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Do OECD-type governance principles have economic value for Vietnamese firms at IPO?

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Do OECD-type governance principles have economic value for Vietnamese firms at IPO?

ABSTRACT

Manuscript Type: Empirical

Research Question: Using agency and resource dependency insights this paper examines first which type of firm-level antecedents trigger the adoption of OECD-type governance principles by Vietnamese listed firms at IPO. Subsequently this paper investigates whether the adoption of these governance principles leads to higher firm values at IPO and whether stricter governance is related to transparency after IPO.

Research Findings: With respect to the antecedents of OECD-type governance in Vietnam this study finds that firms with foreign shareholders and younger firms adopt these governance principles. The adoption of stricter governance principles, especially in terms of strict supervisory board independence, as well as the appointment of directors with multiple director seats are beneficial for firm value at IPO. Governance transparency after IPO is unrelated to a firm's governance characteristics but positively associated with increasing firm size.

Theoretical/Academic Implications: The results show that agency insights are applicable in a context of concentrated ownership, low investor protection and weak enforcement, since stricter board independence leads to higher firm value. In addition resource dependence theory explains the choice of directors and provides evidence that boards with better network potential lead to higher firm value in this relationship-based emerging market.

Practitioner/Policy Implications: Vietnamese firms benefit from higher value at IPO when they adopt stricter internal governance mechanisms and appoint directors holding multiple board seats. However, to ensure compliance with governance and transparency principles, formal institutional changes related to stricter enforcement of the regulation are of utmost importance.

INTRODUCTION

Despite evidence that one size of corporate governance principles does not always fit all firms (Black, Carvalho & Gorga, 2012), OECD-type governance principles are still being introduced worldwide. Optimal governance likely differs between developed and emerging countries, between different emerging markets and across firms within a country (Bebchuk & Hamdani, 2009; Black, Carvalho & Gorga, 2012; Bruno & Claessens, 2007; Fogel, Lee, Lee & Palmberg, 2013). With this study we explore a question that has been left open in the literature: whether these Anglo-American inspired principles, developed initially for market-based economies characterized by firms with dispersed ownership, are adopted by and effective for listed firms in countries with a different institutional and cultural environment (Cuomo, Mallin & Zattoni, 2016; Shiehll & Castro Martins, 2016;). We do so by studying first which type of firms adopt OECD-type governance principles in the emerging market economy of Vietnam. Second, we examine whether the adoption of these principles leads to higher firm value for firms listed on the stock exchanges of Hanoi and Ho Chi Minh City.

The results of this study shed light on the mechanisms that stimulate the adoption of OECD-type governance principles in an environment that is characterized by concentrated firm ownership, weak enforcement of regulations and cultural and socioeconomic differences compared to Western-based market economies (Aguilera & Cuervo-Cazurra, 2009; Kumar & Zattoni, 2013; Zattoni & Cuomo, 2009), and provide evidence as to whether or not agency insights which are the basis for these principles are also applicable to situations different from dispersed ownership and separation of ownership and management. In emerging countries, informal institutions established through relational ties, business groups, family connections and

government contracts all play a role in shaping firm governance (ICAEW, 2016; Jiang & Peng, 2011). The Vietnamese business world is still governed to a large extent by these trust-building informal institutions. These institutions are important for a firm's survival in a network-based economy where outsiders are less trusted (Young, Peng, Ahlstrom, Braton et al., 2008). Using a resource dependence theory perspective (Salancik & Pfeffer, 1978), we include these characteristics of the Vietnamese institutional environment in our research design. In this way, agency and resource dependence insights guide the study of firm-level antecedents of the adoption of OECD-type governance practices and on its beneficial impact on firm value for Vietnamese listed firms at IPO.

In the academic literature, quite a number of studies have already focused on the effectiveness of OECD-type principles of good governance in emerging markets (Black, Carvalho & Gorga, 2012; Cheung, Jiang, Limpaphayon & Lu, 2010; Hearn, 2011; Kato & Long, 2006; Li & Naughton, 2007; Shan & McIver, 2011; Yang, Chi & Young, 2011). To our knowledge, Vietnam has so far received scarce research attention despite representing a context which differs from other East-Asian emerging countries in a number of ways. First, Vietnam has adopted OECD-type governance principles into its governance regulations and code to a much lesser extent than other East-Asian emerging countries (e.g. ACCA/KPMG, 2014). Second, there has been a decrease in compliance with these principles in Vietnam, whereas in other countries an increase in governance compliance can usually be observed (see the study by IFC, Global Corporate Governance Forum and the State Securities Commission Vietnam, 2012). Third, despite cultural and institutional similarities with China, the Vietnamese stock market contains many more non-state-owned companies than the Chinese stock market (Grossman, Okmatouskiy & Wright, 2016). For all these reasons, Vietnam deserves research attention, and our analysis,

based on new and original data for Vietnam, adds an additional and original case to the empirical literature on corporate governance in emerging economies.

The OECD-type principles adopted by Vietnam focus mainly on board structure characteristics, shareholder rights and duties, and information disclosure. While descriptive studies on formal regulations across countries (e.g. ACCA/KPMG, 2014) are valuable, they are not informative on the actual level of compliance with governance principles in individual firms. Moreover, the IFC's descriptive study in cooperation with the State Securities Commission in Vietnam (2012) includes only information on the largest listed firms in Vietnam. In this paper, we focus on board characteristics and information disclosure in all listed firms in Vietnam at IPO and use original and hand-collected data on all 660 Vietnamese firms that went public over the period 2006–2011. The decision to study the adoption of governance and its beneficial impact using firm data at IPO is a result of the poor levels of current transparency in Vietnamese listed firms.

To assess the adoption of governance and its impact on firm value, we use two-stage least squares (2SLS) to control for endogeneity. With respect to the adoption of governance practices, the results show that adoption of stricter board independence depends on the presence of foreign ownership. Young firms also score higher with respect to the adoption of governance mechanisms. Consistent with resource dependence insights, companies with less established networks appoint more board directors who hold multiple seats on other boards of Vietnamese listed firms. Vietnamese firms with close ties to the government and/or well-developed networks in Vietnam's relationship-based society will comply significantly less with OECD-type governance principles than firms with weaker ties to the government and/or less developed networks in this society. Both the adoption of overall high-quality governance and the

appointment of well-networked directors lead to higher firm value at IPO. Our findings therefore support agency insights as well as resource dependence insights on the beneficial impact of board independence and board networking on firm value in an environment characterized by concentrated ownership, weak legal investor protection and enforcement and an economy based on relationship-based transactions. However, transparency after IPO is not associated with stricter governance and seems only to be triggered by an increase in firm size. Although the capital market attaches significantly higher values to companies that have adopted stricter board independence, the results show that this is not an incentive for all Vietnamese firms to do so. These results confirm the findings of Fogel, Lee, Lee & Palmberg (2013) that existing governance practices, if culturally embedded, cannot easily be displaced even when gains can be made. The lack of transparency observed after IPO also indicates that current regulations and enforcement are not yet fully effective to ensure compliance with formal governance requirements.

This paper is structured as follows. The next section describes the context of the study. Section 3 reviews the relevant literature and formulates our hypotheses. Section 4 explains the data and research method. Section 5 discusses the corporate governance characteristics at IPO and their association with the economic value of the firm at that time. The paper ends with a discussion and conclusion.

THE CONTEXT OF CORPORATE GOVERNANCE IN VIETNAM

The Economy and Corporate Governance in Vietnam

Vietnam, which is still in a process of transition from a centrally-planned to a market-oriented economy, introduced OECD-type principles of good governance only during the first decade of the 21st century in order to attract foreign investors and stimulate the development of a capital market. In the late 19th century, at the time of the French occupation, corporate forms and governance rules based on French regulations were introduced to Vietnam (Bui & Nunoi, 2008). In 1954 the country was divided into two regions, North and South, with the 17th parallel as the common border. As a result of this division, a centrally-planned economy developed in the North, where state-owned organizations and cooperatives dominated the economic scene with the absence of private business entities. In contrast, South Vietnam developed as a market economy in which corporate forms such as partnerships, limited liability associations and shareholding companies thrived. In 1975, the country was reunified and the centrally-planned command economy was installed throughout the country without any private economic entities. With the economic reforms of 1986, the centrally-planned economy was gradually abandoned and the development of a multi-sector market economy was stimulated with the objective of boosting growth. The legal system was then strengthened in order to attract foreign investors and protect shareholders through the introduction of different laws such as the Law on Foreign Investment in Vietnam of 1987, the Law on Private Enterprises of 1990, the Co-operative Law of 1996 and the Enterprise Law of 2005. The latter was the foundation for the Vietnamese legal system (Bui & Nunoi, 2008) and integrated OECD-type corporate governance principles into the country's formal institutional environment.

The formal regulations on firm governance for listed firms are included in the Enterprise Law of 2005, the Securities Laws of 2006 and 2007 and the Code of Corporate Governance (CCG) of Listed Companies, which is accompanied by the Model Charter issued by the Ministry of

Finance. The CCG was issued in 2007 and amended in 2012. In addition to the legal framework, the State Securities Commission of Vietnam and the International Finance Corporation (IFC – a member of the World Bank Group) published the Vietnamese Corporate Governance Manual in 2010, including guidelines on how to comply with the code. A recent study by ACCA/KPMG (2014) on the adoption of the OECD principles of good governance across the world indicates that less than 80% of these principles are included in Vietnam's formal institutional framework.

Another important element in the economic reform of the country was the creation of a Vietnamese stock market, known as the Securities Trading Center (STC). It was formally launched on July 28th, 2000 and is located in Ho Chi Minh City. In 2007, the STC was renamed the Ho Chi Minh stock exchange (HOSE). On March 8th, 2005, the Hanoi Securities Trading Center was established and in 2009 was renamed the Hanoi stock exchange (HNX). In 2000, the stock exchange started with a base index value of 100. The VN-Index reached its peak of 1,171 points in March 2007. By the end of 2008, this value had dropped below 300 points and at the end of 2011 stood at about 350 points. At the end of 2014, HOSE listed 306 companies and HNX had 366. HOSE regulations require the applicant company to have a higher capitalization, a longer profitable status and stricter criteria on debt position than the HNX regulations.¹

Overview of Corporate Governance Principles Adopted in Vietnam

The Corporate Governance Code for Listed Companies (2007/2012) (CGC) includes rules on: (1) the rights of shareholders, (2) the general meeting of shareholders (GMS), (3) the board of directors, (4) the supervisory board, (5) conflicts of interest and related party transactions, and (6) information disclosure and transparency. OECD rules on board strategy, board diversity, board evaluation and stakeholder engagement are not included in the Vietnamese CGC. In Vietnam, like in other emerging economies, an independent director is defined mainly as a non-

executive director. Initially, the CGC of 2007 stipulated that an independent director cannot hold a management position in the firm, meaning that an independent director in Vietnam, at that time, was similar to a non-executive director. The CGC of 2012 introduced further compliance criteria for independent directors, such as not being able to hold a management position in a subsidiary or related firm, not being a representative or a relative of the company's majority shareholders, not having provided legal, advisory or auditing services to the company, and not being involved in business transactions that represent 30% or more of their company turnover. This means that the 2012 definition of independent directors is more closely aligned with the "international" and more strict definition of independent director. Members of the supervisory board cannot be managers or shareholders and need to have financial expertise. This study further differentiates between both definitions of "independence" (CGC 2007 and CGC 2012).

CGC rules do not prescribe board sub-committees such as audit, remuneration and nomination committees. Hence, these sub-committees rarely exist in Vietnamese listed companies. Similar to China and Indonesia, corporate governance systems in Vietnam are characterized by a management committee chaired by a CEO and a board of directors made up of internal and external directors, and in some cases require a small supervisory board² whose task is to review financial reporting and legal compliance. Members of the supervisory board are elected by shareholders and are not board members. The 2007 CCG also stipulates that listed companies are obliged to provide shareholders with periodical as well as extraordinary information about their business, financial status and corporate governance status. Vietnam's corporate governance code does not include rules on the internal control system of companies.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The Adoption of OECD-Type Governance Principles by Vietnamese Listed Firms

In emerging economies, governments decide to introduce “Western Style” governance codes to attract foreign investors and provide more legitimacy for local companies (Zattoni & Cuomo, 2008). Whether or not local companies will comply with these OECD-type governance principles is influenced by firm-level incentives and surrounding institutions. In market-based economies with dispersed ownership, firm-level incentives are often equal to management’s incentives (ICAEW, 2016). In emerging economies, characterized by concentrated ownership, firm-level incentives are often ownership incentives (ICAEW, 2016). This concentrated ownership often leads to the presence of a principal/principal agency conflict in addition to a principal/agent conflict (Fan, Wei & Xu, 2011) and the expropriation of minority shareholders is a rule rather than an exception in emerging markets (Claessens, Djankov, Fan & Lang, 2002). As a result of this concentrated ownership, there is an expropriation risk for all minority shareholders, but even more so for foreign shareholders. Foreign shareholders in general face information asymmetry through differences in language, culture and institutions that contribute to a lack of familiarity (Bruner, Chaplinsky & Ramchand, 2006). Foreign shareholders in these situations therefore often rely on governance mechanisms with which they are familiar. Existing studies provide evidence that foreign owners are more likely to invest in companies with stricter corporate governance to compensate for the presence of weaker investor protection and weaker external governance mechanisms (Kho, Stulz & Warnock, 2009; Klapper, Laeven & Love, 2006; Li, Chen & French, 2012). Adopting an independent board of directors is a way to better align the incentives of various principals and agents and facilitate communication and information

disclosure, thereby reducing asymmetric information (Jensen & Meckling, 1976). Therefore we hypothesize that:

Hypothesis 1: Vietnamese firms with foreign investors will adopt more OECD-type governance principles (like board independence) than Vietnamese firms without foreign investors at IPO.

An additional governance mechanism used by investors, especially investors originating from a market-based economy, is the appointment of a high quality auditor. Audit quality can help to reduce information asymmetry with respect to a firm's financial situation (Watts & Zimmerman, 1986). Empirical evidence shows that high-quality auditors behave more independently and are more likely to discover and report misstatements and irregularities in financial statements (Lin & Liu, 2009). Concerns relating to reputation loss and the potential costs of being sued motivate auditors to maintain their independence towards firm management and to prevent them from committing illegal acts (Rodriguez & Alegria, 2012). Besides, a high-quality auditor can serve as an effective monitoring device to prevent the potential manipulation of earnings for the private benefits of the controlling owners, which is detrimental for minority shareholders. Therefore we hypothesize that:

Hypothesis 2: Vietnamese firms with foreign investors will appoint a higher-quality auditor than Vietnamese firms without foreign investors at IPO.

Besides ownership incentives, a country's institutions equally influence the adoption of governance principles by firms. Institutions include a country's formal rules, written laws, formal social conventions, informal behavioral norms and shared beliefs, as well as means of enforcement (North, Wallis & Weingast, 2009). Vietnam is traditionally a relationship-based society, where economic transactions are not based on formal written contracts but on long-term informal relations (Jiang & Peng, 2011). Moreover, outsiders are less trusted in this type of economy (Young, Peng, Ahlstrom, Bratton et al., 2008).

Relating these observations to the Vietnamese context, we argue that Vietnamese non-state shareholders traditionally pursue and defend their interests through their long-term informal networks and relationships. The interests of the Vietnamese central or local government shareholders are safeguarded since the economy in general is still dominated by the State. In a relationship-based society, it is essential for firms to have strong networks if they are to successfully pursue their business. So board independence is not actually necessary for a Vietnamese firm to gain legitimacy. Having well developed networks is much more important for shareholders and their firms to gain legitimacy and to be trusted in Vietnamese society. Such firms have fewer incentives to adopt strict governance practices, such as an independent board. Because networks are important, a board can also fulfil a network role. Firms with inferior networks can use their board of directors to build networks and secure access to local resources. Arguments based on resource dependence theory suggest that where more directors have directorships on other boards, these members can better serve the firm by expanding its network with outside groups (George, Wood & Khan, 2001; Salancik & Pfeffer, 1978). Carpenter and Westphal (2001) suggest that a director's network of appointments directly affects his or her ability to provide monitoring, advice and counsel to the board. Some further argue that these

linkages can provide the firm with external resources and might also reduce outside threats and uncertainty, enhancing their legitimacy (Hillman, Canella & Paetzold, 2000; Nicholson & Kiel, 2007). We therefore posit that when shareholders of Vietnamese listed firms are not well connected in Vietnamese society, they can appoint directors holding other board positions to enhance the firm's network and gain access to local resources. Since relationship-based transactions are driven by trust and since trust-based relationships become stronger over time (Poppo & Zenger, 2002), older firms operate in a more secure network and can rely more on informal relations than younger firms in the Vietnamese economy. Firms with foreign shareholders are also less embedded in Vietnamese society than those with only Vietnamese shareholders, because outsiders are less trusted in this type of society. We therefore hypothesize that firms with weaker networks in Vietnam will appoint more directors with multiple seats on other boards to improve their networks.

Hypothesis 3: Vietnamese firms with less developed networks will appoint more directors with multiple seats on other boards at IPO than Vietnamese firms with stronger networks at IPO.

Hypothesis 3a: Younger Vietnamese firms will appoint more directors with multiple seats on other boards at IPO than older Vietnamese firms at IPO.

Hypothesis 3b: Vietnamese firms with foreign shareholders will appoint more directors with multiple seats on other boards at IPO than Vietnamese firms without foreign shareholders at IPO.

The Economic Value of OECD-Type Governance Principles Adopted by Firms at IPO

Having discussed the adoption of OECD-type governance principles by Vietnamese listed firms, we now focus on the question as to whether or not these principles also create value for Vietnamese firms at IPO. Firm governance is important for listed firms, but particularly so at IPO as this process highlights potential agency conflicts for the various parties involved in a company. Therefore, firms at IPO have to implement governance systems that allow them to raise funds from the financial community and balance the interests of both inside and outside shareholders (Zattoni & Judge, 2014). Without access to extensive operating history at IPO, investors may have problems evaluating a company's financial situation and growth prospects. On the other hand, the managers and current owners may have incentives to inflate the firm's expected value to gain more rewards from the IPO by not accurately revealing relevant information. This asymmetric information could potentially result in an adverse selection problem and agency costs (Bruton, Filatotchev & Chahine, 2010). The creation of an independent board is therefore one of the ways firms at IPO can signal to potential investors that they have addressed the problems associated with information asymmetry and adverse selection (Hearn, 2012; Yatim, 2011). Such a signal might reassure minority investors that they have been adequately informed and that the firm's governance is sound and therefore may potentially enhance firm value at IPO.

In emerging economies such as Vietnam with trust-based networks, frequent concentrated ownership and weak legal frameworks or costly enforcement, the entrenchment effect becomes stronger, resulting in the presence of a principal/principal agency problem in addition to a traditional principal/agent problem. A board with independent directors and other corporate government rules stimulating independent supervision and information disclosure may also balance the interests of controlling networks or concentrated shareholdings with those of new

and external partners. In this respect, Connelly, Limpaphayom & Nagarajan (2012) argue that the adoption of appropriate or effective corporate governance practices such as internationally accepted practices can preclude the expropriation of minority shareholders' resources in an environment where outside shareholders are insufficiently protected by the legal framework or due to weak enforcement of regulations. When external governance mechanisms such as markets for corporate control and strong investor protection and enforcement are less effective, internal governance mechanisms become more important (Jiang & Peng, 2011). Thus, we argue that also in emerging markets the adoption of independent boards leads to higher firm value at IPO. We therefore hypothesize that:

Hypothesis 4: Firms that have adopted more independent boards (more board independence, more supervisory board independence and more separation between the function of CEO and Chairman of the board) at IPO have higher firm value than firms that have adopted less independent boards at IPO.

Appointing a high-quality auditor is another signal to minority shareholders and other potential investors that the firm has a reliable and transparent financial reporting system, which can lead to a smaller share price discount and thus increase firm value (Lin & Liu, 2009). A number of prior studies find evidence that firms with high-quality auditors (i.e. the "Big 4" auditors) have higher firm valuation (Fan & Wong, 2005; Guedhami, Pittman & Saffar, 2014). The choice of a high-quality external auditor is considered to be even more important in an environment where no regulation exists with respect to internal control, like in Vietnam. We therefore hypothesize that:

Hypothesis 5: Firms that appointed a high-quality auditor at IPO have higher firm value than firms that did not appoint a high-quality auditor at IPO.

Codes of good governance frequently include a restriction on the number of outside directorships a board member is allowed to hold. It is argued that busy directors (directors with too many directorships) can hurt firm value since they might have less time to evaluate the company's situation and monitor management, who might act on behalf of the controlling shareholder (Ferris, Jagannathan & Pritchard, 2003; Sarkar & Sarkar, 2009). Fich and Shivdasani (2006) find that in listed firms, "busier boards", operationalized in their research as boards in which a majority of outside directors hold three or more directorships, are associated with weaker corporate performance. Existing research has therefore found mixed evidence on the effect of multiple directorships on firm value or firm performance. Since the problem of "busy" directors is somewhat mitigated by Vietnam's governance regulations, which limit the number of directorships per director to five, we argue that the positive networking role of a director with multiple seats on other boards will in this relationship-based society compensate for the negative impact of the limited attention they pay to the company as a result of holding many seats. Therefore, we hypothesize that in a relationship-based society:

Hypothesis 6: Firms whose directors hold a higher number of directorships at IPO have higher firm value than firms whose directors hold fewer directorships at IPO.

RESEARCH METHOD

Research Population

In the period 2006–2011, a total of 668 firms went public in Vietnam. In the first years of the study period, the firms entering the stock market represented a substantial share of the market capitalization of Vietnam's stock exchanges, but this share diminished in the last years of the period.³ We found prospectuses for 660 IPO firms, so that 99% of all firms that went public during the period are included, which avoids a self-selected sample. We hand-collected data on board structure, directors, auditors, industry and ownership characteristics and the financial statements based on IPO prospectuses, annual company reports and financial information. The data are also free from self-reporting bias as public data sources are used and not self-reported survey information. Share prices were collected from the HOSE and HNX websites. The IPO prospectuses and annual company reports are the only available sources of governance information in Vietnam. When companies disclosed governance data after their IPO, we also collected that information. This yields a unique and original data set for Vietnamese firms, free from self-selection and self-reporting biases. Reading the IPO prospectuses and the annual reports, two researchers independently classified the directors as independent directors, non-executive directors, independent supervisory directors and non-independent supervisory directors. The inter-rater consistency between the two researchers was very high (98%). When the ratings were not consistent, the documents were reviewed by two other persons so that consistency of opinions on all cases was reached in the end.

Measurement of the Variables

Dependent Variables. To measure the economic value of the firm, we use two market-based quantities, namely Tobin's Q for the main analysis and Market-to-Book value of equity (M/B) for the robustness check. These measures are considered as standard dependent variables in studies of governance-to-firm value (Balasubramanian, Black & Khanna, 2010; Black, Carvalho & Gorga, 2012; Connelly, Limpaphayom & Nagarajan, 2012; Klapper & Love, 2004). M/B is defined as the ratio of market value of equity to book value of equity, while Tobin's Q is defined as the ratio of book value of debt plus market value of equity to book value of assets. A list of all variables with definitions is included in Appendix 2.

Independent Variables. In order to measure board independence, we use two definitions to capture the level of independence of a director. First, we classify a director as independent when he/she has no relationship with the firm, no shares in the firm and no relationship with a major shareholder. This measure of *board independence* (CG1) is the ratio between the number of independent directors and the total number of directors. This definition is the internationally accepted definition of an independent director and is widely used in the literature (Bhagat & Black, 2002; Brennan & McDermott, 2004; Chen & Al-Najjar, 2012). Considering non-executive or outside directors who hold no management position in the firm as the criterion of independence, an alternative variable is defined, namely *non-executive board independence* (CG2) (Brennan & McDermott, 2004). *Supervisory board independence* (CG3) is the ratio of the number of independent supervisory board members to the total number of supervisory board members for a given company in a given fiscal year. *CEO duality* (CG4) refers to a situation where the Chairman of the board is also the CEO of the company (CG4 = 1 if no CEO duality; CG4 = 0 if CEO duality). *Multiple directorships* (CG5) is the ratio between the number of

directorships held by all directors on boards of other companies and the total number of board members for a given company in a given fiscal year (Cowling, 2008; Jackling & Johl, 2009). If a firm has chosen a “Big 4” auditor to audit their financial statements, we consider it has a high-quality auditor (CG6 = 1 if one of the Big 4 adopted, CG6 = 0 otherwise). The choice of a Big 4 auditor can be regarded as a voluntary decision to use a more stringent external governance mechanism (Franco, Gaviols, Jin & Richardson, 2011; Lin & Liu, 2009).

Some authors argue that corporate governance attributes can work jointly as corporate governance mechanisms, i.e. that they may be substituted for or complement each other (Cheung, Jiang, Limpaphayom & Lu, 2008; Connelly, Limpaphayom & Nagarajan, 2012). Hence, the use of an index may capture substitution and complementary effects among governance mechanisms. The index allows us to study the effect of the overall quality of the different governance practices on firm value (see also Balasubramanian, Black & Khanna, 2010; Black, Jang & Kim, 2006; Black, Carvalho & Gorga, 2012; Cheung, Jiang, Limpaphayom & Lu, 2008; Garay & Gonzalez, 2008; Hermes & Katsigianni, 2011).

We constructed a composite measure of each firm’s internal governance choices or corporate governance index (CGI) applying the method used in Cheung, Jiang, Limpaphayom & Lu (2008).⁴ Dummy variables (CEO duality CG3 and auditor choice CG6) are added. With respect to continuous measures such as board independence (CG1), non-executive board independence (CG2) and supervisory board independence (CG4), the rating applied by Cheung, Jiang, Limpaphayom & Lu (2008) is used. If the governance indicator is in the ranges (0–0.25), (0.25–0.50) or (+0.50), a score of 1, 2 or 3 respectively is attributed. Finally, if the maximum number

of directorships (CG5) is larger than 5 (the maximum number mentioned in the CCG), a score of 0 is adopted (1 if lower than 5).

The composite measure (CGI) is then calculated by equally weighting the scores on each of the governance indicators. For interpretation purposes, the CGI is rescaled from 0 to 100. A higher CGI value indicates a better-governed firm in terms of stricter board independence and higher audit quality.

Control Variables. Consistent with other empirical studies on governance and firm value, we include control variables such as firm ownership, leverage, sales growth and capital intensity (property, plant and equipment/sales), firm age, ROA, industry, location, stock exchange (HOSE or HNX), late/early listing, the number of IPOs in the quarter in which the firm launched its IPO, a dummy for affiliated enterprises and industry (Black, Carvalho & Gorga, 2012; Boulton, Smart & Zutter, 2011; Connelly, Limpaphayom & Nagarajan, 2012; Klapper & Love, 2004).

Controlling for the ownership structure of the Vietnamese firms at IPO is done by creating four different categories of ownership identity which are all mutually exclusive. Different types of ownership may imply different objectives, varying decision-making horizons and embeddedness in society (Hoskisson, Hitt, Johnson & Grossman, 2002). We use similar measurements to Lin and Chuang (2011) and Choi, Park and Hong (2012), by measuring ownership structures as the percentage of shares held by a certain category of owners. First, the 660 IPO firms are classified according to the controlling owner being either state-controlled (SOE – the percentage of shares held by the state is 50% or more) or non-state-controlled (NSOE – the percentage of shares held by private investors is 50% or more). In additional sensitivity analyses on these thresholds, we use a 40% threshold for state-ownership and a 20% threshold to classify IPO firms as state-controlled. Second, the presence of foreign minority shareholders, or

foreign involvement (FI), is checked. Vietnamese firms at IPO are classified as having foreign involvement when foreign investors hold 5% or more than 5% of company shares. Subsequently, in additional sensitivity analyses we lower this threshold of foreign involvement to foreign shareholders holding 3% of company shares. Furthermore in an additional analysis, we replaced foreign investors by foreign blockholders holding a seat on the board of directors or the supervisory board. Based on two classification criteria (state versus non-state ownership and with or without foreign involvement), we develop for the main analyses presented in this paper four dummy variables to define the ownership structure of the firm, namely *NSOE without FI*, *NSOE with FI*, *SOE without FI* and *SOE with FI*. *Leverage* is defined as the ratio of total debt to total assets (see also Connelly, Limpaphayom & Nagarajan, 2012; Hearn, 2011). *Sales growth* is defined as the annual growth of sales in the IPO year. The level of a firm's tangible assets or capital intensity is represented by property, plant and equipment (PPE)/sales. Firms with substantial *capital intensity* encounter more external oversight such as creditor monitoring and thus have less need for equity governance (Black, Carvalho & Gorga, 2012; Klapper & Love, 2004). Moreover, according to Himmelberg, Hubbard & Palia (1999), firms with more tangible assets have fewer possibilities to expropriate minority shareholders than firms with intangible assets. *Firm age* is determined by subtracting the year the company was set up from the year in which it went public. ROA is a measure of *profitability*, defined as the ratio of net income plus interest divided by total assets. We also control for whether or not a firm belongs to a business group. Evidence is available in the literature that firms in emerging economies are often part of a business group, which makes traditional governance mechanisms such as independent boards redundant (see Singh & Gaur, 2009). Although pyramidal structures and well developed business groups are still less common in Vietnam in comparison to other Asian countries, we do control

for membership of a business group. So we determine whether each firm is part of a business group (*affiliate*) and attribute a code equal to 1 if it has a parent company, has subsidiaries, or has the control right over or is the dominant stakeholder in another company (see also Ashwin, Krishnan & George, 2015). We include the variable *early/late listing* to see whether firms that went later to the stock market adopted stricter governance choices (early firms are listed between 2006 and 2008 and late firms are listed between 2009 and 2011). Finally we include *CEO tenure* as an additional control variable with respect to board structure. According to Wintocki, Linck & Netter (2012) the board structure may be partly be the outcome of a bargaining process between the CEO and the board. Hermalin and Weisbach (1998) suggest that board independence declines as a CEO's bargaining power increases. Baker and Gompers (2003) and Boone, Field, Karpoff & Raheja (2007) also find that board independence declines as CEO tenure increases. We measure CEO tenure as the number of years a person is appointed as CEO of the company.

The other two control variables describe the context of the firm. First, we consider *location* since this determines whether or not the region from which the company originates has been under a collectivist communist regime (North) for a long time or for a shorter period of time (South). Listed firms located in South Vietnam are coded equal to 1. Second, we control for the *stock exchange* on which the firms are listed, since the listing requirements are different between HOSE and HNX, resulting in larger firms being listed on HOSE. Firms which list their stocks on the Ho Chi Minh exchange are coded equal to 1.

Since board structure and Tobin's Q may reflect industry factors, we include *industry dummies* as control variables (see also Black, Carvalho & Gorga, 2012). We do so by classifying listed firms into six industries according to the first digit of the industry code. These are as follows: (1) Agriculture/Fishing; (2) Mining & Quarrying/Electricity; (3) Manufacturing; (4) Construction;

(5) Commerce; and (6) Other industries. We also include the *number of IPOs* in the quarter in which the firm launched its IPO to control for the potential effect of the substantial fluctuation of the Vietnamese stock market and the global financial crisis in this period (on controlling for volatility in emerging markets, see also Boulton, Smart & Zutter, 2010; Jelic, Saadouni & Briston, 2001; Kiymaz, 2000; Lin & Chuang, 2011). Reforming a planned economy such as Vietnam's as a more market-oriented economy attracts foreign direct investment and generates opportunities for domestic financial capital owners. Such reforms often come with a degree of opening up of capital markets, creating opportunities for profitable investments. IPOs are specific opportunities to participate in a new wave of potentially profitable investments. A large number of IPOs during a limited period may attract many players and create a degree of "irrational (or rational) exuberance" and bandwagon effects, with investors competing for market access and a share in the new investment opportunities. Therefore, the number of IPOs is a more appropriate control variable to monitor this effect than the inclusion of quarter dummies in the regression models (see also Boulton, Smart & Zutter, 2010). We used quarter dummies later on to test the robustness of our results. The number of IPOs in each quarter signals shifts in short-run market demand for financial assets which are likely to affect the individual company value at IPO. In addition the use of a single variable to capture quarterly volatility rather than a large number of quarterly dummies increases degrees of freedom in the analyses, which allows for more statistical power in the relations to estimate the adoption characteristics and the influences of governance mechanisms on firm value at IPO.

Statistical Methods

To study the relationship between the adoption of internal governance mechanisms and firm value, we use the model:

$$Q_i = \beta_0 + \beta_1 CG_i + \beta_2 X_i + \varepsilon_i (I)$$

Where Q_i is Tobin's Q for firm I , CG_i represents individual governance characteristics or the composite measure CGI; and X_i is a vector of firm-level characteristics.

As a benchmark we estimated this model using OLS. First, the model was estimated by including the governance characteristics separately. It was also estimated by including the governance index. Second, to check robustness, we re-estimated these models using the M/B ratio as the dependent variable.

The above models may suffer from reverse causation. This endogeneity is a common concern in studies investigating the relationship between governance and firm value (see also Ammann, Oesch & Schmid, 2011; Black, Carvalho & Gorga, 2012; Klapper & Love, 2004; Klein, Shapiro & Young, 2005). The underlying assumption in estimating the model using OLS is that individual governance characteristics and/or the composite governance measure are exogenous. However, it may be argued that firms with better performance will adopt better governance practices to enhance future performance (Hermes & Katsigianni, 2011). If reverse causation holds, then OLS estimates are biased. In order to control for possible endogeneity, as suggested by other authors, we re-estimate the model using two-stage least squares (2SLS) approximating corporate governance indicators with instrumental variables (Bascle, 2008; Larcker & Rusticus, 2010; Murray, 2006; Peel, 2014). We use the following instruments to approximate the corporate governance indicators, i.e. firm size, firm age and a specific indicator of industry governance practice to cover each specific indicator of firm governance. The necessary condition for IV estimates is that the number of instruments must be at least as high as the number of potentially

endogenous variables. As we use one specific IV for each indicator of firm governance and two IVs common to all equations, the identification condition is met in all 2SLS regressions.

The choice of instruments is motivated as follows. First, it is presumed that *firm size* (the natural logarithm of a firm's total assets) is associated with more elaborate corporate governance rules. Large firms handle more complex operations, which require better governance mechanisms to cope (Black, Carvalho & Gorga, 2012). Being subject to greater public scrutiny, larger firms have more incentives to develop better governance practices and they have the resources to do so (Hermes & Katsigianni, 2011). Second, we use *firm age* as an IV. Firm age is likely to be correlated with the governance structure, but not related to firm value or firm performance (Lee, Chung & Yang, 2016). Eisenberg, Sundgren & Wells (1998) provide evidence that firm age is positively related to both the dispersion of corporate ownership and the degree of corporate diversification. Firms with dispersed ownership may require stronger boards because these firms are likely to have less effective managerial monitoring by owners (Berry, Fields & Wilkins, 2006). Firms with diversified business and/or product lines may also require stronger boards with expertise in many fields (Yermack, 1996). This evidence in the literature suggests that older firms are likely to have different governance structures in comparison to younger firms.

Third, in order to estimate the reduced form equation for each governance variable suspected of endogeneity, we need at least one specific instrument (IV) to meet the minimum identification requirement. For each firm, we use the corresponding *industry average for the governance variable* (e.g. *INDAVE CGi* (*i*=board independence, non-executive board independence, supervisory board independence, CEO duality, multiple directorships and Big 4 auditor) or *INDAVE*

CGI (being the a firm's governance index). We reason that the industry market environment in which a firm operates is likely to impose industry standards in corporate governance practices.

We follow the standard 2SLS procedure first by estimating the reduced forms explaining each corporate governance variable by its specific instrument (industry average) and common instruments (firm age and firm size) in addition to the other exogenous variables. Next, the effects of the instrumented corporate governance variables (IV-ed), firm size, firm age and other exogenous variables on firm value at IPO are estimated using OLS. To test for the presence of endogeneity, we apply the Durbin-Wu-Hausman test (Carter, Hill, Griffiths & Lim, 2011). Thereafter we check the instruments for relevance using the first-stage F statistic (following Stock and Yogo, 2004) and for validity using Sargan statistics.

RESULTS

Here, we present the results of the analyses in which a threshold of 50% of shares held by the state was used to qualify for state-ownership (SOE) and a threshold of 5% of shares held by foreign investors to qualify for foreign involvement (FI) in the company.

Descriptive Statistics

Table 1 presents the descriptive statistics of the internal governance choices, firm value, ownership characteristics, firm-level characteristics and other control variables included in this study. With respect to the governance characteristics at IPO, we note that board independence measured by the stricter definition of independence is very low. Using the less stringent measure for board independence by considering non-executive board independence, we find that half of the firms that went public have a board that includes a majority of non-executive directors. The

requirement to split CEO and board leadership functions is not well respected. We observe that more than 40% of the firms in our sample have CEO duality. The analyses further show that CEO duality occurs mostly in NSOEs. Although compliance with non-CEO duality is higher in SOEs, it is more in form than in substance as the CEO and the Chair of the Board belong to the top management of the SOE and are usually well connected to the government. The variable CEO-duality should therefore be interpreted with caution in the context of Vietnamese firms. The split of the function of CEO and Chair in SOEs does not imply independence, since both are either government employees or closely connected with the government. With respect to the supervisory board, the data reveal that 50% of the firms have a supervisory board with 31% independent supervisory directors. The average number of multiple directorships held by directors in Vietnamese listed companies at IPO ranges from 0.45 to 5.4. Holding more than 5 directorships is prohibited by Vietnamese governance regulations. Only 10% of the firms in our population chose one of the Big 4 as their external auditor at IPO. On a scale of 0 to 100, the composite measure of internal governance characteristics yields an average (median) CGI score for Vietnamese listed firms of 35.89 (37.50). The average value for Tobin's Q is 1.839 and for M/B is 2.896 with standard deviations lower than average variables. Detailed analysis shows that, at the high end, the range of these variables is broad due to some outliers. We did not opt for sample truncation as regression re-estimates Winsorized for firm value at the 1st and 99th percentiles showed nearly the same outcomes.

Insert Table 1 about here

Panel A in Table 2 shows the distribution of the firms at IPO across the different ownership categories. The majority (62%) of the firms that went public over the period studied are NSOEs

without FI. 18% of the firms in our population have foreign investors and we observe that these foreign investors participate more in NSOEs. More detailed analysis indicates that foreign investors on average hold 21% of the equity capital in NSOEs, and 15% in SOEs. Foreign investors therefore have larger minority positions in NSOEs than in SOEs firms. Further analysis reveals that only 9% of the firms with FI have foreign directors on the board, and 5% have (non-Vietnamese) Asian directors, 1.3% American directors, and 1.5% European directors on their boards. This means that 91% of the firms at IPO have only Vietnamese directors on the board.

Panel B in Table 2 presents the distribution of firms according to their stock exchange, location and listing year. More firms are listed on the HNX (58%) than on HOSE (42%) and more firms are located in the South (53%) than in the North (47%). More detailed analyses show that no differences are apparent between firms located in the South versus North despite the two regions' different historical relationship with the capital market-based economy. However, firms listed on HOSE have higher scores on internal governance mechanisms than those listed on the HNX, possibly due to the larger size of HOSE-listed firms. As most firms located in the North opt for HOSE and those in the South for HNX, these variables are highly correlated and therefore only stock exchange is used as an explanatory variable in the regression analyses.

Some 124 firms went public in 2006. This number decreased in 2007 to 59 and in 2008 to 86. During the global financial crisis it increased again in 2009 (to 146) and in 2010 (to 187) but substantially decreased again in 2011 (to 58).⁵

Insert Table 2 about here

Table 3 displays the correlations between the variables. It appears that the correlations between predictor variables are not critical except for the moderate correlation between location

and stock exchange. Therefore we use only the stock exchange dummy as an explanatory variable in the regressions. In addition, firm size shows a relatively high level of correlation with stock exchange in that larger firms are listed on the Ho Chi Minh stock exchange.

 Insert Table 3 about here

The Adoption of OECD-Type Governance Practices

We test H1, H2 and H3 with respect to the adoption of OECD-type governance practices using the results of the first stage of the 2SLS regressions in which the relationship between each single governance practice and firm value is analyzed (see Tables 4A and 4B). The estimates of the first stage of the 2SLS provide information about the variables associated with the adoption of governance practices. To test H4, H5 and H6, which predict a relationship between governance practices and firm value, we use a multivariate setting in which we introduce all governance characteristics, except the governance index, in a single regression (see Table 5).

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 Insert Table 4A and Table 4B about here

Using the strict definition of an independent director (CG1), the first-stage results show that significantly more independent directors are appointed in firms with foreign investors having a stake in the firm's capital (NSOE with FI: $\beta = .038$, p.05; SOE with FI: $\beta = .054$, p.05). This result allows us to confirm H1, which suggested a positive relationship between board independence and foreign ownership. In relation to board independence, we further note that NSOEs with FI have boards with significantly more non-executive directors (CG2) than state-owned firms ($\beta = .0,066$, p.05) and NSOEs without FI have also more non-executive directors on

board ($\beta = 0.040$, $p.10$). Firms at IPO, belonging to a business group have significantly less non-executive directors (CG2) on their boards ($\beta = -0.046$, $p.01$). So membership of a business group reduces board independence. SOEs with FI also have significantly more independent supervisory boards (CG3) than other Vietnamese firms at IPO ($\beta = .180$, $p.05$). All these results with respect to the variables CG1, CG2 and CG3 therefore support H1. The results of the first stage further reveal that CEO duality (CG4) is used significantly more in NSOEs than in SOEs (NSOE without FI: $\beta = -.137$, $p.05$, NSOE with FI: $\beta = -.164$, $p.05$). In Vietnam, splitting the functions of CEO and Chairperson is not an option considered by many NSOEs. The controlling owners in NSOEs probably prefer CEO duality as a mechanism to protect their controlling interests. The last monitoring item studied is the choice of a high-quality external auditor (CG6). The results of the first stage of the 2SLS regression relating to auditor choice (CG6) do not allow us to confirm Hypothesis 2. Firms with FI do not appoint high-quality auditors significantly more than other firms. Monitoring by a high-quality external auditor is not a widespread practice in Vietnam.

With Hypothesis 3 we predicted that firms with less well developed networks in Vietnamese society would appoint more directors with multiple seats (CG5). The results of the first stage confirm this hypothesis; we note that NSOEs with FI ($\beta = .395$, $p.01$) and younger firms ($\beta = -.005$, $p.05$) adopt significantly more directors with more seats on other boards than older companies, NSOEs without FI and SOEs. The strong ties between SOEs with FI and the government probably provide no incentive to enhance their board's network potential with the appointment of directors holding multiple seats on other boards. The result with respect to the overall quality of firm governance (CGI) shows that younger firms ($\beta = -.003$, $p.01$), larger firms ($\beta = 0.042$, $p.01$) and firms financed with more equity ($\beta = -.163$, $p.01$) will adopt significantly more governance practices as well as SOE with FI ($\beta = 0.091$, $p.10$).

The results of the Wu-Hausman test show that there is no endogeneity problem in case of CG1, CG2, CG4 and CG5, but that there could be a problem in case of CG3, CG6 and CG7. Using three instruments we control for endogeneity in the 2SLS analyses. According to Stock and Yogo (2004), our instruments satisfy the relevance condition if the value of the first-stage F-statistic is beyond the threshold of 9.08 in the case of three instruments. In addition the Sargan statistics show that the instrument for CG3 and CG7 (marginally significant) have sufficient validity. However to test the relationship between governance characteristics and firm value we do use a multi-variate setting in which we introduce all governance characteristics except the governance index. The results on the relationship between a firm's governance index (CGI) and firm value at IPO are presented in the last column of Table 4B. We observe a significant relationship between a higher score for the composite corporate governance index (CGI) (column 6: $\beta = 1.384$, p.01) and firm value.

The Economic Value of Adopted Governance Practices

Table 5 presents the regression results with respect to the multivariate impact of the individual governance practices on firm value. Table 5 compares OLS and 2SLS estimates, including the different corporate governance practices with Tobin's Q as dependent variable. Because strict board independence (CG1) is a subset of non-executive board independence (CG2), we either include CG1 (see columns (1) and (2) in Table 5) in the analysis or CG2 (see columns (3) and (4) in Table 5). The results of the Durbin-Wu-Hausman test in columns (1) and (3) in Table 5 indicate that the governance variables are endogenous, which implies that OLS estimates are not consistent and that the use of 2SLS estimates could be more appropriate. The insignificance of the Sargan statistics in the table also show the instruments to be valid. In the

columns (1) and (3) of Table 5, the OLS results are presented, whereas in the columns (2) and (4) the results of the second stage of the 2SLS regression analyses are shown. The number of instruments used to estimate the 2SLS regressions in columns (2) and (4) is seven (being firm age, firm size and one specific IV for each governance indicator).

The 2SLS results in Table 5 allow us to confirm Hypothesis 4 in that stricter governance practices lead to higher firm value at IPO. We observe that higher supervisory board independence (CG3) (column 2: $\beta = 1.881$, p.10 and column 4: $\beta = 2.076$, p.05) leads to higher firm value. This finding supports the agency insights on governance. The negative marginally significant relationship between CEO duality (CG4) (column 4: $\beta = -1.678$, p.10) and firm value can be explained by the fact that the split between CEO and Chair in SOEs does not reflect independence, since both are either government officials or closely related to the government. NSOEs seem to choose CEO duality as a mechanism to safeguard the interests of the controlling shareholder. Strict board independence (CG1) and the choice of a Big Four Auditor (CG6) are not widespread practices in Vietnamese firms. As a result these single governance practices (CG1 and CG6) have no significant relationship with firm value at IPO. With respect to the external auditor, the results do not support Hypothesis 5. So the appointment of a high-quality auditor does not lead to higher firm value at IPO. In order to evaluate the relationship between the governance index (CG7) and firm value, we refer to table 4B (last column). These results (see last column table 4B and table 5) imply that an overall higher quality of governance practices leads to higher firm value at IPO.

When we focus on the impact of a well-networked board on firm value at IPO, the results confirm Hypothesis 6, which predicted a positive relationship between a board with a strong network and higher firm value at IPO. The results of the 2SLS in Table 5 show that the variable multiple directorships (CG5) is positively and significantly related to firm value at IPO (column 2: $\beta = 1.088$, p.10 and column 4: $\beta = 1.178$, p.05).

Insert Table 5 about here

With respect to the control variables, the evidence in Table 5 consistently shows that listed firms with higher debt levels have lower market valuations. Listed firms with higher return on assets are positively associated with higher firm value. These results are consistent with prior studies (see Black, Carvalho & Gorga, 2012; Connelly, Limpaphayom & Nagarajan, 2012; Klapper & Love, 2004).

Sensitivity Analyses and Robustness Checks

First, we ran all regression models with market to book value as a dependent variable (not reported here due to space constraints but available on request), and the results are consistent with the main analyses.

Second, we lowered the thresholds in the ownership classification in order to investigate whether or not the results of the main analyses are dependent on the thresholds chosen (i.e. 50% or more for state ownership and 5% or more for foreign involvement). We began by rerunning the analyses with threshold levels of 40% for state-ownership and 20% thereafter, each time using a

threshold of 5% for foreign involvement. The results obtained are consistent with the main analyses. We then reran the regressions with these three different levels for state-ownership classification (50%, 40% and 20%) and used 3% or more of shares held by foreign investors as the threshold for foreign involvement. These results are also consistent with the results of the main analyses. Finally, we singled out firms with foreign ownership and with foreign directors on the board. We reran the analyses once again using SOE without FI as the reference category, and included the following categories as independent variables in the analyses: SOE with foreign owners but no foreign directors, NSOE without FI, NSOE with foreign owners but no foreign directors, and firms with foreign owners and foreign directors. The results are consistent with the results of the main analyses. With respect to the category of firms with foreign owners and foreign directors, we found that in relation to the adoption of governance mechanisms these firms appoint significantly more Big 4 firms as external auditors ($\beta = 0.139$, $p = 0.047$) and that they also split the function of Chairperson and CEO significantly more ($\beta = 0.234$, $p = 0.081$). Neither the presence of foreign directors nor the presence of foreign owners is significantly related to higher firm value at IPO. Due to space constraints the results with the different thresholds and five ownership categories are not reported, but they are available on request.

Third, we excluded IPO firms from regulated industries in our analyses, because government regulation might distort the performance of firms in those industries. We began by rerunning the regressions having omitted firms from the financial industry. This resulted in a population of 613 firms. We then removed listed firms from the energy sector, leaving a final population of 571 firms. The results obtained are similar to the results of the main analyses. The analyses are available on request.

Fourth, we reran the analyses for all ownership thresholds and included quarter dummies as control variables instead of the number of IPOs in a quarter. Controlling for endogeneity and with the use of 2SLS analysis, we again found that adopting stricter governance (measured using the corporate governance index) and appointing board directors with multiple seats leads to significantly higher firm value at IPO. The results of these analyses are also available on request.mu

Fifth we also investigated the influence of individual foreign blockholders on the choice of governance mechanisms and firm value at IPO. Because we did not have the shareholdings of all individuals for a number of companies in our population, we considered as individual foreign blockholders all individual foreign investors who own 5% or more of the shares of the company and who occupy a seat either on the board of directors or on the supervisory board. For all members of the board of directors and supervisory board we were able to collect their individual shareholdings. To study the influence of these individual foreign blockholders holding a seat on the board of directors and the supervisory board, we used in the regression models three ownership categories being SOEs without individual foreign blockholders, NSOEs without individual foreign blockholders and firms with individual foreign blockholders. SOEs were used as a reference category. The results of these analyses for the variable individual foreign blockholders are consistent with the findings for the variable foreign investors in the main analyses (see Table 4A, 4B and 5) and often the coefficients obtained are more significant. The significance levels for the variable *firms with individual foreign blockholders* are with respect to the choice of governance mechanisms the following: board independence (CG1) ($\beta = 0,103$, p 0.01), non-executive board independence (CG2) ($\beta = 0,125$, p 0.01), multiple directorships (CG5) ($\beta = 0,594$, p 0.01) and the governance index (CGI) ($\beta = 0.187$, p .05). With respect to

auditor choice the results indicate that the presence of individual foreign blockholders is significantly related to the choice of a high quality auditor (CG6) ($\beta = 0.202$, $p = 0.5$). So we can confirm Hypothesis H2 with respect to auditor choice. Including the individual foreign blockholder variable in the OLS and 2SLS analyses, leads also to consistent results with the main analyses (see Table 5). A more independent supervisory board (CG3, $\beta = 1.915$, $p = 0.05$), more directors holding multiple directorships (CG5, $\beta = 1.089$, $p = .05$) and adopting more governance mechanisms (CGI, $\beta = 1.456$, $p = .01$) are all significantly related to higher firm value. The presence of individual foreign blockholders as such is not related to higher firm value at IPO.

Further Analysis

Focusing on compliance with the disclosure requirements included in the CGC after IPO, we find very low levels of compliance (see Table 6). Out of the 660 firms in our research population, only 162 made available their annual reports and governance information through public sources for two consecutive years after the IPO (IPO+1 and IPO+2). More detailed information on this disclosure behavior is provided in Table 6 below.⁶

Insert Table 6 about here

Observing the heterogeneity in the transparency of these firms after IPO, we examined the antecedents of this transparency behavior in the two years following the IPO. We surprisingly found that governance characteristics at IPO are not significantly related to post-IPO transparency. We observed that the most transparent firms after IPO are the larger firms (see Table 7).

Insert Table 7 about here

The **sensitivity** analysis, in which the influence of foreign owners and foreign directors on firm value was examined, showed that their presence is not significantly related to higher firm value at IPO. However, a number of prior studies focusing on the impact of foreign directors and foreign owners on firm value found a positive relationship (e.g. Aggarwal, Erel, Ferreira & Matos, 2011; van Veen, Sahib & Aangeenbrug, 2014). Delving deeper into the geographical origin of the foreign owners and foreign directors in those studies, we find that (where there is a positive relationship) they come from institutional environments characterized by high-quality governance (i.e. developed market economies with high investor protection and high quality enforcement). So all prior studies showing a positive relationship between foreign directors, foreign owners and firm value involved foreign owners and directors who originated from environments characterized by higher-quality institutions than those of the environment in which the company, being the focal element of those studies, was located (Aggarwal, Erel, Ferreira & Matos, 2011; van Veen, Sahib & Aangeenbrug, 2014). In our population, most foreign owners and foreign directors come from neighboring economies characterized by lower- quality institutions. They are therefore perceived as less agile monitors than investors and directors from high-quality institutional environments. These additional analyses provide evidence that it is board independence and board networking as such that lead to higher firm value at IPO, and not the underlying foreign ownership or foreign directorship. The insignificant relationship between foreign owners, foreign directors and firm value also underscores the observation made by Young, Peng, Ahlstrom, Braton et al. (2008) that outsiders in emerging economies are less trusted.

DISCUSSION AND CONCLUSION

In order to attract foreign investors and stimulate the development of the capital market, the Vietnamese government introduced OECD-type principles of good governance in the first decade of the 21st century. Despite interest from both policymakers and researchers in the effectiveness of corporate governance in emerging countries, research on corporate governance in Vietnam remains scarce. Vietnam, as an East-Asian emerging country, deserves research attention. In comparison to other East-Asian countries, Vietnam has introduced fewer OECD-type principles (ACCA/KPMG, 2014). Moreover, after the introduction of the corporate governance code, the governance compliance of listed firms in Vietnam decreased instead of increasing (IFC, Global Corporate Governance Forum and State Securities Commission Vietnam, 2012). Finally, in comparison to China, a larger number of non-state-owned firms are listed on the capital market. This study responds to the call for research to examine the proliferation of OECD-type governance principles and their beneficial impact for firms across the world. This study does so first by examining the firm-level antecedents of adoption by Vietnamese listed firms, and second by investigating whether these governance choices are associated with higher firm value at IPO.

Using hand-collected data on internal governance choices (such as board composition, board leadership, multiple directorships and quality of external auditing), ownership, firm- and industry-level characteristics of all firms (99%) that went public on Vietnam's HOSE and HNX stock markets during the period 2006–2011, the results show that stricter governance is only adopted by Vietnamese firms with foreign owners and younger Vietnamese firms. Young firms and also firms with foreign owners appoint significantly more directors with multiple seats on

other boards than other firms. Both board characteristics (independence and networking) also lead to higher firm value at IPO. From a theoretical perspective, the results confirm resource dependence as well as agency insights.

Despite the positive impact of higher quality governance on firm value at IPO, the proliferation of good governance principles in this emerging economy is rather low. We observe that Vietnam's emerging capital market includes firms with different types of governance bundles; these are determined by three factors. The first relates to whether or not a company has a privileged relationship with the Vietnamese government. The privileged relationship between SOEs and the government guarantees these firms access to resources and information. Therefore, compliance with good governance principles is less necessary in order to gain legitimacy and attract investors, unless they are foreign investors, in which case we observe stricter board and supervisory board independence. The second factor relates to whether or not a foreign minority shareholder is involved in the firm's capital at IPO. As foreign investors face the risk of expropriation and information asymmetry, we observe stricter board independence in Vietnamese firms where foreign investors are present. The third factor relates to whether or not the firm and its owners are well embedded in Vietnam's informal relationship-based society. Foreign ownership is linked to less developed networks, but so is a firm's age. Younger NSOEs are less embedded in Vietnam's relationship-based society than older NSOEs and SOEs. We thus observe that young NSOEs appoint significantly more board directors with multiple directorships than older NSOEs and SOEs. In NSOEs with FI, we note the same practice. Young firms also adopt stricter governance mechanisms than older firms.

The results on Vietnam not only provide greater insight into the antecedents and consequences of governance within Vietnam's emerging capital market, they also contribute to

the development of a global understanding of corporate governance by unravelling how firm-level characteristics in combination with national cultural and institutional characteristics influence the proliferation of good governance principles in an emerging country, one that is also in transition from a planned economy to a market economy. Comparing our results with those of governance studies undertaken in other emerging markets, and especially in East-Asian emerging markets, we notice that studies in Korea and India also provide evidence of a positive impact of board independence on firm value or firm performance, whereas the evidence in China with respect to the impact of governance on firm outcome variables is mixed. Black and Kim (2012) and Choi, Park and Yoo (2007) provide positive evidence for the association between outside directors and firm value in Korea. Balasubramanian, Black and Khanna (2010) find a positive relationship between a board index and firm value in Indian firms. Li and Naughton (2007), Shan and McIver (2011) and Cheung, Yiang, Limpaphayom and Lu (2010) find no relationship between board independence and firm value or firm performance in the case of Chinese firms. Only Kato and Long (2006) provide evidence that the link between firm performance and CEO turnover is strengthened when independent boards are present. The underlying reason for this limited effectiveness in the context of China could be the continued existence of a large proportion of state ownership in listed firms, strong political connections between the government and listed firms, and a less independent judicial system (Yang, Chi & Young, 2011). The positive results found for the Vietnamese population could be due to the fact that 75% of the firms in our study are NSOEs, whereas in most Chinese listed companies the state (or local government) is the majority shareholder (Lau & Young, 2013).

In comparison to governance studies on emerging countries in Africa and in Latin America, the evidence from Vietnam provides more support for the view that stricter board independence

and the network potential of the board have a beneficial impact on firm value. The evidence from Africa shows insignificant (Hearn, 2011) or very limited beneficial influence, and in Latin America there are no signs of higher firm value when good governance mechanisms are adopted (Black, Carvalho & Gorga, 2012). A comparison between these findings indicates that the effectiveness of OECD-type governance principles differs across regions. One way to explain the mixed findings could be the different levels of adoption of these principles in the formal local institutional environments (see ACCA/KPMG (2014)) and actual compliance therewith. Another possible cause could be found in the study of Estrin and Prevezer (2011). These authors distinguish between informal institutions that are substituted for or conflict with a country's formal institutions. In regions where substitutive informal institutions emerge when the formal institutions are ineffective, introducing OECD-type governance principles might be more beneficial since the goals of the formal and informal institutions are compatible. One could argue that in Asia more substitutive informal institutions are present, whereas in Latin America and African regions more conflicting informal institutions are observed. Therefore the East-Asian region could be more fertile terrain for OECD-type governance principles than Latin America and Africa.

Like all studies, this study also carries a number of limitations. Due to post-IPO non-compliance with the governance transparency requirements, it is not possible to examine the influence of compliance with the governance code and in particular the influence of board independence on firm value once a firm is listed, except for larger firms. With respect to the influence of good governance on firm value, our results are therefore limited to the moment of the IPO.

This study employs dummy variables to distinguish between four different types of ownership characteristics in listed firms. Due to missing information in the prospectuses for some firms on the actual shareholdings of the different types of shareholders, we did not include actual shareholdings in the main regression analyses. Although we are convinced that our classification, with the help of dummies, reflects the differences with respect to the parties involved in ownership, actual shareholding data for all companies would provide more fine-grained insights.

This study uses cross-sectional data and therefore we are not able to control for within-variation (fixed effects) to the same extent as studies using panel data. We included a large number of control variables capturing elements of within-variation as a second-best alternative. However this approach does not totally eliminate the possibility that the observed relationship between governance and firm value could still be driven by an omitted variable despite the extensive controls added.

Last but not least, we are aware that board structure and board composition variables are far from ideal measures to capture board influence. Information on director demographics – and especially information on a board's involvement in monitoring and in service of these Vietnamese boards – would shed further light on the contribution of international principles of good governance to firm performance in Vietnam's emerging economy.

NOTES

1. With respect to capitalization and profitability, the applicant companies for listing on the HOSE must have a minimum book value of VND 80 billion (approximately €2.8 million) and have had no accumulated losses up to the year of listing and for the last two consecutive years, while applicants for listing on the HNX must have a book value equal to at least VND 10 billion (approximately €350,000) and have been profitable for one year before the year of listing.
2. In addition to the board of directors, all companies with more than 11 individual shareholders or where one or more organizations own more than 50% of the company shareholding must establish a supervisory board (Article 95 of Enterprise Law 2005).
- 3 In VND Bn:

	Market cap of IPOs	Overall Market Cap	Share of IPOs
2006	105,629.9	221,156	47.76
2007	157,489.8	494,547	31.85
2008	46,374.91	219,774	21.10
2009	15,6404.2	614,600	25.45
2010	67,112.83	726,000	9.24
2011	25,786.93	539,000	4.78

4. Cheung, Jiang, Limpaphayom and Lu (2008) created a corporate governance index based on a questionnaire comprising 86 questions and sub-questions extracted from the OECD corporate governance principles. These questions are divided into five sections, namely rights of shareholders, equitable treatment of shareholders, role of stakeholders, disclosure and transparency, and board responsibilities and composition. Each section is attributed a weighting using expert opinions. With respect to each question with a continuous number, companies are given a score of 1, 2 or 3, which represents a poor, fair or good quality of elements being considered. For example, concerning the number of independent non-executives (INED) present on the board, if the percentage of INEDs is above 50%, then the company will be classified as having a good standard and is awarded a score of 3 for this element. The company is rated a score of 2 (or 1) if the percentage of INEDs falls under the ranges of fair (or poor) standards, i.e. [0.25; 0.5] (or [0; 25]). By doing this, the authors argue that they take into account the quantity and quality of information disclosure. The score for each section is then calculated by equally weighting question scores within each section, and the overall CGI is calculated by the weighted average of five sections (indicated above). Finally, CGI is rescaled to get a value of between 0 and 100.
- 5 26 firms went public in 2012, 14 in 2013 and 24 in 2014.
6. Based on the number of reports available for firms after IPO, we observe that the board compositions of listed firms do not change much in the first two years. To collect financial data one and two years after IPO, we use public data from the websites of securities companies such as <http://cophieu68.vn> and <http://finance.vietstock.vn>. There is no central database at the stock exchange where these reports have to be filed.

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TABLE 1**Descriptive statistics**

Variables	Obs	Median	Mean	Std. Dev.	Min	Max
<i>Governance characteristics</i>						
Board independence	660	0.000	0.043	0.108	0.000	0.600
Non-executive board independence	660	0.500	0.493	0.189	0.000	0.909
Supervisory board independence	660	0.333	0.313	0.358	0.000	1.000
Multiple directorships	660	0.200	0.446	0.677	0.000	5.400
CEO duality	660	1.000	0.568	0.496	0.000	1.000
Big 4 auditor choice	660	0.000	0.098	0.298	0.000	1.000
<i>Governance index</i>	660	37.500	35.890	17.188	0.000	100.000
<i>Firm value</i>						
M/B	558	2.139	2.896	2.563	0.306	31.034
Tobin's Q	598	1.433	1.839	1.158	0.640	12.459
<i>Firm-level characteristics</i>						
Firm age	644	13.000	16.623	13.277	1.000	62.000
Total assets at IPO (billion VND)	657	265.092	1578.405	11400.000	.961	255000.000
Firm size (natural logarithm of total assets at IPO)	657	12.488	12.488	1.517	6.869	19.359
Leverage	598	0.553	0.521	0.227	0.014	0.962
Sales growth	598	0.218	0.363	0.639	-0.898	3.988
PPE/Sales	598	0.971	3.857	18.160	0.021	354.620
ROA at IPO	660	0.084	0.098	0.136	-1.815	2.088
CEO tenure	644	6.000	7.394	4.926	1.000	37.000

TABLE 2
Information on the distribution of dummy variables

<i>Panel A: Distribution of ownership categories</i>			
	Frequency	Percent	
Non-state-owned Vietnamese firms	412	62.42	
Non-state-owned Vietnamese firms with foreign investment (FI)	95	14.39	
State-owned firms without FI	124	18.79	
State-owned firms with FI	29	4.40	
<i>Total</i>	<i>660</i>	<i>100</i>	
<i>Panel B: Distribution of listing data</i>			
	Frequency	Percent	Cum.
<i>Stock Exchange</i>			
Ha Noi	385	58.33	58.33
Ho Chi Minh	275	41.67	100
<i>Location</i>			
North	310	46.97	46.97
South	350	53.03	100
<i>Listing year</i>			
2006	124	18.79	18.79
2007	59	8.94	27.73
2008	86	13.03	40.76
2009	146	22.12	62.88
2010	187	28.33	91.21
2011	58	8.79	100
<i>Total</i>	<i>660</i>	<i>100</i>	

TABLE 3
Correlation matrix for governance characteristics, firm value and main control variables

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
M/B IPO	(1)	1.000									
Tobin's Q	(2)	0.782*	1.000								
IPO	(3)	-0.084*	-0.039	1.000							
Board independence	(4)	0.046	0.065	0.121*	1.000						
Non-executive BI	(5)	-0.032	0.025	0.239*	-0.029	1.000					
Supervisory BI	(6)	-0.005	-0.023	0.035	-0.101*	0.125	1.000				
CEO duality	(7)	-0.041	-0.018	0.107*	0.206*	-0.034	0.096	1.000			
Multiple directorships	(8)	-0.024	0.011	0.147*	0.163*	0.199*	0.124	0.0387	1.000		
Auditor choice	(9)	-0.023	0.030	0.409*	0.473*	0.678*	0.430*	0.136*	0.453*	1.000	
CGI	(10)	0.121*	0.037	0.109*	0.111*	0.266*	0.031	0.195*	0.310*	0.280*	1.000
Firm size	(11)	0.099*	0.194*	-0.093	-0.023	-0.074	-0.015	-0.012	-0.050	-0.092*	-0.108*
ROA at IPO	(12)	0.091*	0.032	-0.030	-0.023	0.011	0.018*	-0.023	-0.024	-0.074	0.055
CEO tenure	(13)	0.029	0.008	-0.034	-0.112*	-0.062	-0.191*	0.161*	-0.087*	-0.176*	0.011
Firm age	(14)	-0.055	-0.051	0.122*	0.164*	0.127*	0.155*	0.198*	0.148*	0.255*	0.278*
Ln(PPP/Sales)	(15)	0.055	0.037	-0.017	0.038	-0.068	0.018	0.123*	0.114*	-0.002	0.102
Sales growth	(16)	-0.022	-0.326*	-0.043	-0.091*	-0.035	-0.034	-0.037	-0.034	-0.094*	0.266*
Leverage	(17)	0.111*	0.142*	0.101*	0.085*	0.103*	-0.070	0.269*	0.144*	0.116*	0.435*
Stock exchange	(18)	0.030	0.063	0.095*	0.037	-0.007	-0.024	0.149*	-0.005	0.019	0.040
Location	(19)	0.065	0.040	0.006	-0.162*	0.054	0.053	0.021	0.048	0.002	0.158*
Affiliates	(20)	-0.376*	0.297*	0.116*	0.075	0.064	0.049	0.199*	0.140*	0.130*	0.074
Early/late listing											

		(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
ROA at IPO	(11)	1.000									
CEO tenure	(12)	0.234	1.000								
Firm age	(13)	0.067	0.046	1.000							
Ln(PPP/Sales)	(14)	-0.052	-0.117*	-0.090*	1.000						
Sales growth	(15)	0.054	-0.126*	-0.159*	0.072	1.000					
Leverage	(16)	0.198*	-0.272*	0.121*	0.125*	-0.015	1.000				

Stock exchange	(17)	0.057	0.027	0.051	0.237*	0.040	-0.126*	1.000			
Location	(18)	0.065	0.141*	0.007	0.057	-0.085*	-0.139*	0.401*	1.000		
Affiliates	(19)	0.025	-0.022	0.030	-0.076	-0.018	0.099*	0.055	-0.019	1.000	
Early/late listing	(20)	0.007	-0.027	-0.103*	0.188*	0.014	-0.057	-0.043	0.029	-0.059	1.000

* indicates significant level below 5%

TABLE 4A
2SLS Results for the relationship between individual governance characteristics
(CG1-CG4) and firm value

Dependent variable	Board independence (CG1)		Non-executive BI (CG2)		Supervisory BI (CG3)		CEO duality (CG4)	
	First stage	Tobin's Q	First stage	Tobin's Q	First stage	Tobin's Q	First stage	Tobin's Q
Firm age	0.000 (0.000)		-0.000 (0.001)		-0.002** (0.001)		-0.006*** (0.002)	
Firm size	0.000 (0.004)		0.013* (0.007)		0.054*** (0.012)		0.011 (0.017)	
INDAVE GCi	0.788*** (0.286)		0.703*** (0.216)		0.708*** (0.247)		0.458 (0.289)	
Instrumented CGi		6.825*** (2.523)		1.371 (1.050)		1.736*** (0.481)		-0.117 (0.400)
Profitability at IPO	-0.082*** (0.030)	1.032*** (0.300)	-0.003 (0.055)	1.029*** (0.302)	-0.145 (0.102)	1.069*** (0.299)	0.084 (0.144)	0.989** (0.304)
Stock Exchange	0.006 (0.010)	0.089 (0.098)	-0.003 (0.019)	0.156* (0.094)	-0.041 (0.035)	0.047 (0.099)	-0.109** (0.049)	0.180* (0.093)
Leverage	-0.009 (0.021)	-1.579*** (0.196)	-0.045 (0.039)	-1.534*** (0.197)	-0.140* (0.072)	-1.726*** (0.202)	-0.023 (0.102)	-1.538** (0.197)
Sales growth	-0.003 (0.007)	0.062 (0.066)	-0.001 (0.012)	0.060 (0.066)	-0.053** (0.022)	0.047 (0.065)	-0.021 (0.032)	0.068 (0.067)
Capital intensity	0.005* (0.003)	-0.036 (0.031)	0.011* (0.006)	-0.038 (0.031)	0.006 (0.011)	-0.054* (0.031)	0.061*** (0.015)	-0.030 (0.032)
CEO tenure	-0.000 (0.001)	-0.013 (0.009)	-0.001 (0.002)	-0.012 (0.009)	0.002 (0.003)	-0.012 (0.009)	-0.010** (0.004)	-0.013 (0.009)
NSOE without FI	0.005 (0.012)	-0.133 (0.117)	0.040* (0.022)	-0.125 (0.118)	-0.062 (0.040)	-0.104 (0.116)	-0.137** (0.057)	-0.106 (0.118)
NSOE with FI	0.038** (0.016)	0.029 (0.158)	0.066** (0.029)	0.058 (0.159)	-0.004 (0.054)	0.028 (0.157)	-0.164** (0.076)	0.079 (0.159)
SOEs with FI	0.054** (0.022)	0.272 (0.222)	-0.010 (0.040)	0.283 (0.223)	0.180** (0.075)	0.243 (0.221)	-0.010 (0.106)	0.307 (0.223)
Affiliates	0.004 (0.009)	0.076 (0.088)	-0.046*** (0.016)	0.076 (0.088)	0.022 (0.030)	0.041 (0.088)	0.019 (0.042)	0.082 (0.089)
Early/late listing	0.022** (0.009)	-0.732*** (0.094)	0.000 (0.017)	-0.723*** (0.095)	0.003 (0.032)	-0.738*** (0.094)	-0.037 (0.045)	-0.709** (0.095)

IPOs in quarter	-0.000	0.002	0.000	0.002	-0.001***	0.002	0.001	0.002
	(0.000)	(0.001)	(0.000)	(0.001)	(0.000)	(0.001)	(0.001)	(0.001)
Constant	-0.013	2.677***	0.008	2.227***	-0.347**	2.510***	0.498*	2.932** *
	(0.045)	(0.218)	(0.127)	(0.533)	(0.165)	(0.228)	(0.260)	(0.302)
R^2	0.08	0.26	0.10	0.25	0.14	0.27	0.10	0.25
N	566	566	566	566	566	566	566	566
<i>Test of endogeneity (Wu-Hausman F-value)</i>	1.245		2.202		8.731***		0.372	
<i>First stage F-value</i>	2.609		5.275		9.367		5.935	
<i>Sargan statistics</i>		7.622**		9.029**		2.167		11.382* **

***, ** and * indicate significant levels of below 1%, 5% and 10% respectively. Three instruments used: ‘Indave governance indicators’ = mean of each governance indicator by industry, firm size = ln(assets), profitability before IPO = Return on Assets t-1. Dependent variables: stock exchange = Ho Chi Minh = 1, Hanoi = 0, capital intensity = (property, plant and equipment/sales), NSOE without FI = non-state owned firm without involvement of foreign investors, NSOE with FI = non-state owned firm with foreign investors, SOE with FI = state-owned firm with foreign investors, SOE without FI = state-owned firm without foreign investors (reference category), affiliate = firms that have relations with other firms (parent, subsidiary, other), early/late listing (early 2006–2008, late 2009–2011), IPOs in quarter = the number of IPOs going on the stock market in a particular quarter.

TABLE 4B
2SLS Results for the relationship between governance characteristics (CG5-CG7)
and firm value

Dependent variable	Multiple directorship (CG5)		Auditor choice (CG6)		Corporate Governance Index (CG7)	
	First stage	Tobin's Q	First stage	Tobin's Q	First stage	Tobin's Q
Firm age	-0.005**		-0.001		-0.003***	
	(0.002)		(0.001)		(0.001)	
Firm size	0.007		0.047***		0.042***	
	(0.022)		(0.010)		(0.009)	
INDAVE <u>GCI</u>	0.742***		0.489*		0.367*	
	(0.147)		(0.281)		(0.189)	
Instrumented <u>GCI</u>		0.618***		1.348***		1.384***
		(0.196)		(0.480)		(0.518)
Profitability at IPO	-0.071	1.055***	-0.055	1.078***	-0.123	1.076***
	(0.184)	(0.300)	(0.084)	(0.301)	(0.075)	(0.301)
Stock Exchange	0.264***	0.105	0.023	0.117	-0.031	0.104
	(0.063)	(0.095)	(0.029)	(0.094)	(0.026)	(0.096)
Leverage	0.247*	-1.570***	-0.108*	-1.670***	-0.143***	-1.623***
	(0.131)	(0.196)	(0.059)	(0.201)	(0.053)	(0.198)
Sales growth	0.059	0.034	0.034*	0.036	-0.026	0.045
	(0.041)	(0.066)	(0.019)	(0.066)	(0.017)	(0.066)
Capital intensity	0.028	-0.047	0.001	-0.053*	0.026***	-0.051
	(0.019)	(0.031)	(0.009)	(0.031)	(0.008)	(0.031)
CEO tenure	-0.001	-0.011	0.001	-0.013	-0.003	-0.011
	(0.005)	(0.009)	(0.002)	(0.009)	(0.002)	(0.009)
NSOE without FI	0.101	-0.148	0.020	-0.119	-0.031	-0.128
	(0.073)	(0.117)	(0.033)	(0.117)	(0.030)	(0.117)
NSOE with FI	0.395***	-0.001	0.056	0.021	0.015	0.029
	(0.098)	(0.159)	(0.044)	(0.159)	(0.040)	(0.159)
SOEs with FI	-0.007	0.271	-0.043	0.265	0.091*	0.258
	(0.136)	(0.221)	(0.062)	(0.222)	(0.055)	(0.222)
Affiliates	0.058	0.058	0.031	0.040	-0.002	0.053
	(0.054)	(0.088)	(0.025)	(0.089)	(0.022)	(0.088)
Early/late listing	0.217***	-0.736***	0.050*	-0.727***	0.010	-0.736***
	(0.058)	(0.094)	(0.026)	(0.094)	(0.023)	(0.094)
IPOs in quarter	-0.000	0.001	-0.000	0.002	-0.000	0.002
	(0.001)	(0.001)	(0.000)	(0.001)	(0.000)	(0.001)
Constant	-0.377	2.712***	-0.528***	2.895***	0.429*	1.367**

	(0.275)	(0.211)	(0.124)	(0.206)	(0.238)	(0.598)
R^2	0.22	0.27	0.13	0.26	0.17	0.26
N	566	566	566	566	566	566
<i>Test of endogeneity (Wu-Hausman F-value)</i>	1.289		5.668**		5.662**	
<i>First stage F-value</i>	8.530		5.194		11.147	
<i>Sargan statistics</i>		8.036**		8.151**		4.667*

***, ** and * indicate significant levels of below 1%, 5% and 10% respectively. Three instruments used: 'Indave governance indicators' = mean of each governance indicator by industry, firm size = $\ln(\text{assets})$, profitability before IPO = Return on Assets t-1. Dependent variables: stock exchange = Ho Chi Minh = 1, Hanoi = 0, capital intensity = (property, plant and equipment/sales), NSOE without FI = non-state owned firm without involvement of foreign investors, NSOE with FI = non-state owned firm with foreign investors, SOE with FI = state-owned firm with foreign investors, SOE without FI = state-owned firm without foreign investors (reference category), affiliate = firms that have relations with other firms (parent, subsidiary, other), early/late listing (early 2006–2008, late 2009–2011), IPOs in quarter = the number of IPOs going on the stock market in a particular quarter.

Table 5
The relationship between governance characteristics and firm value

	OLS	2SLS	OLS	2SLS
Dependent Variable: Tobin's Q	(1)	(2)	(3)	(4)
Board independence	-0.144 (0.429)	-3.124 (7.107)		
Non-executive BI			0.417* (0.235)	-4.351 (3.675)
Supervisory BI	0.081 (0.126)	1.881* (1.005)	0.084 (0.124)	2.076** (0.975)
CEO duality	-0.085 (0.088)	-1.754 (1.087)	-0.057 (0.089)	-1.678* (1.017)
Multiple directorships	0.028 (0.069)	1.088* (0.590)	0.007 (0.070)	1.178** (0.566)
Auditor choice	0.225 (0.146)	0.378 (1.587)	0.178 (0.147)	1.747 (2.075)
CG Index				
Stock Exchange	0.115 (0.095)	-0.389 (0.315)	0.120 (0.094)	-0.474 (0.333)
Leverage	- 1.494*** (0.199)	-1.709*** (0.342)	- 1.482*** (0.199)	-1.801*** (0.366)
Sales growth	0.036 (0.066)	0.015 (0.179)	0.038 (0.066)	-0.032 (0.167)
Capital intensity	-0.023 (0.032)	0.034 (0.097)	-0.031 (0.032)	0.054 (0.091)
CEO tenure	-0.012 (0.009)	-0.035* (0.018)	-0.011 (0.009)	-0.039** (0.020)
Profitability at IPO	0.972*** (0.301)	1.295* (0.701)	0.980*** (0.299)	1.642*** (0.537)
NSOE without FI	-0.145 (0.115)	-0.351 (0.266)	-0.157 (0.115)	-0.200 (0.273)
NSOE with FI	-0.032 (0.160)	-0.634 (0.391)	-0.054 (0.159)	-0.573 (0.443)
SOEs with FI	0.276 (0.222)	0.075 (0.653)	0.268 (0.220)	-0.094 (0.437)
Affiliates	0.059 (0.086)	-0.025 (0.137)	0.078 (0.087)	-0.299 (0.283)
Early/late listing	- 0.710*** (0.095)	-0.999*** (0.196)	- 0.704*** (0.094)	-1.151*** (0.256)
IPOs in quarter	0.002	0.005**	0.002	0.006**

	(0.001)	(0.002)	(0.001)	(0.003)
Agri/Fishing	0.406**		0.396*	
	(0.206)		(0.206)	
Mining/Electricity	0.066		0.071	
	(0.136)		(0.135)	
Construction	-0.027		-0.017	
	(0.121)		(0.120)	
Commerce	-0.164		-0.188	
	(0.124)		(0.125)	
Other industries	0.351*		0.349*	
	(0.180)		(0.179)	
Constant	2.898***	3.633***	2.671***	5.540**
	(0.224)	(1.217)	(0.256)	(2.152)
R^2	0.28	.	0.28	.
N	583	566	583	566
<i>Test of endogeneity (Wu-Hausman F-value)</i>		16.276***		17.765***
<i>Sargan statistics</i>		1.518		0.351

***, ** and * indicate significant levels of below 1%, 5% and 10% respectively. Three instruments used: 'Indave governance indicators' = mean of each governance indicator by industry, firm size = $\ln(\text{assets})$, profitability before IPO = Return on Assets $t-1$. Dependent variables: stock exchange = Ho Chi Minh = 1, Hanoi = 0, capital intensity = (property, plant and equipment/sales), NSOE without FI = non-state owned firm without involvement of foreign investors, NSOE with FI = non-state owned firm with foreign investors, SOE with FI = state-owned firm with foreign investors, SOE without FI = state-owned firm without foreign investors (reference category), affiliate = firms that have relations with other firms (parent, subsidiary, other), early/late listing (early 2006–2008, late 2009–2011), IPOs in quarter = the number of IPOs going on the stock market in a particular quarter. In column (2) and (4) the second stage of the 2SLS results are presented and the independent governance variables for the second stage of the 2SLS analyses are the instrumented governance indicator CGi

TABLE 6
Differences in ownership categories with respect to transparency

	NSOE without FI	NSOE with FI	SOE without FI	SOE with FI	Total
Group 1	131	18	54	4	207
	63.29	8.70	26.09	1.93	100
	39.70	28.13	50.94	22.22	39.96
Group 2	39	9	7	2	57
	68.42	15.79	12.28	3.51	100
	11.82	14.06	66.60	11.11	11.00
Group 3	54	15	18	5	92
	58.70	16.30	19.57	5.43	100
	16.63	23.44	16.98	27.78	17.76
Group 4	106	22	27	7	162
	65.43	13.58	16.67	4.32	100
	32.12	34.38	25.47	3.47	31.27
Total	330	64	106	18	518
	63.71	12.36	20.46	3.47	100
	100	100	100	100	100

This table displays the relationship between ownership categories and information disclosure in Vietnamese listed firms after IPO. We classify listed firms into 4 groups, each representing a level of transparency. We distinguish between 4 categories whereby group 1 disclosed no information in IPO+1 or IPO+2, group 2 only in IPO+1, group 3 only in IPO+2, and group 4 represents the most transparent firms, which disclosed information in both periods.

TABLE 7
Differences in firm characteristics and governance indicators with respect to transparency

<i>Panel A: Differences in some firm characteristics</i>												
	Firm size***			Sales growth			PPE/Sales*			Leverage		
	Mean	Std. Dev.	Freq.	Mean	Std. Dev.	Freq.	Mean	Std. Dev.	Freq.	Mean	Std. Dev.	Freq.
Group 1	11.928	1.464	207	0.301	0.550	206	1.922	4.187	206	0.548	0.218	206
Group 2	12.595	1.196	57	0.391	0.865	57	6.001	23.433	57	0.507	0.233	57
Group 3	12.648	1.376	91	0.359	0.595	89	2.590	5.441	89	0.548	0.231	89
Group 4	13.097	1.547	162	0.400	0.678	162	6.728	31.078	162	0.518	0.224	162
Total	12.495	1.528	517	0.353	0.640	514	4.005	19.499	514	0.534	0.224	514
<i>Panel B: Differences in board independence</i>												
	Board independence			Non-executive BI**			Supervisory BI			CEO duality		
	Mean	Std. Dev.	Freq.	Mean	Std. Dev.	Freq.	Mean	Std. Dev.	Freq.	Mean	Std. Dev.	Freq.
Group 1	0.033	0.100	207	0.491	0.186	207	0.285	0.347	207	0.415	0.494	207
Group 2	0.039	0.088	57	0.519	0.172	57	0.389	0.400	57	0.351	0.481	57
Group 3	0.033	0.085	92	0.447	0.193	92	0.344	0.376	92	0.511	0.503	92
Group 4	0.041	0.101	162	0.511	0.193	162	0.308	0.349	162	0.438	0.498	162
Total	0.036	0.096	518	0.493	0.189	518	0.314	0.359	518	0.432	0.496	518
<i>Panel C: Differences in other governance mechanisms and governance index</i>												
	Multiple directorships***			Auditor choice			Governance Index*					
	Mean	Std. Dev.	Freq.	Mean	Std. Dev.	Freq.	Mean	Std. Dev.	Freq.			
Group 1	0.289	0.499	207	0.072	0.260	207	35.024	16.453	207			
Group 2	0.505	0.656	57	0.140	0.350	57	40.570	14.805	57			
Group 3	0.435	0.630	92	0.130	0.339	92	33.696	18.507	92			
Group 4	0.612	0.861	162	0.136	0.344	162	36.728	17.879	162			
Total	0.440	0.682	518	0.110	0.313	518	35.931	17.182	518			

One way analysis of variance (ANOVA) with respect to differences between the means of the four transparency groups with respect to firm-level characteristics and governance indicators. ***, ** and * indicate significance levels of below 1%, 5% and 10% respectively for the ANOVA.

APPENDIX

Overview of adherence to disclosure requirements by Vietnamese firms after IPO

Year of listing	IPOs	Delist	No website	Only product information	Only financial statements	No annual report at IPO+1 or IPO+2	Annual report only in IPO+1	Annual report only in IPO+2	Annual report in IPO+1 and IPO+2
2006	124	13	5	2	4	60	0	18	22
2007	59	5	2	0	2	23	3	6	18
2008	86	10	3	2	4	38	3	7	19
2009	146	6	8	2	7	57	12	19	35
2010	187	20	14	5	17	17	4	42	68
2011	58	4	3	2	2	12	35	0	0
Total	660	58	35	13	36	207	57	92	162

Source: Hand-collected from the websites of HOSE and HNX as well as the websites of listed firms.

Table A2
Variable definitions

Construct measured	Variable	Description
Governance characteristics	Board independence	Defined as the number of independent board members divided by the total number of board members for a given company in a given fiscal year.
	Non-executive board independence	Defined as the number of non-executive board members divided by the total number of board members for a given company in a given fiscal year.
	Supervisory board independence	Defined as the number of independent supervisory board members divided by the total number of supervisory board members for a given company in a given fiscal year.
	Multiple directorships	Defined as the number of directorships held by directors on the board divided by the total number of board members for a given company in a given fiscal year.
	CEO duality	Directors who are both the Chairman and CEO of the company. CEO duality is coded equal to 0 and 1 if the position of CEO and Chair is split.
	Big 4 auditor choice	If a company's auditor is a Big 4 auditor, it is coded equal to 1 and 0 otherwise.
	CGI	Governance index (please see the detailed procedure of index composition in the section on the measurement of independent variables).
Firm value	M/B ratio	Defined as the ratio of the market value of equity to the book value of equity.
	Tobin's Q	Defined as the ratio of book value of debt plus market value of equity to book value of assets.
Firm-level characteristics	Ownership categories	
	NSOE without foreign investors (FI)	Firms in which private shareholders hold 50% or more of the shares of the company and in which foreign shareholders hold less than 5% of the shares of the

company are coded equal to 1; 0 otherwise.

NSOE with FI	Firms in which private shareholders hold 50% or more of the shares of the company and in which 5% of the shares or more are held by foreign owners are coded equal to 1; 0 otherwise.
SOE without FI	Firms in which the state holds 50% or more of the shares of the company and in which foreign shareholders hold less than 5% of the shares of the company are coded equal to 1; 0 otherwise.
SOE with FI	Firms in which the state holds 50% or more of the shares of the company and in which foreign shareholders hold 5% or more of the shares of the company are coded equal to 1; 0 otherwise.
CEO tenure	Defined as the total number of years the person occupies the position of CEO in the firm.
Profitability	Defined by the ratio of net income plus interest divided by total assets, Return on Assets (ROA).
Early/Late listing	Firms are considered as early listing if their IPO occurred in 2006–2008 and late listing if their IPO occurred in 2009–2011. Firms with late listing are coded equal to 1 and 0 otherwise.
Affiliate	Listed firms who have a parent company, subsidiaries with control rights or are dominant stakeholders in other companies are considered to have affiliated companies and are coded as 1.
Location	Firms located in South Vietnam (below the 17 th parallel) are coded equal to 1 and those located in North Vietnam (above the 17 th parallel) are coded equal to 0.
Stock exchange	Firms listed on the Ho Chi Minh stock exchange are coded equal to 1 and those listed on the Hanoi stock exchange are coded equal to 0.
Industry dummies	Firms are classified into six industries: (1) Agriculture/Fishing, (2) Mining & Quarrying/Electricity, (3) Manufacturing, (4) Construction, (5) Commerce and (6) Other industries.

	Year-quarter dummies	The quarter of the year in the period 2006–2011 when the firm was listed is coded as 1, 0 otherwise (2006-I, 2006-II,...).
	Leverage	Defined as the ratio of total debt over total assets.
	Sales growth	Defined as the difference between sales at IPO and sales one year before IPO.
	Capital intensity	Defined as property, plant and equipment divided by sales.
	No of IPOs in a quarter	Number of IPOs in a quarter in a given year.
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Instrument variables	INDAVE governance indicators	The mean of each governance indicator by industry.
	Firm size	Defined as the natural logarithm of total assets.
	Firm age	Defined as the total number of years from the year the firm was set up until the IPO
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