Independent directors and firm performance: Evidence from Vietnamese stock market

Trần Quốc Trung
Đại học Ngoại thương Tp Hồ Chí Minh

Trương Thị Thùy Trang
Đại học Ngoại thương Tp Hồ Chí Minh

Independent directors are the typical mechanism suggested by agency theory to mitigate the agency problem between a firm's shareholders and managers. The extant literature shows that independent directors can improve corporate operating performance in many developed countries. In Vietnam, legislations on independent directors are relatively ineffective and prior studies find debatable results for the effect of independent directors on firm performance. In this paper, we use 1,003 observations from 169 firms listed in Ho Chi Minh City Stock Exchange over the period from 2010 to 2017 to investigate the role of independent directors in firm profitability. We find that there is a positive association between the number of independent directors and firm performance. This result implies

Thành viên hội đồng quản trị độc lập và hiệu quả kinh doanh: bằng chứng từ thị trường chứng khoán Việt Nam

Abstract: Thành viên hội đồng quản trị độc lập là cơ chế điển hình để hạn chế mối quan hệ đại diện giữa người quản lý và chủ sở hữu công ty. Các nghiên cứu tại các nước phát triển cho thấy các thành viên hội đồng quản trị độc lập có thể giúp doanh nghiệp cải thiện hiệu quả hoạt động kinh doanh. Ở Việt Nam, các quy định của pháp luật về sự hiện diện của thành viên hội đồng quản trị độc lập trong công ty đại chúng không phát huy được tác dụng đáng kể và các nghiên cứu tại Việt Nam cho thấy kết quả không nhất quán về vai trò của thành viên hội đồng quản trị độc lập đối với hiệu quả hoạt động kinh doanh. Trong bài báo này, chúng tôi sử dụng 1.003 quan sát từ 169 công ty niêm yết tại Sở giao dịch chứng khoán thành phố Hồ Chí Minh để nghiên cứu tác động của thành viên hội đồng quản trị độc lập đối với lợi nhuận của doanh nghiệp. Chúng tôi thấy rằng có một mối liên hệ tích cực giữa việc sử dụng thành viên hội đồng quản trị độc lập và hiệu quả kinh doanh. Kết quả này ngụ ý rằng các công ty niêm yết trên thị trường chứng khoán Việt Nam nên tuân thủ quy định của pháp luật về sự hiện diện của thành viên hội đồng quản trị độc lập từ đó cải thiện hiệu quả hoạt động kinh doanh.
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Trung Quoc Tran, PhD.
Email: tranquoctrung.cs2@ftu.edu.vn, quoctrungftu@gmail.com
Trang Thi Thuy Truong, M.Ec.
Email: truongthithuytrang.cs2@ftu.edu.vn, thuytrang.ftu2@gmail.com
Organization of all: Foreign Trade University, Ho Chi Minh City Campus

that listed firms in Vietnamese stock market should adhere to the corporate legislations on independent directors in order to improve their operating performance.
Key words: Independent directors; Firm profitability; Vietnam.

1. Introduction

The separation of ownership and control results in agency problem between shareholders and managers. Firm managers tend to employ corporate resources to serve their personal benefits instead of increasing shareholders' interest. Therefore, the use of independent directors is one of the most popular ways for firms to control agency problem. Independent directors who do not have business or personal relations with firm management can help shareholders monitor firm managers and supply firms with professional consulting service. Many prior studies document that independent directors are crucial to improve firm performance. Brickley, Coles, and Terry (1994); Klein (2002) find a positive impact of outside directors on corporate financial performance in the US market. In addition, supporting evidence for this relationship is also documented in other stock markets namely UK (Dahya & McConnell, 2007; Ezzamel & Watson, 1993), New Zealand (Hossain, Prevost, & Rao, 2001), China (Liu, Miletkov, Wei, & Yang, 2015) and Korea (Choi, Park, & Yoo, 2007; Joh & Jung, 2012).

Vietnam is a young emerging stock market. Investors' knowledge and experience on corporate governance are relatively little while the enforceability of legislations on corporate governance is extremely weak. According to Circular

No. 121/2012/TT-BTC issued by the Ministry of Finance to regulate corporate governance in public firms, a public firm shall be obliged to appoint independent directors so that they account for at least one third of the board. However, a large number of firms listed in Vietnam failed to adhere to this legislation. Recently, the Government have issued Decree No. 71/2017/ND-CP to boost listed firms increase the number of independent directors but there are about 60% firms without independent directors. Prior studies conducted in Vietnam show that the relationship between board independence and firm operating performance is mixed.

In this paper, we investigate how independent directors affect corporate profitability in Vietnamese stock market with the following motivations. First, our study contributes to the literature on the role of independent directors in emerging markets. Brickley et al. (1994); Choi et al. (2007); Hossain et al. (2001); Klein (2002) show that independent work effective in developed markets but there are few studies on this topic in merging markets that characterized with weak corporate governance. Second, Vietnam is an interesting institutional environment to investigate how independent directors affect firm profitability due to its ineffective legislations on corporate governance in general and independent directors in particular. Using a research

sample of 1,003 observations from 169 firms listed in Ho Chi Minh City Stock Exchange bewteen 2010 to 2017, we find that the number of independent directors is positively related to firm profitabiliy. This finding implies that despite a poor corporate governance environment, independent directors still function effectively to improve firm profitability.

2. Literature review and hypothesis development

According to Jensen and Meckling (1976), although managers are hired to maximize shareholder's wealth their interest may not be aligned due to information asymmetry. Firm managers have the right to control corporate resources and thus they tend to use firm resources for unprofitable projects which serve their personal benefits. Therefore, firms need to develop many mechanisms to monitor and control managers in order to reduce agency costs. According to Knyazeva, Knyazeva, and Masulis (2013), independent directors play an important role in corporate governance. First, independent directors control managers' behavior to expropriate shareholders. Schwartz-Ziv and Weisbach (2013) argue that as a memmer of the board, independent directors may have the rights to present their ideas and suggest approaches to reduce managers' personal interest in coporate decisions. They investigate meeting minutes of the board of directors in US and find that independent directors are effective in monitoring managers' behavior via board meetings. Weisbach (1988) posits that independent directors focus mainly on firm performance since they are irrelevant to CEO in terms of business or family connection. Examining the role of

independent directors and CEO turnover in US, Weisbach (1988) shows that CEO is more likely to be dismissed due to low firm profitability or market value when independent directors constitute over 60% of the board. Second, Kim, Mauldin, and Patro (2014) argue that independent directors do not only function as watch dogs to make sure that managers follow firms' benefits but also play the role of professional consultants in corporate decisions. Independent directors may be CEO of other firms, experts in finance, law, business or former political officials. They are able to give good advice to managers or use their relationship with other parties to support managers' decisions. Therefore, independent directors can improve firm performance.

Many prior studies examining the effects of independent directors on firm performance are conducted mainly in developed markets. Brickley et al. (1994); Klein (2002) investigate the role of independent directors in US firms and find that they serve shareholders' interest. Dahya and McConnell (2007) analyze how legislations on independent directors change corporate performance in the UK over the period from 1989 to 1996 when the Cadbury Report calling for at least three independent directors in the board came into force. Their research findings show that firms following this regulation experience a significant improvement in their operating outcome both in absolute values and relative to different peer group benchmarks. The positive impact of independent directors on firm operation performance in the UK is also documented by Ezzamel and Watson (1993). Hossain et al. (2001) find that the positive relationship between independent

board representation and firm performance is strong regardless of a change in legislations on firms and financial reporting in New Zealand. In Korea, Choi et al. (2007) investigate how independent directors affect market value when the legislation on corporate governance requiring independent directors was instituted after the East Asian financial crisis. They point out that the use of independent directors positively affects firm performance. Moreover, Liu et al. (2015) show robust supporting evidence for the positive association between board independence and firm operating performance in China. Their research results also indicate that independent directors are able to control insider self-dealing and improve investment efficiency.

In Vietnam, the role of independent directors in firm performance is a debatable topic since prior studies show mixed results. Duc and Thuy (2013) find no supporting evidence for the positive impact of board independence on corporate operating outcome with a research sample of 77 listed firms during the period from 2011 to 2016. However, Vo and Nguyen (2014) show that a independent directors negatively affect firm performance of 177 firms listed from 2008 to 2012.

Based on arguments of agency theory (Jensen & Meckling, 1976), several prior studies find supporting evidence that independent directors are able to control managers' behavior and increase firm performance (Brickley et al., 1994; Choi et al., 2007; Hossain et al., 2001; Klein, 2002). Therefore, in this paper, we hypothesize that independent directors

may help firms improve their profitability.

H1: The use of dependent directors is positively related to firm profitability.

3. Research methods

3.1. Research models

To investigate how dependent directors affects corporate profitability, we develop a research model in which firm profitability is a function of the number of independent directors in the board and other control variables representing both corporate governance (i.e. insider ownership, state ownership, foreign ownership, board size and CEO duality) and firm financial characteristics (i.e. the first lags of firm size, asset growth, financial leverage, asset tangibility and firm investment). Since firm profitability and financial characteristics may affect each other within a year, we use the first lags of financial characteristics to mitigate this endogeneity problem.

$$Roa_t = \alpha + \beta_1 N\_ind_t + \beta_2 Ins\_own_t + \beta_3 Sta\_own_t + \beta_4 For\_own_t + \beta_5 Bod\_siz_t + \beta_6 Ceo\_dua_t + \beta_7 Siz\_mc_{t-1} + \beta_8 Ass\_gro_{t-1} + \beta_9 Fin\_lev_{t-1} + \beta_{10} Ass\_tan_{t-1} + \beta_{11} Inv\_cap_{t-1} + \gamma Industry\ dummies + \varepsilon\ (1)$$

Where Roa_t is return on assets in year t. N_ind_t is the number of independent directors in the board. In addition, we also use the proportion of independent directors in the board (P_ind_t) and a dummy assigned 1 if firms have at least one independent director and 0 otherwise (D_ind_t) as robustness checks. Ins_own_t is insider ownership. According to agency theory (Jensen & Meckling, 1976), managers are more likely to use firm

resources to serve their own interest. However, if they hold more shares, their appropriation of shareholders is lower and thus firm profitability is higher. Sta_own_t is state ownership in year t. Chen, Jian, and Xu (2009) posit that state shareholders tend to follow political objectives rather than economic efficiency. On the other hand, firms with more state ownership may receive more favorable treatment from the government (e.g. better access to credit or lower tax rates) (Szamosszegi & Kyle, 2011). Therefore, state ownership also affects firm profitability. For_own_t is foreign ownership in year t. Most foreign investors in Vietnamese stock market are foreign institutions that may have good corporate governance experience (Loncan, 2018). Therefore, we posit that foreign ownership positively affect firm profitability. Bod_size_t is board size in year t. Board size may affect firm

profitability in two opposite channels. On the one hand, a larger board may monitor managers more effectively and improve firm profitability (Adams & Ferreira, 2007). On the other hand, firms with larger boards face more difficulties in board members' coordination and consensus that negatively affect firms' economic efficiency. Ceo_dua_t is CEO duality in year t. CEO duality leads to severe agency problem which in turn reduce firm profitability (Yang & Zhao, 2014). Siz_mc_{t-1} is firm size in year t-1. Ass_gro_{t-1} is asset growth in year t-1. Fin_lev_{t-1} is financial leverage in year t-1. Ass_tan_{t-1} is asset tangibility in year t-1. According to pecking order theory suggested by Myers and Majluf (1984), firms with larger size, higher asset growth, lower financial leverage are more likely to obtain external funds with lower costs. Therefore, they may have higher profitability. Inv_cap_{t-}

Table 1. Definitions of main variables

Variables	Variable names	Mean
Roa	Return on assets	Net income scaled by total assets
N_ind	Number of independent directors	Number of independent directors in the board
P_ind	Proportion of independent directors	Proportion of independent directors in the board
D_ind	Dummy for the presence of independent directors	Assigned 1 if firms have at least one independent director and 0 otherwise
Ins_own	Insider ownership	Proportion of shares held by insiders
Sta_own	State ownership	Proportion of shares held by state agencies
For_own	Foreign ownership	Proportion of shares held by foreign institutions and individuals
Bod_siz	Board size	Total number of directors in the board
Ceo_dua	CEO duality	1 if CEO is also the chairman, 0 otherwise
Siz_mc	Firm size	Natural logarithm of market capitalization
Ass_gro	Asset growth	Annual growth rate of total assets
Fin_lev	Financial leverage	Total debt scaled by total assets
Ass_tan	Asset tangibility	Fixed assets scaled by total assets
Inv_cap	Investment	Capital expenditure scaled by total assets

Table 2. Description of research sample

A. Annual number of firms

Year	N	Percent	Year	N	Percent
2010	59	5.88	2014	139	13.86
2011	97	9.67	2015	143	14.26
2012	118	11.76	2016	155	15.45
2013	128	12.76	2017	164	16.35

B. Industry distribution

Industry	N	Percent	Industry	N	Percent
Technology	23	2.3	Health Care	45	4.5
Industrials	364	36.3	Consumer Goods	255	25.4
Oil & Gas	8	0.8	Basic Materials	152	15.2
Consumer Services	61	6.1	Utilities	95	9.5

C. Descriptive statistics

Variables	N	Mean	S.D.	Min	Max
Roa_t	1,003	0.07	0.06	-0.04	0.24
N_ind_t	1,003	0.82	1.22	0.00	5.00
Ins_own_t	1,003	0.11	0.16	0.00	0.65
Sta_own_t	1,003	0.23	0.24	0.00	0.70
For_own_t	1,003	0.13	0.15	0.00	0.65
Bod_siz_t	1,003	5.76	1.26	3.00	11.00
Ceo_dua_t	1,003	26.81	1.34	24.70	30.04
Siz_mc_{t-1}	1,003	0.04	0.19	0.00	1.00
Ass_gro_{t-1}	1,003	0.13	0.22	-0.21	0.77
Fin_lev_{t-1}	1,003	0.48	0.21	0.09	0.83
Ass_tan_{t-1}	1,003	0.22	0.18	0.01	0.68
Inv_cap_{t-1}	1,003	0.03	0.02	0.00	0.09

Roa_t is return on assets in year t. Nindt is the number of independent directors in the board. P_ind_t is the proportion of independent directors in the board. D_ind_t is a dummy assigned 1 if firms have at least one independent director and 0 otherwise. Ins_own_t is insider ownership. Sta_own_t is state ownership in year t. For_own_t is foreign ownership in year t. Bod_size_t is board size in year t. Ceo_dua_t is CEO duality in year t. Siz_mc_{t-1} is firm size in year t-1. Ass_gro_{t-1} is asset growth in year t-1. Fin_lev_{t-1} is financial leverage in year t-1. Ass_tan_{t-1} is asset tangibility in year t-1. Inv_cap_{t-1} is corporate investment in year t-1

$_1$ is corporate investment in year t-1. Firms with more investment should have higher profitability (Goddard, Tavakoli, & Wilson, 2005). Definitions of these main research variables are reported in Table 1.

3.2. Data collection

To establish the research sample, we choose all non-financial firms listed in Ho Chi Minh Stock Exchange. Financial

Table 3. Correlation matrix

	Roat	N_ind$_t$	Ins_own$_t$	Sta_own$_t$	For_own$_t$	Bod_siz$_t$	Ceo_dua$_t$	Siz_mc$_{t-1}$	Ass_gro$_{t-1}$	Fin_lev$_{t-1}$	Ass_tan
N_ind$_t$	0.05										
	0.11										
Ins_own$_t$	-0.08***	0.08**									
	0.01	0.01									
Sta_own$_t$	0.16***	-0.14***	-0.25***								
	0.00	0.00	0.00								
For_own$_t$	0.25***	0.03	-0.09***	-0.20***							
	0.00	0.27	0.00	0.00							
Bod_siz$_t$	0.02	0.17***	-0.01	-0.22***	0.35***						
	0.49	0.00	0.80	0.00	0.00						
Ceo_dua$_t$	0.30***	0.01	-0.13***	0.01	0.47***	0.24***					
	0.00	0.72	0.00	0.81	0.00	0.00					
Siz_mc$_{t-1}$	-0.04	-0.01	0.04	-0.04	-0.05	-0.06*	-0.06*				
	0.17	0.65	0.21	0.16	0.11	0.08	0.07				
Ass_gro$_{t-1}$	0.05	-0.02	0.03	-0.18***	0.12***	0.11***	0.21***	0.04			
	0.13	0.59	0.37	0.00	0.00	0.00	0.00	0.04			
Fin_lev$_{t-1}$	-0.46***	-0.04	0.08**	-0.01	-0.14***	0.03	-0.10***	-0.01	0.13***		
	0.00	0.26	0.02	0.65	0.00	0.41	0.00	0.83	0.00		
Ass_tan$_{t-1}$	0.14***	0.02	-0.10***	0.18***	0.02	-0.03	0.12***	-0.01	-0.19***	-0.11***	
	0.00	0.62	0.00	0.00	0.55	0.39	0.00	0.75	0.00	0.00	
Inv_cap$_{t-1}$	0.25***	-0.06*	-0.10***	0.23***	0.04	-0.09***	0.12***	0.01	-0.12***	0.00	0.66***
	0.00	0.07	0.00	0.00	0.26	0.01	0.00	0.83	0.00	0.00	0.00

*Roa$_t$ is return on assets in year t. N_ind$_t$ is the number of independent directors in the board. Ins_own$_t$ is insider ownership. Sta_own$_t$ is state ownership in year t. For_own$_t$ is foreign ownership in year t. Bod_size$_t$ is board size in year t. Ceo_dua$_t$ is CEO duality in year t. Siz_mc$_{t-1}$ is firm size in year t-1. Ass_gro$_{t-1}$ is asset growth in year t-1. Fin_lev$_{t-1}$ is financial leverage in year t-1. Ass_tan$_{t-1}$ is asset tangibility in year t-1. Inv_cap$_{t-1}$ is corporate investment in year t-1. t-statistics are in parentheses. * is significant at 10%. ** is significant at 5%. *** is significant at 1%*

information and ownership structure are provided by Stoxplus. Number of independent directors, board size and CEO duality are hand collected from annual reports from 2010 to 2017. After eliminating observations with incomplete information, we have a final research data including 1,003 observations from 169 firms. In addition, financial variables are winsoried at 3% to mitigate effects of outliers.

Panel A of Table 2 shows that the number of firms included in the research sample increases considerably from 2010 to 2017. The year 2010 accounts for the smallest percentage of firms with 5.88% and the year 2017 constitute the highest proportion with 16.35%. Panel B shows the distribution by industry classified in accordance with the Industry Classification Benchmark (ICB). The number of observations varies significantly across industries. Industrials is the largest with 36.3%, followed by Consumer Goods (25.4%) and Basic Materials is the third with 15.2%. On the other hand, Oil & Gas only contributes 8 firm-years with 0.8% and Technology is 2.3%.

4. Research findings

Panel C of Table 2 presents descriptive statistics of main research variables. Return on assets of firms in the research sample varies considerably from -4% to 24% and its mean is 7%. During the research period form 2010 to 2017, Vietnamese economy started to recover and developed significantly; therefore, firm profitability are less likely to be negative. The largest number of independent directors in a firm is 5 while

there are many firms without independent directors. This partly reflects ineffective legislations that forces listed firms to increase their board independence. Insider ownership and foreign ownership ranges from 0 to 65% with mean values of 11% and 13% respectively. State ownership is higher with 23% of shares on average. In addition, board size is from 3 to 11 directors and there are 26.81% of observations with CEO duality. Furthermore, the descriptive statistics of financial variables show that they are appropriate for subsequent regression analysis.

Table 3 shows the correlation matrix of research variables. Firm profitability has

Table 4. Checking for multicollinearity

Variables	VIF	1/VIF
N_ind_t	1.06	0.95
Ins_own_t	1.1	0.91
Sta_own_t	1.26	0.79
For_own_t	1.48	0.68
Bod_siz_t	1.24	0.81
Ceo_dua_t	1.01	0.99
Siz_mc_{t-1}	1.41	0.71
Ass_gro_{t-1}	1.15	0.87
Fin_lev_{t-1}	1.07	0.94
Ass_tan_{t-1}	1.85	0.54
Inv_cap_{t-1}	1.87	0.53
Mean VIF	1.32	

N_ind_t is the number of independent directors in the board. Ins_own_t is insider ownership. Sta_own_t is state ownership in year t. For_own_t is foreign ownership in year t. Bod_size_t is board size in year t. Ceo_dua_t is CEO duality in year t. Siz_mc_{t-1} is firm size in year t-1. Ass_gro_{t-1} is asset growth in year t-1. Fin_lev_{t-1} is financial leverage in year t-1. Ass_tan_{t-1} is asset tangibility in year t-1. Inv_cap_{t-1} is corporate investment in year t-1

Table 5. Regression results

Variables	Model 1	Model 2	Model 3
N_indt	0.0038***		
	(2.69)		
P_indt		0.0166**	
		(2.02)	
D_indt			0.0091***
			(2.62)
Ins_ownt	0.0011	0.0013	0.0015
	(0.10)	(0.12)	(0.14)
Sta_ownt	0.0499***	0.0491***	0.0495***
	(6.21)	(6.10)	(6.17)
For_ownt	0.0480***	0.0473***	0.0484***
	(3.57)	(3.52)	(3.60)
Bod_sizt	-0.0019	-0.0014	-0.0015
	(-1.33)	(-0.98)	(-1.04)
Ceo_duat	-0.0106	-0.0108	-0.0107
	(-1.22)	(-1.24)	(-1.23)
Siz_mct$_{-1}$	0.0088***	0.0088***	0.0085***
	(5.74)	(5.73)	(5.55)
Ass_grot$_{-1}$	0.0251***	0.0249***	0.0248***
	(3.17)	(3.13)	(3.12)
Fin_levt$_{-1}$	-0.1256***	-0.1257***	-0.1258***
	(-15.33)	(-15.29)	(-15.35)
Ass_tant$_{-1}$	-0.0198	-0.0191	-0.0173
	(-1.51)	(-1.46)	(-1.32)
Inv_capt$_{-1}$	0.5630***	0.5599***	0.5563***
	(5.75)	(5.71)	(5.69)
Intercept	-0.1499***	-0.1515***	-0.1463***
	(-3.50)	(-3.52)	(-3.41)
Industry dummies	Yes	Yes	Yes
R-squared	0.37	0.37	0.37
F-statistics	32.06***	31.78***	32.02***
Number of observations	1,003	1,003	1,003

*Roa$_t$ is return on assets in year t. N_ind$_t$ is the number of independent directors in the board. P_ind$_t$ is the proportion of independent directors in the board. D_ind$_t$ is a dummy assigned 1 if firms have at least one independent director and 0 otherwise. Ins_own$_t$ is insider ownership. Sta_own$_t$ is state ownership in year t. For_own$_t$ is foreign ownership in year t. Bod_size$_t$ is board size in year t. Ceo_dua$_t$ is CEO duality in year t. Siz_mc$_{t-1}$ is firm size in year t-1. Ass_gro$_{t-1}$ is asset growth in year t-1. Fin_lev$_{t-1}$ is financial leverage in year t-1. Ass_tan$_{t-1}$ is asset tangibility in year t-1. Inv_cap$_{t-1}$ is corporate investment in year t-1. t-statistics are in parentheses. * is significant at 10%. ** is significant at 5%. *** is significant at 1%*

positive correlations with state ownership, foreign ownership, CEO duality, asset tangibility and corporate investment and negative correlations with insider ownership and firm leverage. Remarkably, all correlation coefficients are smaller than 0.5. In addtion, Table 4 presents values of variance inflation factor (VIF) to check for multicolinearity. As a rule of thumb, a variable whose VIF values are greater than 10 may merit further investigation. Tolerance (1/VIF) is used by many researchers to check on the degree of collinearity. A tolerance value smaller than 0.1 is equivalent to a VIF of 10 (Baltagi, 2008; Wooldridge, 2010). These findings indicate the there is no multicollinearity between explanatory variables.

Table 5 reports pooled OLS regression results to analyze how independent directors affect firm profitability measured by return on assets. While Model 1 show estimation results for Equation (1), Model 2 and Model 3 are those with alternative measures including proportion of independent directors in the board and a dummy variable to proxy the presence of independent directors for robustness checks. We find that all measures of independent director appointment are positively related to firm profitability.

These findings are consistent with many prior studies in US (Brickley et al., 1994; Klein, 2002), UK (Dahya & McConnell, 2007; Ezzamel & Watson, 1993), New Zealand (Hossain et al., 2001), Korea (Choi et al., 2007; Joh & Jung, 2012) and China (Liu et al., 2015). Independent directors may monitor managers' decisions and provide firms advice with their professional knowledge and experience; therefore, they help firms improve operating performance. State ownership and foreign ownership also have positive effects on firm performance. These can be explained that firms with higher state ownership and foreign ownership receive more favorable treatment from the government and incur lower agency costs due to stricter monitoring from foreign investors respectively; consequently, they have better performance.

Moreover, our research findings show that firm size and asset growth are positively associated with return on assets at the significant level of 1%. Larger firms have better reputation which leads to lower costs of external financing and firms with higher asset growth rate have more investment opportunities (Fama & French, 2001). Hence, their business is more efficient. Besides, we find that financial leverage and corporate investment are negatively and positively related to firm profitability. These imply that firms with higher leverage are more financially constrained and they incur higher costs

of external financing. Firms with more investment generate more profits.

5. Conclusions, implications and limitations

Independent directors are one of the most popular approaches to mitigate the agency problem between firm managers and owners. The extant literature shows that independent directors can improve corporate operating performance in many developed countries. In Vietnam, legislations on the presence of independent directors are relatively ineffective and prior studies find debatable results for the effect of independent directors on firm performance. In this paper, we use 1,003 observations from 169 firms listed in Ho Chi Minh City Stock Exchange to investigate the role of independent directors in firm profitability. We find that there is a positive association between the use of independent directors and firm performance. This result implies that listed firms in Vietnamese stock market should adhere to the corporate legislations on independent directors in order to improve their operating performance. This study has two main limitations including regression method and sample size. The pooled OLS model is not a strong econometric technique due to its weak assumptions (Baltagi, 2008; Wooldridge, 2010). Besides, our small sample size also negatively affects the reliability of our research findings ∎

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