

Research on corporate governance of Vietnamese companies

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1. Problem statement and research objectives

This paper aims to study the issue of corporate governance of Vietnamese companies by comparing them to other countries' models and conducting some empirical research. Specifically, this paper (i) reviews the privatization of the State-owned enterprises (SOEs) in Vietnam, (ii) examines the implementation and the effectiveness of governance reforms such as introducing independent member into Board of Directors, and (iii) suggests some recommendations to enhance the efficiency of corporate governance.

In 1990, Vietnamese Government issued the Law on State-owned Enterprises, which promoted the process of privatization and reform of SOEs. In the 2000s, along with the negotiations to enter the World Trade Organization (WTO), a number of laws had been issued and/or revised in accordance with international law standards. As a result, the Enterprise Law issued in 2005 has replaced previous system to regulate the operation of companies in Vietnam, including SOEs. In addition, the serious problem of corruption in the SOEs and the increase of foreign ownership ratio in Vietnamese companies created pressure as well as motivation to bring about changes in corporate governance model.

The revised Enterprise Law in 2014 imposed new regulations on the independent member in Board of Directors and the Supervisory Sub-board under the Board of Directors. Decree No. 71 requires all enterprises to ensure the ratio of non-executive members in the Board of Directors. In addition, public companies that do not establish Supervisory Committee have to guarantee 20 percent independent members in the Board of Directors.

It can be said that the process of SOE privatization and corporate governance reform in Vietnamese companies has been going on in a vibrant way. The success or failure of this process is expected to affect the process of Vietnam's economic restructure in particular and socio-economic development in general. However, given the novelty and complexity of the problem, as well as the socio-economic characteristics of the country, there have been only a few researches on this topic. Thus, this study aims to provide a comprehensive analysis of the issue.

2. Structure and main findings

This paper comprises if 8 chapters including the introduction and conclusion. The main content and findings are presented as below.

The introduction part covers the context, problem statement, and research objectives.

The first chapter clarifies various definitions of corporate governance, including broad and specific ones. The broad concept involves the relations among people whose benefits relate to the companies and the Board of Directors. Meanwhile, the narrow definitions focus on the relationship between stakeholders and the Board of Directors.

The second chapter examines the model of corporate governance in American and Japanese companies. These are the two most important models which exert substantial influence on Vietnamese companies.

The third chapter reviews the model of corporate governance in Singapore and China. Since the 1980s, Singapore and China started privatizing their SOEs. Currently, the governments of the two countries do not directly operate the SOEs. Instead, Singapore manages SOEs using capital management corporation (investment fund) while China employs a committee under direct government's control.

The fourth chapter elaborates on the reform process of Vietnamese SOEs. The process can be divided into two stages, namely before and after 1995. The first phase was marked by the fundamental change in the ownership of SOEs, in which the SOEs had autonomy in doing business. Since 1995, the privatization of SOEs started. Along with the insurance of the Enterprise Law in 2005, the Vietnamese government also searched for ways to reform its SOE corporate governance model. Finally, Vietnam decided to establish the State Capital Investment Corporation (SCIC) operating under Ministry of Finance.

Chapter 5 clarifies the regulations on corporate governance mentioned in the Enterprise Law 2005, Enterprise Law amendment in 2014 and Decree No. 71 of the Government on governing public companies. The chapter also investigates two case studies of the Vietnam Oil and Gas Group (PVN) and Vietnam Dairy Products Joint Stock Company (Vinamilk) to provide empirical analysis.

Chapter 6 examines the impact of increased number of independent Board members on company performance. It also inquires into the relationship between ownership structure and corporate governance effectiveness.

The hypothesis that an increase in the percentage of independent members may enhance the company's performance as presented in previous research papers is rejected. The regression result shows that there is not enough evidence to arrive in such conclusion. This can be explained by the lack of independence and capability of the appointed members to monitor the Executive Board.

Regarding ownership structure, the research shows that an increase in the ownership of foreign shareholders enhances company performance. It can be deduced that upon increase in the ownership ratio of foreign shareholders, enterprises will tend to

select independent Board members who are truly independent, experienced, and capable of supervising and providing beneficial consultation to the company.

With a 5% significance level, this study also proves that there is a positive relationship between the ownership ratio of the Executive Board and the performance of the company. This is because increasing ownership of the Executive Board will limit the agency problems.

In conclusion, it can be seen that the suitable corporate governance model for Vietnam is one that ensures the independence and capability of the elected independent Board members, increases ownership of the Executive Board and enhances foreign ownership where possible.

The last chapter provides conclusions, limitations of the paper and suggestions for future research orientation.

3. Limitations and future research

Regarding the limitation of the paper, the size and the accuracy of the research sample need to be noted. Although the Enterprise Law amendment in 2014 introduced Supervisory Sub-board model and regulations on independent members of the Board of Directors, there is limited actual implementation. Further research is necessary to a more accurate conclusion.

In addition, many regulations on public companies in Decree No. 71 come into effect from 2020. At the time this study was conducted, many enterprises did not follow the ratio prescribed by the Decree. Therefore, it is necessary to continue monitoring the situation and conduct updated research on the role of independent members in the Board of Directors.

Finally, it was not possible to clarify the relationship between corporate governance reform and the prevention of corporate scandals in Vietnam. The main reason for this is the lack of information disclosure by Vietnamese companies. Further research employing measures such as survey and interview are necessary to address such question.