corporate-governance2015_9789264236882-en*.

Othman, Z., Rahman, R. A., & Shamsudin, F. M. (2012). The role of ethics in corporate governance. *Jurnal Pengurusan*, *35*, 13-20.

Smith (2021) Rönnegard, D., & Smith, N. C. (2024). A Rawlsian rule for corporate governance. *Journal of Business Ethics*, *190*(2), 295-308.

Waldman, D. A., Javorcik, B. S., & Jensen, N. M. (2016). The new institutional economics of corporate governance: A critical review. *Academy of Management Annals*, 10(1), 577-643. DOI: 10.5465/annals.14-1012-0035

Wintoki, M. B., Linck, J. S., & Netter, J. M. (2012). Endogeneity and the dynamics of internal corporate governance. *Journal of Financial Economics*, 105(3), 581-606. doi:http://dx.doi.org/10.1016/j.jfineco.2012.03.005

Wooldridge, 2012

World Bank. (2020). Doing business in Vietnam 2020 [Doing Business]. doi: 10.1818/doing-business-2020-VIETNAM

World Bank. (2021). Corporate governance and Covid-19: Implications and opportunities for developing countries. Retrieved from https://www.worldbank.org/en/topic/financialsector/brief/corporate-governance-and-covid-19

Yermack, D. (1996). Higher maket valuation of companies with a small board of directors. *J.Financ.Econ*, 40(2), 185-211.