YMC Management Review

Volume 16, No.1, 2023 pp. 21-42

Theoretical Framework for Board Structure and Its Relationship with the Performance of Commercial Banks in Vietnam

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Abstract

In order to build up the theoretical framework to examine the relationship between board structure and the performance of commercial banks in Vietnam, this paper examines the wide range of literature reviews on corporate governance factors, agency theory, and board structure attributes. This framework is served as an academic premise for further studies in the corporate governance and banking sector in the Vietnam context.

Keywords: *Corporate Governance, Agency Theory, Board Structure, Commercial Banks, Vietnam Banking Sector*

DOI: https://dx.doi.org/10.53106/270308882023101601002

1. Introduction

The banking system of Vietnam is crucial to its economy and financial system (Nguyen et al., 2016). The implementation of Doi Moi (1986-2018)[1] has brought about significant changes in the country over the past 32 years. Vietnam's banking industry has rapidly expanded and diversified from four state-owned commercial banks (SOCBs) and some small financial institutions in 1990 to more than 30 commercial banks in 2023.

Vietnam's banking industry has experienced significant growth since its establishment in 1990, transitioning from a mono-banking system to a widespread network of financial institutions. Over the last three decades, the Vietnamese government has implemented various banking reforms aimed at enhancing the efficiency and competitiveness of the country's banking system. The banking sector is strictly regulated in Vietnam. However, it is designed to comply with international requirements. The banking industry is likely to be impacted the most by corporate governance laws and regulations, according to several studies (Huu Nguyen et al., 2020; Tran et al., 2020; Khanh et al., 2020). Understanding the Board of Directors (BoD) and its structure, including board size, composition, and meetings, is crucial for improving the performance of commercial banks in Vietnam.

Multiple studies, such as Phan (2012), Nguyen (2015), Tran and Pham (2020), and Nguyen and Do (2020), have examined how the characteristics of a bank's BoD affect its performance. These studies have found that BoD characteristics can have both positive and negative effects on performance, with varying degrees of impact. The authors' work indicates that BoD characteristics such as ownership, structure, and lack of external and approved auditing processes have a significant impact on the bank's performance. Prior research has contributed to the body of knowledge, yet has not specifically examined the correlation between the structure of the BoD and the performance of the bank. The aforementioned studies lack theoretical foundation and do not sufficiently utilize agency theory and resource dependency theory, which are relevant in analyzing how ownership structure impacts a company's strategic planning. The board of directors plays a significant role in influencing the bank's performance.

The role of the CEO and/or Chairman in the contemporary corporation is intricate and uncertain, particularly within the board of directors. The board and CEO/Chairman are responsible for both supervising the firm's executives and working with them to develop the bank's strategy (Langan et al., 2023). The issue of board leadership is a highly visible and contentious example of this ambiguity. Historically, studies on board leadership focused on the advantages and disadvantages of CEO duality, which refers to the CEO also serving as board chair (Uyar et al., 2022). There is a lack of research on corporate governance in the commercial banking sector of

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[1] Doi Moi is the Vietnamese economic reform started in 1986 with the purpose of creating a socialist-oriented market economy. In the Vietnamese language, the term Doi Moi means "innovate" or "renovate".

Vietnam.

This paper aims to investigate the theoretical framework for the relationship of the board of directors' structure on the performance of commercial banks in Vietnam.

2. Corporate governance

2.1 Corporate Governance Definition

Corporate governance is a prescribed system for directing and controlling firms (Tihanyi et al., 2014). The governance of a firm is dependent on its board of directors, shareholders, and auditors. Corporate governance perspectives primarily originate from a financial standpoint. Shleifer and Vishny (1997) defined corporate governance as the means by which financiers of a corporation are guaranteed satisfactory returns on their investments. Corporate governance is a vital mechanism for managing potential stakeholder conflicts within a company.

Agency problems arise due to divergent goals and preferences among a company's stakeholders, coupled with restricted access to information pertaining to each other's actions, knowledge, and preferences. Shareholders and corporate managers have conflicting interests due to the separation of ownership and control (McCahery et al., 2016). The mechanisms that address potential conflicts, both internal and external, are referred to as corporate governance (Agyei-Mensah, 2021). Sardo and Serrasqueiro (2017) categorized corporate governance mechanisms as either internal or external.

Internal governance mechanisms are determined by firms' internal factors, including the board of directors' structure and characteristics, board committees, and ownership structures. External governance mechanisms are external forces that ensure firms are governed in the interest of shareholders and stakeholders. Examples include country legal systems and takeover rules. Internal governance mechanisms refer to specific governance factors that apply to research conducted in either individual or multi-country contexts.

External governance mechanisms, like the influence of diverse legal systems on corporate governance effectiveness, are relevant solely for research that compares corporate governance systems across countries in a multi-country context (Lu & Wang, 2021). This study focuses on internal governance mechanisms as it is limited to analyzing a single country.

The agency theory posits that the relationship between shareholders and managers is analogous to that of a principal and an agent. Shareholders delegate control of the company to managers, who act as their agents. A conflict of interest arises when both parties seek to maximize their benefits while their interests diverge. Managers

may prioritize short-term profits over shareholder interests, leading to the potential exploitation of company assets. Managers are advised to prioritize stock prices as a means of achieving significant profits during periods of stock price increases. This may enhance managers' entrepreneurial spirit and yield limited short-term efficiency gains for the company.

However, it can result in misconduct by companies towards their employees, customers, and the environment. It can result in unlawful activities, such as the manipulation of stock prices or insider trading. During the 1990s, several CEOs were accused of colluding with investment banks to artificially inflate stock prices and manipulate the stock market. In the late 1990s, CEOs collaborated with investment banks to artificially inflate stock prices and manipulate the stock market. As a result, an alternative controlling model has been sought to replace the shareholder value maximization model. Globally, legal documents and guidelines have been established to regulate the behavior and structure of the Board of Directors in their monitoring activities.

The Law on Enterprise 2006, effective from July 1, 2006, introduced the first formal legal framework on corporate governance in Vietnam (Vietnamese Government, 2005).[2] The Ministry of Finance issued Decision No. 12/2007/QD-BTC on March 13, 2007, which established regulations for corporate governance practices of listed firms in Vietnam, leading to increased recognition of the term "corporate governance" (Legislation library, 2007).[3] The Decision defines corporate governance as a set of regulations aimed at ensuring efficient operation and control of a company in the best interests of shareholders and related parties.

Vietnam has engaged in various projects and initiatives to improve corporate governance quality, initiated by prominent international institutions such as International Financial Corporation (IFC), Organization for Economic Cooperation and Development (OECD), and World Bank. On August 13, 2019, the State Securities Commission of Vietnam (SSC) introduced Vietnam's inaugural Corporate Governance Code. The CG Code promotes adherence to global best practices and surpasses basic legal compliance, urging companies to strive for excellence.

2.2 Corporate Governance Model in Vietnam

The intricate socioeconomic landscape in Asia reflects the prevalent factors of differentiation across the continent. Vietnam's legal system, like China's, mandates that businesses consider the interests of the government, party, and society. Vietnam's public listed companies experience principal-principal conflicts due to the insider model, while the Anglo-Saxon system faces principal-agent issues related to the outer model. The Anglo-Saxon

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[2] Enterprise Law 2005. Accessed online https://vanban.chinhphu.vn/default.aspx?pageid=27160&docid=29656. Viewed March 3, 2023.

[3] Legislation library 2007. Decree 146/2007/TT-BTC. Accessed online https://thuvienphapluat.vn/van-ban/Doanh-nghiep/Thong-tu-146-2007-TT-BTC-huong-dan-tai-chinh-thuc-hien-chuyen-doanh-nghiep-100-von-nha-nuoc-cong-ty-CP-quy-dinh-Nghi-dinh-109-2007-ND-CP-60706.aspx. Viewed March 3, 2023.

outsider model is designed to prevent conflicts between controlling and minority shareholders by distributing equity ownership, separating ownership from control, imposing restrictions on shareholder rights, appointing agencies to manage the business, and limiting shareholders' rights. Vietnamese institutions suffer from a lack of transparency and some degree of principal-principal and principal-agent issues.

Most Vietnamese businesses adopt a one-tier governance system with limited external supervision and management. The one-tier organizational structure gives rise to a Vietnamese version of the agency problem. The CEO and executive management may hold company stock and serve on the board, which could result in inadequate supervision and potential conflicts of interest with other owners.

The situational analysis of Vietnam highlights the challenges and risks involved in establishing corporate governance frameworks across the continent. Historical evidence suggests that Vietnam's developing economy is not optimally supported by extreme measures such as rejecting or imposing Western frameworks. The contemporary business environment is promoting the adoption of the Anglo-Saxon "one-tier" organizational structure.

The Anglo-Saxon one-tier model and business governance in Vietnam share certain fundamental elements. According to Zhang (2020), Asian corporate governance is a hybrid of the Anglo-Saxon and continental EU systems, with management decision and control decision integration being a key similarity to the Anglo-American model.

However, there are some variations influenced by the continental EU system. The adoption of the Anglo-American and continental EU models by Asian countries is likely a strategic simplification that aligns with their political, cultural, and globalization goals. This is particularly relevant given the dynamic nature of the Asian emerging economies, which contribute to the complexities and uncertainties involved.

2.3 Agency Theory

Christopher (2010) states that agency theory is widely used by academics and practitioners. While other corporate governance theories have been studied by scholars, such as institutional theory, stakeholder theory, and stewardship theory, agency theory has been the main foundation for establishing corporate governance standards, principles, and codes (Christopher, 2010). Mallin (2010) conducted a thorough analysis of corporate governance theories and concluded that agency theory is the most suitable explanation for corporate governance roles, including legal, cultural, ownership, and structural characteristics. According to Naciti (2019), all theoretical perspectives on corporate governance are complementary to agency theory, rather than serving as substitutes for it. Agency theory is the primary theoretical framework used to investigate the connections between corporate

governance mechanisms, earnings management, and firm performance, despite the influence of other corporate governance theories.

This study investigates the impact of corporate governance on earnings management. Effective monitoring mechanisms by the board of directors are crucial in mitigating earnings management practices from an agency perspective. This study analyzes the correlation between corporate governance mechanisms and firm performance. Agency theory aims to align the interests of all parties involved in governing the firm to increase shareholder value. A well-designed board of directors is crucial in reducing agency costs and private benefits that may impact a company's performance. Agency theory explains the rationale behind earnings management and firm performance. This study employs agency theory to formulate hypotheses that examine the correlation between corporate governance mechanisms, earnings management, and firm performance.

This study employs the agency theory as the theoretical framework to investigate the impact of board structure on the performance of commercial banks in Vietnam. This theory has been widely utilized in Vietnam's corporate governance research over the past decade. Agency theory aims to mitigate the agency problem and enhance value maximization by addressing the shareholders' interests. Shareholders' primary objective is to maximize value.

The advantage of agency theory lies in its simplification of the analysis to two parties: the agent and the principal. Shareholders' perspective, driven by return on investment or firm value, is easier to analyze. Agency theory posits that conflicts of interest may arise between managers and shareholders due to the divergence of their interests. Managers are assumed to be rational but opportunistic. Fama and Jensen (1983) proposed a theory that offers a theoretical foundation and verifiable hypotheses for clarifying the connections and proposing remedies for agency issues between managers and shareholders. This theory aims to reduce agency conflicts and improve shareholder returns, ultimately enhancing firm performance. According to the literature, the sources of such problems are related, for instance, to managers' investment decisions –under-investments or over-investments, free cash flow, earning retentions, and shirking –that diverge from the positive net present value rule (Dhumale, 1998). Effective strategic decision-making by management is crucial for firm performance. Managerial personnel are often compensated with high remuneration to align their interests with those of the firm and shareholders. This is in accordance with agency theory, which suggests that managers may act in their own interests if their objectives are not properly monitored, bonded, and compensated. (Liu & Fong, 2010).

Corporate mechanisms are crucial in agency theory for aligning the interests of the principal and the agent, thereby enhancing the firm's ability to improve shareholder wealth and performance. The ownership structure of firms, specifically the board of directors, plays a crucial role in addressing the principal-agent problem and enhancing firm performance. Organizational factors that impact shareholders' performance comprise board size, CEO duality, presence of non-executive directors (NEDs), and ownership structure mechanisms, including large

or concentrated ownership, shareholder identity (individual/family ownership, company ownership, and government ownership), and managerial ownership.

Publicly traded corporations typically have a structure that separates ownership and control between principals and agents. The principal-agent relationship involves owners hiring managers to operate the firm in their best interests. Managers are compensated for their efforts, typically through monetary means such as salary and bonuses (Hart, 1995). This relationship may encounter conflicts of interest stemming from the differing interests of managers and shareholders. The agency theory (Fama & Jensen, 1983) has been utilized to conceptualize and investigate the potentially problematic relationship between principals and agents. Agency theory posits that conflicts of interest in corporate relationships stem from the divergence of interests between managers and shareholders. This is based on the assumption that agents are rational but opportunistic.

The agency perceives the connection between past shareholders and managers as the conventional principal-agent association. This involves the owners appointing managers to manage the company, and the managers receiving compensation for their work (Jensen & Meckling, 1976; Sappington, 1991). The principal's evaluation of the performance or outcome is contingent upon the level of effort and associated risks undertaken by the agent. Yet, the agent's exertions remain partially unobservable to the principal. Consequently, information asymmetry makes it difficult for the principal to measure the efforts made by and compensate the agent, implying a greater reward for the risk-averse agent due to less incentive to make an effort (Sappington, 1991). In this incentive-risk puzzle inherent in the agency relationship (Hart, 1995), the relevant issue is determining the optimal balance between efficiency and risk-bearing. The principal may use additional monitoring methods to regulate the agent's intended behavior, resulting in monitoring expenses.

Agency theory suggests that ownership structure mechanisms require incentives for agents to align their interests with principals, thereby promoting the prioritization of shareholder value maximization. Jensen (1993) argued that higher managerial ownership aligns the interests of shareholders and managers but also increases the risk of opportunistic behavior and agency problems. Major shareholders can help reduce agency problems by monitoring managers due to their strong incentives and capacity for control. The analysis will primarily use agency theory, and resource dependency and stewardship theory will only be used if they can be tested with relevant hypotheses.

Agency theory posits that the separation of ownership and control in contemporary firms may result in agents not consistently acting in the best interests of principals. To mitigate conflicting interests, shareholders must utilize internal corporate governance mechanisms to oversee managers and encourage them to maximize shareholder value and enhance firm performance. Efforts to monitor and control managers must complement this latent

structural factor. Corporate governance mechanisms mitigate risks and incentivize managers for positive behaviors and performance. The resultant residual loss, bonding, and monitoring agents (managers) costs are known as agency costs. Agency costs mitigate the agency problem and enhance firm performance by preventing managers from prioritizing their self-interest over shareholders' interests.

The board of directors is a crucial component of corporate governance, serving as an intermediary between managers and owners in accordance with agency theory. Its responsibilities include ratifying and assessing strategic decisions (Nerantzidis et al., 2012). Corporate governance is comprised of two mechanisms: internal and external. The former involves shareholders collaborating with managers, whereas the latter involves shareholders who are willing to sell their shares and do not have the provision to work with managers.

2.4 Corporate Governance and Firm Performance

As noted by several scholars, corporate governance is a crucial factor in improving a company's performance (Amis et al., 2020; Kyere & Ausloos, 2021; Lehn, 2021). Effective corporate governance typically results in reduced operational risk, thereby bolstering investor confidence in the company. McKinsey & Company conducted surveys in 2002 to determine how shareholders in developed and emerging markets perceive and value corporate governance. The study revealed that 15% of institutional investors in Western Europe prioritized governance practices over financial matters. Also, 27% of interviewees responded that they are willing to pay an extra 14% for firms with high corporate governance quality. Amis et al. (2020) found that firms with strong corporate governance exhibit higher operational efficiency and generate greater anticipated cash flows. Extensive empirical research has been conducted in academia to examine the impact of corporate governance on firm performance. The majority of studies suggest that improved corporate governance quality can enhance the economy's robustness, company valuation, and production capabilities, and notably mitigate financial system risks.

Elston's (2019) research provides notable evidence of this correlation. This issue garners considerable scholarly attention in emerging markets. The studies are primarily conducted in two main streams. The first direction involves establishing a formula for determining the corporate governance rating and utilizing this rating as an independent variable in the model. These studies are limited by their reliance on secondary data and the challenge of obtaining primary information from companies. The second approach aims to examine the relationship between corporate governance mechanisms, specifically board structure, and firm performance indicators through correlation studies.

Corporate governance is a mechanism that manages and coordinates different stakeholders in the company's operations to demonstrate accountability and corporate responsibility (Radcliffe et al., 2017). In addition, corporate governance assures stakeholders that they get accurate and transparent information on company performance, ownership, and decision-making. The company upholds sound corporate governance through the enhancement of

employee motivation, adherence to ethical standards, equitable treatment, openness, and liability.

3. Board structure

The impact of corporate governance mechanisms on the relationship between board structure and firm performance varies depending on the sector, country, and regulatory framework, as evidenced in the literature. Bank governance is similar to governance in other commercial, industrial, or service sectors. Several studies suggest that monitoring banks can be challenging for shareholders due to factors such as complex operations, diverse financial products, and strict regulations. (Levine, 2004; Georgantopoulos & Filos, 2017).

3.1 Board Size and Firm Performance

A larger board may seem preferable when considering the inclusion of diverse members with varying areas of expertise. However, it can lead to coordination and communication issues, ultimately undermining the board's effectiveness in monitoring agents (Eisenberg et al., 1998). Larger boards have limited capacity for directors to scrutinize top managers and engage in meaningful analysis and discussion of firm performance (Lipton & Lorsch, 1992). Jensen (1993) suggested that large boards incur higher monitoring costs and are less effective when their size exceeds seven or eight members. According to Hermalin and Weisbach (2003), the agency model proposes that with an increase in board size, the issue of director freeriding concerning the agency problem intensifies, resulting in the board becoming more symbolic and less involved in the management process. In large boards, the CEO wields greater control than the board. Managers may prioritize their personal interests over aligning the interests of shareholders and managers.

Hermalin and Weisbach (1998) found that it can result in higher agency problems and reduced firm performance. According to Puni and Anlesinya (2020), a larger board size can lead to difficulty in achieving consensus among members due to the increased diversity of opinions and ideas. Large boards are less efficient in decision-making. Reduced coordination and communication may heighten agency conflict, as it can diminish the board's capacity to oversee and regulate management, potentially leading to suboptimal firm performance. Alabdullah, et al. (2019) contend that large boards hinder the formulation and adoption of new ideas and consensus building, thereby impeding the board's ability to generate valuable contributions and ideas for management. Board conflict reduces shareholder-oriented behavior and increases agency problems. Cascio (2004) found that the ideal board size remains a topic of debate. There is no prescribed formula for determining the number of directors on a board.

Research on board size has yielded conflicting results, with some studies favoring smaller boards and others

advocating for larger ones. Yermack (1996) found that larger boards have lower coherence and communication, potentially reducing their ability to monitor management efficiency. It also leads to increased agency issues and expenses, reducing firm performance. Large boards exacerbate directors' free-riding issues associated with the agency problem, resulting in higher costs of collaboration and greater intra-board conflicts. Hence, these issues will exacerbate the agency problem, leading to reduced returns and inferior firm performance. In smaller boards, CEO domination is common due to the CEO's greater power, which allows them to prioritize their own interests over those of the board. This can lead to agency problems and harm the firm's performance (Miller-Millesen, 2003).

According to the resource dependency theory, larger boards can enhance a firm's performance by improving its ability to navigate a turbulent environment through effective linkage and diversity. This proposition is supported by Pfeffer (1972) and Goodstein et al. (1994), and further emphasized by Hambrick and D'Aveni (1988). This statement aligns with the resource dependency theory, which suggests that larger boards with diverse and cohesive members can enhance firm performance by overcoming difficult market conditions (Goodstein et al., 1994). Insufficient interconnectivity between smaller boards may impede their ability to obtain credit. Large boards effectively address agency problems during financial turbulence or distress by enhancing their strategic function (Mintzberg, 1983). Limited diversity in smaller boards creates uncertainty in strategic development (Goodsteing et al., 1994; Mintzberg, 1983). Smaller boards in firm's experience weakened performance due to an increase in the agency problem.

According to Arosa et al. (2010), larger boards offer greater diversity in terms of backgrounds, communication skills, experience, and external business contacts. Dalton and Dalton (2011) found that larger boards facilitate the exchange of highly qualified advice among directors and provide opportunities for diverse external connections. The board's size is a significant factor in improving decision outcomes. Sharing ideas and contributions can reduce the agency problem and improve performance by providing management with new perspectives and opinions (Lehn, 2021).

Empirical evidence on the correlation between board size and firm performance is inconclusive. Kyere and Ausloos (2021) reported a negative correlation between board size and firm value. The authors indicated that financial markets respond favorably to news of board size changes. Increasing the number of directors on the board results in a decrease in equity value. The authors asserted that this approach deviates from the conventional framework and has universal applicability across firms, owing to its non-linear nature. Small and medium-sized companies were negatively impacted, whereas large companies were not affected. This was the conclusion drawn. The board size issue primarily relates to the board's capacity to oversee and manage managers. Monitoring can lead to better control of managers' behaviors and reduce agency problems, ultimately improving firm performance. Managers operating within restricted parameters may face challenges in deviating from owners' interests, as close

monitoring by board members can limit their autonomy. Effective decision-making and action-taking can enhance share value and improve overall performance.

The determination of the number of board members is typically based on the joint stock company laws of each country and the charter of the company. A larger board size increases the likelihood of encountering the issue of "free riding" among its members. Some members of the board tend to rely on others rather than actively participating in the activities of the Board of Directors. Thus, the oversight and regulation efforts of the Board of Directors prove to be inadequate. Studies by Jensen (1993) and Yermack (1996) support the notion of agency costs, indicating that smaller board sizes are associated with better firm performance. The studies indicate that a larger board size can lead to communication and coordination issues among members, resulting in decreased monitoring and controlling abilities. This, in turn, can increase agency costs and decrease firm performance. Yermack (1996) discovered a negative association between board size and Tobin's Q. The study indicated an inverse relationship between board size and company value, with larger boards exhibiting a decrease in value compared to smaller to medium-sized boards.

Truong et al. (1998) observed significant differences between the management practices in Vietnam and those of other countries. Vietnamese managers exhibit a low inclination towards power-sharing. This reflects the "high power distance" culture of management in Vietnam. This differs significantly from the culture of teamwork and authorization. Vietnamese managers should be cognizant of necessary actions when sharing power. Increasing the number of board members may lead to a reduction in teamwork and delegation within the board. Duc and Thuy (2013) conducted empirical research on 77 companies listed on the Ho Chi Minh City Stock Exchange (HSX) from 2006 to 2011, using 325 observations. The study found a negative correlation between the company's performance and the size of its board of directors.

3.2 Board Independence and Firm Performance

Non-executive board members play a crucial role, as highlighted by numerous studies. Muchiri and Njoka (2021) found that firms with a greater number of external directors experience fewer financial challenges. Companies with a more independent board are less prone to bankruptcy during financial difficulties (Daily et al., 2003). Duc and Thuy (2013) found that the presence of non-executive board members does not have a significant impact on company performance in Vietnam.

Board composition concerns pertain to the independence of the board and its committees, as well as the diversity of board members in terms of their firm and industry experience, functional backgrounds, and other relevant factors. Board independence pertains to a corporate board comprising mostly of independent outside

directors. Adams and Jian (2016) analyzed panel data from the UK's property-casualty insurance industry for the years 1999-2012 to investigate the correlation between external board directors and six financial performance metrics. The study demonstrated that autonomous outside directors can decrease agency costs and enhance value for shareholders and other contracting constituents, such as creditors. This is due to a combination of their personal attributes, such as business acumen, and private incentives, such as safeguarding and promoting their human capital value. External validation and monitoring may reduce agency costs and strengthen the anticipated positive correlation between the percentage of independent outsiders on the board and the financial performance of insurance companies.

Adams and Jian (2016) reported that board outsiders' proportion does not correlate with performance indicators. The combination of financial expertise among executives has a substantial impact on economic outcomes. This observation highlights the significance of financial expertise at the board level in the insurance industry, which involves technical complexity and sensitive risk information. In the insurance industry, which relies heavily on technical expertise and risk management skills, these issues may be worrisome. Adams and Jian (2016) found that financial expertise is the most important attribute for outside directors in the insurance and financial industries. This finding has implications for future corporate governance guidelines and institutional regulations.

Naseem et al. (2017) discovered a negative correlation between board independence and financial performance, which raises inquiries regarding the function of independent directors on the board, in contrast to Adams and Jian's (2016) research. The presence of independent directors on a company's board can become a threat in the event of weak financial performance. The inverse correlation between board independence and financial performance may be attributed to the potential neutralization of independent directors' authority through the appointment of individuals with irrelevant backgrounds or insufficient awareness to effectively exercise executive powers. The literature on the relationship between board independence and firm performance suggests that independent directors primarily contribute to better governance rather than financial performance. The board of directors performs oversight duties to safeguard shareholder rights and mitigate potential conflicts of interest among executive directors. My doctoral research focuses on board composition, specifically the relationship between board independence and conflicts.

3.3 CEO Duality and Firm Performance

Corporate governance studies have discussed the correlation between duality status (when the CEO of a company also serves as the chairperson of the Board of Directors) and firm performance. The agency theory posits that this agreement may diminish the board's autonomy by allowing the CEO to expand their scope of control. The stewardship theory advocates for the integration of managerial and board member roles to ensure congruence of

interests. Research on this association yields divergent findings. Boyd (1995) posited that the association between duality and company performance varies across countries, with a positive correlation observed in free competitive environments. Finkelstein and D'Aveni (1994) proposed that the CEO/chairman role may benefit the company by promoting cohesion in corporate leadership.

Duru et al. (2016) contended that separating the CEO position from the chairperson is necessary as the duality has an adverse effect on the company's performance. Jensen's (1993) study suggested that dual status weakens the board of directors' monitoring capacity, resulting in reduced firm efficiency. The CEO, who also holds the position of chairperson, may abuse their power for personal gain, potentially harming shareholders. Empirical research in Vietnam yields divergent outcomes. Duc and Thuy (2013) discovered that CEO duality has a positive impact on business performance. Trang (2016) found a negative correlation between duality status and financial performance in her study of 187 listed firms from 2011-2014.

3.4 Gender Diversity and Firm Performance

The effectiveness of a board of directors is linked to its characteristics, including board resource diversity, human capital, and gender composition (Bear et al., 2010; Harjoto et al., 2015; Issa & Fang, 2019). The quality of a board's decisions is thought to be influenced by the human capital of female directors, which includes their knowledge, experience, and skills. Issa et al. (2022) examined the impact of female directors' human capital on sustainability development to gain a deeper understanding of this phenomenon. Hillman et al. (2000) and Johnson et al. (2013) categorized female directors' human capital into highly educated individuals, community influencers, and business experts. The objective was to identify which of these categories could promote sustainability performance.

Issa et al. (2022) examined 93 nonfinancial firms listed on national stock exchanges in Bahrain, Egypt, Kuwait, Morocco, Oman, Saudi Arabia, Turkey, and UAE from 2014 to 2018. Board gender diversity positively affects sustainability performance. The study indicates that female directors' social background and higher education level significantly contribute to enhancing sustainability performance.

3.5 AI Technology acceptance level of Board of director

AI involves simulating human intelligence to create intelligent machines capable of performing tasks in a sophisticated manner. Artificial intelligence (AI) operates similarly to the human brain, utilizing data input to enhance decision-making accuracy. The prevalence of artificial intelligence is increasing in the contemporary market. It is utilized in diverse industries, including the banking sector. The banking industry is utilizing AI in an innovative manner to achieve significant savings in both time and money. Banks employ algorithms to improve

customer service, sales performance, and profitability. AI encompasses machine learning and deep learning, which mitigate errors attributed to emotional and psychological factors. AI plays a crucial role in extracting essential information from diverse data sources and generating conclusions (Kaur et al., 2020).

AI applications encompass diverse techniques including data mining, algorithm monitoring, facial recognition, and optical character recognition. Artificial intelligence (AI) is currently utilized in diverse business sectors such as advertising, accounting, insurance, internet, transportation, aerospace, agriculture, and genetics.

The financial sector has implemented various enhancements in communication, customer support, recruitment, and asset management. Currently, success in stock investing and finance is attributed to technical proficiency and chance. In the future, sentiment analysis, crowd-sourced data, and algorithms may revolutionize how we handle money.

AI revolution has impacted various sectors beyond finance and banking. The industry has made notable advancements such as automated anesthesia distribution for routine procedures, cost reduction, enhanced patient care, and digital guidance for self-driving vehicles. These measures would enable companies to automate mundane tasks, such as completing forms and conducting back-end testing.

Jewandah (2018) conducted a study on the implementation of artificial intelligence in the banking sector, specifically in the top four commercial banks in India. The study focused on the various areas where machine intelligence is being utilized and the applications of AI in these banks. Although traditional banking has made progress in adopting innovative technologies such as AI, blockchain, and cloud computing, the industry has yet to fully embrace the AI revolution. Despite this, the importance of human interaction in banking remains significant. Vietnam's banking industry is exploring the integration of AI to enhance operational efficiency and customer service in the foreseeable future.

Kaur et al. (2020) stated that artificial intelligence is currently experiencing its third boom phase due to the advancement of deep learning technology. This technology is being utilized in finance. Artificial intelligence created by humans is being utilized in various industries, including finance. Financial institutions should optimize the use of artificial intelligence by means of open innovation.

The adoption of AI in Vietnam's commercial banks has a notable impact, with the acceptance level of the board structure playing a crucial role. AI technology acceptance refers to the bank's inclination to utilize AI. According to Agarwal and Cagan (2000), user acceptance is a crucial factor in demonstrating the system's value and its contribution to the bank's performance.

3.6 Bank sustainability disclosure

Corporate sustainability disclosure refers to public reports that offer internal and external stakeholders an

overview of a company's economic, environmental, and social position and activities. Nobanee and Ellili (2016) stated that these reports aim to depict the company's role in promoting sustainable development. The economic, environmental, and social dimensions are key indicators of corporate sustainability quality, as they reflect a company's adherence to sound disclosure practices.

Management literature includes theories that elucidate the significance of corporate sustainability disclosure. The stakeholder theory outlines a company's obligations and accountabilities to its stakeholders. Nobanee and Ellili (2016) proposed that a company must disclose all sustainability issues to foster a sustainable relationship with its stakeholders.

Limited research has investigated the banks' sustainability disclosure status, as evidenced by Sobhani et al. (2012), Aribi and Gao (2012), and Akinpelu et al. (2013). Halabi and Samy (2009) analyzed the corporate social responsibility (CSR) reporting of 20 commercial banks in Bangladesh, including 18 private and 2 government-owned banks, to assess their sustainability disclosure status. The analysis findings suggest that banks tend to disclose a greater amount of qualitative information compared to quantitative information. Regarding the placement of social disclosures in annual reports, it was found that all social issues were reported in either the chair's statement/directors' report or in the notes.

Sobhani et al. (2012) was the sole study that distinguishes between Islamic and conventional banks in examining the level of sustainability disclosures in the annual reports and websites of 29 banks listed on Bangladeshi Stock Exchanges. The study measures economic, environmental, and social disclosures and concludes that Islamic banks provide more sustainability information in their annual reports and websites compared to conventional banks.

This study will examine the impact of corporate sustainability disclosure decisions made by the board on the performance of commercial banks in Vietnam, drawing insights from international contexts.

4. Theoretical framework

Based on that, the theoretical framework to examine board structure and its relationship with the performance of commercial banks in Vietnam include variables as below:

(1) Dependent variable (DV): Commercial bank performance

(2) Independent variables (IVs): including 5 IVs: (i) Board size, (ii) Gender diversity, (iii) Board independence, (iv) Board characteristics (CEO duality), and (v) AI acceptance level

(3) Controlling variable: Bank sustainability

The theoretical framework for the study is illustrated as below:

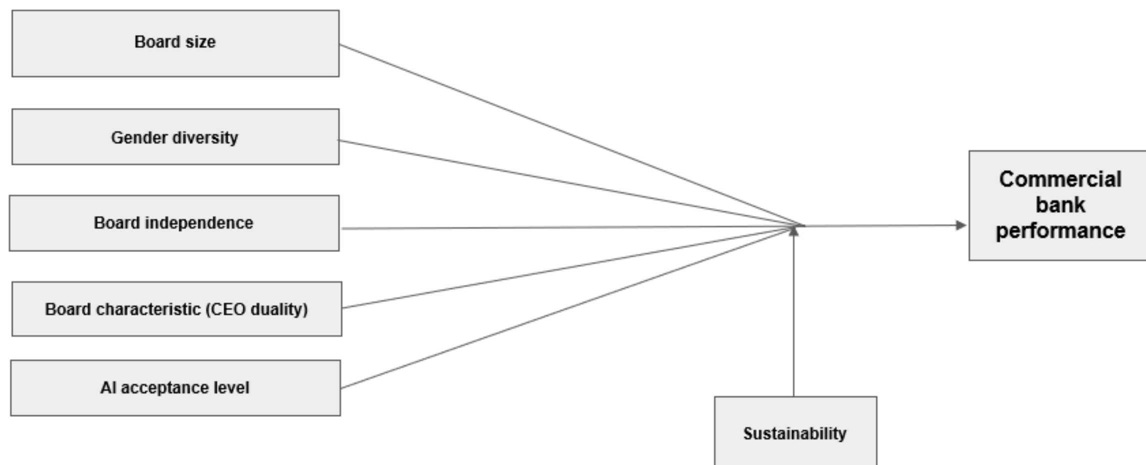

Figure 1
The theoretical framework of this study

5. Conclusion

This paper presents a literature review, contextualizes the study, and examines the impact of corporate governance and board structure on the performance of commercial banks in Vietnam. The paper makes a study on corporate governance in the commercial banking sector of Vietnam and proposes a conceptual model. This paper proposes a theoretical framework that illustrates the correlation between board structure and commercial bank performance in Vietnam. This framework serves as a crucial academic foundation for future research in the Vietnamese banking industry.

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