Int. j. adv. multidisc. res. stud. 2024; 4(2):489-493

Received: 02-02-2024
Accepted: 11-03-2024

International Journal of Advanced Multidisciplinary Research and Studies

ISSN: 2583-049X

Discussion on Corporate Governance

[1] Le Thi Thanh Huong, [2] Khuong Huyen Duc
[1] University of Labour and Social Affairs, Vietnam
[2] East Asia University of Technology, Vietnam

Corresponding Author: **Khuong Huyen Duc**

Abstract
The role of corporate governance for firms: The prominent role of corporate governance for firms is a higher valuation of the company, effective use of capital, and reduction of risks for firms (Newell & Wilson, 2002) [21]. Corporate governance is the relationship between many parties involved in the process of determining a company's direction and operations. Participants primarily include shareholders, management, and the board of directors (Monks & Minow, 2001) [18]. Clarke (2004) [8] and Tricker (2009), with an approach that covers all factors that can affect the exercise of power in corporations, believe that corporate governance is the way of governing corporate entities, the implementation power over corporate entities. In Vietnam, there are legal documents regulating corporate governance applicable to public companies, such as Circular No. 121/2012/TT-BTC and Enterprise Law (National Assembly, 2020) [20], etc. In Vietnam today, the corporate governance model is organized in a two-level structure, including the general meeting of shareholders, the board of directors, the executive board, and the inspection committee. Through qualitative research methods, this article will discuss corporate governance and mention the history of its formation and development, a research overview, the role of corporate governance, the characteristics of the board of directors, and the effectiveness of corporate governance.

Keywords: Corporate Governance, Accounting, Finance, Economics, Business Administration

JEL codes: M41, F65, M10

1. Introduction

Corporate governance is increasingly considered by investors, investment funds, and credit institutions when deciding to invest or grant credit. Corporate governance is related to all types of companies, especially joint-stock companies, due to the complex nature of the organizational structure and governance of this type of company. In fact, the understanding of business managers and employees about corporate governance is, in some cases, quite limited. This article will discuss corporate governance and mention the history of its formation and development, a research overview, the role of corporate governance, the characteristics of the board of directors, and the effectiveness of corporate governance.

Many previous studies have shown that corporate governance plays a very important role for companies to effectively improve transparency in financial information disclosure (Van Hoang *et al*., 2021) [25].

In Vietnam today, the corporate governance model is organized in a two-level structure, including the general meeting of shareholders, the board of directors, the executive board, and the inspection committee.

This study will contribute further empirical evidence on corporate governance at businesses in the context of an emerging economy in Vietnam.

2. History of formation and development

In the late 20th and early 21st centuries, the whole world faced many difficulties and crises, such as: In 1997, the Asian financial and monetary crisis; in 2008, there was a credit crisis; and then a prolonged world economic recession. Therefore, businesses, investors, etc. have awakened to the urgent need for a good corporate governance mechanism when they see that, over the years, the role and function of ownership of companies and associations have changed. Corporate boards and governing bodies have changed further than is realized. The results of empirical studies show that companies rated as ineffective in corporate governance often bring lower benefits to shareholders than companies rated as effective in corporate governance (Nandelstadh & Rosenberg, 2003) [19]. Therefore, along with the strong development of joint stock companies in the world and the collapses in the late 20th and early 21st centuries of once famous giant joint stock companies such as Enron, Lehman Brothers, WorldCom, etc., corporate governance has become one of the most important fields of economic science, increasingly researched and applied to improve the performance of companies (Khan & Awan, 2012), including financial performance, especially for companies listed on stock markets in different countries.

In Vietnam, the concept of corporate governance began to be known since the Ministry of Finance issued Decision No. 12 on March 13, 2007 on promulgating corporate governance regulations for listed companies on the stock exchange or stock trading center. Since then, the concept, theoretical principles, and practices of corporate governance in Vietnam have been continuously evaluated and improved.

3. Literature review

The concept of corporate governance has been mentioned by many researchers around the world, typically:

Corporate governance is the process by which a company is directed and controlled (Cadbury, 1992) [6]. Corporate governance is the way in which a company's capital providers ensure they can receive a return on their investment in their company (Shleifer and Vishny, 1997) [24]. Corporate governance is a system of mechanisms through which outside investors (shareholders) protect their interests against internal investors (managers) (La Porta *et al*., 2000) [16].

Fama & Jensen (1983) [13] argued that the board of directors is an important feature of the corporate governance structure and performs the role of monitoring managers' activities on behalf of shareholders, preventing conflicts of interest among related parties, and protecting shareholders. According to Menon & Deahl Williams (1994) [17], one corporate governance mechanism to ensure companies practice ethical behavior and are ethically responsible is the audit committee. The role of audit committees in corporate governance is a subject of increasing interest in regulation (Hoskin, 2005; Abbott *et al*., 2000) [15, 1]. Audit committees help improve the level of transparent information disclosure and effective management supervision (Menon & Deahl Williams, 1994) [17].

Corporate governance refers to the private and public institutions, including laws, regulations, and other public institutions, that together govern the relationship in a market economy between directors on the one hand and, on the other, the company and its owners, with one side being those who invest resources in the company (OECD, 2001).

Corporate governance is the relationship between many parties involved in the process of determining a company's direction and operations. Participants primarily include shareholders, management, and the board of directors (Monks & Minow, 2001) [18].

Clarke (2004) [8] and Tricker (2009), with an approach that covers all factors that can affect the exercise of power in corporations, believe that corporate governance is the way of governing corporate entities, the implementation power over corporate entities.

Corporate governance is a system of institutions, policies, and laws to orient, operate, and control firms (Ngo, 2012) [22].

Inheriting the above concepts, we believe that corporate governance is a method of operating, managing, and controlling firm activities to achieve high efficiency.

4. The role of corporate governance

The role of corporate governance for firms: The prominent role of corporate governance for firms is a higher valuation of the company, effective use of capital, and reduction of risks for firms (Newell & Wilson, 2002) [21]. Corporate governance increases access to capital for firms, leads to higher firm valuations, better operating efficiency, reduces the risk of financial crises, and creates better shareholder relations (Claessens & Fan, 2003) [9].

The role of corporate governance in the economy: Conventional corporate governance mechanisms such as takeovers and board composition are not strong enough to solve agency problems. Cross-ownership structures and group businesses make matters more complicated. The problem of weak corporate representation and corporate governance leads to weak corporate performance as well as risky financial structures, which is also one of the causes of macroeconomic crises such as the East Asian crisis in 1997. Therefore, corporate governance becomes even more urgent in Asian countries (Claessens & Fan, 2002) [9].

5. Board characteristics

The concept of company board

According to enterprise law, the Board of Directors is the company's management body, with full authority on behalf of the company to make decisions and exercise the rights and obligations of the company, except for the rights and obligations under the authority of the Congress shareholder agreement (National Assembly, 2020) [20].

Previous studies show that the board of directors has three main roles: (i) Strategic: The process that board members must carry out determines the direction, future, vision, and values of the firm; (ii) Supervise and control the Executive Board; and (iii) Perform the role of providing services, which is to support the Executive Board, especially the Chief Executive Officer (CEO). The responsibility of the Board of Directors is to supervise the Board of Management on relevant contents in the plan to maintain and improve the internal control system towards the process of preparing and disclosing financial reporting information.

Board characteristics

According to The Conference Board, an independent research organization headquartered in New York, when considering the characteristics of the board of directors, people focus on analyzing (i) board composition, (ii) board size, (iii) board diversity, and (iv) board chairman duality.

In Vietnam, there are legal documents regulating corporate governance applicable to public companies, such as Circular No. 121/2012/TT-BTC and Enterprise Law (National Assembly, 2020) [20], etc.

Composition of the board of directors (number of independent board members)

In recent years, researchers and experts have found many differences between non-executive board members who are completely independent of the company and board members who do not participate in management but still have other relationships with the company. Board members who do not participate in operations are people who, in addition to their relationship as board members, do not have any other relationship with the company that could influence or be considered to be able to influence the company in their independent, objective judgment-making. In addition to meeting standards of independence, non-executive board members need to be able to think independently, express their opinions, and, if necessary, be firm. Meanwhile, non-executive members who have a relationship with the company are people who are not members of the executive board but have some relationship with the company. That relationship may be because the member is a retired executive director of the company, a close relative of the chairman or general director, appointed by a major shareholder, a major financial partner, or even a retired senior expert of an independent auditing company. There may be many reasons for appointing someone with experience or connections to the board, but they need to be considered as people with ties to the company and not as independent directors.

Independent board members act as professional arbiters to ensure the company's operations are consistent with Fama's (1980) [13] owner's goal of maximizing value. Fields & Keys (2003) conducted an empirical study on board members outside the enterprise, and the results showed that these independent board members have the function of controlling and providing effective advice to the company's shareholders.

There is no evidence that the ratio of outside or inside board members affects a company's business performance (Hermalin & Weisbach, 2003) [14], and companies with more independent board members have higher profit margins (Bhagat & Black, 2002) [5]. Agrawal & Knoeber (2001) [3] argue that board expansion for political reasons often leads to having too many outside board members, and this does not improve company performance.

Regarding the proportion of women on the board, Carter *et al*. (2003) [7] find evidence that the proportion of women and minorities on the board decreases as the number of board members within firm decreases.

In Vietnam, there are regulations on conditions and standards for independent members of the Board of Directors:

In a joint stock company, independent members of the Board of Directors play a role in ensuring transparency in decisions, having an important impact on the quality and efficiency of operations in corporate governance. Therefore, the regulation on independent members of the Board of Directors is one of the notable regulations in joint-stock companies. According to the provisions of Clause 2, Article 155, Enterprise Law 2020 (National Assembly, 2020) [20], independent members of the Board of Directors must be people with the following conditions and standards:

Not a person working for the company, its parent company, or a subsidiary of the company; not a person who has worked for the company, its parent company, or a subsidiary of the company for at least three consecutive years;

Not be a person receiving salary or remuneration from the company, except for the allowances that members of the Board of Directors are entitled to according to regulations;

Must not be a person whose spouse, biological father, adoptive father, biological mother, adoptive mother, biological child, adopted child, biological brother, biological sister, or younger sibling is a major shareholder of the company; is a manager of the company or a subsidiary of the company.

Not a person who directly or indirectly owns at least 1% of the company's total voting shares;

Not be a person who has served as a member of the Board of Directors or Supervisory Board of the company for at least the previous 5 consecutive years, unless appointed for 2 consecutive terms.

In addition, Clause 3, Article 155, Law on Enterprises 2020 (National Assembly, 2020) [20] further stipulates: Independent members of the Board of Directors must notify the Board of Directors about no longer meeting the standards and conditions specified in Clause 2 of this Article and, of course, no longer be an independent member of the Board of Directors from the date of failure to fully meet the standards and conditions. The Board of Directors must notify the case of an independent member of the Board of Directors that no longer meets the standards and conditions at the most recent General Meeting of Shareholders or convene a General Meeting of Shareholders to elect additional members. Add or replace independent members of the Board of Directors within six months from the date of receipt of notice from the relevant independent member of the Board of Directors.

Size of the board of directors (total number of board members)

According to the provisions of the Enterprise Law (National Assembly, 2020) [20], the Board of Directors is the company's management agency, with full authority on behalf of the company to make decisions and exercise the rights and obligations of the company, except that rights and obligations fall under the authority of the General Meeting of Shareholders.

Article 154, Law on Enterprises 2020 (National Assembly, 2020) [20], regulates the term and number of board members:

(i). The Board of Directors has 3–11 members. The company charter specifies the number of members of the Board of Directors.

(ii). The term of a member of the Board of Directors shall not exceed five years and may be re-elected for an unlimited number of terms. An individual can only be elected as an independent member of the Board of Directors of a company for no more than two consecutive terms.

(iii). In the event that all members of the Board of Directors end their terms at the same time, those members will continue to be members of the Board of Directors until a new member is elected to replace them and take over the work, except in the case of company rules, which have different regulations.

(iv). The company charter specifies the number, rights, obligations, organization, and coordination of activities of independent members of the Board of Directors.

Circular No. 121/2012/TT-BTC also clearly states:

(i). The number of members of the Board of Directors is at least three (03) people and at most eleven (11) people. The structure of the Board of Directors needs to ensure a balance between members with knowledge and experience in law, finance, and the company's business fields.

(ii). The structure of members of the Board of Directors needs to ensure a balance between executive members and non-executive members, in which at least one-third (1/3) of the total number of members of the Board of Directors must be non-executive members.

(iii). In case a member loses his or her membership status according to the provisions of law and the company's charter, is dismissed, or for some reason cannot continue to be a member of the Board of Directors or the Association, The Board of Directors can temporarily appoint other people as members of the Board of Directors according to the provisions of the company's charter. The election of new replacement members of the Board of Directors must be done at the nearest general meeting of shareholders.

Board diversity

There are two ways to represent board diversity: (i) observable and (ii) perceived (unobservable). Age, gender, and ethnicity are observable group characteristics; skills, experience, and qualifications belong to the cognitive group. However, there is no single measure of board diversity.

Researchers around the world have analyzed whether diversity on the board of directors can improve corporate governance efficiency and business results. Cox (1993) [11] affirmed that diversity in a company's staff and leadership can increase competitiveness. Different opinions and perspectives for decision-making will attract more shareholders and employees while retaining and attracting other minority customers.

Amason (1996) [4] found that heterogeneous (diverse) boards make higher-quality decisions than homogenous (less diverse) boards because the degree of information dissemination in heterogeneous boards is higher compared to homogeneous councils.

There is a positive relationship between board diversity, represented by the proportion of women and/or minority members on the board, and firm value, represented by the variable Tobine Q (Carter *et al*., 2003) [7].

Gender diversity can give board members incentives to work on company performance, and the board meets more frequently (Adams & Ferreira, 2009) [2]. Dutta and Bose (2006) [12] affirm the important role of women on the board of directors. Vo and Phan (2014) [26] also believe that there is a positive impact of female members on the board of directors on company performance.

Simultaneity of the chairman of the board of directors

Pfeffer & Salancik (1978) [23] believe that participating in many different companies is due to the function of mobilizing external resources of the board of directors. Board members can then exchange resources such as capital, market information, and market access to mitigate the impacts of environmental instability.

Board members participating in many different companies occur when a person from one company is a board member of another company, or a senior manager at this company is also a member. board of directors in the other company and vice versa, to protect the interests of a group of people. Or the purpose is to maintain the position of individuals and interest groups in society (Useem, 1982).

According to Circular No. 121/2012/TT-BTC:

Article 10. Membership of the Board of Directors

1. Members of the Board of Directors are people who are not prohibited by law or the company's charter from being members of the Board of Directors. Members of the Board of Directors may not be shareholders of the company.
2. Public companies need to limit members of the Board of Directors from concurrently holding management positions in the company's executive apparatus to ensure the independence of the Board of Directors.
3. The Chairman of the Board of Directors may not concurrently hold the position of Executive Director (General Director) unless this concurrent position is approved annually at the Annual General Meeting of Shareholders.

6. Conclusions

Good corporate governance helps firms minimize risks and financial fraud, prevent personal profiteering transactions by managers, expand access to capital markets, and enhance reputation, credit, and brand. Although corporate governance brings many benefits, it has not been fully and properly respected by many Vietnamese firms. Some firms have implemented it, but it has not been effective. Therefore, firms should improve the quality and effectiveness of corporate governance.

7. References

1. Abbott LJ, Park Y, Parker S. The effects of Audit Committee activity and independence on corporate fraud. Managerial Finance. 2000; 26(11):55-68. Doi: https://doi.org/10.1108/03074350010766990.
2. Adams R, Ferreira D. Women in the Boardroom and Their Impact on Governance and Performance. Journal of Financial Economics. 2009; 94(2):291-309. Doi: 10.1016/j.jfineco.2008.10.007
3. Agrawal A, Knoeber C. Do some outside directors play a political role? Journal of Law and Economics. 2001; 44:179-198.
4. Amason AC. Distinguishing the Effects of Functional and Dysfunctional Conflict on Strategic Decision Making: Resolving a Paradox for Top Management Teams. The Academy of Management Journal. 1996; 39:123-148. doi: https://doi.org/10.2307/256633
5. Bhagat S, Black BS. The Non-Correlation between Board Independence and Long-Term Firm Performance. Journal of Corporation Law. 2002; 27:231-273.
6. Cadbury A. Report of the Committee on the Financial Aspects of Corporate Governance. London: Gee & Co. Ltd, 1992.
7. Carter D, Simkins B, Simpson W. Corporate governance, board diversity, and firm value. Financial Review. 2003; 38:33-53.
8. Clark T. Theories of Corporate Governance: The Philosophical Foundations of Corporate Governance. Routledge, London and New York, 2004.
9. Claessens S, Fan JP. Corporate Governance in Asia: A Survey, 2003. doi: https://doi.org/10.2139/ssrn.386481
10. Claessens S, Fan PJ. Corporate Governance in Asia: A Survey. International Review of Finance. 2002; 3(2):71-103. Doi: 10.2139/ssrn.386481
11. Cox TH. Cultural Diversity in Organizations: Theory, Research, and Practice. San Francisco, CA: Berrett-Koehler, 1993.
12. Dutta P, Bose S. Gender Diversity in the Boardroom and Financial Performance of Commercial Banks: Evidence from Bangladesh. The Cost & Management. 2006; 34:70-74.
13. Fama EF, Jensen MC. Separation of Ownership and

Control Separation of Ownership and Control. Journal of Law and Economics. 1983; 26(2):301-325.
14. Hermalin B, Weisbach M. Boards of directors as an endogenously-determined institution: A survey of the economic literature. Economic Policy Review. 2003; 9:7-26.
15. Hoskin PWO. Trace-element composition of hydrothermal zircon and the alteration of Hadean zircon from the Jack Hills, Australia. Geochimica et Cosmochimica Acta. 2005; 69(3):637-648. Doi: https://doi.org/10.1016/j. gca.2004.07.006
16. La Porta R, de Silanes FL, Shleifer A, Vishny R. Investor Protection and Corporate Governance. Journal of Financial Economics. 2000; 58:3-27. Doi: http://dx.doi.org/10.1016/S0304-405X(00)00065-9
17. Menon K, Deahl Williams J. The use of audit committees for monitoring. Journal of Accounting and Public Policy. 1994; 13(2):121-139. Doi: https://doi.org/10.1016/0278-4254(94)90016-7
18. Monks RA, Minow N. Corporate Governance. The Journal of Finance. 2001; 51(2). Doi:10.2307/2329384.
19. Nandelstadh V, Alexander, Rosenberg M. Corporate Governance Mechanisms and Firm Performance: Evidence from Finland, Working Papers 497, Hanken School of Economics, 2003.
20. National Assembly. Law No. 59/2020/QH14 of the National Assembly: Enterprises Law, 2020.
21. Newell Roberto, Gregory Wilson. A premium for good governance. (Corporate Governance). The McKinsey Quarterly, summer, 2002, 20+. Gale Academic OneFile, link.gale.com/apps/doc/A90192557/AONE?u=anon~5620a6f&sid=googleScholar&xid=75849253. Accessed 14 Mar. 2024.
22. Ngo TKT. State-owned enterprise governance issues in the process of corporate restructuring in Vietnam. Journal of Economics & Development. 2012; 179:15-23.
23. Pfeffer J, Salancik G. The External Control of Organizations: A Resource Dependence Perspective. Harper & Row, New York, 1978.
24. Shleifer A, Vishny R. A Survey of Corporate Governance. Journal of Finance. 1997; 52:737-783. Doi: https://doi.org/10.1111/j.1540-6261.1997.tb04820.x
25. Van Hoang TH, Przychodzen W, Przychodzen J, Segbotangni EA. Environmental transparency and performance: Do corporate governance matter? Environmental and Sustainability Indicators. 2021; 10:100123. Doi: https://doi.org/10.1016/j.indic.2021.100123
26. Vo HD, Phan BGT. The impact of board characteristics on business performance: Evidence from Vietnam. Journal of Economics & Development. 2014; 188(2):68-75.