

An Empirical Study of Corporate Governance and Banks' Performance in Vietnamese Commercial Banks

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Abstract

In the process of restructuring the Vietnamese banking system, corporate governance in banks has become a topic of concern for a wide range of authorities, bank executives and researchers. This paper examines the effect of corporate governance on banks' performance in Vietnamese commercial banks through representing factors including size, independence level and diligence of board and auditing board, institutional and foreign ownership. Panel data collected from 26 commercial banks during the period from 2008 to 2014 is used. The paper uses a combination of pooled least squares regression and specific techniques of panel data which are fixed effects and uncertain effects. In addition, a generic generalized-method-of-moments approach is also considered. Applying a panel regression technique, the paper finds that size and institutional ownership have positive relation with banks' performance, while independence level has a negative impact. Moreover, performance in Vietnamese commercial banks has no clear correlation with independence level or foreign ownership.

Keywords: *bank performance, corporate governance, ownership structure, Vietnamese commercial banks*

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1. Introduction

The corporate governance system has developed and evolved over time. The operating mechanism of corporate governance is often adjusted in response to companies' failures or crises. The first failure of corporate governance in the 1700s created a revolution in business law and practices in England. The bulk of US securities' law had been issued after the collapse of the stock market in 1929. Corporate governance is currently defined in a variety of ways, in which the guidance of the OECD is the most comprehensive.

Corporate governance for commercial banks is of greater importance than for other companies in achieving and maintaining public trust and confidence in the banking system. Weak corporate governance is linked to bank collapses, leading to economic and social losses. The global crisis in 2008 following the bankruptcy of Lehman Brothers is an example of this. Consequently, corporate governance in banking is one of the vital tasks involved with protecting stakeholders' interests.

Corporate governance in Vietnamese commercial banks is becoming a popular term and has received attention from authorities and researchers (Dao, 2012). However, there has not been issued a comprehensive regulation about corporate governance in Vietnamese commercial banks but only recommendations. In the context of globalization, there is a demand for restructuring of the Vietnamese banking system, especially with respect to corporate governance. Moreover, according to the Financial Development Report (2012) by the World Economic Forum, covering 62 countries, the capacity of corporate governance in the field of banking and finance in Vietnam

was ranked 56th and this was the lowest among the included Asian countries. Research studies on the current situation of corporate governance in Vietnamese commercial banks emphasized the weakness of banking management, including the lack of a suitable management framework, managing and organizational structure, and internal governance. In order to analyse the effect of corporate governance on Vietnamese commercial banks' performance, A set of corporate governance index (CGI) indicators for Vietnamese commercial banks has been developed which pointed out that CGI has a positive correlation with banks' performance, which is represented by return on assets (ROA), return on equity (ROE) and COI (cost of invested capital).

Based on the demand in the current situation, this paper focuses on effect of corporate governance on Vietnamese commercial banks' performance using empirical research. It uses data from 26 Vietnamese commercial banks in the period from 2008 to 2014, involving 175 observations in total. Section 2 presents the literature review, while the data and model are delivered in Section 3. Remarkable findings and conclusion are summarized in Section 4.

2. Literature Review

Ownership structure is one of the most important factors in shaping the corporate governance system of any country (Zhuang, 1999). It decides operation management in corporations and better corporate governance leads to higher productivity (Tandelilin *et al.*, 2007). In addition, this study developed a model called the 'triangle gap' that consists of three constructs – corporate governance, risk management and banks. When bank owners and managers try to maintain a good corporate governance system, then market credibility will be increased, leading to capital accumulation at a lower cost and lower risk, thereby resulting in higher performance.

Jensen and Mecking (1976) pointed out that firm performance is affected by corporate governance through agency cost. Empirical studies by Mang'anyi (2011) also showed that ownership structure has a great effect on commercial banks' performance through operation management methods. State, foreign or private ownership has direct effects on the Board of Directors, including size, characteristics and composition, compensation mechanism and bank's independent audit, which affects a bank's revenue, income and loans.

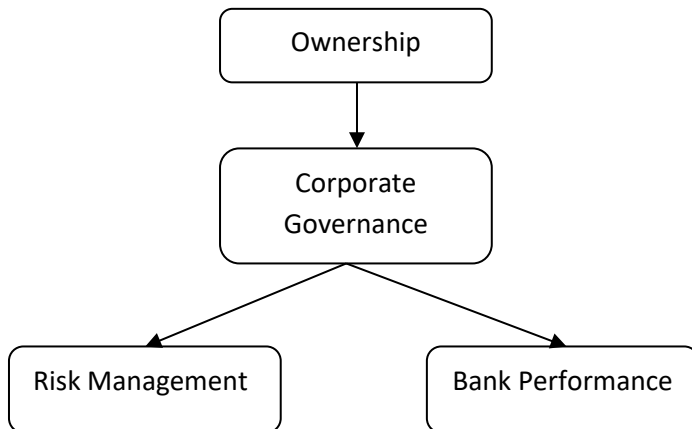


Figure 1: *Triangle Framework on Bank Corporate Governance*; source: Tandelillin *et al.* (2007)

In addition, other empirical research studies also confirmed that good corporate governance leads to higher performance. Klapper and Love (2003) conducted research on 14 emerging markets and concluded that corporate governance in commercial banks has a close relationship with banks' performance and market value. La Porta *et al.* (2002) researched companies in 25 developed countries and found that performance is higher in countries with better protection for minor shareholders.

Similarly, Coleman (2007) surveyed 103 listed companies in Ghana, Nigeria, Kenya and South Africa and found that an independent board enhances firms' value. This research also pointed out that larger board sizes relates to higher debt finance and the independence of boards has inverse relationship with short-term debt. Jiang, Yao and Feng (2009) argued that differences in corporate governance have significant impacts on bank performance. Coleman (2007) showed that supervisory committee sizes and frequency of their meetings have positive effects on market-based performance indicators, thereby enhancing a firm's market valuation. The main theoretical assumption of this research relies on the agency framework, as described below.

2.1. Board Sizes

From the lender's perspective, larger boards reduce debt costs since these firms have better supervision in terms of financial accounting reporting, thereby increasing performance (Anderson, Sattar & Reeb, 2004). Ebrahim, Abdullah and Faudziah (2014) researched 162 non-finance sector listed companies in the period of 2011-2012 in Malaysia and showed a positive correlation between board size and performance.

However, according to Yoshikawa and Phan (2003), smaller boards reduce costs while larger boards can increase influence and conflict between members. Jensen and Ruback (1983) pointed out that a board should have a maximum of eight members. In addition, Lipton and Lorsch (1992), Barnhart, Marr and Rosenstein (1994) and Shakir (2008) found that smaller boards will improve firms' performance.

Consequently, the relationship between board sizes and performance is not consistent and may differ according to specific characteristics.

2.2. Board Independence

Board independence is an important factor in supervising management performance and minimizing agency costs. High-calibre independent

boards enhance the prohibition on members from personally profiting (Baysinger & Butler, 1985; Ezzamel & Watson, 1993; Block, 1999; Choe & Lee, 2003; Adebayo, Ayeni & Oyewole, 2013 and Zahra & Pearce, 1989).

On the other hand, Brick and Chidambaran (2007) pointed out the negative relationship between the independence level of the board and performance.

Moreover, recent research by Tong, Junarsin and Davidson (2013) on 3,019 listed companies in Chinese stock market, including 2,174 state owned companies and 845 private companies, compared the relationship between independence level and performance in these two samples. While high-level independent boards in state owned companies are linked to more efficient performance, results did not show this positive relationship in private firms.

2.3. Board Diligence

Board diligence is determined by the frequency of board meetings. This is a crucial factor in determining a board's performance (Vafeas, 2003). Abbott *et al.* (2003) observed that the board meetings represent shareholders' interests. A diligent board pays attention in terms of the supervision of managers in order to meet the expectation of shareholders. Moreover, when boards record the frequency of meetings, they maintain their understanding and updating of company's operations, which enables them to take effective and timely actions.

2.4. Audit Committee Size

In companies, the owners and managers are probably not the same people. The owners need to supervise the activities of managers and ensure the balance of interest for both sides. Consequently, an audit committee is created to improve the quality of financial accounting

reporting and performance (Pincus, Rusbarsky & Wong, 1989). The Cadbury Commission suggested that an audit committee should have three members. In Vietnam, an audit committee is, by regulation, to have 3-5 members.

Many research studies have pointed out the positive relationship between audit committee size and performance. Larger audit committees have better resources than smaller audit committees (DeZoort & Salterio, 2002). Burton, Pathak and Zigli (1977) also found that larger audit committees ensure consistency in terms of firms' operations, increase audit committee performance and limit wrong decisions due to member's collusion.

2.5. Audit Committee Independence

Many studies found that the performance of an audit committee is associated with the independence level of the audit committee, which has influence on a firm's performance. Independent audit committees contribute to avoiding the intervention of managers in financial accounting reporting (Beasley, 1996). High-calibre independent audit committees contribute to more effective supervision of managers since the audit committee does not have economic and personal relationships with managers (Abbott *et al.*, 2003).

However, empirical research studies by Klein (2002), Weiss (2005), Coleman (2007) and Kajola (2008) showed that there is no correlation between the independence level of audit committees and commercial banks' performance.

2.6. Audit Committee Diligence

Similarly to board diligence, the number of meetings is a good proxy for audit committee diligence. It means that, in order to ensure diligence and performance of audit committees, their members are required to focus on their function (Kalbers & Fogarty, 1993).

However, Rebeiz and Salameh (2006) conducted empirical research and indicated that the quality of the meeting is highly important, whereas the higher frequency of meetings does not have clear linkages with more effective performance. In addition, Huang, Lai and Wen (2008) also pointed out that there is no correlation between the diligence of an audit committee and firm performance.

2.7. Foreign Ownership

There are many studies on the relationship between ownership structure and the performance of commercial banks. Görg and Greenaway (2004) argued that foreign ownership encourages both revenue and firm performance, especially in the economic globalization. However, many research studies also point out that the effect of ownership structure on performance may differ in different economies. Empirical research on industrial countries by De Young and Nolle (1996), Genay *et al.* (2000) and other developing countries by Bonin, Hasan and Wachtel (2005) and Clarke *et al.* (1999) indicated that commercial banks under foreign ownership have higher incomes than local commercial banks in developing countries but lower income in industrial countries.

2.8. Institutional Shareholder Ownership

Most studies showed a positive correlation between proportion of institutional involvement and firm performance (Chaganti & Damanpour, 1991; Han & Suk, 1998). The higher percentage of institutional stock ownership is associated with higher operating cash flow returns since these shareholders are willing to use their ownership rights to act in the best interest of the shareholders by putting pressure on managers (Cornett *et al.*, 2007).

3. Methodology

3.1. Regression Model

This study uses unbalanced panel data from 26 Vietnam commercial banks over the period of 2008 to 2014, with a total of 175 observations. The reasons for using this sample are: (i) the availability of data relating to the variables which it was desired to use in the model; (ii) the commercial banks in the model can represent the Vietnamese banking system in terms of asset and equity size, market share and corporate governance issues. The data is collected from the annual reports and corporate governance reports of individual banks.

Based on the theoretical framework and hypotheses described below, this study proposes the following regression formula:

$$\begin{aligned} \text{Efficiency} = & \beta_1 + \beta_2 \times \text{BS} + \beta_3 \times \text{BI} + \beta_4 \times \text{BD} + \beta_5 \times \text{ACS} + \beta_6 \\ & \times \text{ACI} + \beta_7 \times \text{ACD} + \beta_8 \times \text{FRG}_{\text{OWR}} + \beta_9 \\ & \times \text{INST}_{\text{OWR}} + \beta_{10} \times \text{LG} + \beta_{11} \times \text{CAR} + \beta_{12} \times \text{GDP} \\ & + \beta_{13} \times \text{M2} + e_{it} \end{aligned}$$

In which:

Efficiency	Vectors of three dependent variables (ROA, ROE, NPL (non-performing loans)) measuring the effectiveness of bank <i>i</i> in year <i>t</i> (%)
BS	The number of directors on the board at the end of each year
BI	The percentage of independent directors on the board at the end of each year
BD	The number of board meetings in a financial year
ACS	The number of members on the audit committee at the end of each year

ACI	The percentage of independent directors on the audit committee at the end of each year
ACD	The number of audit committee meetings in a financial year
FRG_OWR	The ownership ratio of foreign shareholders at the end of each year
INST_OWR	The ownership ratio of institutional shareholders at the end of each year
LG	Loan growth
CAR (%)	Capital adequacy ratio
GDP	Annual Gross Domestic Product growth rate
M2	Broad money supply growth rate

Dependent variables: ROA and ROE are used in many studies to evaluate the profitability of enterprises in general and banks in particular. According to Rhoades (1998), ROA often incorrectly reflects a bank's profitability due to the amplification of liabilities; consequently, ROE is used in combination. Basically, the higher ROA and ROE are, the more effectively banks operate.

Also, NPL is introduced to explore asset quality across banks. NPL is calculated by dividing impaired loans to gross loans. Many studies indicated that corporate governance can affect the ratio of bad debts (Poudel & Hovey, 2013). The lower the NPL is, the better the quality of bank assets and operation is.

Explanatory variables: the model uses six explanatory variables related to the board of directors and the audit committee. It has been argued that there is a relationship between corporate governance and ownership composition. Consequently, two variables FRG_OWR (foreign ownership) and INST_OWR (institutional ownership) are included in the model.

In addition, the performance of banks is also influenced by macroeconomic conditions as well as a bank's internal specific

factors. Consequently, this paper also uses these variables as *control variables* in the model: LG, CAR, GDP and M2. In particular, LG and CAR are two bank level variables, while GDP and M2 are two macro level variables.

Since the data is panel data, this study uses a combination of pooled least squares regression (PLSM) with year dummies and specific techniques of panel data which are fixed effects (fixed effects) and the uncertain effects (random effects). Besides, other techniques of panel data such as the generic generalized-method-of-moments (GMM) approach are also considered. Although GMM only requires the specification of certain moment conditions, its use with small sample sizes might result in a finite sample bias, especially in the case that the used instruments have near unit root properties (Melewar & Woolridge, 2001).

3.2. Descriptive Statistics

Table 1 shows the descriptive statistics of the variables in the regression model. Generally, Vietnamese commercial banks have a mean value of board size equal to 7.2 people, with the independency level approximately equal to 10.5%. This is consistent with the recommendations of Jensen and Ruback (1983), who pointed out that number of members in the board of a commercial bank should not exceed 7-8 people in order to ensure efficiency of operations. In addition, the frequency of the meetings of the board of directors is about 18 times during a financial year. Meanwhile, these figures for the auditing board are 3.4, 7.7% and 4.7 respectively.

Variable	N	Mean	Median	Std. Dev.	Min	Max
NPL (%)	175	2.44	2.31	1.62	0.02	11.40
ROAE (%)	175	11.47	9.85	7.50	0.34	37.10
ROAA (%)	175	1.10	1.02	0.77	0.03	5.21
BS	175	7.16	7.00	1.89	4.00	12.00
BI (%)	175	10.46	11.11	12.25	0.00	100.00
BD	175	18.03	12.00	17.56	2.00	72.00
ACS	175	3.42	3.00	0.71	0.03	5.00
ACI (%)	175	7.70	0.00	19.45	0.00	100.00
ACD	175	4.66	4.00	1.84	2.00	12.00
FRG_OWR (%)	175	8.86	1.51	10.89	0.00	30.00
INST_OWR (%)	175	51.25	51.82	26.64	0.00	100.00
LG (%)	175	28.70	19.00	29.18	-30.88	165.00
CAR (%)	175	15.84	13.20	9.27	6.31	60.00
GDP (%)	175	5.80	5.89	0.56	5.03	6.78
M2 (%)	175	19.67	19.85	5.91	9.27	28.67

Table 1: *Descriptive Statistics of Dependent and Independent Variables; source: Original Research*

In terms of ownership structure, foreign ownership of commercial banks in Vietnam is still relatively low in comparison with shares owned by institutional shareholders (average 8.9% versus 51.3%) due to the regulations on the cap on foreign ownership by the State Bank.

When it comes to efficiency variables, the average value of NPL is less than 3%, which meets the requirements of the State Bank of Vietnam. Meanwhile, the ratios of ROE and ROA are maintained at a relatively high level, at 11.5% and 1.1% respectively.

3.3. Correlation Analysis

The correlations between dependent and independent variables are presented in Appendix 1. The results show that board size, proportion of independent members and meeting frequency of the board are positively correlated with the performance of the bank. In terms of the auditing committee, this relationship is not consistent. According to Appendix 1, banks have superior performance with higher rate of foreign ownership. With regards to the board of directors, an increase in size leads to an increase in independence and frequency of meetings. For auditing committees, the relationship between size and degree of independence and frequency of meetings is higher.

In the research study conducted in 2007, Tabachnick and Fidell observed that a multicollinearity problem exists if the correlation between independence variables is higher than 0.9. As shown in the correlation matrix, the highest figure is just 0.49 (between BS and FRG_OWR). Consequently, multicollinearity is not an issue in this regression model.

Based on analysis of the descriptive statistics, the results are generally consistent with previous studies. This raises the issue of the hypotheses of this research with expected signs of explanatory variables, as shown in the following.

Explanatory Variables	ROA	ROE	NPL
BS	+/-	+/-	-/+
BI	+	+	-
BD	+	+	-
ACS	+	+	-
ACI	+/-	+/-	-/+
ACD	+	+	-
FRG_OWR	+	+	-
INST_OWR	+	+	-

Table 2: *Explanatory Variables and Expected Signs in the Regression Model; source: Original Research*

3.4. Regression Results

All regressions include year dummies (not shown here). Symbols ***, **, * represent significance level of 1%, 5% and 10% respectively. The result for the regression model is as follows.

	ROAA	ROAE	NPL
C	-1.688** (0.77)	-16.446** (6.49)	6.100*** (1.49)
BS	0.032 (0.03)	0.66** (0.32)	-0.005 (0.07)
BI	0.001 (0.01)	0.022 (0.04)	-0.028*** (0.008)
BD	0.0021 (0.003)	0.023 (0.03)	-0.014** (0.005)

ACS	0.163* (0.09)	1.53** (0.75)	0.225 (0.16)
ACI	-0.005** (0.002)	-0.051** (0.03)	0.018** (0.008)
ACD	0.029 (0.03)	-0.241 (0.33)	-0.020 (0.05)
FRG_OWR	-0.004 (0.005)	-0.01 (0.05)	-0.024** (0.01)
INST_OWR	0.004 (0.002)	0.044** (0.02)	0.006 (0.005)
LG	0.007*** (0.002)	0.038* (0.02)	0.005* (0.04)
CAR	0.009 (0.01)	-0.213*** (0.05)	0.021* (0.99)
GDP	0.225** (0.11)	2.752*** (0.91)	0.262** (0.205)
M2	0.004 (0.01)	0.04 (0.09)	-0.028 (0.02)
R Square	0.168	0.283	0.202
Adjusted Square	R 0.106	0.229	0.143
F statistics	3***	6.17***	3.62***

Table 3: Results of Pooled Least Squares Regression; source: Original Research

Table 3 shows the results of the regression model examining the relationship between corporate governance and the operational efficiency of banks using Pooled Least Squares regression. The regression result indicates that explanatory variables of corporate governance (BS, BI, BD and ACI) have positive influences on the

banks' performance. Meanwhile, with regards to the audit committee variables, only the variable reflecting independency (ACI) has this effect. Audit committees' size and diligence show inconsistent results between dependent variables.

With a significance level of 5%, foreign ownership and institutional ownership have positive impacts on the efficiency of banking performance. The control variables, generally, do not show any significant effect on bank performance. Since the R-square value in all regressions ranged from 17% to 28% and the F-statistic is uniformly significant at 1% level or better, this suggests that regressions have significant statistically explanatory power as a whole.

	ROA	ROE	NPL
C	-1.263 (0.78)	-9.544 (7.26)	6.306 (1.72)
BS	0.111** (0.05)	1.307*** (0.47)	-0.044 (0.11)
BI	-0.011** (0.005)	-0.021 (0.05)	-0.02* (0.01)
BD	-0.009 (0.007)	0.078 (0.07)	0.005 (0.02)
ACS	0.189** (0.09)	0.960 (0.84)	0.037 (0.19)
ACI	-0.008** (0.003)	-0.029 (0.03)	0.018** (0.01)
ACD	-0.004 (0.040)	-0.594 (0.41)	0.022 (0.09)
FRG_OWR	-0.025* (0.01)	-0.334*** (0.12)	-0.032 (0.03)

INST_OWR	0.005 (0.005)	-0.007 (0.05)	-0.002 (0.01)
LG	0.003 (0.002)	0.063*** (0.02)	-0.007* (0.004)
CAR	-0.013 (0.01)	-0.166* (0.09)	0.056** (0.02)
GDP	0.209** (0.08)	2.496*** (0.78)	-0.607*** (0.18)
M2	0.008 (0.009)	-0.007 (0.08)	-0.031 (0.02)
R Square	0.261	0.271	0.211
Adjusted R Square	0.06	0.151	0.118
F statistics	4.01***	4.24***	3.05***
Hausman	20.197**	19.023*	9.044

Table 4: *Results of Fixed Effect Regression; source: Original Research*

Table 4 presents the results of the fixed effects regression examining the relationship between corporate governance and bank performance. Result from the Hausman's test gives Prob value <0.05 with explanatory variable ROA and Prob <0.1 with explanatory variable ROE. Consequently, the fixed effects regression is more appropriate to reflect the relationship between corporate governance and bank performance with regards to the two dependent variables (ROA, ROE). In terms of the NPL variable, the random effects are more influential.

	ROA	ROE	NPL
C	-1.456** (0.7)	-14.807** (6.39)	6.031 (1.48)
BS	0.056 (0.04)	0.959*** (0.37)	0.001 (0.09)
BI	-0.006 (0.05)	-0.009 (0.05)	-0.024** (0.01)
BD	-0.003 (0.005)	0.039 (0.04)	-0.008 (0.01)
ACS	0.178** (0.09)	1.309* (0.78)	0.135 (0.18)
ACI	-0.007** (0.003)	-0.038 (0.03)	0.018*** (0.006)
ACD	0.022 (0.04)	-0.135 (0.35)	-0.010 (0.08)
FRG_OWR	-0.010 (0.008)	-0.089 (0.07)	-0.027 (0.02)
INST_OWR	0.003 (0.003)	0.026 (0.03)	0.005 (0.007)
LG	0.005** (0.002)	0.052*** (0.02)	-0.009** (0.004)
CAR	0.003 (0.008)	-0.169** (0.07)	0.031** (0.016)
GDP	0.215*** (0.09)	2.681*** (0.79)	-0.594*** (0.18)
M2	0.006 (0.009)	0.017 (0.08)	-0.029 (0.019)
R Square	0.226	0.261	0.196

Adjusted Square	R	0.127	0.242	0.19
F statistics		37.39***	53.54***	38.84***
Lagrange Multiplier		20.63***	19.5***	15.22***

Table 5: *Results of Random Effects Regression; source: Original Research*

Table 5 shows the results of the random effects regression models. The Lagrange Multiplier test with significance at the 1% level suggests that the random effects method explains better than pooled the least squares method. In both fixed and random effects, the R^2 of regressions typically ranged between 20-26% and this shows that the variables could explain changes in the performance of Vietnam's commercial banks.

4. Conclusions

From the result of the pooled regression, as well as fixed and random effect used in the model, it can be seen that: firstly, two scale variables (BS and ACS) are positively related to ROA and ROE (at 1%, 5% and 10% significance level, except for the nexus between ACS and the dependent variable ROE). This means that board size and auditing board size have positive relationships with commercial banks' performance. According to the models' results, these two abovementioned boards' sizes have relatively strong effects on the ROE of commercial banks in Vietnam. This finding is completely in line with the reviewed literature and our hypothesis. Secondly, the variable BI is negatively linked with NPL with a significance level of 5% when using both fixed and random effects (-0.02 and -0.024 respectively). Consequently, the independence level of the board of directors is strongly related to the NPL ratio of Vietnamese banks. Meanwhile, the result of ACI shows that the independence level of

auditing boards has a negative impact on banks' performance. It can be explained that the auditing boards of Vietnamese commercial banks have not functioned well in controlling the operation of boards. For many banks in Vietnam, an auditing board has been created but has no real impact on accounting operation inspection.

Thirdly, with two variables regarding the boards' and auditing boards' diligence (BD and ACD), the regression model points out that there is no clear relationship between boards' meetings and banks' performance. Consequently, in most commercial banks in Vietnam, banks' performance does not relate to how often directors hold meetings in a financial year.

In addition, the variable FRG_OWR has positive effects on bank performance and the coefficient of this variable with NPL is negative (-0.024). At the same time, the result shows that banks with higher ratios of foreign ownership do not have high return ratios (with negative coefficients of -0.025 and -0.034 respectively, with a significance level of 5% and 1% for ROA and ROE in the fixed effects model). On the contrary, institutional ownership is positively correlated with bank performance. This indicates that in Vietnamese commercial banks, the impacts of foreign ownership structure on performance are not yet clear and need to be examined over a longer period of time. One of the reasons for this result may be that the ratio of foreign ownership in Vietnamese commercial banks is limited to lower than 30%. In addition, Vietnamese banks have just started acquiring foreign ownership since 2006; therefore, banks may need more time to identify the ownership effects on their performance. Typically, participation of foreign ownership seemingly takes years to transpire in any significant sense. Moreover, the short time interval, combined with differences in culture, may cause modern management schemes and the advanced technology of foreign owners to be unsuitable when implemented in the local market. Also, the presence of foreign executive directors in the board of directors is still uncommon. As a consequence, external

investors, with an ownership level of less than 30%, might not have sufficient ability to involve themselves in special decision-making. On the other hand, before the reform process began, the government held an important portion of banks' ownership and assets. As a result, the transfer of ownership and assets to the private sector may have overwhelmed influences attributed to foreign ownership involvement. This problem is quite similar to the evidence from the Colombian financial sector in the 1990s (Barajas, Steiner & Salazar, 1999).

In summary, corporate governance has a relationship to Vietnamese commercial banks' performance through representing factors including size, independence level and the diligence of boards and auditing boards, as well as institutional and foreign ownership. Applying a panel regression technique, the paper finds that size and institutional ownership have positive relation with banks' performance, while independence level has a negative impact. Moreover, performance in Vietnamese commercial banks has no clear correlation with independence level or foreign ownership.

In order to develop this research topic in the future, an increased sample size with additional variables might be used as proxies for corporate governance quality, such as executive and director remuneration, qualifications of leaders and consistency of ownership, which should all be considered.

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Appendix

	NPL	ROE	ROA	BS	BI	BD	ACS	ACI	ACD	FRG_OWR	INST_OWR	LG	CAR	GDP	M2
NPL	1														
ROAE	-0.35	1													
ROAA	-0.36	0.51	1												
BS	-0.11	0.25	0.12	1											
BI	-0.10	-0.08	0.00	0.02	1										
BD	-0.06	0.12	0.06	0.04	-0.29	1									
ACS	0.08	0.23	0.15	0.12	0.05	0.03	1								
ACI	0.22	-0.14	-0.11	-0.14	0.11	-0.04	0.24	1							
ACD	-0.05	-0.03	0.01	-0.01	-0.03	0.25	-0.11	0.07	1						
FRG_OWR	-0.12	0.02	-0.04	0.49	0.14	-0.09	0.07	0.05	-0.10	1					
INST_OWR	0.08	0.21	0.12	0.18	0.00	0.22	0.18	-0.07	-0.35	0.03	1				
LG	-0.17	0.18	0.26	0.09	-0.03	-0.13	0.10	0.03	-0.02	-0.04	-0.09	1			
CAR	0.07	-0.33	0.04	-0.06	0.30	-0.14	-0.19	0.07	0.03	0.09	-0.06	-0.07	1		
GDP	-0.19	0.20	0.16	-0.03	-0.03	-0.03	0.04	-0.02	-0.03	-0.05	-0.03	-0.02	-0.01	1	
M2	-0.13	0.10	0.14	-0.05	-0.11	-0.04	0.11	-0.06	-0.04	-0.07	0.01	0.36	-0.03	0.01	1

Table 6: Correlation Matrix; source: Original Research

