

# THE EFFECTIVENESS OF BOARDS OF DIRECTORS IN TWO-TIER BOARD SYSTEM: VIDENCE FROM VIETNAMESE-LISTED ENTERPRISES

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## ABSTRACT

This paper presents several theories to achieve a better understanding of corporate governance structures and their operations in a two-tier-board corporate governance structure. The author also analyses transitional economies using the case of Vietnam. The author investigates the influence of independent directors upon the probability of CEO turnover as well as the sensitivity of the link between performance and turnover. The findings show that non-executive directors are not always independent. At the same time, independent directors have a vital role to play in making decisions concerning CEO dismissal. These directors also reduce the effects of CEO ownership and CEO duality upon the probability of CEO turnover. In summation, the research found that performance and CEO age constitute key factors in CEO turnover, regardless of the corporation or board size.

**Keywords:** corporate governance, CEO turnover, firm performance, board composition, independent directors, duality, SOEs, and CEO ownership.

## INTRODUCTION

Following the literature on corporate governance mechanisms, there are two major distinctions in corporate governance: the one-tier-board system and the two-tier-board system Jungmann (2006). The one-tier system is commonly used in Anglo-American firms, whereas Germans, French, Italian, Chinese and Vietnamese firms employ the two-tier system. In the two-tier system, management and supervisory functions are separated into two boards: a board of directors (BOM) and a supervisory or control board. The two-tier system has been considered to be very effective, especially the role of the supervisory board in developing countries such as China and Vietnam. For example, Tran and Koufopolous (2012) pointed out that the operation of Control Boards (supervisory boards) in Vietnamese companies seemed to be more formalistic and operated as a department. The major decisions were made by the board of directors and the CEO. The coexistence of the BOM and Control Board leads to overlapping functions and reduced efficiency within the Vietnamese corporate governance system because both boards have almost the same responsibilities Bui and Nuno (2008). However, the role of the board of directors in the Vietnamese two-tier system was considered to be ambiguous. For clarity and

understanding, an examination of the role of boards in Vietnamese companies was important. In particular, the effectiveness of a board of directors was measured by the firm's performance. The board also can replace the CEO based on the firm's poor performance.

## PREVIOUS STUDIES AND TESTABLE HYPOTHESES

### Board of Directors and Firm performance

As reported by Mohammed, Al-Swidi, Fadzil, and Al-Matari (2012) the relationship between a board of directors and the firm's performance was investigated in both developed and developing countries and the results of these studies were mixed. However, there were several key elements of a board of director's functions which were examined. The following the studies of Daily and Dalton (1997), Muth and Donaldson (1998), Forbes and Milliken (1999), and Kula (2005) have defined board independence, board diversification, and board duality as key elements. Meanwhile, other studies have focused on other characteristics of the board of directors including the separation of the CEO and the board chair positions Daily and Dalton (1997). The size of the board, the board composition, and the role of independent directors were studied by Hermalin and Weisbach (2003).

In terms of the board composition, a board of directors is composed of inside and outside directors. Inside directors are viewed as those who represent the controlling shareholders or the management. Outside directors represent outside shareholders. In fact, although the literature on the effectiveness of outside directors and inside directors is still under debate, the effectiveness of boards having a larger number of outside directors on boards seems to be higher than on other boards. According to Matolcsy, Stokes, and Wright (2004), it can be stated that outside directors are regarded as being more independent and more objective than inside directors when reviewing the firm's management and operations. Also, outside directors are more likely to raise concerns on behalf of the firm's shareholders if the management is not acting in the best interest of the firm. Therefore, boards with a high percentage of outside directors can be considered to be more effective. The first hypothesis is as follows:

*Hypothesis 1a: The number of independent directors on boards of directors positively correlates to firm performance.*

In terms of board structure or board leadership, the chairman-CEO duality is an important aspect. Concerns about this duality have been raised in the literature. In particular, there was a question about the influence of the chairman-CEO duality on both corporate governance and firm performance. It was determined that the chairman-CEO duality was able to improve the leadership of the board of directors if one considered the stewardship theory. However, the agency theory was the most common theory followed. According to the hypothesis 1b, the separation of the positions chairman-CEO may increase the independence of the board and lead to better monitoring. This may result in better firm performance Yermack (1996); Mohammed et al. (2012).

*Hypothesis 1b: Board duality negatively correlates to the performance of Vietnamese-listed companies.*

When considering the size of boards of directors Golden and Zajac (2001) and Hermalin and Weisbach (2003) provided a contrasting assessment that a large board which includes a large number of directors with diverse backgrounds and knowledge may either improve the quality or slow the process of decision-making. Therefore, the effectiveness of either a large or small board was still inconclusive Mohammed et al. (2012). A large number of studies concluded that large boards weaken the effectiveness of monitoring and decrease the performance of firms Boone, Field, Karpoff, and Raheja (2004). Therefore, one might conclude that a large board is considered less effective in the monitoring of managers and the performance of firms.

*Hypothesis 1c: Board size negatively correlates to the performance of Vietnamese-listed companies.*

### **Board of Directors and CEO Turnover**

The literature on CEO turnover has adopted the

firm's performance as the key element for measuring the CEO's effectiveness. A board of directors performs the disciplinary function of dismissing underperforming CEOs. Therefore, continual CEO turnover could suggest the poor effectiveness of the board of directors. The independence of the board itself has received more attention. Brunello, Graziano, and Parigi (2003) and Bushman, Dia Z, and Wang X (2010) reported that the percentage of independent directors (considered as outsiders) strengthens the sensitivity of the link between firm performance and CEO turnover.

*Hypothesis 2a: The percentage of independent directors positively correlates to the probability of CEO turnover.*

The leadership structure of a board has the role of chairman as leading the board of directors. The chairman is responsible for managing the CEO by designing compensation packages, setting goals, and evaluating CEO performance. The literature showed that the duality of roles problem may occur if a single individual holds both of these roles in a firm Brickley, Coles, and Jarrell (1997). Previous studies commented that the effectiveness of a board in its monitoring of top managers was reduced when decision control and decision management was controlled by one person Goyal and Park (2002). In respect to the monitoring of top managers, the concentration of decision control might aggravate a firm's performance and influence the CEO dismissal decision. When there was a lack of independent leadership in a firm because of a dual CEO-Chairman position and there was reduced monitoring by the board. Also, there was difficulty in removing a poorly performing CEO. The probability of CEO turnover was likely to be less sensitive to performance in a firm with a combined CEO-Chairman position than in firms with two separate positions.

*Hypothesis 2b: The likelihood of CEO turnover is decreased by board duality in Vietnamese-listed companies.*

Studies in transitional countries found that there was no significant relationship between board size and CEO turnover Kato and Long (2006). However, studies in developed countries suggested that board size was considered as a factor in the frequency of CEO turnover Fredrickson, Hambrick, and Sara (1988). This was because the board of directors might become less cohesive when the size of the board was increased and the possibility of CEO turnover was increased for firms with smaller boards. Coles, Daniel, and Naveen (2008) suggested that a larger board seemed to be optimal for more complex firms. These boards required extensive information when evaluating the CEO's performance. As a result, this condition might reduce the probability of CEO turnover. The findings from developing countries gave this study data which designed this hypothesis:

*Hypothesis 2c: Board size has a negative relationship with CEO turnover in Vietnamese*

companies.

## RESEARCH DESIGN

### Measure of firm performance

Values of corporate performance such as capital stock, equity or assets are less relevant in underdeveloped stock markets, because accounting standards remain variable in transitional countries. Studies undertaken in developing countries, including the largest transitional economies, have employed either accounting-based or market-based analyses in order to examine the probability of CEO turnover. These results discovered insignificant relationships between market-based firm performance and the likelihood of CEO turnover. But, significant relationships were found using accounting-based techniques. The author measured the performance of Vietnamese-listed companies by accounting-based formulas which were return on assets (ROA) and earnings per share (EPS).

### Definition of independent directors on a board of directors

Brunello et al. (2003) and Bushman et al. (2010) define independent directors as directors who are not current or former employees of the firm and do not have a relationship with either the firm or the CEO. Directors who are defined as having relationships with their firms include lawyers, bankers, consultants, or investment bankers.

### Definition of CEOs and Measure of CEO turnover

The term for the top executive officer is "General Director" or "Director" in Vietnamese companies. In fact, the Chairman in Vietnamese companies, who was normally a shareholder or the representative of shareholders, was more powerful than the General Director and less dependent on the daily operations of the company. The Director was responsible for the company's daily operation Bui and Nunoi (2008). The General Director of Vietnamese-listed companies was more likely to play the role of a CEO. Accordingly, we have defined the term CEO as General Director or Director and CEO turnover was counted by the changes in the General Director positions in observed companies.

### Research models and Variables

In order to examine the influence of a board of directors on a firm's performance, previous studies suggested applying the OLS regression model Li, Moshirian, Nguyen, and Tan (2007); Mohammed et al. (2012). Model (1) was developed to examine the influence of a board of directors on a firm's performance in Vietnamese-listed companies:

$$\text{PERFOR} = \alpha_0 + \alpha_1 \text{INDP} + \alpha_2 \text{BDUAL} + \alpha_3 \text{BSIZ} + \alpha_4 \text{SOE} + \alpha_5 \text{OCON} + \alpha_6 \text{FSIZ} + \alpha_7 \text{SCEO} + \alpha_8 \text{CTEN} + \varepsilon \quad (1)$$

In order to test the hypothesis about the relationship between a board of directors and CEO turnover, the previous studies on CEO turnover Kato and Long (2006) and Firth, Fung, and Rui (2006) suggested the use of logical regression models. This study also implemented a logical regression model in order to examine the influence of discrete factors upon the probability of CEO turnover in Vietnamese-listed companies. The standard benchmark model was defined as:

$$\ln[\text{Pr}(\text{TURN})/1-\text{Pr}(\text{TURN})] = \beta_0 + \beta_1 \text{PERFOR} + \beta_2 \text{INDP} + \beta_3 \text{BDUAL} + \beta_4 \text{BSIZ} + \beta_5 \text{OCON} + \beta_6 \text{FSIZ} + \beta_7 \text{SCEO} + \beta_8 \text{CAGE} + \beta_9 \text{CTEN} + \beta_{10} \text{SOE} + \beta_{11} \text{AGED} + \varepsilon \quad (2)$$

Together, it was determined that independent directors, CEO ownership and SOEs had effects on the link between firm performance and CEO turnover. Model (2) was enhanced by the interaction of these variables with firm performance (PERFOR\*INDP; PERFORM\*SCEO; PERFOR\*SOE). The Model (3) was developed below:

$$\ln[\text{Pr}(\text{TURN})/1-\text{Pr}(\text{TURN})] = \beta_0 + \beta_1 \text{PERFOR} + \beta_2 \text{INDP} + \beta_{13} \text{PERFOR} * \text{INDP} + \beta_3 \text{BDUAL} + \beta_4 \text{BSIZ} + \beta_5 \text{OCON} + \beta_6 \text{FSIZ} + \beta_7 \text{FLEV} + \beta_8 \text{SCEO} + \beta_{14} \text{PERFORM} * \text{SCEO} + \beta_9 \text{CAGE} + \beta_{10} \text{CTEN} + \beta_{11} \text{SOE} + \beta_{15} \text{PERFOR} * \text{SOE} + \beta_{12} \text{AGED} + \varepsilon \quad (3)$$

### OLS REGRESSION ANALYSIS

In this study, the data was collected by observing 156 listed firms in the Hanoi and the HoChiMinh Stock Exchange Centers at the end of 2006. It included 780 firms' yearly observations during the period of 2008-2010. By considering the influences of other factors on firm performance, the OLS regression analysis was performed following Model (1). The coefficient estimations of the variables were reported in Table 2. The estimation showed that the percentage of independent directors on a board is negatively correlated to the performance of the firm. Further, the correlations were significant at the 0.01 level, which inversely supported hypothesis 1a. This finding was different from those of previous studies, which indicated a positive or no relationship between independent directors and a firm's performance. Independent directors are "isolated" and more likely to act as reporters to shareholders since they were less involved in the activities of the firm. Their own self-interest in the firm's performance was minimal Fredrickson et al. (1988). However, the effectiveness of these reporters was questioned when they lacked the ability to provide relevant reports to shareholders and had no incentive to improve the performance of their firms. These conditions were observed in developing countries where the qualification of directors was lacking and they might have a negative influence on the firm's performance.

**Table 1:** Definition and Description of Research Variables

Variables	Acronym	Measures
<b>Firm Performance</b>	<b>ROA</b>	Industry-adjusted return on assets of a firm in current period
	<b>EPS</b>	Industry-adjusted earnings per share of a firm in current period
	<b>AROA</b>	Average value of industry-adjusted return on assets of a firm in current and previous periods
	<b>AEPS</b>	Average value of industry-adjusted earnings per share of a firm in current and previous periods
<b>CEO Turnover</b>	<b>TURN</b>	Is binary variable which is equal to one if there is change in CEO position and is equal to zero otherwise.
<b>Independent Directors</b>	<b>INDP</b>	The percentage of independent directors on Boards of Directors.
<b>CEO Ownership</b>	<b>SCEO</b>	Is binary variable which is equal to one if CEO holds 5% threshold of firm shares and is equal to zero otherwise
<b>Firm size</b>	<b>FSIZ</b>	Natural logarithm of total assets
<b>Board size</b>	<b>BSIZ</b>	Number of directors on Board of Management
<b>CEO age</b>	<b>CAGE</b>	Age of CEOs in observed time
<b>CEO Tenure</b>	<b>CTEN</b>	The length in CEO position
<b>Board duality</b>	<b>BDUAL</b>	Is binary variable which is equal to one if chairman and CEO is one person and is equal to zero otherwise.
<b>CEOs within 59-61 years old</b>	<b>AGED</b>	Is binary variable which is equal to one if age of CEO is within the range of 59-61 years old and is equal to zero otherwise.
<b>State-owned Enterprises</b>	<b>SOE</b>	Is binary variable which is equal to one if 51% threshold of firm shares belongs to state ownership and is equal to zero otherwise.

**Table 2:** Coefficient Estimates of OLS regression models

Independent Variables	Dependent Variables			
	Model (1)			
	ROA	EPS	AROA	AEPS
<b>INDP</b>	-1.195*** (0.356)	-41.483*** (7.493)	-1.039*** (0.304)	-35.098*** (6.459)
<b>BDUAL</b>	0.150 (0.181)	-7.225* (3.801)	0.163 (0.154)	-4.473 (3.276)
<b>BSIZ</b>	-0.065 (0.069)	-3.797** (1.447)	-0.059 (0.059)	-3.728** (1.247)
<b>OCON</b>	-1.183 (0.769)	-35.612** (16.183)	-1.407** (0.656)	-40.935** (13.950)
<b>FSIZ</b>	-0.068 (0.061)	2.977** (1.275)	-0.082 (0.052)	3.095** (1.099)
<b>SCEO</b>	0.041 (0.226)	7.128 (4.759)	-0.096 (0.193)	4.340 (4.102)
<b>CTEN</b>	-0.024 (0.025)	-0.298 (0.525)	-0.015 (0.021)	-0.015 (0.453)
<b>SOE</b>	0.121 (0.025)	7.696 (4.803)	0.115 (0.195)	7.475* (4.140)
<i>Sample size</i>	780	780	780	780
<i>Adjusted R<sup>2</sup></i>	0.019	0.046	0.026	0.049
<i>F-Statistics</i>	2.878**	5.694***	3.628***	6.056***

Standard errors are reported in parentheses. \*, \*\*, and \*\*\* denote significance at 0.10, 0.05, and 0.01 levels respectively.

Besides, ownership concentration is found to have a significant relationship with firm performance measured by EPS, AROA, and AEPS. In fact, the significance of the relationship of ownership concentration with firm performance calculated by ROA is close to the 10% level. Therefore, it can be concluded that the level of ownership concentration has negative relationships with firm performance. Meanwhile, firm size negatively correlates to firm performance measured by return on assets' proxies. However, the correlations are insignificant at the 10% level. In contrast, firm size is found to have positive correlations with firm performance measured by earnings per share's proxies, since the sign of FSIZ is positive and significant at the

5% level. On the other hand, other variables are insignificantly correlated to all proxies of firm performance. Along with independent directors, board duality negatively relates to firm performance, which is significant at the 0.10 level. On the other hand, other factors of board duality are insignificant. Hence, evidence to support hypothesis 1b is lacking. Similar to board duality, significant and negative relationships were found between board size and firm performance as measured by earnings per share's indices. The relation between the board's size and the firm's performance when measured by return on assets' indices were insignificant. Consequently, hypothesis 1c was partly supported. It was concluded that board size was negatively correlated

to a firm's performance using the earnings per share calculation. This finding supported the conclusion that a large board was considered less effective in monitoring managers and performance of firms. Ownership concentration was found to have a significant relationship with a firm's performance when measured by EPS, AROA, and AEPS. The significance of the relationship of ownership concentration with a firm's performance when calculated by ROA was close to the 0.10 level. It was concluded that the level of ownership

concentration had a negative relationship with a firm's performance. A firm's size was negatively correlated to a firm's performance when measured by return on assets' indices. But, the correlations were insignificant at the 0.10 level. In contrast, firm size was found to have positive correlations with a firm's performance when measured by earnings per share indices, because the sign of FSIZ was positive and significant at the 0.05 level. On the other hand, other variables were insignificantly correlated to all elements of the firm's performance.

**Table 3:** Coefficient Estimates of Logistics Regression models related to CEO turnover

	Firm performance's proxies							
	Model (2)				Model (3)			
	ROA	EPS	AROA	AEPS	ROA	EPS	AROA	AEPS
<b>PERFOR</b>	-0.204*** (0.057)	-0.010*** (0.003)	-0.162** (0.067)	-0.008** (0.003)	-0.086 (0.130)	-0.011* (0.006)	-0.079 (0.150)	-0.007 (0.007)
<b>INDP</b>	1.167** (0.527)	0.975* (0.534)	1.243** (0.523)	1.101** (0.534)	1.081** (0.552)	0.830 (0.566)	1.224** (0.538)	0.996* (0.549)
<b>INDP*PERFOR</b>					-0.301 (0.253)	-0.012 (0.012)	-0.228 (0.290)	-0.014 (0.014)
<b>SCEO</b>	-0.496 (0.339)	-0.468 (0.401)	-0.514 (0.395)	-0.470 (0.395)	-0.474 (0.402)	-0.451 (0.417)	-0.506 (0.398)	-0.502 (0.092)
<b>SCEO*PERFOR</b>					0.269* (0.156)	0.020** (0.007)	0.230(0.185)	0.016* (0.008)
<b>SOE</b>	-0.331 (0.345)	-0.302 (0.346)	-0.350 (0.342)	-0.326 (0.344)	-0.356 (0.362)	-0.229 (0.352)	-0.337 (0.349)	-0.279 (0.348)
<b>SOE*PERFOR</b>					-0.112 (0.141)	0.007 (0.006)	-0.069 (0.158)	0.009 (0.007)
<b>Control Variables</b>								
<b>OCON</b>	-0.243 (1.176)	-0.409 (1.191)	-0.170 (1.168)	-0.277 (1.180)	-0.259 (1.209)	-0.408 (1.207)	-0.204 (1.191)	-0.351 (1.202)
<b>FSIZE</b>	0.009 (0.093)	0.044 (0.091)	0.005 (0.091)	0.038 (0.090)	0.025 (0.096)	0.070 (0.094)	0.013 (0.093)	0.052 (0.092)
<b>BSIZE</b>	-0.048 (0.108)	-0.081 (0.110)	-0.038 (0.106)	-0.063 (0.108)	-0.067 (0.108)	-0.126 (0.112)	-0.050 (0.106)	-0.090 (0.110)
<b>AGED (59-61)</b>	1.334** (0.441)	1.327** (0.443)	1.256** (0.438)	1.257** (0.437)	1.357** (0.445)	1.320** (0.452)	1.266** (0.440)	1.259** (0.445)
<b>CAGE</b>	0.035* (0.019)	0.036* (0.019)	0.034* (0.019)	0.035* (0.019)	0.036* (0.019)	0.041** (0.020)	0.034* (0.019)	0.036* (0.019)
<b>CTEN</b>	0.027 (0.037)	0.031 (0.037)	0.031 (0.037)	0.034 (0.036)	0.028 (0.037)	0.031 (0.037)	0.030 (0.037)	0.033 (0.036)
<b>BDUAL</b>	-0.450 (0.292)	-0.562 (0.293)	-0.446 (0.289)	-0.526 (0.290)	-0.393 (0.295)	-0.479 (0.299)	-0.404 (0.291)	-0.449 (0.295)
<b>Sample size</b>	780	780	780	780	780	780	780	780
<b>Nagelkerke R<sup>2</sup></b>	0.125	0.122	0.104	0.104	0.134	0.148	0.110	0.118
<b>Chi-square</b>	50.8555***	49.630***	42.193***	42.249***	54.660***	60.827***	44.632***	48.073***

Standard errors are reported in parentheses. \*, \*\*, and \*\*\* denote significance at 0.10, 0.05, and 0.01 levels respectively.

### LOGISTIC REGRESSION ANALYSIS

There were 88 replacements in the CEO position, which equated to 11.28% of the 780 observed CEO turnovers. There were 7 turnovers in 2006, 18 in 2007, 22 in 2008, 24 in 2009, and 17 in 2010. Moreover, nearly 58% of CEOs were replaced in the second half of the fiscal year, and nearly 25% of CEO replacements were observed at the end of the second quarter of the fiscal year. These observations suggested that measuring a firm's performance by the current period was a more

appropriate method to employ in regression models than using the previous performance aspect. In order to examine the influence of boards of directors on CEO turnover, a regression analysis was carried out. The coefficient estimation of the regression models is provided in Table 3.

Examining the influential factors on CEO turnover via the Model (2) indicated that a firm's performance was a key factor in making decisions about CEO turnover.

This finding was consistent with the previous studies Kato and Long (2006); Firth et al. (2006). Along with a firm's performance, the percentage of independent directors was reported to have a positive correlation with the likelihood of CEO turnover. This fact was indicated by the positive significant coefficient of the INDP variable. In contrast, board size and board duality had negative relationships with the probability of CEO turnover. It was noted that the relationships are insignificant at the 0.10 level. Therefore, hypotheses 1b and 1c were not well supported. As Brickley et al. (1997) suggested boards of directors having board duality were no worse than other boards. The negative association of board size and the likelihood of CEO turnover found by Yermack (1996) also had insignificant results.

The ages of CEOs had important influences on the decisions about CEO replacement because the variables of the CEO age had significant correlations to the probability of CEO replacement at the 0.05 level. The research indicated that CEOs were more likely to be dismissed once they attained the age range between 59 and 61. The results of the analyses for Model (2) showed that there were insignificant differences in the possibility of CEO turnover between State Owned Enterprises (SOE) and other firms. The coefficient of the SOE variable was reported to be insignificant with the possibility of CEO turnover in Table 3. Similarly, the correlation between CEO ownership to the probability of CEO turnover was insignificant at the 0.10 level. It seemed that there was no difference in facing the threat of dismissal among CEOs in Vietnamese-listed firms regardless of the ownership of the CEOs. This was because in nearly 84% of the total sample, CEOs held under 5% of the firm's shares. Therefore, the power of CEOs seemed insignificant because prior studies suggested that the influence of CEO ownership was more evident when the portion of shareholding by the CEO reached a certain level (e.g. 5%-10%). Together with these results, other analyses were reported to have insignificant relationships with the probability of CEO turnover using Model (2).

According to Model (3), the sensitivity of CEO turnover to a firm's performance was insignificant at the 0.10 level. Similar results were found when examining the difference between SOEs and other firms in the link between CEO turnover and a firm's performance. Inverse results were found in most studies undertaken in China Firth et al. (2006); Kato and Long (2006); and Shen and Lin (2009).

CEO ownership was found to have negative effects on the link between CEO turnover and a firm's performance. The results of applying the tests SCEO\*PERFOR indicated significance at the 0.05 and 0.10 levels in applying the tests EPS, AEPS, and ROA. The effects of CEO ownership on the link between CEO turnover and AROA were insignificant at the 0.10 level.

Conclusions showed that CEO ownership weakened the sensitivity of the CEO turnover-firm performance link, although CEO ownership had an insignificant impact on the probability of CEO turnover. CEOs holding ownership in their firms had more incentive to achieve better firm performance. They reduced the threat of dismissal for poor performance. This finding was consistent with the finding of Denis, Denis, and Sarin (1997). Moreover, the significance of the relationship between independent directors and the probability of CEO turnover was weakened when the sensitivity between CEO ownership and firm performance was considered. The significance of other variables were unchanged when they were compared to the results of the regression analysis used in Model (2). This confirmed that hypotheses 2b and 2c lacked the evidence to support their assumptions.

## CONCLUSION

In this paper, the objective was to explore the effectiveness of boards of directors in Vietnamese-listed companies by examining the influence of boards of directors on either a firm's performance or CEO turnover. The paper took full account of Vietnamese realities, where the market and legal protections for corporate governance had shortcomings and were considered weak in either corporate structure or practice. The corporate governance mechanism in Vietnam is unique because of the implementation of the two-tier-board system. Using the data gathered from Vietnamese-listed firms for the period 2006-2010, the author investigated the effects of the board of directors on both a firm's performance and the link between a firm's performance and CEO turnover in listed companies.

The findings suggested that the effectiveness of boards of directors in monitoring performance and CEOs of Vietnamese-listed companies was inconclusive. This was because the independent directors failed to improve performance despite being able to monitor CEOs. As a result, independent directors were more likely to act as reporters rather than supervisors. The results of the regression analysis indicated that firms having a higher percentage of independent directors suffered from lower performance and a higher probability of CEO turnover. Thus, independent directors were independent "reporters", not managers, who provided information to shareholders to dismiss poorly performing CEOs. This was consistent with the results of Hermalin and Weisbach (1988), Brunello et al. (2003) and Bushman et al. (2010). Board duality was insignificant when correlated to firm performance and the probability of CEO turnover even though they had an inverse sign in regression models. Board size has a negative relationship with performance when measured by earning per share (EPS) analysis and an insignificant correlation with the probability of CEO turnover.

Along with those findings, this paper confirmed the conclusions of Firth et al. (2006) and Kato and Long (2006). The research examined a firm's performance using accounting-based analysis. There was a negative relationship between a firm's performance and the likelihood of CEO turnover. The age of the CEO had important influences on the probability of CEO turnover. Younger CEOs were less likely to be dismissed than their older counterparts who were in the age range 59-61 years old. In addition, the threat of dismissal was reduced when CEOs held at least a 5% interest in the firm's shares. Finally, it was concluded that there was no significant difference in either firm performance or the probability of CEO turnover between SOEs and other firms. This study presented preliminary results on the effectiveness of boards of directors in Vietnamese-listed companies; but more research is needed when additional data becomes available.

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