

Examining corporate governance's influence on financial performance in Vietnamese banks

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Abstract:

Various theories and empirical studies have been applied and proposed to establish and explain how corporate governance practices are related to banks' financial performance. Using agency theory, stewardship theory and resource dependence theory, this study investigates the effect of corporate governance on Vietnam-listed banks' performance. It tests the influence between bank performance (measured by return on assets (ROA) and return on equity (ROE)) and selected factors of corporate governance mechanisms, such as board size, independent directors, and female board members. ROA and ROE are used as proxies for bank performance. The control variables used in this study include bank size, real GDP, state ownership, and bank holding structure. The study used financial and corporate data from 19 banks, covering a period from 2015 to 2022. The methodologies adopted in this research include descriptive analysis, correlation analysis, and regression analysis. In this study, the findings indicate that female board members have a negative effect on bank performance. The board size is negatively related to bank performance; however, the result is not significant. Independent directors are found to have a positive influence with bank performance.

Keywords: bank financial performance, corporate governance, Vietnam-listed banks.

Classification numbers: 2.1, 2.2

1. Introduction

Corporate governance is a pivotal component in the financial and business management realm, impacting decision-making processes, accountability, and transparency within banks. In the context of Vietnam's banking sector, which is currently undergoing significant transformations, the significance of studying the interplay between corporate governance and financial performance cannot be overstated. Several compelling reasons underscore the necessity of such research, particularly in the case of Vietnam-listed banks.

First and foremost, Vietnam's economic growth is closely tied to the health and stability of its banking sector [1]. As the backbone of the nation's financial infrastructure, banks play a vital role in economic development. A robust understanding of how corporate governance influences financial performance is crucial to sustaining this economic growth. Effective governance practices can lead to a more resilient and stable financial sector, thereby contributing to the overall economic stability of Vietnam.

Moreover, the eyes of the global financial community are increasingly focused on Vietnam as the country continues to open its financial markets to international investors [2, 3]. Research exploring the connection between corporate governance and

financial performance has the potential to enhance Vietnam's standing in the global financial landscape. Such research can signal to international investors that the country is committed to maintaining high governance standards, thus attracting foreign investments, and fostering economic growth.

Within Vietnam, regulatory authorities are beginning to acknowledge the need for stronger corporate governance standards, especially within the banking industry [2]. Research in this area can provide valuable insights into the specific aspects of corporate governance that require regulatory attention. It can guide policymakers and help in crafting effective regulations aimed at fortifying the banking sector and ensuring its long-term stability.

Furthermore, the financial sector carries inherent risks (Asian Development Bank Economics Working Paper Series), by its very nature. Effective corporate governance practices can act as a key tool for mitigating these risks. Understanding how specific governance elements impact risk management and financial performance is paramount for ensuring the stability of the banking sector and safeguarding the interests of both banks and their customers.

The Vietnamese banking market, like all others, relies on both domestic and foreign investors for growth and stability.

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Research in the domain of corporate governance can enhance investor confidence in Vietnam-listed banks, as it showcases the commitment to secure and transparent investment opportunities [1].

With the increasing focus on stability and efficiency of the banking sector in Vietnam, understanding the influence between corporate governance elements (such as board size, independence of the board, and number of female directors) and financial performance indicators (ROA, ROE) becomes crucial. The research can serve as a benchmark for banks in Vietnam, allowing them to evaluate their governance structures in comparison to international best practices. By providing insights into how corporate governance is linked to financial performance, it can encourage the adoption of globally accepted governance standards, ultimately leading to a more robust and reliable banking system [4, 5].

This research aims to contribute to the existing body of knowledge by exploring and analysing the impact of corporate governance on the financial performance of banks, providing valuable insights for regulators, policymakers, and banking professionals to enhance governance practices and achieve sustainable financial outcomes. By understanding the dynamics of corporate governance, it becomes possible to strengthen the banking sector, attract investments, ensure ethical practices, and maintain the sustainable growth of the nation's economy. As Vietnam continues to evolve as a prominent player in the global financial arena, such research becomes increasingly useful.

The research aims to provide a comprehensive understanding of how these components collectively influence the financial health of banks in Vietnam. This exploration of the research questions is designed to contribute actionable insights which can support strategic decision-making for policymakers, empower bank managers in adopting effective governance strategies, and provide stakeholders with valuable perspectives on optimising financial performance in the banking sector.

The research continues with a systematic literature review on agency theory, stewardship theory and resource dependence theory in section 2. Section 3 provides the methods as well as the empirical work employed to analyse the influence of corporate governance on the financial performance of Vietnam-listed banks. After the estimation, the results are analysed and policy implications are followed in section 4. The research concludes with key findings and outlines its limitations in section 5.

2. Literature review and hypothesis development

2.1. Theoretical framework

The “Agency theory”: Agency theory is an economic theory that views the firm as a set of contracts among self-interested individuals. An agency's influence is created when a person (the principal) authorizes another person (the agent) to act on their behalf. Issues arise in this influence are based on the risk that the agent will act opportunistically and not act in the best interests

of the principal. Therefore, a contract or agreement should be designed to eliminate or reduce the potential of the agent acting opportunistically. Agency theory examines the influence between managers (agents) and shareholders (principals) [6]. Agency theory stresses the important role of external directors within the context of internal governance mechanisms. Agency theory suggests that independent directors can improve bank performance by promoting alignment of interests, providing effective monitoring and accountability, mitigating risks, contributing to strategic decision-making, offering valuable advice, and enhancing corporate governance. Their role helps to ensure that bank management acts in the best interests of its shareholders, which ultimately supports the bank's financial success and long-term sustainability. These directors play a crucial part in ensuring the board's effectiveness by overseeing and restraining managers' self-interested behaviour and curbing managerial opportunism.

The “Stewardship theory”: According to C. Caldwell, et al. (2008) [7] the stewardship theory is a framework which argues that people are intrinsically motivated to work for others or for organisations to accomplish the tasks and responsibilities with which they have been entrusted. According to stewardship theory, directors can achieve the organisational objectives of shareholders by prioritising utility maximisation over self-interest. Furthermore, E.F. Fama, et al. (1983) [8] argues that managers have greater access to specific insider information about the organisation's ongoing activities compared to independent directors. This insider knowledge enables managers to make well-informed decisions based on their acute understanding of the company's operations. In line with the stewardship theory, it is suggested that a lower number of independent directors is considered to be ideal for companies; Moreover, the stewardship theory asserts that an insider-dominated board of directors is more effective in achieving organisational objectives due to their enhanced accessibility to information and technology.

The “Resource dependence theory”: The resource dependence theory is based on the idea that organisations don't operate in isolation but depend on their surroundings and need resources to do well. When we apply this theory to how companies are managed, it highlights how important it is to have a diverse and efficient board of directors. Resource dependency theory advocates for board diversity across three primary dimensions. The first dimension pertains to board structure, including the presence of independent directors, leadership duality, and board size. The second dimension involves demographic diversity, encompassing factors such as gender, age, nationality, and ethnicity. The third dimension emphasises cognitive diversity, which is achieved through variations in experience, qualifications, and educational backgrounds [9]. To sum up, the resource theory suggests that increased board diversity enhances strategic decision-making, monitoring functions, and brings a wider range of knowledge, perspectives, and problem-solving abilities to the formulation of policies and strategies within organisations.

2.2. Corporate governance on bank's financial performance

Corporate governance, as defined by various scholars, centres on directing and controlling organisations, promoting accountability, transparency, and considering the interests of stakeholders [3]. Emphasises its influence on participants in publicly traded firms, expanding to all stakeholders due to global economic changes and corporate scandals. This shift has led to a global market for corporate governance-related services, with investors perceiving it as a significant investment risk [4]. Defines corporate governance as addressing issues related to the direction and control of companies, encompassing systems and processes to ensure accountability, probity, and openness in organisational conduct.

The implications of corporate governance on a bank's financial performance are diverse and crucial for sustainable growth. Corporate governance, including mechanisms for directing and controlling companies, significantly influences a bank's success in a competitive environment [5]. One key aspect is aligning governance practices with the interests of stakeholders, fostering transparency, accountability, and trust among investors and depositors. Effective governance also plays a direct role in shaping risk management strategies, ensuring a balanced approach between risk and return [6]. Board diversity is highlighted as a critical factor, contributing to better decision-making and risk assessments, ultimately leading to enhanced financial performance. Adherence to ethical standards and regulatory compliance not only maintains the bank's social license but also influences its reputation and attractiveness to investors. In summary, prioritising and enhancing corporate governance practices are imperative for long-term sustainability and prosperity in the evolving financial landscape.

2.3. Research hypothesis

2.3.1. Board size and bank's financial performance

Board size and financial performance: N.K.Q. Trung (2022) [10] argues that board size positively affects the bank performance. The results are based on data collected over eleven years (2010-2020) from a set of 35 Vietnamese commercial banks listed on the stock market. The author found that increased board size is associated with enhanced bank performance, in line with the principles of agency and resource dependence theories. These theories contend that a greater number of directors on the board correlates with improved bank performance. This is attributed to the notion that a larger board can provide more robust support, and counseling to the CEO when making proactive decisions. P.M. Guest (2009) [11], V. O'Connell, et al. (2010) [12], and T.N.Q. Nguyen, et al. (2022) [13] show that the larger the board size, the better the performance of the organisation is. They believe that having a bigger board of directors is beneficial because it increases the expertise and resources available to a company. They also discovered that banks often have larger boards due to their complex organisational structure and the presence of various committees, such as lending and credit risk committees.

Studies on various banking sectors, including: Malaysia, Nigeria, and Jordan, have consistently shown that board size has no significant impact on bank performance. Researchers in Malaysia, Nigeria have found no substantial relationship between board size and bank performance in their respective analyses [14, 15]. In conclusion, various studies, including extensive research on Vietnamese commercial banks, suggest that a larger board size tends to positively influence bank performance [10]. This finding aligns with agency and resource dependency theories, emphasising that a greater number of directors correlates with improved performance by providing increased expertise and resources. Based on the discussions, the following hypothesis is proposed:

Hypothesis 1 (H1): Board size positively influences the bank's financial performance.

2.3.2. Board independence and financial performance

Agency theory stresses the important role of external directors within the context of internal governance mechanisms. Agency theory suggests that independent directors can improve bank performance by promoting an alignment of interests, providing effective monitoring and accountability, mitigating risks, contributing to strategic decision-making, offering valuable advice, and enhancing corporate governance. They are often more effective than internal directors in preventing self-serving behaviors and actions by managers because of their heightened inclination to meticulously monitor firms. Their vigilant oversight aims not only to protect their reputation but also to curtail or report instances of managerial opportunism [8]. Supporting this perspective, A. Klein (2002) [16] provides evidence that a board with greater independence from the management team is less likely to engage in earnings manipulation. In contrast to these above findings, A. Agrawal, et al. (1996) [17] reported a negative influence between board independence and firm performance. They argued that independent directors are sometimes added to boards for political reasons and may lack the monitoring expertise necessary, potentially resulting in negative effects on firm performance. The third perspective arises from three research papers conducted in Australia and Vietnam, suggesting that the presence of independent directors does not significantly affect the performance of banks or firms. In conclusion, the body of research under Agency theory consistently advocates the crucial role of external directors in bolstering corporate governance mechanisms and, in turn, positively influencing bank performance. Given this substantial body of evidence highlighting the contributions of independent directors to governance, the author proposes the following hypothesis to test:

Hypothesis 2 (H2): The independence of the board positively impacts the banks and financial performance.

2.3.3. Board gender diversity and financial performance

Lately, there has been a growing interest in the presence of women on corporate boards. Studies show that female board members put in more effort in overseeing and controlling executive directors [18]. Female board members often bring

diverse perspectives and experiences to the boardroom. This diversity can lead to more thorough discussions and a broader range of viewpoints when it comes to overseeing and controlling executive directors. The inclusion of different perspectives is associated with a greater depth of scrutiny. Female board members are often more proactive in attending board meetings compared to their male counterparts, suggesting their increased dedication to supervising executive board members [19, 20]. It is demonstrated that the presence of female board members had a positive impact on firm (non-bank) performance measured by ROA, indicating that gender diversity on the board contributed to better financial performance. However, there is an opposing perspective. Other research finds that the inclusion of women on firm boards has a negative impact on performance [21]. The varying perspectives on the influence of female board members on firm or bank performance highlight the complexity of this issue. It is evident that the impact of gender diversity in leadership is context-dependent and influenced by cultural, social, and economic factors. Further research is needed to provide a more comprehensive understanding of the implications of gender diversity in corporate governance. Findings from studies done in Bangladesh, Egypt, Malaysia, and Vietnam are inconsistent, with some showing no significant impact and others indicating a negative or positive influence of gender diversity on financial performance.

Hypothesis 3 (H3): The number of female directors negatively impact the bank's financial performance.

3. Research methods and data

3.1. Data source and scope

In terms of methodology, the study employs a comprehensive sample, encompassing all banks listed on the Vietnam Stock Exchange. The data period selected for analysis spans from January 1, 2015, to December 31, 2022, capturing a substantial timeframe to draw meaningful conclusions. We examine the annual financial data from 01/01/2015 to 31/12/2022 of the listed banks on the Vietnam Stock Exchange. The research focuses on corporate governance. Joint-venture banks and 100% foreign-owned banks exhibit distinct governance characteristics compared to domestic banks, particularly when board members are foreigners and the bank operates under the supervision and management of its parent bank abroad. To ensure the accuracy of the research findings, the sample will be exclusively limited to Vietnamese banks. Financial data, including ROA and ROE will be gathered from the consolidated annual reports and financial statements of the selected banks. These reports provide detailed information about the banks' financial performance, governance structure, and practices. Annual reports are obtained from the official websites of the banks. Information on corporate governance elements such as board size, independence, and the number of female directors will be obtained from corporate governance reports published on the banks' official websites. These reports are found in the "Investor relations" or "Corporate governance" sections. The SSC website and their designated portal (The Refinitiv Data Platform and Finpro) are utilised as a starting point to search for the relevant reports.

3.2. Empirical model and principal variables

The research model follows:

$$\text{Bank Performance (proxy as of ROE}_{i,t} \text{ and ROA}_{i,t}) = \beta_0 + \beta_1.BS_{i,t} + \beta_2.ID_{i,t} + \beta_3.FD_{i,t} + \beta_4.TA_{i,t} + \beta_5.BH_{i,t} + \beta_6.GDP_t + \beta_7.SO_{i,t} + \varepsilon$$

where: ROA_{i,t} represents the ROA of the bank (i) in the year (t); ROE_{i,t} represents the ROE of the bank (i) in the year (t); BS_{i,t} represents the board size, indicating the total number of board members of the bank (i) in the year (t); ID_{i,t} represents the independent directors, measured as proportion of independent directors of the bank (i) in the year (t); Di_{i,t} represents the female directors, measured as proportion of female directors of the bank (i) in the year (t); TA_{i,t} mean total assets to measure by natural log of total assets of the bank (i) in the year (t); GDP_t represents GDP growth (annual %) in the year (t); SO_{i,t} refers state ownership structure of the bank (i) in the year (t); BH_{i,t} refer to banking holding structure of the bank (i) in the year (t); β₀, β₁, β₂, β₃, β₄, β₅, β₆, and β₇ are the coefficients to be estimated; ε represents the error term in the regression model.

Table 1 is the list of variables and their measurements.

Table 1. Measurement variables.

Variables	Types	Measurements	Data sources
Board size	Independent variable	Number of board members	Corporate governance reports published on the banks' official websites.
Independent directors	Independent variable	(Number of independent board directors/Total number of board directors) × 100	Corporate governance reports published on the banks' official websites.
Female director	Independent variable	(Number of female director in board/Total number of board directors) × 100	Corporate governance reports published on the banks' official websites.
Return on assets (ROA)	Dependent variables	ROA = (Net income/ Average total assets) × 100	Annual reports published on the banks' official websites.
Return on equity (ROE)	Dependent variables	ROE = (Net income/ Shareholders' equity) × 100	Annual reports published on the banks' official websites.
Bank size	Control variable	Natural log of total assets	Annual reports published on the banks' official websites.
GDP	Control variable	GDP growth (annual %) as declared by the International monetary fund	International monetary fund
State ownership	Control variable	0 = Not owned by the state, 1 = if the government owns at least 50 percent of its equity	State Bank of Vietnam
Bank-holding structure	Control variable	Bank-holding structure = the bank parent company with bank subsidiary and non-bank subsidiaries 0 = No Bank-holding structure, 1 = Bank-holding structure applied	Annual reports published on the banks' official websites

3.3. Descriptive statistics summary

The descriptive statistics table showed the maximum, minimum, mean, and standard deviation of the studied variables. Specifically, the data set has 152 observations in which the average ROA in the period from 2015 to 2022 is 1.08%, corresponding to the standard deviation of 0.75%, including the bank with the largest ROA of 3.2% and the smallest of nearly 0%. Meanwhile, the ROE at this stage is quite high, reaching about 12.86% on average, corresponding to a standard deviation of 6.89%, of which some banks achieve a return on equity up to more than 26.3% (Table 2).

Table 2. Descriptive statistics.

Variable	Observations	Mean	Standard deviation	Min	Max
ROA	152	0.0108142	0.0075639	8.90e-08	0.032346
ROE	152	0.1286569	0.0689374	1.39e-06	0.2638763
BS	152	8.019737	2.024585	5	15
ID	152	1.171053	0.5492477	0	4
TA	152	12.49895	0.8919632	10.78374	14.56718
FD	152	20.1521	16.68635	0	62.5
GDP	152	5.91375	1.898171	2.58	8.02
SO	152	0.1434495	0.2789569	0	0.9527919
BH	152	0.7302632	0.4452902	0	1

Sources: Research result.

Note: ROA: Return on asset, ROE: Return on equity, BS: Bank size, ID: Independent directors, TA: Total asset, GDP: Gross domestic product, SO: State ownership, BH: Banking holding.

The average board size of banks during this period is about 8 people, including banks where the number of board members is at least 5 people, but the maximum is up to 15 people. Next, the ratio of independent members of the Board of Directors (independent director) in the period from 2015 to 2022 is about 1 person, including some banks with no independent members, but some banks with up to 4 independent members. The average size of bank assets (total assets) in this period is about 12.5 times with a standard deviation of 0.89 times, of which the largest bank is 14.5 times, and the smallest is 10.7 times. The proportion of female members on the Board of Directors (female director) during this period was about 20.15%, corresponding to a standard deviation of 16.68%, in which there were banks with no female members but there were also banks with a high percentage of female members (62.5%). The GDP growth rate during this period is about 5.91% with a standard deviation of 1.8%, of which the highest economic growth achieved is 8.02% and this is the period of economic recovery after the COVID-19 epidemic. Finally, on average during this period, 14.3% of banks were state-owned, including banks with a state ownership of more than 95%. The non-bank structure corresponds to a standard deviation of 44.5%.

3.4. Correlation matrix and regression results

There are also several different correlations between variables, but in general, the correlation coefficients are less than 1, showing that the model likely does not have multi-

collinearity. To check more clearly, the author also needs to evaluate through the variance inflation factor VIF to get accuracy (Table 3).

Table 3. Correlation matrix.

	ROA	ROE	BS	ID	TA	FD	GDP	SO	BH
ROA	1.000								
ROE	0.8491	1.0000							
BS	-0.0967	0.0100	1.0000						
ID	0.0731	0.0427	0.0684	1.0000					
TA	0.3153	0.4803	0.4783	-0.0445	1.0000				
FD	-0.3210	-0.2584	0.0264	0.1777	-0.1381	1.0000			
GDP	-0.0996	-0.0871	0.0009	0.0262	-0.1075	0.0122	1.0000		
SO	-0.1033	0.1388	0.5398	-0.2256	0.7333	0.0186	0.0122	1.0000	
BH	0.1430	0.1979	0.2337	-0.0538	0.5055	0.0137	-0.0060	0.2598	1.0000

Sources: Research result.

Note: ROA: Return on asset, ROE: Return on equity, BS: Bank size, ID: Independent directors, TA: Total asset, GDP: Gross domestic product, SO: State ownership, BH: Banking holding.

Regression results according to pooled OLS model, fixed effect model, random effect model, FGLS are presented in Table 4:

Table 4. Determinants of financial performance.

ROA	OLS	FE	RE	FGLS
BS	-0.0005387*	0.0002404	0.0000514	-0.0001696
ID	0.0000783	-0.000365	-0.000188	0.0004091
TA	0.0074261***	0.0121174***	0.0106738***	0.0069465***
FD	0.0000314	0.0000387	0.0000377	0.0000211
GDP	[0.0002635]	[0.0068666]	[0.0044526]	[0.0014359]
SO	0.0017289***	0.090788***	0.0154375***	0.0069465***
BH	[0.0013271]	[0.0032489]	[0.0002894]	[0.0020544]
-CONS	0.0017289***	0.090788***	0.0154375***	0.0069465***
Number of obs	152	152	152	152
Number of group	19	19	19	19
F-test	F test that all u-i=F(18,126)=25.95 Prob > F=0.0000			

Sources: Research result.

Note: ROA: Return on asset, ROE: Return on equity, BS: Bank size, ID: Independent directors, TA: Total asset, GDP: Gross domestic product, SO: State ownership, BH: Banking holding.

After detecting that the model suffered from heteroscedasticity and autocorrelation defects, the author proceeded to fix it using the FGLS method. Once the analysis of regression is conducted the results are as follows (Table 5).

Table 5. Regression results.

Hypothesis	Results	Supported/Not Supported
H1: Board size positively influences the bank's financial performance	Negative - insignificant	Not Supported
H2: The independence of the board positively impacts the bank's financial performance	Positive - insignificant	Not Supported
H3: The number of female directors negatively impact the bank's financial performance.	Negative significant	Supported

4. Results and discussion

4.1. Findings and discussion

Firstly, the board size measured by “Board size” has a negative influence on profitability measured by ROA and ROE, but this influence is not statistically significant. These findings align with the conclusions of V.H. Duc, et al. (2013) [20] which encompassed 77 listed firms on the HOSE Vietnam stock exchange between 2006 and 2011. To shed light on this finding, the author offers some explanation that Vietnam has a strong hierarchical culture where authority and decision-making traditionally reside at the top. Vietnamese culture often emphasises collectivism over individualism. In larger boards, there may be more diverse opinions and interests, which can lead to conflicts and difficulties in reaching a consensus. This may hinder the abilities of the board to make quick and effective decisions, ultimately affecting bank performance metrics. Smaller and more agile boards may be better suited to adapt to the rapidly changing business environment and make quicker decisions. The author recommended that bank’s decision-makers should consider both agency costs and resource dependency when determining a firm’s ideal board size.

Secondly, the proportion of independent directors has a positive influence with profitability measured by ROA and ROE; however, this influence is not statistically significant. It is worth noting that while statistical significance might not always be evident, the presence of independent board members can exert a substantial positive influence on a business’s ability to generate profits. In the context of Vietnam, where family dominance and regulatory oversight might be less stringent, the need for independent directors becomes particularly significant. Independent directors play a crucial role in safeguarding the interests of minority shareholders. Consequently, this heightened vigilance is likely to be related to improved firm performance, including both ROE and ROA. This result may imply that factors other than board independence play a more dominant role in shaping financial outcomes for banks in Vietnam.

Thirdly, the result suggests that the presence of female members on the Board of Directors may lead to a statistically significant 5% reduction in the bank’s performance. From reviewing these literatures, three potential explanations for the negative influence between female directors and bank performance emerge as follows. The first argument is that women tend to be more risk-averse than men, potentially leading to a more cautious approach in decision-making, which can impact bank performance [22]. Secondly, tokenism occurs when women are appointed as ‘tokens’ and may not contribute substantively to board decisions [23]. Gender diversity may negatively affect the performance of the firm if women directors are appointed as “tokens” rather than for their competence. Thirdly, it is explained that when gender diversity focuses on societal pressure and certain quota sets by government regulations, thus to fulfill said quota and adhere to societal pressure, companies induct incapable and incompetent female directors for their board which affects the efficiency of companies [22].

4.2. Policy implications

The finding that the presence of female members on the Board of Directors may lead to a statistically significant reduction in the bank’s performance may also prompt further investigations into the specific mechanisms or contextual factors that contribute to the observed reduction in performance loss associated with the presence of female members on the Board of Directors in the context of the Vietnamese banking sector. Based on the third hypothesis for why board diversity may negatively impact a bank’s performance, here are some bank’s recommendations for policymakers to counter those effects.

Firstly, recognising the impact of gender differences in risk aversion is paramount. Policymakers should advocate for banking institutions to embrace a nuanced approach to risk management that values diverse perspectives. Encouraging open dialogues on risk and reward among board members, irrespective of gender, can foster well-informed decision-making.

Secondly, addressing the negative consequences of tokenism is another critical policy consideration. To counteract the adverse effects on firm performance, policies should emphasise the appointment of female directors based on merit, qualifications, and expertise rather than as a mere diversity checkbox. Establishing an inclusive corporate culture that values diversity and ensures the meaningful integration of all board members in decision-making processes is essential.

Finally, in response to government regulations and societal pressures, policy makers should advocate for a shift from a quantitative to a qualitative approach in promoting gender diversity. Emphasising merit-based selection processes over numerical quotas ensures that female directors are chosen for their ability to contribute effectively. Mandating transparency and reporting on diversity and inclusion efforts, including board gender composition, serves as a powerful tool to incentivize companies towards proactive measures in improving diversity. Policymakers play a pivotal role in steering organisations towards a future where gender diversity is not only a statistical target but a genuine enabler of corporate excellence.

It is important to note that the relationship between gender diversity and firm performance is a complex and heavily debated topic. While this finding may not conform to conventional expectations in all cases, they underscore the need for a more comprehensive understanding of the contextual factors, dynamics, and nuances that shape the governance-performance influence. As corporate governance practices continue to evolve, our research highlights the importance of considering these multifaceted influences when formulating governance strategies and policies in the banking sector.

5. Conclusions

The article examined three hypotheses relating to the influence between corporate governance variables and financial performance indicators. It suggests that the size of the board and the higher number of independent directors does not significantly influence financial performance within the banking sector as the analysis showcased an insignificant influence. The analysis presented a finding that a higher number of

female directors is associated with a negative and significant effect on bank performance. These results provide insights into the complex influence between corporate governance variables and financial performance within the context of the study. Some results can be attributed to a combination of cultural, historical, and political-social factors in Vietnamese society context. Understanding these contextual factors is crucial for devising governance reforms that better align the interests of the board with the financial performance of banks in Vietnam.

Several limitations were encountered during the course of this study, which should be acknowledged. *Firstly*, the study was focused on the Vietnamese banking industry, specifically on locally listed banks. This led to a constrained sample size, as foreign commercial banks were excluded due to resource limitations. Therefore, the other nine wholly foreign banks in Vietnam: ANZ, CIMB, Hong Leong, HSBC, Public Bank, Shinhan Bank, Standard Chartered, UOB and Woori were not included because these foreign banks are mandated to report their board size, board structure to the State Bank of Vietnam and are not required to publish their corporate governance on the website or Vietnam Stock Exchange. *Secondly*, the study's timeframe was limited to a seven-year period, spanning from 2015 to 2022. The reason being that several banks disclosed Corporate Governance annual reports only for recent years, and some didn't disclose reports before 2015, making it impossible for the author to gather data on independent directors, board size, and the number of female directors prior to that year. One recommendation for future research in Vietnam is to use a larger sample of banks with different methodologies, such as surveys, case studies, and qualitative research, to find out the causes of the question of why the presence of women on boards might impact financial performance.

In conclusion, the future recommendation can broaden the scope of corporate governance variables and diversifying the methods of measuring bank performance and stability will enhance the depth and breadth of future research in this field, providing more comprehensive insights into the intricate influence between governance and bank outcomes.

CRediT author statement

Cao Phan: Writing-Original draft preparation, Reviewing the paper; Hai Yen Hoang: Methodology, Supervision, Validation, Reviewing and Editing; Tan Thi Nguyen: Conceptualisation, Data curation.

COMPETING INTERESTS

The authors declare that there is no conflict of interest regarding the publication of this article.

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