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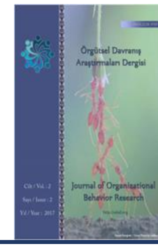

IMPACT OF GOVERNANCE FACTORS ON FIRM PERFORMANCE: A CASE FROM VIETNAM CONSUMER GOODS FIRMS

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ABSTRACT

The objective of this paper focuses on evaluating the impacts of governance factors on the firm performance of Vietnamese listed consumer goods enterprises. The study uses 2 factors representing firm governance such as the size of the director board (BS), CEO Duality (CDU), and 4 controlling factors like the stock price (SP), capital expenditure to total assets (CAPEX), sale growth (GS), as well as firm size (AS) to assess the influence on firm performance. Firm performance is measured by Tobin Q (TOB). Three kinds of models like Pooled OLS, Random Effected, and Fixed Effected are applied to analyze data from 75 listed consumer goods firms with 825 observations in the period from 2010 to 2020. The study uses Stata software 15 for implementing the regression models as well as testing research variables. The findings show that there is an impact of governance factors on firm performance in which size of director board, stock price, capital expenditure to assets, sale growth express positive statistics significant on firm performance. CEO duality has an unclear result in all three models. Besides, total asset still indicates a different result. It proves that there is a negative relationship with firm performance. The findings are a necessary base for firms' managers as well as policymakers to issue suitable policies in the future.

Keywords: *Consumer goods firms, Firm governance, Governance factors, Tobin'Q.*

INTRODUCTION

The main intent of this research is to examine the repercussions of governance factors on the firm performance of Vietnamese consumer-goods firms. According to Turnbull (1997), corporate governance includes both internal and external factors. In addition, the corporate governance factors relate to how the executive board performs to ensure the interests of the business, from which it supports improving the efficiency of business performance (Ehikioya, 2009). Today, governance factors have become more popular, especially in the context of firms expanding their business to the world market (Freeman & Reed, 1983). Clarke (2017) also showed that investors are willing to pay a stock at a higher price based on the potential of firm performance. Therefore, it can be affirmed that corporate governance factors are closely affiliated with the operation of the firm. It has been evident from numerous studies that there is a positive, meaningful relationship between firm performance with governance factors such as Jensen and Meckling (1976), Weir (1997), Clarke (2017), Aguilera *et al.*, (2016), Liu *et al.*, (2022), and Khan *et al.*, (2022).

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Boone *et al.*, (2007), Bozec (2005), and Sánchez *et al.*, (2020) also reported that market issues as such customer behavior, competitiveness, internal factor like the director board, and duality of managers impact firm performance. Bozec (2005) focused on directors' views as the main factors supporting the efficiency of business activities. It means that the more effective board of directors' decisions, the better firm performance is, and therefore, the higher market will evaluate firm performance. However, some other studies indicated different findings on managers' roles and their decision on firm performance. Mishina *et al.*, (2010) and Yang and Zhao (2014) argued managers' decision is affected by their duality, which causes differences in firm performance. In another view, it means that some making decisions of the firm will issue based on managers' views as well as their experience. Internal factors of corporate governance such as the decision of managers, duality of directors, asset issues, cash flows, and debt issues can impact firm performance Gillan (2006). Besides, some other internal factors like ownership concentration, independent board, and controlling mechanism in managing sale inflows are studied by many researchers. The study used some factors representing internal cooperate governance like a director board or director board size, sale issues, and the firm's total assets to analyze the impact on firm performance. Besides internal factors, external factors affect firm performance in different ways. Some factors include market completion, firm debt, and policy regulation (Dharmastuti & Wahyudi, 2013).
The study aims to analyze the impact of the size of the director board, stock price, capital expenditure to total assets, sales growth, and total assets on the firms' performance of Vietnamese consumer goods firms. The consumer goods industry has still great growth potential in the Vietnamese market because Vietnam retains a young population with 56% of the population being under 30 years old. A double increase in the gross consumer spending in Vietnam that would reach more than approximately 173 billion USD by 2020 was expected. Given such circumstances, the growth rate of the consumer products market in Vietnam averaging about 20% per year would be noted, surpassing major markets such as India and China (KPMG, 2021). Although, there has been some research about the impact of corporate governance on firm performance in different countries and different sectors. However, it is still incomplete. The study focused on presenting new documentation of the effects of cooperative governance on the firm performance of Vietnamese consumer goods firms through Tobin Q. The study used data from 75 listed Vietnamese consumer goods enterprises in the period from 2010 to 2020. This was the period after the world monetary-financial crisis, and Vietnam began to make plans to implement economic restructuring to overcome the crisis. The study consisted of five parts. Besides the introduction, part 2 presents the previous studies, part 3 presents the research methodology, part 4 discusses the empirical results, and part 5 is the conclusions and makes some recommendations for future studies.

Literature Review

Firm bureaucracy is still of great significance in every firm. It is a base to ensure business activities effectively. It plays a vital role in presenting more value for enterprises. Moreover, well corporate governance is a base for a firm's development, from which the market will evaluate the firm better (Yasser *et al.*, 2014). Inside and outside factors of corporate governance establish a control system to ensure all firm's activities are implemented effectively. As a result, it will support maximizing profit and long-term firm performance (Bozec, 2005). With the same ideal, Guluma (2021) proved that cooperative governance helps increase firm performance by building comment regulations of inside governance actions which maximize the firm's operation as well as market efficiency.

In addition, good firm governance means that it also needs to ensure all the interests of stakeholders and the firm's internal relations. This contributes to maintaining sustainable operations and gaining the trust of investors (Kartika *et al.*, 2019). Ferro *et al.*, (2018) and Tziner *et al.*, (2011) also affirmed that the purpose of governance is to ensure the interests of all stakeholders, thereby maximizing profitability and business efficiency. Besides, firm performance is reflected by the market price or stock price which investors are willing to pay for the firms (Shahid *et al.*, 2018; Yameen *et al.*, 2019). The study of Tarigan and Stacia (2019) has once again demonstrated that governance factors have a huge influence on firm performance in Indonesia. Stanwick and Stanwick (2002) show that good corporate governance can help increase the value of the firms in the future. As a result, good corporate governance is also the basis for accessing capital sources more easily and contributes to increasing firms 'sources. However, if corporate governance is not good, there will be a conflict between the decisions of board members and the shareholders of the business (Cadbury, 2002). This clearly depicts the law of conflict of interests between managers and shareholders (Jensen & Meckling, 1976). The role of corporate governance is to help control this contradiction, ensuring the effectiveness of the business. Corporate governance is closely related to the decisions of board members, and whether conflicts of interest are resolved depends on how corporate governance is carried out. The role of the manager is to ensure the harmonization of interests between the parties to ensure business efficiency (Merendino & Melville, 2019).

In the world, many studies are researching this issue, however, there are so many different models being applied as well as chosen variables and they show different findings. In Britain, corporate governance often relates to willing of stockholders, while other nations in Europe consider corporate governance with the interests of the firm's managers, workers, suppliers, and final customers (Allen & Gale, 2012). Tan and Wang (2004) suggested that governance factors can include both inside and outside issues. As a result, it will create two side impacts on the firm's performance as well as the market's performance. Corporate governance is still in good condition to improve shareholders' beliefs as well as a market view of a firm's performance. Even in the past from 1991, Berle and Means (1991) proved that there is a contrast between the decisions of shareholders and firm performance. And in the current economic environment, Aguilera *et al.*, (2016) found that managers or inside management issues have a notable positive impact on Nigeria's firm performance as well the market's value of the firm's activities. It always has a benefit conflict between stakeholders and shareholders. It represents inside factors and outside factors of cooperative governance. Guluma (2021) also studied the impacts of both internal and external factors of corporate governance on firm performance. He found that inside factors such as dual leadership and ownership have a positive impact on firm performance while he focused on market competition as the outside factor. It still has a relationship between competitive factors on firm performance.

Boone *et al.*, (2007), and Bozec (2005) reported that market issues as such customer behavior, competitiveness, internal factor like the director board, and duality of managers impact firm performance. Bozec (2005) and Tziner *et al.*, (2011) focused on directors' views as the main factors supporting the efficiency of business activities. It means that the more effective board of directors' decisions, the better firm performance is, and therefore, the higher market will evaluate firm performance.

There are many previous studies about the impact of corporate governance on firm performance. However, all results indicate that there is an impact of board size of directors on firm performance (Shleifer & Vishny, 1986; Durnev & Kim, 2005; Nguyen, 2020). Studies have shown that good corporate governance reduces a firm's failure due to poor decisions. However, this issue is still being debated in recent times. There are many different opinions about the impact of board size on firm performance. Some studies suggest that there is a positive relationship between board size of directors and firm performance. Meanwhile, other studies have taken the opposite view. As board sizes are bigger, they will have more experience as well as knowledge. As a result, directors make decisions more carefully. Gill *et al.* (2012) also demonstrate that many director boards have a positive impact on firm performance because decisions making will also be more carefully considered. According to research by Alabdullah *et al.*, (2016), the study was conducted with 109 non-financial enterprises. The results also showed that the board size of directors has a positive impact on firm performance. Or Arora and Dharwadkar (2011) researched Indian manufacturing enterprises. The results of the study indicate that many board members will help make more effective decisions, thereby improving firm performance. Anderson *et al.*, (2003) also demonstrated that the size of the board director played an important role in improving firm performance because many members would create a better basis for controlling executive behavior.

However, some other studies have shown a negative relationship between board size of directors and firm performance such as Yermack (1996), Switzer and Tang (2009), and Pillai *et al.*, (2018). Yermack (1996) suggested that there was a negative link between the number of directors and firm performance. He studied 452 American firms in the period from 1984 to 1991, Yermack (1996) found that the board size of directors had a negative relationship with firm performance. Pillai *et al.*, (2018) demonstrated that the board size of directors has a negative relationship with firm performance. The results can come from the fact that when too many people make decisions, it can cause mistakes. Switzer and Tang (2009) argue that the board size of directors negatively influences firm performance through different management experiences. Although many studies have different results, all of them have shown an important effect of board size of directors on firm performance.

Besides, the duality of the chief executive officer (CEO) means the CEO is also the Chairman of the firm. This leads to an excessive power concentration on one person. This will affect the decision-making individually, and cause mistakes. Besides it also still leads to the loss of trust from board members. As a result, firm performance is affected, and firm performance maybe decline. Concentrating power can create opportunistic behaviors that affect the common decision, reducing the effectiveness of firm performance and firm performance (Beasley 1996). Chen *et al.*, (2008), Sheikh *et al.*, (2018), and Wang *et al.*, (2021) agreed that an organization can only operate well and effectively when there is a separation between the CEO and the Chairman. Because, when focusing decisions on one person, will create subjective decisions. This sometimes distorts issues and affects firm performance as well as its value. As a result, many researchers support the view that there should be a separation between the CEO and the chairman (Gompers *et al.*, 2003; Shen & Lin, 2009; Ertuna & Tukel, 2010; Shen *et al.*, 2020;

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Nguyen, 2021). Because it will ensure that CEO will always lead firms for the benefit of shareholders. Therefore, it will ensure firm performance better.

MATERIALS AND METHODS

Sample and Data Sources

The study uses a sample of 75 consumer goods firms listed on the Vietnam stock market in the period from 2010 to 2020 with 825 observations. The Tobin Q is applied to represent the firm performance, while board size of directors and duality of CEO governance factors. Other controlling variables are stock price, capital expenditure to total assets, sale growth, and firm size.

Model Specification and Variable Description

The study applied panel data with Pooled OLS model (OLS), Random Affected Model (REM), and Fixed Affected Model (FEM) to find out the impact of governance factors on firm performance. The study applied the following model.

$$TOB_{it} = \beta0 + \beta1*BS_{it} + \beta2*CDU_{it} + \beta3*SP_{it} + \beta4*CAPEX_{it} + \beta5*GS_{it} + \beta6*AS_{it} + \varepsilon_{it} \quad (1)$$

In which:

β is the intercept.

Ɛ is other factors.

i and t represent for firm and year.

TOB or Tobin Q is the firm performance measured by the ratio of market capitalization plus book value of debt over the total book value of the total asset of the firm. BS represents the total number of director board members. CDU refers to the function of the chairperson combined with the CEO. SP is the stock price of the firm. CAPEX is measured by the ratio of capital expenditure to total assets. GS is the annual percentage growth rate of net sales. AS is measured by the logarithm of total assets. **Table 1** indicates variable descriptions and expected results.

Table 1. Variable Description and Expected Result

Variables	Symbol	Variable Definition	ER
Tobin Q	TOB	The ratio of market capitalization over the total book value of the total asset of the firm	
Board Size	BS	Total number of director board members	+
CEO Duality	CDU	The function of the chairperson combined with the CEO	-
Stock Price	SP	The stock price of the firm	+
Capex	CAPEX	The ratio of capital expenditure to total assets	+
Sale growth	GS	The annual percentage growth rate of net sales	+
Firm size	AS	The logit of total assets	-

RESULTS AND DISCUSSION

Description Statistics

Table 2 presents the descriptive statistics of 75 consumer goods firms listed on the Vietnamese stock market within the 2009 to 2020 duration. The average market capitalization ratio to the total book value of total assets (TOB) or firm performance is 0.5164 units. The standard deviation of TOB is 0.9715 units, the minimum value of TOB is 0.0212, and the maximum value of TOB is 15.8246 units. Besides, the average number of board directors is 9.8752 members. The lowest average number of members is 4 and the highest number of board members is 25. The average value of the Chairman and CEO is 0.4364 units. It proves that more than 50 percent of consumer goods firms have Chairman and CEO differently.

Table 2. Descriptive Statistics

Variables	Observation	Mean	Standard Deviation	Min	Max
TOB	825	0.5164	0.9715	0.0212	15.8246
BS	825	9.8752	3.0270	4.0000	25.0000
CDU	825	0.4364	0.6162	0.0000	1.0000
SP	825	17053.1	20382.64	300.00	183522
CAPEX	825	5.5413	8.3824	-4.2937	123.5353
GS	825	25.0533	276.7803	-99.9404	7812.95
AS	825	13.4481	1.3966	6.2285	18.1065

In addition, the average market price of the firm share is VND 17,053.1 and the highest average market price of a stock is VND 20,382.64. However, the highest average market price is VND 183522. This proves that there are big differences between consumer goods firms. The average cost of capital for the total assets was 5.5413, while the lowest cost of capital per total asset was - 4.2937 and the lowest was 123.5353. The average sales growth rate was 25.0533%. However, the company had the lowest growth rate of -99.9404%, while the company had the highest growth rate of 7812.95%. All findings showed that there are quite large differences among Vietnamese consumer goods firms. However, the general trend can be seen that this is a potential industry with high growth, an average of over 25%. Moreover, Vietnam is a nation with a young population. As a result, the demand for consumer goods is large and has many chances in near future.

Pearson Correlation Analysis

In **Table 3**, Pearson correlation analysis was used to determine closely linear correlations between the dependent variable and independent variables. Besides, the study used Pearson correlation to identify multicollinearity when the independent variables were strongly correlated with each other. Pearson correlation coefficient (r) could take a range of values from +1 to -1. The condition for significant correlation was P-value < 0,05. All chosen variables are significant. And the model is suitable to assess the impact of governance factors on firm performance.

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Table 3. Correlation Matrix

Variables	TOB	BS	CDU	SP	CAPEX	GS	AS
TOB	1.0000						
BS	0.0946	1.0000					
CDU	0.0439	-0.0059	1.0000				
SP	0.5231	0.1456	0.0081	1.0000			
CAPEX	0.1597	0.0205	0.0401	0.0298	1.0000		
GS	0.2771	0.0092	-0.0282	0.0185	0.0818	1.0000	
AS	-0.0794	0.3493	-0.0028	0.2856	-0.0241	0.0221	1.0000

Besides, the highest correlation of the chosen independent variable is 0.5231. It expresses the relationship between stock price and firm performance. Nguyen (2021) stated that a correlation coefficient of more than 0.8 can cause the model problems. Considering this benchmark **Table 3** indicates that correlations among the independent variables are small. Therefore, it means that there is no existence of multicollinearity in this model.

Multiple Regression Model

In **Table 4**, three multiple regressions models to be Pooled OLS, Random Effected (REM), and Fixed Effected (FEM) are used to assess the significance of governance factors on a firm performance represented by the ratio of market capitalization over total book value of total asset or TOB. The statistical findings in all three models indicate that almost selected variables are statistically significant at the level of 1 percent.

Table 4. Regression Results of Pooled OLS, Random Effected, Fixed Effected Models

Variables	Pooled OLS Model	Random Effected Model	Fixed Effected Model
BS	0.03376***	0.03376***	0.03109***
CDU	0.06625	0.06625	0.06928*
SP	0.00003***	0.00003***	0.00003***
CAPEX	0.01275***	0.01275***	0.01440***
GS	0.00093***	0.00093***	0.00095***
AS	-0.19821***	-0.19821***	-0.19948***
Observations	825	825	825
R Square	0.4289	0.4289	0.4271

Note: ***, ** and * indicates significant at 1%, 5% and 10% level of significance.

Besides findings shows that the number of directors affects positively firm performance. This result is supported by Durnev and Kim (2005), Gill *et al.*, (2012), and Alabdullah *et al.*, (2016). All three regression model still indicates evidence to support the impact of board size on firm performance. However, with the CEO duality variable, the study only provides significant evidence of the relationship between CEO duality on firm performance in fixed affected regression, although the significant level is not real high and clear. This may explain that when the other factors remain constant, the effects of decision-making when the CEO and Chairman are the same people affect firm performance is not large.

Moreover, many previous studies show some specific factors of the firm which can influence firm performance. The models used factors like stock price, the ratio of capital expenditure to total assets, sale growth, and firm size. All results are significant at a 1 percent level. However, the firm size variable has an adverse relationship with firm performance. This is due to the fact that large firms generally have their leverages in the economics of scale and benefit from cost savings. Based on those advantages, larger firms have many chances to venture into competitive advantages in the market, compared to small firms. Despite the advantages, larger firms are quite rigid and less innovative compared to smaller ones in making business decisions. This issue can affect firm performance.

R square values of the three models are from 42.79% to 42.81%. These results explain that selected variables in models can explain more than 42% of the outcome of selected administrative factors on the firm performance of Vietnam consumer goods firms. Moreover, all P-value is nearly zero, which also explains that all models are applied are suitable to evaluate the impact of corporate governance on firm performance.

CONCLUSION

This study applied three kinds of regression models Pooled OLS model, the Random Affected model, and the Fixed Affected model, to seek out some governance factors which influence firm performance. Moreover, Board Size, Stock Price, Capital Expenditure, Sale Growth, and Firm Size are the elements that have crucial positive and negative influences on Tobin Q as well as firm performance. While the impact of CEO duality is not clear. In these factors, the number of directors is seemingly the most important factor affecting firm performance. The reason is that many different directors on the director board with experience and skills can lead firms to pass over difficult tasks to improve their reputation by improving business activities. Another factor is stock price because if the stock price of the firm increases steadily in the future, it will make a base for effective business activities, from which firm performance will increase. The final is firm size. This factor has a destructive affiliation with firm performance. The firm's scale is an essential factor that depends on the expansion of the firm, each firm will have either benefits or drawbacks. All in all, there are a variety of crucial factors that affect firm performance.

Limitations and Dimensions for Future Research

The study has some limitations, which relate to the number of consumer goods firms. The study only focuses on consumer goods firms listed on Vietnam Stock Market within the 2010 to 2020 duration. Besides, the study only evaluates governance factors in the consumer goods industry, while some other sectors are not studied. Moreover, there are some other governance factors besides two factors of corporate governance to are the board size of directors and CEO duality. Therefore, future research can apply this issue to other sectors. Besides, the studies can add other governance factors like corporate social responsibility, management style, and age of directors to gauge the eventuality of governance factors on firm performance. Finally, this study suggests that in the future, a researcher can consider the evaluation of distinct effects of firm governance on firm activities before and after the crisis period of the economy.

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